

Monetary Policy Committee meeting, Bank of England. 9th May 2024

No reduction in the Bank Rate yet, although inflation continues to decline

The Bank of England's Monetary Policy Committee has now voted to maintain the Bank Rate at 5.25% for six consecutive meetings. Indeed, it is now more than nine months since the last rate hike and it looks quite probable that it will be the last – at least in this tightening cycle. The vote to maintain rates at the current level was not unanimous. Swati Dhingra, who proposed a 0.25% rate cut at the last two previous meetings, was joined on this occasion by Dave Ramsden, making it a 7-2 majority for the status quo.

The latest inflation figures indicated that the rate of increase of UK consumer prices continues to slow. After February's reading of 3.4%, a further reduction to 3.2% occurred in March, the lowest reading since September 2021. This is still high enough above the BoE's 2% target to require a letter from the Governor to the Chancellor of the Exchequer. The MPC expects a further fall in inflation during the coming months but, according to the summary of the most recent meeting, most members are not yet convinced that it is falling sustainably towards the 2% level. Governor Bailey nonetheless told reporters after the meeting, "It is likely that we will need to cut bank rate over the coming quarters and make monetary policy somewhat less restrictive over the forecast period - possibly more so than currently priced into market rate." At the moment, the tight labour market is a particular cause for concern. Wages are currently rising by over 5%, much higher than the inflation rate, while the unemployment rate remains low by historical standards, in spite of a modest uptick to 4.2% in February. Furthermore, the services sector is still seeing an annual price increase of 6%. Nonetheless, the Governor emphasised that he was "optimistic" that things were moving in the right direction. A cut therefore remains possible at the next MPC meeting in June although by no means certain.

Monetary policy is likely to remain restrictive as the Bank of England intends to continue to unwind its stock of asset purchases. Since the previous MPC meeting, the Bank's total assets have fallen quite sharply, declining from £729.2b. at the time of the last MPC meeting to £703b. All the remaining assets are government bonds; there are no corporate bonds left on the BoE's balance sheet. Since the start of 2024, UK broad money has nevertheless been growing respectably, with the annualised quarterly growth rate of M4x growth standing at 3.1% in March while the annual growth rate turned positive for the first time since June 2023. Even so, the demand for new bank credit from both businesses and households remains subdued. The total value of new credit to businesses declined by £1.1b. in March, with the SME sector in particular seeing a significant contraction in new credit allocations. Homeowners borrowed only £0.5b. more than they repaid in March although the number of new mortgage approvals rose to an 18-month high of 61,325, still a modest figure by recent historical standards, however.

The effects of prolonged monetary tightening and negative broad money growth have still fully to be felt by the UK economy. Sluggish growth looks to be the most likely scenario for the rest of the year along with falling inflation which could well fall below the BoE's 2% target as soon as the next quarter. Indeed, deflation still remains a possibility for 2025.

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