INSTITUTE OF INTERNATIONAL MONETARY RESEARCH

Monetary Policy Committee meeting, Bank of England. 1st February 2024

MPC divided on future direction of the Bank Rate

For the fourth consecutive occasion, the Monetary Policy Committee (MPC) of the Bank of England voted to maintain Bank Rate at 5.25%. This decision was characterized by a divided vote of six to three, reflecting a broader spectrum of views within the Committee regarding the future direction of monetary policy. Notably, this division included advocates for both an increase and a decrease in Bank Rate. Specifically, Jonathan Haskel and Catherine Mann voted for a 0.25% increase, consistent with their previous votes in the meetings dated 21st September, 2nd November, and 14th December. Conversely, Swati Dhingra expressed a differing view by voting for a 0.25% decrease.

The decision comes against a backdrop of fluctuating consumer price inflation, which, after declining to a two-year low of 3.9% in the year ending November, experienced a slight increase to 4% in December. Despite monetary indicators suggesting the potential for inflation rates to decline further in 2024 – which could see the 2% target reached in Q2 - the MPC has placed significant emphasis on other economic factors, notably the resilience of the labour market. This sector has shown particular strength, with wages increasing by an average of 6.5% in the year to November, and the unemployment rate decreasing from 4.3% in July 2023 to 3.9%, indicating an exceptionally tight labour market by historical measures. Contrary to earlier indications by the MPC that rates may be cut in the third quarter of 2024, the current sentiment of the MPC underscores the necessity to maintain a "restrictive" Bank Rate "for an extended period of time".

As of 31st January, BoE data indicate the total sum of assets held by the Bank at £738b., a reduction of £6b. since December. Overall, run-offs and gilt sales have currently amount to £157b, consistent with the Bank's strategy to reduce its stock of Government bond purchases by £100b. over the twelve months to September 2024.

Notwithstanding current restrictive monetary policy, the UK's M4x money supply witnessed a remarkable increase of £19.9b. in December. However, a substantial portion of this increase, some £15.6b., was generated from new borrowing by "non-intermediate OFCs". Such spikes, have frequently been linked to takeover activities, and typically see repayment in the subsequent month. The remainder of broad money growth remains subdued, with new credit to businesses seeing a slight increase of £0.7b. in the month, although the SME sector continues to experience a contraction in borrowing. Homeowners meanwhile repaid £0.8b. more than they took out in new loans. Mortgage approvals rose to a six-month high of 50,459 in December - still low by recent historical standards. The annual growth rate of M4x remains in negative territory (-0.3%), although the annualised quarterly growth rate has increased from -3% to 4.4%.

To date, the UK economy has narrowly averted a recession, with GDP growth in November reaching 0.3% - the highest since June. The future trajectory of the UK economy, amidst modest optimism from some economic sectors including recent outlooks from the IMF, remains uncertain. The monetary indicators (ignored by many economists) still suggest a recession.

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