LONDON loves BUSINESS

5 July 2012

Bank pumps further £50bn into economy through QE

The Bank of England has pumped a further £50bn into the UK economy through its quantitative easing (QE) programme as the country battles against recession.

The Bank's Monetary Policy Committee (MPC) voted to raise the QE programme from £325bn to £375bn, effectively printing more money, even though it risks increasing the rate of inflation.

Interest rates were held at a record low of 0.5%.

A number of industry surveys show the economy deteriorated in June. The construction industry went backwards, while the all-important services sector posted its worst performance for eight months.

Most economists believe gross domestic product will have declined in the second quarter of the year, following falls of 0.4% and 0.3% in the previous two quarters.

Pensioners' groups have expressed their dismay with the QE programme and blamed the money-printing for a "meltdown" in annuity rates.

However, business leaders have backed the plan and said it would boost confidence.

The decision to pump more money into the economy came as UK output had barely increased for a year and a half, the Bank said, while signs show main export markets are slowing.

The bank said: "Business indicators point to a continuation of that weakness in the near term, both at home and abroad."

It added: "Concerns remain about the indebtedness and competitiveness of several euro-area economies, and that is weighing on confidence here."

But the Bank believes inflation should continue to fall in the medium-term and its stimulus measures should aid a gradual strengthening in output.

Jonathan Davis, managing director of Jonathan Davis Wealth Management, is "dead against" the Bank's QE programme because "the prudent are bailing out the reckless".

"When will the central bank and the politicians learn that QE doesn't work?" asked Davis.

“Einstein said the definition of insanity is doing the same thing over and over again and expecting a different outcome. Japan has been money printing for nearly 25 years to bail out its banking system, yet it remains in a 30-year depression.

“The policymakers should wake up to the hard reality that you cannot have economic growth in an economy that has debt of nine-times GDP.

“That debt is government debt, household debt, bank debt and corporate debt. You cannot have growth in such an economy.

“Accept the reality, bring back capitalism, let failed industries fail and our currency will soar, our cost of living and the cost of running businesses will plummet and then we shall have economic growth.”