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THE KING ASSESSES IF THE RECESSION RISK FROM EURO CRISIS WARRANTS MORE BOE STIMULUS

Today, the Bank of England's Governor Mervyn King and his officials will assess if recession risks warrant an even bigger increase in stimulus after last month's surprise expansion to ward off any of the danger posed by Europe's debt crisis. To measure whether the 75 billion-pound ($120 billion) increase in bond purchases pledged last month can protect the economy from the region's turmoil, the Monetary Policy Committee will use new quarterly economic forecasts. All 38 economists have said in a Bloomberg News survey that officials will probably keep their 275 billion-pound stimulus plan unchanged. Yesterday, European stocks fell as Italy's political instability intensified the region's crisis, threatening to push Britain back into recession as its recovery struggles under the weight of the deepest fiscal squeeze since WorldWar II. Bank of England officials, which include Charles Bean and Adam Posen, have indicated that they are open to more stimulus if needed. ''Growth in the U.K. is weaker than they thought, surveys have softened, and the euro area just makes it worse,'' says Michael Saunders, who is the chief European economist at Citigroup Inc. in London, in a telephone interview. ''Quantitive easing will be expanded further, if not today, then in the coming months, but they absolutely will at some point.'' According to all 52 economists in a survey, the Bank of England will also keep the key interest rate at a record low of 0.5 percent. While central banks in Denmark and Australia also cut their borrowing costs this month, the European Central Bank unexpectedly cut its benchmark interest rate to 1.25 percent last week. According to 18 of 21 economists in a survey, South Africa's central bank will refrain from lowering its benchmark from 5.5 percent today. Yesterday, the U.K. Prime Minister David Cameron said that the cost of servicing Italy's debt is near ''unsustainable'' levels. ''If you don't have credibility about your plans to deal with your debts and deal with your deficits, whether you like the markets or not, they won't lend you any money,'' he said. ''That's what we are seeing in countries like Greece and now tragically in Italy.'' Yesterday, Europe's Stoxx 600 Index fell 1.7 percent, while the U.K.'s FTSE 100 Index declined 1.9 percent, and Italy's FTSE MIB dropped 3.8 percent. The yield on Italy's 10-year bond jumped substantially to 7.25 percent. In September, the King said last month that officials came ''very close'' to expanding stimulus in September, and were prompted to act in October when ''volatility did not dampen down.'' Italian bond yields have riden to a level that forced Greece, Ireland, and Portugal to seek bailouts since last month's move. The Libor-OIS spread, which is a gauge of bank reluctance to lend in dollars, has reached the highest since July 2009.