**FACTSHEET DEBATE 1: Monetary Policy – Has Quantitative Easing Worked?**

**Background to the Debate**

Quantitative Easing is where The Central Bank creates money electronically. (This is similar effect to printing money, except they are increasing bank reserves which don’t need to be printed in the form of cash) The Central Bank uses these extra reserves to buy various securities. These include government bond and corporate bonds. Buying these securities achieves two things:

1. Banks sell assets (bonds) for cash. Therefore banks see an increase in their liquidity (cash reserves). In theory, the bank will then be more willing to lend to customers. This lending will be important for increasing investment and consumer spending.
2. Buying assets reduces their interest rate. Lower interest rates on these securities may also encourage banks to lend rather than keep securities which are paying low interest. Higher lending should help improve economic growth.

Therefore, the aim of quantitative easing is to:

1. Increase bank lending leading to higher investment. This should stimulate economic growth
2. Increase inflation. Quantitative easing may be pursued when there is underlying core-inflation close to 0%. 0% inflation and deflation can lead to lower spending and economic growth. Therefore, aiming for a higher inflation rate, can encourage spending.

The Bank of England launched its QE programme in March 2009 with an initial spending target of £75bn over three months. At the same time it cut interest rates to a record low of 0.5%. Between March 2009 and January 2010 the Bank bought £200bn of assets, equivalent to about 14% of GDP to help breathe life into the UK economy following the credit crunch. Then in October 2011, faced with growing warnings of a double-dip recession and a eurozone crisis, policymakers voted to resume QE and pump another £75bn into the financial system, increasing the QE budget to £275bn. The Bank later increased the total to £375bn.

**Sources to Access**

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| Videos to watch   * 11: Politics Show - <https://www.youtube.com/watch?v=TsahQK0Immk> | Articles to read   1. Guardian - <https://www.theguardian.com/business/2015/jan/22/quantitative-easing-around-the-world-lessons-from-japan-uk-and-us> 2. BBC - <http://www.bbc.co.uk/news/business-15198789> 3. Market Mogul - <http://themarketmogul.com/failure-quantitative-easing-uk/> |

**Evaluating this Debate**

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| Advantages | Disadvantages |
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| CONCLUSION: | |