BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 9 December 2015

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These are the minutes of the Monetary Policy Committee meeting ending on 9 December 2015.

They are available at http://www.bankofengland.co.uk/publications/minutes/Pages/mpc/pdf/2015/dec.aspx

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 13 January 2016 will be published on14 January 2016.

Monetary Policy Summary, December 2015

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy in order to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 9 December 2015, the MPC voted by a majority of 8-1 to maintain Bank Rate at 0.5%. The Committee voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

Twelve-month CPI inflation remained at -0.1% in October, a little more than 2 percentage points below the inflation target. Inflation is expected to have been slightly positive in November, and is projected to rise further as some of the large falls in energy and food prices at the turn of last year drop out of the annual comparison. Nevertheless, core inflation remains subdued, and CPI inflation is expected to stay below 1% until the second half of next year.

The outlook for inflation reflects the balance between persistent drags from factors such as sterling and world export prices and prospective further increases in domestic cost growth. The MPC's objective is to return inflation to target sustainably; that is, without an overshoot once persistent disinflationary forces ultimately wane. Given these considerations, the MPC intends to set monetary policy to ensure that growth is sufficient to absorb remaining spare capacity in a manner that returns inflation to the target in around two years and keeps it there in the absence of further shocks.

The MPC set out its most recent detailed assessment of the economic outlook in the November *Inflation Report*. At that time, the Committee's central view was that if Bank Rate were to follow the gently rising path implied by the prevailing market yields then CPI inflation would exceed slightly the 2% target in two years and then rise further above it, reflecting modest excess demand. The MPC judged that the risks to this projection lay a little to the downside in the first two years, reflecting global factors.

There has not been much news on international activity relative to the forecasts contained in the November *Report*, with global growth having been stable at a rate well below historical averages. Prospects for domestic activity are also little changed on the month, with robust growth in private domestic spending continuing to counter-balance subdued demand growth overseas. Measures announced in the Government's Autumn Statement mean a slightly lower pace of deficit reduction in 2016 than was previously planned, although the fiscal consolidation will continue to weigh on growth over the forecast period.

The projected return of CPI inflation to the target depends on an increase in domestic cost growth sufficient to balance the drag on prices from very subdued global inflation and past increases in the value of sterling. Despite lower unemployment, nominal pay growth appears to have flattened off recently. This could reflect short-term volatility in the data. But earnings per worker could be affected by changes in the mix of employment, including a fall in average hours, in which case the impact on unit labour costs would be limited. It could also be that lower headline readings of inflation have acted to limit recent nominal pay growth, despite the tightening labour market. The balance between pay and productivity growth remains a key aspect of the MPC's policy assessment.

As in previous months, there is a range of views among MPC members about the balance of risks to inflation relative to the target in the medium term. At the Committee's meeting ending on 9 December, eight members judged it appropriate to leave the stance of monetary policy unchanged at present. Ian McCafferty preferred to increase Bank Rate by 25 basis points, given his view that the path of domestic costs was more likely to lead to inflation exceeding the target in the medium term than was embodied in the Committee's collective November projections.

All members agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path Bank Rate will follow over the next few years will depend on the economic circumstances.