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UK: POLICYMAKERS SENDING A BIG MESSAGE WITH COORDINATED STIMULUS (PART 2)

Berenberg Macro Flash

Following on from our [initial reaction](#) to the BoE policy decision today, we highlight the key press conference commentary from Governor Mark Carney and soon-to-be Governor Andrew Bailey:

- The BoE is working 'in concert' with HM Treasury – the policy steps taken today are part of a coordinated monetary/fiscal package
- BoE's policy measures are targeted - aimed at meeting the higher expected demand for short-term credit in case firms run into cash flow problems in the coming weeks – big emphasis on supporting SMEs
- BoE estimates the stimulus package is likely worth 1% of GDP – we expect a further a 1% stimulus from fiscal policy
- TFS could provide up to £100bn in funding (aimed at SMEs) while the cut in the counter-cyclical capital buffer could underpin £200bn in loans to business
- Effective lower bound on the bank rate is probably 0.1% - implying any further cut would likely be 15bps (BoE could still do plenty of QE – it holds only around 17% of the total market value of gilts on its balance sheet)
- Carney stressed multiple times 'no need for this to be a repeat of 2008' and 'that depends on the policy decisions'... UK financial system in good shape and 'can be part of the solution' (BoE stress tests show banks could survive a Lehman-style shock and still be left with more capital than they historically have had)

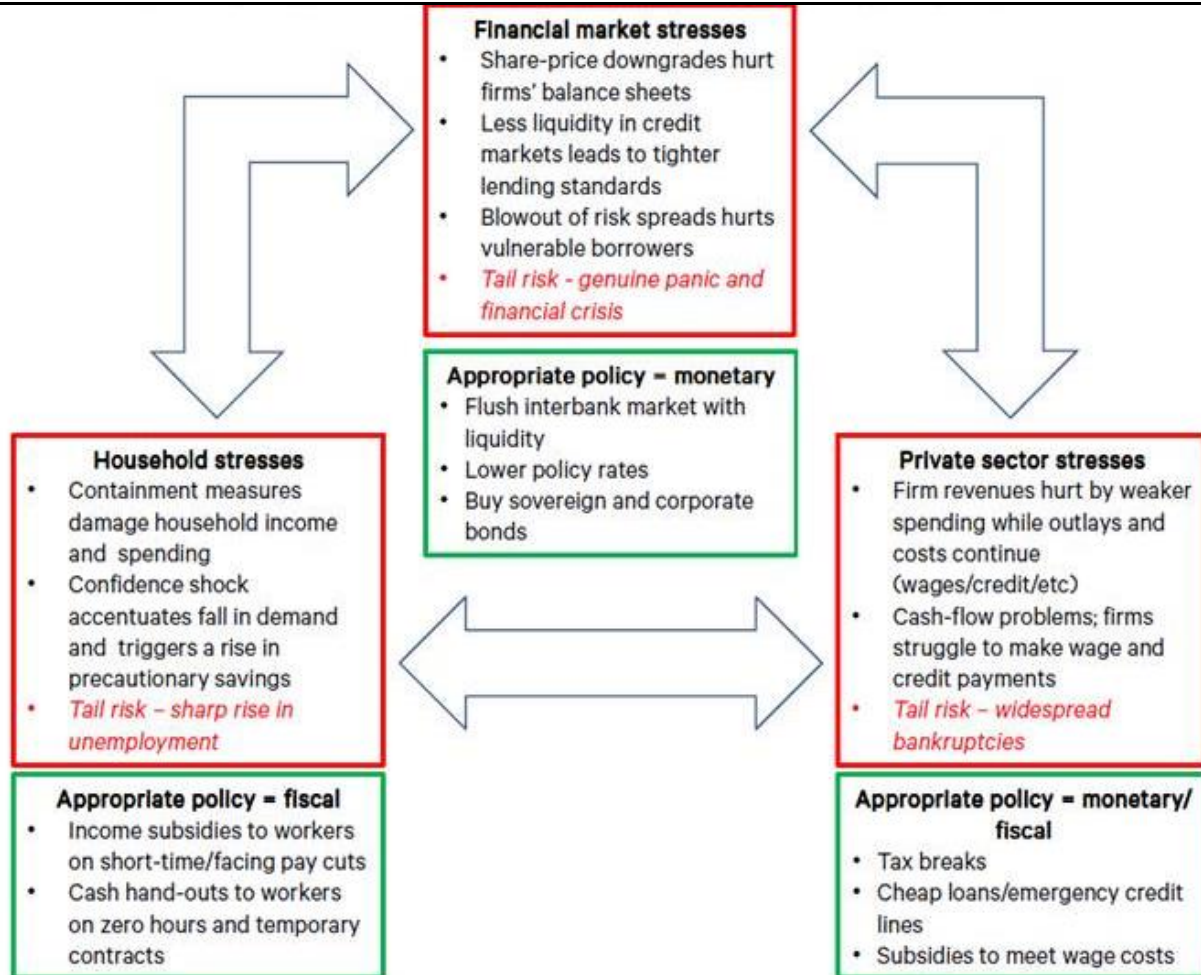
The joint monetary and fiscal response is aimed at supporting the parts of the economy that are likely to come under the most stress. In Chart 1 (below) we highlight the three key areas that are potentially vulnerable: financial, private and household. An effective policy response can contain the risk that problems in one area could spill into another and create negative feedback loops – see green boxes.

Big day for the UK – stay tuned for part 3 following the budget at 12:30!



MACRO NEWS

Chart 1: Examining the potential points of stress and the appropriate policy response



Source: Berenberg

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