BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 15 December 2021

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These are the minutes of the Monetary Policy Committee meeting ending on 15 December 2021.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/december-2021.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 2 February will be published on 3 February 2022.

Monetary Policy Summary, December 2021

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 15 December 2021, the MPC voted by a majority of 8-1 to increase Bank Rate by 0.15 percentage points, to 0.25%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £875 billion, and so the total target stock of asset purchases at £895 billion.

In the MPC's central projections in the November *Monetary Policy Report*, global and UK GDP were expected to recover further from the effects of Covid-19 (Covid) in the near term. Conditioned on the rising path for Bank Rate expected by financial markets at that time, upward pressure on CPI inflation was expected to dissipate over time, as supply disruption eased, global demand rebalanced from goods to services, and energy prices stopped rising. Earnings growth was also expected to fall back from its current rate. As a result, inflation was projected to fall back materially from the second half of next year.

Since the November MPC meeting, the Omicron Covid variant has emerged. It appears to be spreading rapidly within the United Kingdom and around the world. The new variant appears to be much more transmissible than the Delta variant and, on the basis of current knowledge, poses new risks to public health. Global risky asset prices fell in response to this news but have since largely recovered. Longer-term advanced-economy government bond yields have declined.

The level of global GDP in 2021 Q4 is likely to be broadly in line with the November *Report* projection, but consumer price inflation in advanced economies has risen by more than expected. The Omicron variant poses downside risks to activity in early 2022, although the balance of its effects on demand and supply, and hence on medium-term global inflationary pressures, is unclear. Global cost pressures have remained strong.

Bank staff have revised down their expectations for the level of UK GDP in 2021 Q4 by around ½% since the November *Report*, leaving GDP around 1½% below its pre-Covid level. Growth in many sectors has continued to be restrained by disruption in supply chains and shortages of labour. The impact of the Omicron variant, associated additional measures introduced by the UK Government and Devolved Administrations, and voluntary social distancing will push down on GDP in December and in 2022 Q1. The experience since March 2020 suggests that successive waves of Covid appear to have had less impact on GDP, although there is uncertainty around the extent to which that will prove to be the case on this occasion.

The Labour Force Survey unemployment rate fell to 4.2% in the three months to October, while the number of payrolled employees continued to rise strongly in November. There is little sign in the available data that the closure of the Coronavirus Job Retention Scheme at the end of September has led to a weakening in the labour market. The LFS unemployment rate is now expected to fall to around 4% in 2021 Q4, compared with the 4½% projection in the November *Report*. Bank staff continue to estimate that underlying earnings growth has remained above pre-pandemic rates, and the Committee continues to see upside risks around the projection for pay in the November *Report*.

Twelve-month CPI inflation rose from 3.1% in September to 5.1% in November, triggering the exchange of open letters between the Governor and the Chancellor of the Exchequer that is being published alongside this monetary policy announcement. Relative to the November *Report* projection, there has been significant upside news in core goods and, to a lesser extent, services price inflation. Bank staff expect inflation to remain around 5% through the majority of the winter period, and to peak at around 6% in April 2022, with that further increase accounted for predominantly by the lagged impact on utility bills of developments in wholesale gas prices. Indicators of cost and price pressures have remained at historically elevated levels recently, and contacts of the Bank's Agents expect further price increases next year driven in large part by pay and energy costs. CPI inflation is still expected to fall back in the second half of next year.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework also recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. In the recent unprecedented circumstances, the economy has been subject to very large and repeated shocks. Given the lag between changes in monetary policy and their effects on inflation, the Committee, in judging the appropriate policy stance, will as always focus on the medium-term prospects for inflation, including medium-term inflation expectations, rather than factors that are likely to be transient.

At its November meeting, the Committee judged that, provided the incoming data, particularly on the labour market, were broadly in line with the central projections in the November *Monetary Policy Report*, it would be necessary over coming months to increase Bank Rate in order to return CPI inflation sustainably to the 2% target. Recent economic developments suggest that these conditions have been met. The labour market is tight and has continued to tighten, and there are some signs of greater persistence in domestic cost and price pressures. Although the Omicron variant is likely to weigh on near-term activity, its impact on medium-term inflationary pressures is unclear at this stage.

The Committee judges that an increase in Bank Rate of 0.15 percentage points is warranted at this meeting.

The MPC will review developments, including emerging evidence on the implications for the economy of the Omicron variant, as part of its forthcoming forecast round ahead of the February 2022 *Monetary Policy Report*. The Committee will, as always, continue to focus on the medium-term prospects for inflation. The Committee continues to judge that there are two-sided risks around the inflation outlook in the medium term, but that some modest tightening of monetary policy over the forecast period is likely to be necessary to meet the 2% inflation target sustainably. The Committee will reach its assessment on the balance of the risks to medium-term inflation in light of the relevant data as they emerge.