

Economics

BOE Slows Bond Buying as U.K. Economic Recovery Gathers Pace

By [David Goodman](#)

May 6, 2021, 6:20 PM GMT+7

Updated on May 6, 2021, 6:58 PM GMT+7

- ▶ U.K. should recover pre-pandemic level during 2021, BOE says
- ▶ Bailey will speak at press conference at 1pm in London



Discover what's driving the global economy and what it means for policy makers, businesses, investors and you with [The New Economy Daily](#). [Sign up here](#)

The Bank of England slowed its emergency bond-buying and signaled it's on course to end that crisis support later this year as a strong rebound takes hold across the economy with the removal of pandemic restrictions.

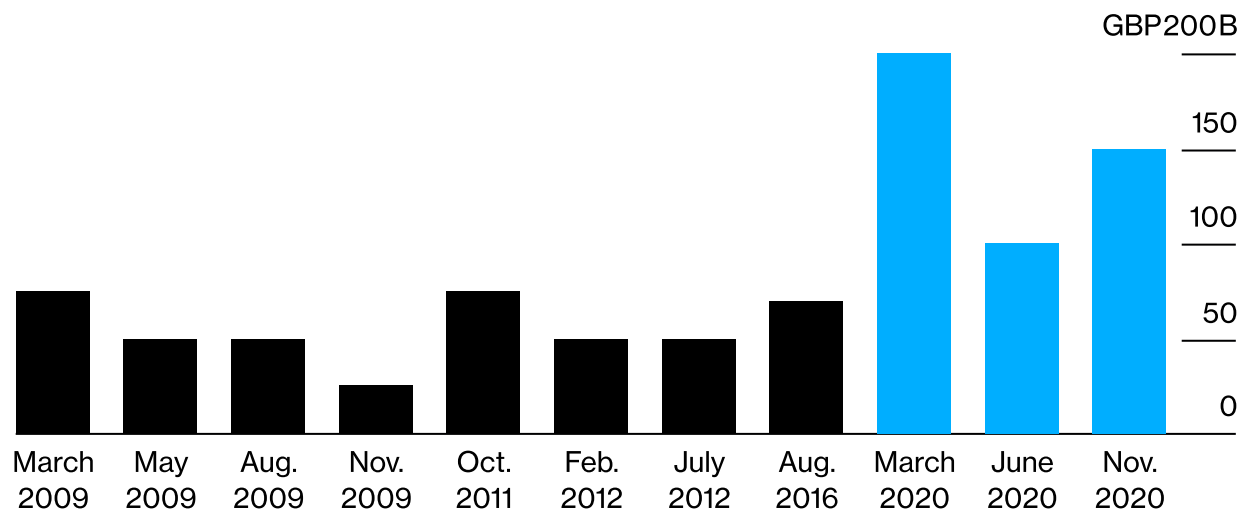
Officials, led by Governor Andrew Bailey, said the U.K. should recover its pre-coronavirus level of output one quarter earlier than previously forecast, as the country's rapid vaccination drive clears the way for a full reopening by June.

The rebound's strength convinced outgoing Chief Economist Andy Haldane to cast a sole minority vote to cut the target for bond purchases.

Spending Spree

The Bank of England's Covid asset purchases dwarf previous rounds

Change in the stock of asset purchases



Source: BOE, Bloomberg Economics

The BOE's downward gear-shift on bond buying reflects Prime Minister Boris Johnson's rapid progress on achieving a critical mass of vaccinations.

The move puts the institution in a vanguard of global central banks deescalating crisis stimulus, reflecting a broader discussion in major economies about how long to keep emergency life support flowing.

In the U.S., Treasury Secretary Janet Yellen this week rowed back on comments where she seemed to suggest interest-rate increases might be needed. Meanwhile earlier on Thursday, Norway's central bank said it's still on track to start tightening later this year.

