INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Monetary Policy Committee meeting, Bank of England, 4th August 2022

Sixth increase in the Bank Rate – this time by 0.5%

The 0.5% increase in the Bank Rate announced by the Bank of England's Monetary Policy Committee of the Bank of England was widely anticipated. The last six meetings of the MPC have each concluded with an announcement of higher borrowing costs, which have now risen by 1.75% in total in the space of eight months. The vote was 8 to 1 in favour of this increase. The one dissented, Silvana Tenreyro, wanted to raise the bank rate by only 0.25%. Interest rates are now at their highest level in 13 years. The statement issued after the meeting stressed that "Policy is not on a pre-set path" but at the same time re-stated that the Bank would "if necessary act forcefully" to deal with persistent inflationary pressures. Given that the Bank of England expects consumer price inflation to rise from its current level of 9.4% in the year to June, peaking at over 13% in the final quarter of the year

The statement made no mention of the quantity of money in its statement. In its determination to bring inflation down to its 2% target, the Bank of England appears to be adopting a highly contractionary monetary stance at a time when broad money growth is collapsing. UK M4x fell by over £2.1b. during June, the sharpest monthly decline since July 2017. This caused the annualised growth rate of broad money to fall from 6.9% in the three months to May to 2.8% a month later. However, besides increasing the bank rate (which inhibits the creation of new bank loans and thus the creation of deposits, which are money), the BoE is also actively reducing its balance sheet. A strategy for selling some of its long-dated gilts will be announced after the next MPC meeting, scheduled for Thursday 15th September. To date, the money from maturing assets to the value of £12b. has not been reinvested and assets worth a further £5.9b. will be run off on maturity next month.

The MPC's proposed actions will do little, if anything to slow inflation in the short term, as it has admitted. What it will do is to intensify the contraction in UK broad money. The MPC has admitted that the UK could enter recession in the fourth quarter of the year – and that the recession could last for the whole of 2023. These predictions may well be correct but what it does not acknowledge is the link between money and nominal national income – and thus that its current policy of squeezing broad money growth will exacerbate any downturn in the economy. .

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