Monetary Policy Committee meeting, Bank of England, 23rd September 2021

Still no date for tapering of bond purchases in spite of rising inflation.

The latest meeting of the Bank of England's Monetary Policy Committee saw a unanimous vote to maintain interest rates at the record low of 0.1%, but the opposition to the continuation of government bond purchases has strengthened, with the vote being 7-2 in favour compared to 8-1 on 6th August. Since that meeting, the annual rate UK consumer price inflation has risen from 2% to 3.2%, the highest reading since March 2012. The headlines in the newspapers are dominated by accounts of spiralling energy costs and rising prices, but it appears that seven members of the MPC do not seem to take any notice of the link between money growth and inflation.

The MPC acknowledged that inflation could rise further in the near term, reaching 4% or more in the final quarter of 2021. This acknowledgement of further rises in inflation makes the decision to continue with asset purchases even more baffling. At the August meeting, it was acknowledged that "some modest tightening of monetary policy" – in other words, a tapering of the asset purchases - may be appropriate in the not-too-distant future, but September's meeting offered no further hints as to when this might start. The MPC acknowledged that "some developments" (i.e., rising inflation) "appear to have strengthened that case" but on the other hand, "considerable uncertainties remain."

The rate of growth in the quantity of money, broadly defined, slowed in the year to July, falling from 6% to 5.3%. This is still higher than the 2010-19 average and while UK M4X grew by the unremarkable amount of £6.6b., this was achieved in spite of a very slack month in the housing market, following a new record for mortgage lending being set in June to beat the end of the Chancellor's stamp duty holiday. It therefore looks likely that higher than average broad money growth will continue. This is the primary cause of inflation. The well-publicised supply chain bottlenecks and worker shortages are secondary. No doubt they will be addressed in due course, but such moves will do little to bring down inflation. This will only happen when monetary policy is tightened and the MPC is sadly far too hesitant in making this move.

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/ .

.