Monetary Policy Committee meeting, Bank of England. 15th December 2022

Bank Rate increased by a further 0.5%.

The Bank of England's Monetary Policy Committee met for the final occasion this year on 15th December. For the ninth consecutive occasion, the Bank Rate was increased – this time by 0.5%. It now stands at 3.5%, the highest level since late 2008. The vote was not unanimous. One member of the MPC called for a 0.75% rise but two of her colleagues voted to leave rates unchanged.

The MPC is concerned about the slowdown in the UK economy and the possibility of a recession. On the other hand, with inflation still running at over 10%, it is equally aware that this is well above its 2% target. There are already a number of indications that the UK economy is slowing. Large businesses borrowed £5.6b. less in October compared with September. The buoyant housing market also appears to be losing momentum. Gross lending increased by £1b. in the month but repayments increased by £3.3b. while the number of new mortgage approvals fell to its lowest level since June 2020. Retail sales have been declining on an annual basis since April and business confidence has fallen to its lowest level since the height of the coronavirus pandemic in 2020.

The recent money figures have been distorted by substantive extra borrowing - £67.8b. in total during September - by the financial sector which attempted to "short sterling" in the wake of the Truss/Kwarteng "mini-budget" which badly hit the confidence of the City. The cancelling of the unfunded tax cuts by the new chancellor Jeremy Hunt has caused the pound to strengthen since September and nearly £21b. of September's drawdown had been paid back by the end of October. Further repayments are likely to figure in November's money numbers when they are published. Once the effects of this unfortunate saga have worked their way through the M4x data, broad money growth is likely to become very sluggish. The Bank of England is committed to reducing its balance sheet by running off or selling some of the assets purchased in 2020 and 2021 as part of its response to the coronavirus pandemic. Another factor which will inhibit the creation of money in the shape of new bank deposits from new loans is the introduction of a 1% counter-cyclical buffer for UK banks, which will rise to 2% in July 2023. This is a requirement for banks to hold additional capital as a cushion against losses in the event of an economic downturn. Banks therefore will have less money available for lending. Due to the Bank's disregard of money in its consideration of monetary policy, this seemingly precautionary move may have the opposite effect of what is intended – in other words, to exacerbate an economic downturn which it was designed to ameliorate.

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