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## Bank of England blows a £50bn hole in recovery hope: New round of 'printing money' stuns the City

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By [Sam Fleming](#)

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Hopes for a quick economic recovery were dashed yesterday when the Bank of England dramatically expanded its money-printing operation.

The Bank stunned the City by voting to pump an extra £50billion into the markets over three months - more than half a billion pounds a day.

And the official interest rate was kept at its all-time low of 0.5 per cent, as the Bank warned the recession was proving 'deeper than previously thought'.



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**Shock move: The Bank will pump an extra £50bn into the markets over three months dashing hopes of a quick economic recovery**

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The decision blindsided many in the City, because recent figures on housing and business activity pointed to a tentative recovery.

But while the Bank acknowledged there are signs the downturn may have bottomed out, there are no signs its drastic measures have yet brought an end to the credit drought.

A statement from the Bank blamed Britain's banks, criticising them for continuing to reduce the supply of credit to hard-pressed businesses.

This will suppress the economy's potential to grow, the Bank said. It added that financial conditions remain fragile and interest rates on loans are still high.

Therefore it will continue its quantitative easing scheme, under which it buys government and corporate bonds off City firms and pays for them with newly created money.

The hope is that this should boost the amount of cash flowing around the economy and bolster bank lending.

But there is strong evidence that banks are hoarding cash at their Bank of England accounts rather than lending it to their consumers.

With firms and families also trying to borrowing, and with joblessness rising fast, experts warned the economic outlook remains bleak.

Economist Danny Gabay said: 'This is not a positive sign about the economy. It is rather an honest reflection of how parlous a state the UK is in at the moment.'

While the City welcomed the additional cash, some analysts fear creating large sums of fresh money by could ultimately lead to hyperinflation - although the Bank insisted the credit crunch is 'bearing down' on price growth.

As the vast bulk of the new cash is spent buying government bonds, critics accused the Bank of tacitly helping the Treasury to finance its own deficit.

Tory Treasury spokesman Philip Hammond said: 'The decision to continue QE is an attempt to counter the contraction in the economy in the second quarter and the continuing slide in lending to businesses.

'But every extension of QE also adds to the longer term risk of fuelling inflation when the economy recovers.'

Before yesterday most experts had expected the Bank to wind up QE - or at least pause for a few months to survey the impact of its efforts to date.

However, economist Alan Clarke said the Bank is now unlikely to stop at printing £175billion, with the risks of outright deflation so dire that it may ultimately have to create £300billion of new money.

- Half of businesses are considering laying off staff in the next six months, the British Chambers of Commerce warned yesterday.

And half of the firms it surveyed did not believe there would be a return to economic growth until the first half of 2010.

Adam Marshall, director of policy at the BCC, said: 'Government policies to help businesses retain jobs will be critical over the next 12 months. Scrapping plans to raise National Insurance contributions in 2011 is an obvious place to start.'

## Watch the experts speaking about the Bank's latest move

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Of course house prices and the stock markets are increasing. Who the hell wants cash when the Bank of England just keep on printing the stuff. At this rate the only use for £50 notes will be to insulate the loft.

- Richard, Torrevieja, Spain, 06/8/2009 15:17

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PETER CLOSE, BERWICK-UPON-TWEED, 6/8/2009 15:18

What tax-relief on interest? For that matter, What interest? We who have saved are receiving nothing. Inflation of 6% or 7% with interest rates zero? What a good idea!! Those of us who have made sacrifices to fund our old age without having to depend on government handouts are seeing the purchasing power of our savings plummeting, with 6% or 7% inflation it would be worse. Then what? All our sacrifice has been for nothing, then we have to be "means-tested" and beg for handouts. But they are going to cut down on expenditure, there probably won't be any handouts when we need them but the feckless and profligate have their big houses and 4x4s and are paying zero interest on the loans. Doesn't seem fair to me, but then I'm biased.

- Richard, Alicante, Spain, 06/8/2009 15:14

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recession "appears to have been deeper than previously thought," just where have these people been this last year ? It's unbelievable that these morons are in charge of the finances of the country.

- arthur.o, Sunderland, UK, 06/8/2009 14:39

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Here in the USA signs are that the recession might just be near it's inglorious end. Once we start recovery Europe will follow. There is a lot of pent-up demand!

- david wayne osedach, San Diego, California, 06/8/2009 14:38

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I've been an advocate of printing more money that is required and necessary to get the economy going in order to maintain public services. Provided it is invested in ventures that will yield good returns and profit which will benefit all of society. Great to see BOE doing that and they have to ensure that it is utilised properly and not squandered/wasted on bogus/white elephant projects that yield no ROI.

- Marian Nielsen, London (UK), 06/8/2009 14:31

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How on earth by printing money can this help the recession. People are afraid to spend any money they have in case it is needed later on for essentials. If your job is at risk or you have been made redundant, how can you possibly consider living beyond your means to boost the economy.

- Diana, Staffordshire, 06/8/2009 14:30

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