

Opening Statement by the Governor and Andrew Bailey

The front line of combatting the challenges of Covid-19 comprises the extraordinary efforts of NHS health professionals, carers, the Public Health Officials and volunteers across the country, as well as the exceptional support by the Foreign and Commonwealth Office to UK citizens abroad.

The Bank of England's role is to help UK businesses and households manage through an economic shock that could prove large and sharp, but should be temporary.

The Bank is announcing today a comprehensive and timely package of measures to help UK households and businesses bridge across the economic disruption caused by Covid-19. These measures will help to keep firms in business and people in jobs, and they will help prevent a temporary disruption from causing longer-lasting economic harm.

Maximising the effectiveness of our response requires coordination across all the Bank's policy committees. That's why all Committees are simultaneously acting today.

Maximising the effectiveness of our response requires working in concert with HM Treasury. That's why we are acting on Budget day, when the Chancellor will announce a series of government initiatives to support UK households and businesses.

And maximising the effectiveness of our response requires continuity over time. That's why the next Governor, Andrew Bailey, participated in all our policy meetings and is joining me this morning to help explain our approach. All the decisions of all the policy committees were unanimous.

Economic Outlook

Following the spread of Covid-19, risky asset and commodity prices have fallen sharply, and government bond yields have reached all-time lows, consistent with a marked deterioration in risk appetite and the outlooks for global and UK growth. Indicators of financial market uncertainty have reached extreme levels.

Although the magnitude of the economic shock from coronavirus is highly uncertain, activity is likely to weaken materially in the UK over the coming months. Temporary, but significant,

disruptions to supply chains and weaker activity could challenge cash flows and increase demand for short-term credit from households and for working capital from companies. Such issues are likely to be most acute for smaller businesses. This economic shock will affect both demand and supply in the economy.

That is why we are acting today.

MPC Reduces Bank Rate and Launches New Term Funding Scheme with additional incentives for SMEs

The MPC is reducing Bank Rate by 0.50% to 0.25%. This action will help to support the net cash flows of borrowers during a period in which economic activity is likely to be disrupted. The reduction in Bank Rate will help to support confidence at a difficult time, to bolster the cash flows of businesses and households, and to reduce the cost and to improve the availability of finance.

When interest rates are low, it is likely to be difficult for some banks and building societies to reduce deposit rates much further, which in turn could limit their ability to cut their lending rates.

In order to mitigate these pressures and maximise the effectiveness of monetary policy, the MPC is launching a new Term Funding scheme with additional incentives for Small and Medium Sized enterprises (TFSME). The TFSME will provide four-year funding for banks of at least 5% of participants' stock of real economy lending at interest rates close to Bank Rate. Additional funding will be available for firms that increase lending, especially to small and medium-sized enterprises (SMEs). This could provide in excess of £100bn in term funding.

The TFSME will:

- help reinforce the transmission of the reduction in Bank Rate to the real economy to ensure that businesses and households benefit from the MPC's actions;

- provide participants with a cost-effective source of funding to support additional lending to the real economy, providing insurance against adverse conditions in bank funding markets;
- incentivise banks to provide credit to businesses and households to bridge through a period of economic disruption; and
- provide additional incentives for banks to support lending to SMEs that typically bear the brunt of contractions in the supply of credit during periods of heightened risk aversion and economic downturns.

Let me now turn to Andrew to explain the actions of FPC and PRC, in his current capacity as a member of those Committees.

FPC Releases the UK Countercyclical Capital Buffer

To support further the ability of banks to supply the credit needed to bridge a potentially challenging period, the Financial Policy Committee has reduced the UK countercyclical capital buffer rate to 0% of banks' exposures to UK borrowers with immediate effect. The rate had been 1% and had been due to reach 2% by December 2020.

The FPC expects to maintain the 0% rate for at least 12 months, so that any subsequent increase would not take effect until March 2022 at the earliest.

Given the resilience of the core banking system, businesses and households should be able rely on banks to meet their need for credit to bridge through a period of economic disruption.

Although disruption arising from Covid-19 could be sharp and large, it should be temporary. Such economic disruption should have lower impact on the core banking system than recent stress tests run by the Bank have shown the system can withstand. Those stress tests demonstrated that banks' would be able to continue to lend to households and businesses even while absorbing the effects of substantial, prolonged economic downturns in both the UK and the global economies, as well as falls in asset prices much larger than experienced in recent weeks.

The release of the countercyclical capital buffer will support up to £190bn of bank lending to businesses. That is equivalent to 13 times banks' net lending to businesses in 2019. Together with the new term funding scheme, this means that banks should not face obstacles to supplying credit to the UK economy.

The FPC will continue to monitor closely the response of banks to these measures and the credit conditions faced by UK households and businesses, more generally.

PRC Issues Supervisory Guidance

The release of the countercyclical buffer also reinforces the expectation of the FPC and the PRC that all elements of banks' capital and liquidity buffers can be draw down as necessary to support the economy. In addition, the PRA has today set out its expectation that banks should not increase dividends or other distributions, such as bonuses, in response to these policy actions.

The Bank's supervisory teams have increased the frequency of reporting and supervisory engagement with all firms. This includes reviewing business continuity plans firms have put in place to manage operational risks from the outbreak of the virus.

Major UK banks are well able to withstand severe market disruption. They hold £1 trillion of high-quality liquid assets, enabling them to meet their maturing obligations for many months.

In response to the material fall in government bond yields in recent weeks, the PRC invites requests by insurance companies to use the flexibility in Solvency II regulations to recalculate the transitional measures that smooth the impact of those regulations. This will support market functioning.

I'll now hand back over to Mark.

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The Bank of England has operations in place to make loans in all major currencies on a weekly basis. Banks have already pre-positioned collateral with the Bank of England that will allow banks to borrow around £300bn through these facilities.

The Bank of England's actions comprise a powerful and timely package to support UK businesses and households to bridge a temporarily difficult period and to mitigate any longer-lasting effects on jobs, growth and the UK economy.

The Bank is coordinating its actions with those that the Chancellor will announce in today's budget in order to ensure that our initiatives are complementary and that they will collectively have maximum impact, consistent with our independent responsibilities. The Bank will also continue to co-ordinate closely with international counterparts.

The Bank will take all further necessary steps to support the UK economy and financial system, consistent with its statutory responsibilities.

Some watching will recall the financial crisis a little more than a decade ago. Then, the financial system was the core of the problem. Now, it can be part of the solution.

Over the past decade, the UK financial system has been transformed. We didn't build this strength for its own sake.

This is prudence with a purpose.

Resilience with a reason.

And that reason is fulfil the Bank of England's mission—"to promote the good of the people of the United Kingdom" by maintaining monetary and financial stability.

By acting today, the Bank is ensuring that the strength of our financial system can be directed to where it is most needed in months ahead.