Monetary Policy Committee meeting, Bank of England. 6th May 2021

INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

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

The Bank of England's Monetary Policy Committee voted unanimously to keep interest rates at 0.1%, but there was one dissenting voice in the vote to continue with its existing programme of UK government bond purchases, financed by the issuance of central bank reserves. Furthermore, although the overall amount of planned asset purchases remains unchanged, the Bank will only purchase £3.4b. of assets per week from May until August 2021, a reduction from the weekly purchases of £4.4b. in the first four months of the year. With growing evidence that the UK's economic recovery is gaining momentum, the lack of new initiatives is unsurprising and there has been no mention of negative interest rates for several months now.

The MPC expects consumer price inflation rapidly to rise to its 2% target and indeed to overshoot it later in the year, but still has no medium to long term expectations of it remaining at much above the 2% level. In a press release following today's meeting, the MPC 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." No mention was made of the ongoing high level of broad money growth. In the first quarter of 2021, UK M4X broad monetary aggregate grew at an annual rate of 9.7%. While this is lower than the figures of 12% seen at the start of the year, it is still very high by recent standards and the Institute of International Monetary Research expects that inflation will be notably higher and sustained than the Bank of England's current forecasts. The reduction in the rate of asset purchases is a welcome development, but given the rate of broad money growth, there seems no valid reason for continuing with them at all.

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