INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Monetary Policy Committee meeting, Bank of England. 22nd September 2022

Bank Rate increased by a further 0.5%.

Although there was a slowdown in the rate of increase of consumer pirces in August, the Bank of England's Monetary Policy Committee voted to increase the Bank Rate by a further 0.5% at its meeting on 22nd September. The vote was not unanimous. Three members wanted a bigger increase – 0.75% - while one would have preferred a more modest 0.25% hike. The Bank Rate has now been raised at each of the last seven meetings – quite unprecedented since the Bank of England was granted independence. The cost of borrowing is now 2.25%, the highest figure since 2008.

As promised, the MPC also announced its plans to reduce the sale of assets purchased since 2020. Some assets have already been "run off" and securities worth a further £5.9b. mature at the end of this month. The money will not be reinvested. The latest plans envisage reducing the BoE's balance sheet by £80b. over the next 12 months by selling off gilts in a series of auctions, the first of which will be held in early October. While this is a further contractionary factor as far as UK broad money growth is concerned, it is on a far more modest scale than the moves by the US Federal Reserve to reduce its stock of assets by $95b. per *month.*

The modest fall in inflation from 10.1% in the year to July to 9.9% is unlikely to be the harbinger of a substantial slowing of the rate of increase in consumer prices. The effects of the recent fiscal statement by the new Chancellor Kwasi Kwarteng will also do little to bring prices down. The increased *public* borrowing however, if financed by the banking sector, will - to a degree – offset the effects of the BoE's monetary tightening as it will create new deposits, which are money.

However, the decline of sterling in the aftermath of the Chancellor's announcement may well result in a further hike in borrowing costs following the next MPC meeting on 3rd November. Broad money growth stood at 4.9% in the year to July, but this was largely driven by a significantly high level of borrowing by the financial sector. Such borrowing is often associated with takeover activity in the City and is very intermittent in nature. Mortgage lending is surprisingly robust given the increase in borrowing costs. The warning signs of a significant slowdown are nonetheless clearly visible. Retail sales fell by 1.8% in August and consumer confidence plunged to a record low. Business confidence is faring little better. In spite of the determined efforts by the new government to kick-start the economy, broad money growth is likely to continue on a downward trend, with the current period of stagflation preceding a probable recession in 2023.

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