

Monetary Policy Committee meeting, Bank of England. 3rd November 2022

Bank Rate increased by a record 0.75%.

The eighth back-to-back increase in the Bank Rate was the largest to date. Following its meeting on 3rd November, the Bank of England's Monetary Policy Committee voted by seven to two to increase the Bank Rate by 0.75%. The Bank Rate now stands at 3% and Governor Andrew Bailey, during the press conference following the MPC meeting, said that further rises may be necessary in the coming months, although he suggesting that raising rates above 5% looked less likely than a few months ago. Even now, however, the cost of borrowing is at its highest level since 2008.

The turmoil in the financial markets following Kwasi Kwarteng's mini-budget caused the Bank of England to pause its asset sale programme. Corporate bond sales resumed on 25th October and the first gilt sales, amounting to £750 million, took place on 1st November. It must be stressed that the scale of "Quantitative Tightening" envisaged by the Bank of England is far more modest than that of the Federal Reserve in the USA. Nonetheless, the general direction of travel is the same, with Governor Bailey once again stressing the need for the Bank to return inflation to its 2% target. Consumer prices rose by 10.1% in the year to September after falling to 9.9% in August and the Bank does not expect a significant fall in inflation until the middle of 2023. The MPC believes it is important to bring inflation down even if it leads to recession. Indeed, the MPC statement expects the UK economy to "be in recession for a prolonged period" starting later this year. GDP grew by a modest 0.2% in Q2 and there are hints that the downturn has steepened since then. The retail sector in particular is struggling as consumers cut back on discretionary spending. The housing market still remains reasonably robust, but the withdrawal of the more competitive mortgage packages in the wake of the Kwarteng mini-budget suggests that a slowdown may ensue. Large businesses also still seem keen to borrow, although not the SME sector, which continues to record a year-to-year decline in new credit.

September's money figures have been distorted by substantive extra borrowing - £67.8b. in total - by the financial sector. Such borrowing is often associated with takeover activity in the City and is usually reversed in the following month. This huge spike in broad money has raised the annualised quarterly growth rate from 2.3% to 14.7%. M4x growth has been very erratic this year, with several earlier spikes of this nature, albeit none on quite this scale. The general trend, once the financial sector is excluded, is for a slow moderation in broad money growth. The 0.75% increase in the Bank Rate is likely to cause broad money growth to decline further by the end of the year and into 2023. In summary, although little attention is paid to the quantity of money in Threadneedle Street, the predictions that 2023 will be a challenging year for the UK economy are fully borne out by the monetary data.

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