



BANK OF ENGLAND

## Monetary policy summary and minutes of the Monetary Policy Committee meeting ending on 5 August 2015

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These are the minutes of the Monetary Policy Committee meeting ending on 5 August 2015.

They are available at <http://www.bankofengland.co.uk/publications/minutes/Pages/mpc/pdf/2015/aug.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 9 September will be published on 10 September 2015.

## Monetary policy summary, August 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 5 August 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, and so to reinvest the £16.9 billion of cash flows associated with the redemption of the September 2015 gilt held in the Asset Purchase Facility.

CPI inflation fell back to zero in June. As set out in the Governor's open letter to the Chancellor, around three quarters of the deviation of inflation from the 2% target, or 1½ percentage points, reflects unusually low contributions from energy, food, and other imported goods prices. The remaining quarter of the deviation of inflation from target, or ½ a percentage point, reflects the past weakness of domestic cost growth, and unit labour costs in particular. The combined weakness in domestic costs and imported goods prices is evident in subdued core inflation, which on most measures is currently around 1%.

With some underutilised resources remaining in the economy and with inflation below the target, the Committee intends to set monetary policy in order to ensure that growth is sufficient to absorb the remaining economic slack so as to return inflation to the target within two years. Conditional upon Bank Rate following the gently rising path implied by market yields, the Committee judges that this is likely to be achieved.

In its latest economic projections, the Committee projects UK-weighted world demand to expand at a moderate pace. Growth in advanced economies is expected to be a touch faster, and growth in emerging economies a little slower, than in the past few years. The support to UK exports from steady global demand growth is expected to be counterbalanced, however, by the effect of the past appreciation of sterling. Risks to global growth are judged to be skewed moderately to the downside reflecting, for example, risks to activity in the euro area and China.

Private domestic demand growth in the United Kingdom is expected to remain robust. Household spending has been supported by the boost to real incomes from lower food and energy prices. Wage growth has picked up as the labour market has tightened and productivity has strengthened. Business and consumer confidence remain high, while credit conditions have continued to improve, with historically low mortgage rates providing support to activity in the housing market. Business investment has made a substantial contribution to growth in recent years. Firms have invested to expand capacity, supported by accommodative financial conditions. Despite weakening slightly, surveys suggest continued robust investment growth ahead. This will support the continuing increase of underlying productivity growth towards past average rates.

Robust private domestic demand is expected to produce sufficient momentum to eliminate the margin of spare capacity over the next year or so, despite the continuing fiscal consolidation and modest global growth. This is judged likely to generate the rise in domestic costs expected to be necessary to return inflation to the target in the medium term.

The near-term outlook for inflation is muted. The falls in energy prices of the past few months will continue to bear down on inflation at least until the middle of next year. Nonetheless, a range of measures suggest that medium-term inflation expectations remain well anchored. There is little evidence in wage settlements or spending patterns of any deflationary mindset among businesses and households.

Sterling has appreciated by 3½% since May and 20% since its trough in March 2013. The drag on import prices from this appreciation will continue to push down on inflation for some time to come, posing a downside risk to its path in the near term. Set against that, the degree of slack in the economy has diminished substantially over the past two and a half years. The unemployment rate has fallen by more than 2 percentage points since the middle of 2013, and the ratio of job vacancies to unemployment has returned from well below to around its pre-crisis average. The margin of spare capacity is currently judged to be around ½% of GDP, with a range of views among MPC members around that central estimate. A further modest tightening of the labour market is expected, supporting a continued firming in the growth of wages and unit labour costs over the next three years, counterbalancing the drag on inflation from sterling.

Were Bank Rate to follow the gently rising path implied by market yields, the Committee judges that demand growth would be sufficient to return inflation to the target within two years. In its projections, inflation then moves slightly above the target in the third year of the forecast period as sustained growth leads to a degree of excess demand.

