

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

Still no tapering of asset purchases in spite of rising inflation.

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 central bank. The current plans envisage continuing with the asset purchases until the end of the year, but Michael Saunders said that he preferred to stop the current asset purchase programme as soon as practical after this meeting, judging that, with the existing policy stance, inflation was likely to remain above the 2% target for the next two to three years. At its meeting in June, the MPC acknowledged that inflation could rise as high as 3% later in the year. This estimate has now been upped to 4% in the final quarter of the year. Given the strength of the recovery in the UK and inflation above the Bank of England's 2% target (consumer prices rose by 2.5% in the year to June), it makes no sense to continue with the asset purchases and ultra-low interest rates, but the MPC, in common with central banks in some other developed countries, still expects this inflationary spike to be a short-lived phenomenon driven by short-term supply constraints.

The minutes of the meeting and the ensuing press release made no mention of the quantity of money. Annualised quarterly M4x growth rose from 4.7% in the three months to May to 5.9% a month later. In June itself, the quantity of money grew by £18.6b., driven largely by a huge surge in mortgage approvals ahead of the end of Chancellor Rishi Sunak's "stamp duty holiday" on July 1st. House buyers borrowed a record £17.9b. in June, up from £6.8b. in May. While anecdotal evidence suggests that the housing market cooled in July, pandemic-related restrictions were further eased during the month, which should provide a further boost to economic activity. Money growth will probably remain strong as businesses are starting to borrow more and consumer credit has also picked up in recent months. After the surge in cash holdings by companies and individuals during 2020, it is likely that the velocity of money will also increase, adding further to inflationary pressures. The Institute of International Monetary Research therefore endorses Mr Saunders' opinion that there is no justification for continuing with the asset purchase programme.

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