Monetary Policy Committee meeting, Bank of England. 18/3/2021

A more upbeat note from the Bank of England, but inflation risk understated.

The Bank of England's Monetary Policy Committee voted unanimously at its meeting on 18th March to continue with its ultra-loose monetary policy. No new initiatives were announced and the Committee expressed cautious optimism that the UK economy would recover in the coming months as the number of new infections and deaths from coronavirus continues to fall while the vaccination programme continues. Unlike its counterparts in the Eurozone and the USA, the BoE's MPC has not issued any forward guidance regarding the earliest dates at which interest rates may have to be raised or assets run off. It only stated that it does "not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably."

While the Committee acknowledged that inflation could reach the BoE's 2% target by the spring, (prices rose by only 0.7% in the year to January) it did not seem to believe that the figure could rise substantially above 2% as a result of the huge increase in the growth of the quantity of money. UK broad money (M4x) rose at an annual rate of 12.8% in the year to January while the annual growth rate hit 15%, an all-time record since the Bank of England started using M4x as its preferred measure of broad money in 2009. Inflation is also affected by the velocity of circulation of money (i.e., the number of times that the average unit of currency is used to purchase goods and services within a given time period) and this is likely to pick up when shops and leisure facilities reopen as the lockdown is gradually lifted in the spring and the summer. UK public sector borrowing remains extremely high, with February's figure standing at £19.1b. This will most likely be financed by the banks, thus creating more bank deposits, which are money. Thankfully, this high level of government borrowing is a lot smaller than the huge $1.9 trillion stimulus announced by President Biden, but it is still enough to pour yet more fuel on the fir of an already high rate of growth of money.

The Bank of England need not raise interest rates prematurely when, as we at the Institute of International Monetary Research believe, inflation does rise significantly above 2%. It could abandon and indeed start to run off the asset purchase scheme. The relaxed tone of the MPC's press release does, however, raise concerns as to whether the MPC will be as quick to act to dampen monetary growth as it was to apply a stimulus a year ago.

You can access further details on the latest monetary developments in the UK in our latest monthly report and video at https://mv-pt.org/monthly-monetary-update/ .