

Bank of England to issue grimmest warning yet on economy

By [Heather Stewart](#)

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Mervyn King will this week present the Bank of England's most pessimistic assessment yet of the outlook for Britain's economy, after a slew of official figures confirming that activity has "fallen off a cliff" since the autumn.

When the Bank's monetary policy committee reduced borrowing costs to just 1% last Thursday, it acknowledged that "the global economy is in the throes of a severe and synchronised downturn".

Its latest forecasts, to be published on Wednesday, will reveal how hard it expects the UK to be hit. "The upcoming inflation report is likely to show a bleak forecast, with a severe recession," predicted Michael Saunders, UK economist at Citigroup.

King said in a speech to the CBI last month that there was a consensus among the Bank's contacts in the UK and abroad that after Lehman Brothers went bust in September, "orders and confidence had, in the same telling phrase, 'fallen off a cliff'".

Official figures on Friday showed industrial production fell at the fastest pace since the 1970s in the final quarter of 2008, a pattern echoed across the eurozone and in the US.

Economists will be scrutinising the report for signals that the MPC is preparing to jump to "quantitative easing", the radical approach of pumping more cash into the economy.

On Friday the Bank said it will begin buying companies' debts using £50bn of taxpayers' money, in a new attempt to unblock the flow of credit.

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