CORONAVIRUS

We’ll do whatever it takes, central banks vow

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The Bank of England has pledged to pump more money into the economy if needed as central banks across the world signalled almost unlimited support in the fight against the coronavirus.

As the Bank warned of “a very sharp reduction in activity” due to the pandemic, it promised to “expand asset purchases” if needed beyond the £200 billion increase in quantitative easing announced last week.

The commitment followed similar pledges yesterday by the US Federal Reserve and the European Central Bank.

In a landmark decision, the ECB scrapped a self-imposed cap prohibiting the purchase of more than a third of any eurozone country’s eligible bonds. The so-called “issuer limit” was introduced to protect the ECB from accusations that its programme directly funded national governments.

Central banks are taking unprecedented steps to support government debt markets, where prices were in freefall last week as investors unloaded even normally super-safe assets in a dash for cash, raising concerns about the sustainability of public borrowing plans.

The minutes of the Bank's two recent rate-setting meetings said it stands "ready to respond further as necessary to guard against an unwarranted tightening in financial conditions, and support the economy".

The Bank left interest rates and quantitative easing unchanged yesterday. But the scheduled meeting had been overtaken by the dramatic events of the past fortnight.

In two emergency meetings of the monetary policy committee on March 10 and March 19, it cut rates from 0.75 per cent to 0.1 per cent, increased QE by £200 billion to £645 billion and launched a cheap funding scheme for commercial banks.

It has separately provided a commercial paper financing facility for businesses, opened an unlimited liquidity facility to keep markets functioning and relaxed banking regulations to keep credit flowing . The extra QE will largely be used to buy government debt, the market which had "deteriorated notably", which threatened to drive up borrowing costs in the real economy, as much of it is priced off the gilt market.

The announcement of more "front-loaded" QE that would buy gilts quickly had calmed things and brought down government borrowing costs.

"At least" £10 billion of corporate bonds will also be purchased through the QE programme, helping out big business, the Bank said. The minutes set out the scale of the crisis facing both the UK and the world.

"The reduction in the demand for labour could significantly increase unemployment" and "there was a risk of business failures on a large scale", the minutes said.

UK "economic activity would contract significantly further in April and in the second quarter of 2020 as a whole" following a "steep fall in output in March", they said.

Echoing the International Monetary Fund, the Bank warned of a global recession this year.

"It was probable that global GDP would fall sharply during the first half of this year, although there would be a rebound at some stage thereafter, depending in part on how long the social distancing measures remained in place," it said.

George Brown, an Investec economist, said: "While the outlook is highly uncertain, the Bank rate may now be held steady through this year and next. But a further expansion of QE is certainly possible, particularly if the economic downturn exhibits signs of spilling over into the second half of this year."