Investec

BoE COVID-19 response

Update

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Bank of England COVID-19 response

Following special meetings, the Bank of England took a number of policy actions earlier this morning to stimulate the UK economy in the face of the growing coronavirus outbreak.

1. The MPC cut the Bank rate by 50bps to 0.25%, taking it back down to the level prevailing for 15 months in the wake of the EU referendum in 2016. At the same time the targeted stocks of asset purchases (QE) were left on hold (gilts £435bn, corporate bonds £10bn).

2. The committee announced a new 4-year Term Funding Scheme (TFSME), to run for a year. This is designed to provide businesses with cheap loans, close to the new level of Bank rate. The BoE stated that it expects to provide in excess of £100bn of funds via the scheme, based on the 2016 exercise. TFSME includes additional incentives to lend to Small and Medium Sized Enterprises (SMEs).

3. After an emergency meeting, the Financial Policy Committee (FPC) announced a reduction in the Countercyclical Capital Buffer (CCyB) to 0%. The prevailing rate was 1.0%, but was due to increase to 2.0% at the end of this year. The FPC believes that this will potentially release £190bn of lending to businesses.

- The MPC minutes will be published on Friday 13 March at midday. Meanwhile the FPC record will be released on 24 March (alongside that from the regular meeting on 19 March).

- In addition the BoE's Prudential Regulation Committee (PRC) is inviting requests from insurance companies to utilise flexibility arrangements in order to smooth out the impact of movements in markets.

This morning's events clearly demonstrate the extent of the Bank of England's concerns over the economic impact of COVID-19. The motivation for the reduction in interest rates (the first 50bp move since March 2009) is obvious. But the TFSME scheme and the reduction in capital buffers shows that the Bank of England recognises the dangers of 'second round' effects from COVID-19 having a longer lasting impact on the economy. What we have seen this morning is the various arms of the Bank of England working together to provide a joined up response on monetary and macroprudential policy. What is due this afternoon is a further component of the co-ordinated policy response from the authorities in the shape of the Budget. As well as a considerable degree of stimulus (which seemed due even ahead of the COVID-19 outbreak), further measures to ease coronavirus related issues on businesses are undoubtedly on the cards.

Current Governor Mark Carney hosted a joint press conference with his successor Andrew Bailey today. Both officials stressed the co-ordinated nature of policy. We suspect that the decision to take today's action was recent. At the end of a speech at University College London last week, Dr Carney remarked that he had taken his final question as BoE Governor. Clearly events over the past 5-6 days have overtaken his intentions We await Chancellor Sunak's Budget at 12.30 UK time to assess the size and nature of the fiscal response. Although we are not explicitly forecasting any further action from the MPC, we would not rule out a cut in the Bank rate to the presumed lower bound of 0.10%, or indeed a resumption of QE, at some stage. Indeed Messrs Carney and Bailey emphasised that they would take all necessary steps. In terms of markets, sterling recouped initial losses to trade above $1.2950. 10-year gilt yields have risen by 4-5bps (to 0.28%), largely in response to a late rally on Wall Street last night. However short-term interest rate markets have rallied by 10-15bps as markets partly price in a 15bp Bank rate cut to 0.10%.

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