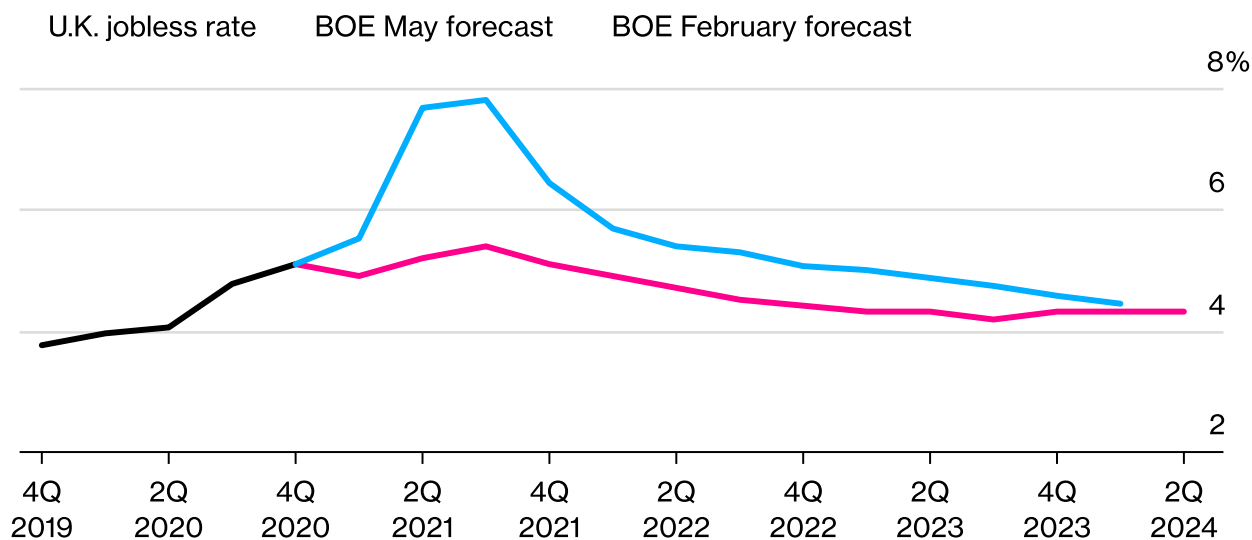
"The success of the government's vaccine program means the nations of the U.K. can now begin to chart a safe clear course out of lockdown, and the government's unprecedented economic response continues to support our ongoing economic recovery," Chancellor of the Exchequer Rishi Sunak said in a letter to the BOE.

Gilts were largely steady on the day, erasing earlier gains after the BOE announced the slowdown in its bond buying pace. Ten-year yields slipped one basis point to 0.81%. The pound rose 0.1% to

\$1.3915.

Lower Peak

Government wage support is expected to limit the rise in unemployment



Source: Bank of England

Haldane, who is set to quit the BOE in June, opted to cut the target for the current round of bond purchases to 100 billion pounds (\$139 billion) from the present total of 150 billion pounds, meaning the program would finish in August rather than at the end of the year.

“There was now clear evidence that the economy was growing rapidly, with both household and company spending surprising significantly and persistently to the upside, and consumer and business confidence bouncing back,” he argued to his colleagues.

What Bloomberg Economics Says...

“The Bank of England delivered a big forecast upgrade today as well as a slowdown in bond purchases and a dissenting vote from its outgoing chief economist. All of that suggests increasing confidence about the economic outlook.”

--Dan Hanson, senior U.K. economist. [Click here](#) for full REACT.

The BOE will reduce the pace it buys government debt to 3.4 billion pounds a week, 1 billion pounds lower than the previous amount. Officials insisted this was an “operational decision” that shouldn’t be interpreted as a shift in their policy stance.

The success of the U.K.'s vaccination drive has driven down infection and death rates and allowed the government to stay on track to fully re-open the economy in June. The next stage in the loosening of restrictions is due later this month, when indoor hospitality will open and two households will be able to mix inside.

Greater Optimism

The BOE's optimism over the recovery is reflected in more bullish economic forecasts, which now show the economy reaching pre-pandemic levels in the fourth quarter of this year. Unemployment will peak at 5.4%, rather than 7.8% previously predicted.

Officials also reckon consumers will spend more of the savings they have built up during the crisis, doubling their forecast over three years to 10% of the extra hoarded cash.

"GDP is expected to recover strongly to pre-Covid levels over the remainder of this year in the absence of most restrictions on domestic economic activity," the BOE said. "Demand growth is further boosted by a decline in health risks and a fall in uncertainty, as well as announced fiscal and monetary stimulus."

Vivek Paul, the U.K. chief investment strategist at BlackRock Investment Institute, cautioned that the more optimistic outlook isn't a promise of sustainable expansion over time.

"It would be a mistake to extrapolate from eye-watering growth rates in the near term to stronger growth in the future," he said. "After all, this is a restart, not a recovery."

Bailey may elaborate on the outlook at a press conference at 1 p.m. London time.

– With assistance by Lucy Meakin, Lizzy Burden, Paul Gordon, Andrew Atkinson, Fergal O'Brien, Kristine Aquino, James Hirai, Alex Morales, Stuart Biggs, Zoe Schneeweiss, and Harumi Ichikura

(Updates with Sunak in seventh paragraph)