Underlying those projections are significant judgements in a number of areas, as described in the August *Inflation Report*. In any one of these areas, developments might easily turn out differently than assumed with implications for the outlook for growth and inflation, and therefore for the appropriate stance of monetary policy. Reflecting that, there is a spread of views among MPC members about the balance of risks to inflation relative to the best collective judgement presented in the August *Report*. At the Committee's meeting ending on 5 August, the majority of MPC 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 demand growth and wage pressures were likely to be greater, and the margin of spare capacity smaller, than embodied in the Committee's collective August 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. The Committee will continue to monitor closely the incoming data.

## Minutes of the Monetary Policy Committee meeting ending on 5 August 2015

1 Before turning to its immediate policy decision, and against the backdrop of its latest projections for output and inflation, the Committee discussed financial market developments; the international economy; money, credit demand and output; and supply costs and prices.

### Financial markets

2 There had been a range of influences on international financial markets over the month, including: reactions to news on the progress of negotiations between the Greek government and its creditors; falls in global commodity prices; and large moves in Chinese equity prices. There had been some associated volatility in UK equity markets within the month.

3 Another significant influence on financial markets had been a renewed focus on the timing and extent of possible monetary policy tightening in both the United Kingdom and the United States in reaction to data outturns and communications by MPC and FOMC members. In the light of these developments, the Committee discussed what financial market prices implied now for expectations of the future path of monetary policy in these countries, and whether this was connected with recent moves in exchange rates.

4 In the United Kingdom, there had been a slight steepening in the market implied path of short-term interest rates and the date at which the OIS curve crossed 0.75% had moved forward to May 2016. This was around three months earlier than had been the case at the time of the July MPC meeting, although only one month sooner than at the time of the May *Inflation Report*. In addition, the implied pace of tightening had quickened slightly, with forward OIS rates rising thereafter by around 10 basis points per quarter to reach 1.7% at the three-year horizon. These moves appeared consistent with an improvement in sentiment as market participants put less weight on the downside tail risks associated with the Greek debt crisis, as well as market reactions to domestic data outturns and statements by MPC members about future increases in Bank Rate.

5 In the United States, there had been a small rise in short-term interest rates and there remained a broad consensus in financial markets that monetary policy tightening would begin earlier there than in the United Kingdom, with the first rate rise expected by market commentators in either September or December 2015. Rates were expected thereafter to rise at a faster pace and to a slightly higher level than in the United Kingdom. The difference in the future path of policy rates in the two countries expected by financial market participants might be because of a perception that the headwinds to demand would ease more rapidly in the United States than in the United Kingdom, which was in the process of a more significant fiscal consolidation, had stronger trade and financial linkages to the euro area, and where levels of household indebtedness were higher.

6 The sterling effective exchange rate had not changed materially over the month, but remained well above the range within which it had traded since its depreciation in 2008, having risen by 3½% since the fifteen-day average starting point upon which the May *Inflation Report* had been conditioned, and by 20% since its trough in 2013. The movements in sterling over the course of 2015 had been correlated with changes in the interest rate

differentials paid on sterling and foreign currency assets, although the scale of the change in the exchange rate had been much larger than implied by the change in interest differentials alone. The recent appreciation of sterling was therefore likely to represent an additional tightening in financial conditions over and above the steepening of the sterling yield curve over the past few months.

### **The international economy**

7 Global activity indicators had been mixed during the month, although on a UK trade-weighted basis the news had been a little to the downside. Weak industrial production in the euro area in May had led Bank staff to lower their expectation for Q2 GDP growth from 0.5% to 0.4%, and the flash composite Markit PMI had fallen in July, possibly reflecting concerns about Greece, although other indicators for France and Germany had shown an improvement. The pace of euro-area expansion in Q3 implied by the PMIs was similar to that in Q2. In the United States, GDP growth in Q1 had been revised up from 0.0% to 0.2%, and was estimated at 0.6% in Q2. The latter was below expectations last month, but broadly in line with those at the time of the *May Inflation Report*. The flash composite Markit US PMI output index had risen in July. Chinese quarterly GDP growth in Q2, at 1.7%, had been a touch stronger than expected, though other Chinese economic data had been more mixed. World goods trade remained weak, having fallen by 1.3% in the three months to May.

