

UK economy

Bank of England holds policy unchanged

- **Bank of England makes no change to policy at January meeting**
- **Inflation and growth outlook has become even more uncertain**

As expected, the Bank of England left policy unchanged at its January Monetary Policy Committee meeting, maintaining the Bank Rate at 0.5% and its asset purchase programme at £275bn.

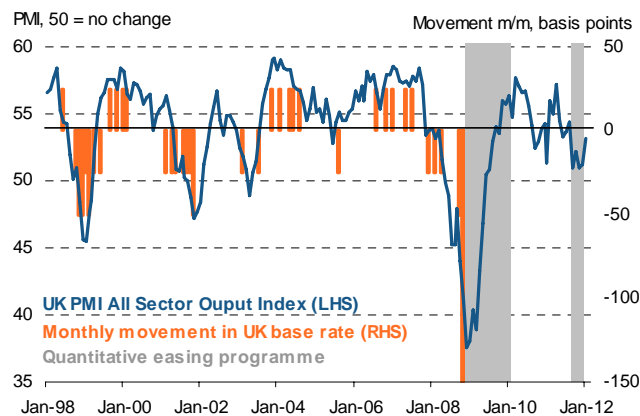
The most likely scenario still seems to be that the MPC will vote to increase the size of its asset purchase programme by another £50-75bn at its February meeting, after the current round of QE is completed, but anticipating the next move has become increasingly difficult in recent weeks.

The economy looks to have flat-lined in the final quarter of last year, in line with the Bank's expectations, and the outlook remains one where the risks are skewed towards the economy slipping back into recession. However, the PMI business surveys showed the pace of economic growth picked up to a five-month high in December. Importantly, historical comparisons with the PMI and policy decisions suggest that the survey data have moved closer towards a neutral policy stance.

The previously benign inflation outlook has also been muddied by tensions in Iran, which have driven oil prices higher. The Bank's expectations of inflation falling sharply in 2012 may prove optimistic if oil prices remain elevated.

The big uncertainty is whether the surprise improvement in the business surveys will last, as concerns about weak growth are likely to outweigh inflation worries among policymakers. Much will therefore depend on how events in the eurozone unfold in coming months. Today's successful Spanish bond auction may help to boost confidence in the euro area's prospects, but the outlook for the region remains highly uncertain and the direction of UK monetary policy will probably be guided more by the situation in the single currency area than anything else.

PMI surveys move closer to neutral policy stance



Sources: Markit, Bank of England.

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