INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Monetary Policy Committee meeting, Bank of England. 24th June 2021

No interest rate rises yet and asset purchases continue.

The Bank of England's Monetary Policy Committee voted unanimously to keep interest rates at 0.1%, but once again, 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. The statement following the MPC meeting acknowledged that inflation had risen above the Band of England's 2% target for the first time since the start of the coronavirus pandemic. Thanks to the rise in energy prices and the likelihood of demand outstripping supply for a while, the MPC admitted that inflation could rise as high as 3% later in the year, but in common with central banks in some other developed countries, it expected this spike to be a short-lived affair and that the current recovery would slow after a few months, bringing inflation down to a figure closer to the target.

It is not only monetarists who believe that the Bank should already be starting to tighten monetary policy. Roger Bootle suggested in the *Daily Telegraph* last week that interest rates should rise stepwise, starting with an increase to 0.75% adding "*The time to start such a move is now*". Ambrose Crofton an analyst with JP Morgan wrote "*Our own view is that inflation will continue to rise well above the Bank of England's target in the coming months and that not all of this will prove transitory.*" Andy Haldane, the outgoing chief economist at the Bank of England who was the dissenting voice in the MPC's vote, went further, claiming that "*It is hard to find very much, whether it is goods or assets, that is not going up right now*," adding that high inflation will force the Bank of England to raise base rates or slash back the asset purchases, "*which would take the legs out of the recovery*." He also pointed out that the reopening of the economy will lead to a surge in consumer spending as people seek to spend their excess cash balances.

The money figures support these inflation hawks. In the three months to April, UK M4x rose at an annualised rate of 6.4%. A slowing in the rate of asset purchases has brought this figure down to its lowest level this year, but this is still too high for comfort. In normal circumstances, trend growth in an economy such as the UK is best achieved by broad money growth in the region of 5%. The Institute of International Monetary Research therefore concurs with the opinions expressed above that inflation is likely to be much less transitory than the Bank of England seems to expect and that there is no justification for continuing with the asset purchase programme.

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