8 The situation in Greece remained fluid, and the possible consequences of the crisis there remained a significant external risk to the United Kingdom. There were, however, other sources of risk from overseas.

9 The most striking international development during the month had been the pronounced volatility in Chinese equity prices as, following sharp falls, the authorities had implemented measures to stabilise the market, but with only limited success. Such volatility was likely to have little direct impact on domestic demand in China, where equities accounted for only a small fraction of household wealth. There could, however, be broader effects on confidence, both within China and beyond, especially if concerns were to grow about the ability of the Chinese authorities to manage a smooth transition of the economy to a more balanced and sustainable composition of demand, and to financial sector liberalisation. Chinese demand prospects remained critical to the health of the global outlook, and so the situation there warranted continued close monitoring.

10 The Committee also discussed the implications of the on-going weakness in world trade. Trade had fallen in all regions except Africa and the Middle East in the May data, and the question was whether this might indicate a generalised slowdown in global demand. Some members observed that the pervasiveness of commodity price falls might support such a concern: oil prices had fallen by around 13% and industrial metals prices by 2% during the month. Others, however, noted that the falls in oil prices should also be seen in the context of the rotation of global growth from emerging market economies to advanced economies, which was likely to be less commodity intensive. At the same time, there were plausible supply-based explanations for the falls in commodity prices: in the case of oil, for example, the agreement between Iran and the P5+1 countries, which would pave the way for increased Iranian supply to the global market, and above-quota OPEC production.

11 Another uncertainty was the effect on some emerging markets of monetary tightening in the United States. The Committee discussed whether, despite the widespread expectation that monetary tightening was drawing closer, the event of a tightening might provoke some financial market volatility akin to that seen in the summer of 2013 following the FOMC's announcement of a planned tapering of its asset purchases. It was possible that a combination of a strengthening US dollar and falling commodity prices would pose a serious challenge for some emerging markets, and this could be harmful to global sentiment. It was not clear, however, that markets would react strongly to the event itself, so long as it occurred broadly on the expected timetable; and evidence that there had been a slowing of capital flows to emerging economies was perhaps a sign that some adjustment was already in train.

### **Money, credit, demand and output**

12 UK GDP was estimated to have grown by 0.7% in Q2, following the disappointing 0.4% growth registered in Q1. The improvement had been broadly based: service sector output growth had picked up to 0.7%, from 0.4% in Q1; production output had risen by 1% following a 0.2% rise in Q1; and construction output had been flat following a 0.2% decline in Q1. The business surveys released during the month were consistent with Bank staff expectations that there would be a similar pace of expansion in activity in Q3 as that seen in the second quarter.

13 The Committee discussed the risks to its expectation that GDP growth would remain steady at around its average historical rate during the rest of the year. Although the headline estimate of growth for Q2 had been encouraging, underlying momentum had perhaps been softer than expected. In particular, the improvement in production output had been driven by an unusually large expansion in mining and quarrying output (including oil extraction) of 7.8%. As a result, overall energy-related output had contributed 0.2 percentage points to quarterly GDP growth compared with a more normal contribution of close to zero. It seemed unlikely that such strong growth in mining and quarrying output would be repeated, so other components of output would need to accelerate further for aggregate GDP growth to be sustained at the same rate as in Q2.

14 On the expenditure side, growth over the second half of the year was expected to be supported by an expansion of private domestic demand at around its historical average rate, driven by the boost to real incomes from lower energy and import prices and a continuing positive impetus from stimulatory financial conditions.

15 Mortgage and personal loan rates had remained at historically low levels. The average quoted rate on a two-year fixed rate mortgage with a 75% loan to value (LTV) ratio was 1.84% in July, according to the Bank's preliminary estimate, 70 basis points lower than a year earlier. Rates on mortgages at higher LTV ratios had fallen by 25 basis points since May. The lower cost of mortgage finance was likely to have contributed to renewed strength in the UK housing market, signalled by survey information from the Royal Institution of Chartered Surveyors suggesting stronger demand, and by house prices rising at an annual rate of around 7%. Alongside this, mortgage approvals for house purchase had picked up to around 67,000 in June and now appeared to have more momentum in the near term. There was a possibility that these developments would add to consumer confidence and provide further impetus to household spending. Against this, banks' funding

costs, an important influence on mortgage rates, had risen since May and it was possible that mortgage rates would shortly begin to rise. That would be broadly consistent with evidence reported in the 2015 Q2 *Credit Conditions Review* that most major UK lenders did not expect mortgage interest rates to fall much further. Households might restrain their spending so as to prevent their debt burden from worsening or their saving ratio falling too far. The household sector debt to income ratio had fallen by over 20 percentage points since its peak in 2008 but was still high by historical standards. So it was possible that households would be unwilling to take on more debt if that were necessary to finance a rise in spending.

16 Companies had also experienced more favourable financial conditions. Having fallen for much of the period since the financial crisis, the stock of all currency loans to private non-financial companies had picked up in 2015 and was growing in most industries other than real estate and construction. In addition, net financing from capital markets had remained strong, at around £10 billion in the first half of the year. Easier credit conditions were likely to be supportive of business investment in the second half of the year, although survey indicators suggested that it might grow at a slightly less rapid pace than in 2014.

17 Set against the generally positive outlook for private sector domestic demand growth, there was a risk that the 20% appreciation of sterling since its 2013 trough would slow export growth. The trade deficit had fallen significantly recently, however, and in May was at its narrowest since mid-2013. Taken together, the deficits in April and May were the lowest over any two-month period since 2000. The assumption embedded in the August *Inflation Report* projections was that the effect of the appreciation of sterling on GDP would be fairly modest as the adverse impact on net trade was counterbalanced by positive effects on private demand from lower import prices.

### **Supply, costs and prices**

18 Twelve-month CPI inflation had edged back down to 0.0% in June, in line with the expectation of Bank staff. A range of measures of core inflation averaged around 1%. The declines in oil prices over the month, along with the announcement of an autumn reduction in domestic gas prices by the largest supplier and the continued appreciation of sterling, meant that the expected rate of CPI inflation at the turn of the year was around 0.4 percentage points lower than at the time of the *May Inflation Report*. In the absence of further movements in commodity prices or the exchange rate, Bank staff expected CPI inflation to increase by around half a percentage point by the end of the year, and by around half a percentage point further in January and February as the impact of the sharp declines in oil prices at the end of 2014 dropped out of the annual comparison. The path of inflation thereafter would be determined by: the influence of domestic cost pressures, especially those emanating from the labour market; the additional temporary impact of the most recent declines in oil prices; and any persistent impact on the prices of traded goods and services from the continued appreciation of sterling.

19 Over the past few months it had become evident that employment growth had slowed, and had been weaker than the Committee had expected at the time of the *May Inflation Report*. Total hours worked had fallen

by 0.2% in the three months to May relative to the previous three months, compared with an average quarterly growth rate of 0.7% during 2014. The slowdown in employment growth had reflected a reduction in the growth of both full and part-time employment, and a decline in self-employment. Although all economic data were subject to some measurement error, the scale of the decline in employment growth since 2014 appeared significant by comparison with both the normal volatility in the series and estimates of the degree of sampling volatility in the Labour Force Survey. The 16+ participation rate had fallen to 63.3% in the three months to May. Following a substantial fall over the previous two years, the LFS unemployment rate had risen by 0.1 percentage points to 5.6%, compared with the Committee's *May Report* expectation of a small decline. And the claimant count measure of unemployment had been unchanged in June for the third month in succession. An important focus of the Committee's discussion this month was the implications of these labour market data for the outlook for inflation in the medium term.

20 On the one hand, the fall in employment might imply a reduction in the demand for labour and a rise in the amount of slack remaining within the labour market. In that case, the degree of medium-term inflationary pressure originating in the labour market would be less than had been assumed in the Committee's projections from three months earlier. Although it remained near a series high, the number of job vacancies had fallen by just over 2% in the second quarter of the year, the first quarterly decline for three years, lending some support to the idea that a softening in labour demand might have been responsible for the easing of employment growth. By contrast, though, the picture of labour demand painted by business surveys of employment expectations remained robust.

21 On the other hand, it was possible that the slowing in employment growth might itself be a reflection of the increasing scarcity of readily available labour with the appropriate skills, and perhaps an indication that its supply was less than had previously been supposed. In support of this hypothesis, the ratio of vacancies to unemployment was around pre-crisis norms, and business surveys of recruitment difficulties, including from the Bank's Agents, had been rising in recent months and were now around or above pre-crisis levels. These indicators suggested that the degree of labour market slack was now fairly limited following the large falls in unemployment – especially short-term unemployment – since the middle of 2013. Different Committee members placed different weights on these factors, including the possibility that the recent movements had been exaggerated by data volatility.

22 At face value, the latest employment data had suggested that the margin of spare capacity in the labour market was materially larger than had been expected at the time of the *May Inflation Report*. Taken together with other labour market indicators, surveys of capacity utilisation, and top-down statistical estimates, the Committee's best collective judgement was, however, that the margin of spare capacity in the economy as a whole remained around ½% of GDP. There was significant uncertainty around this. Ultimately, uncertainty over the degree of slack in the labour market might be reduced as its consequences became apparent in the wage data, although these would be observed only with a lag.

23 Whole economy average weekly earnings in the three months to May had risen by 3.2% by comparison with the same period a year earlier, while private sector pay had risen by 3.8% on a similar basis. Both figures were more than 1 percentage point higher than had been expected at the time of the *May Inflation Report*, and

were stronger by a similar margin than the rates of pay growth seen at the start of the year. The large majority of that surprise had come in the form of stronger bonus payments than expected. As the Committee had discussed at its previous meeting, it was unclear to what extent higher bonus payments represented mostly the distribution of past profits, with few implications for the degree of inflationary pressure in future, or whether they represented genuine increases in current labour costs, perhaps in response to a tightening labour market and greater challenges in retaining staff, in which case they might signal greater inflationary pressure ahead.

24 The softening of the employment data, alongside solid GDP growth, implied that this pickup in pay had been accompanied by stronger productivity growth. Bank staff estimated that output per worker had probably risen by around 1½% in the year to 2015 Q2, so that unit wage costs, calculated using the AWE measure of total pay, were likely to have increased by about 1¼% over the same period. That was a similar rate of increase as had been expected by the Committee at the time of the May *Inflation Report*. Excluding bonuses, unit wage cost growth had probably been weaker than expected. It was possible that some of the recent increase in pay and productivity growth represented the unwinding of the impact of the shift in the composition of employment growth towards lower paying and lower productivity roles that appeared to have taken place during 2014 and early 2015. Data enabling an assessment of the evolution of these compositional effects in the second quarter would become available in the middle of August.

25 As movements in commodity prices had pushed CPI inflation towards zero, a concern had arisen that expectations of low future inflation might become ingrained in wage and price setting behaviour, causing inflation itself to remain persistently below the target, even after the first-round effects of those movements in commodity prices had dissipated. For one member, the lower near-term outlook for CPI inflation meant that the risk of price and wage expectations falling further remained a significant consideration. For other members, however, these concerns had been allayed to a significant extent as wage growth had nevertheless picked up, and as measures of inflation expectations had recently stabilised after their declines earlier in the year. The data that had become available this month had followed a similar pattern. The CitiGroup/YouGov survey measures of households' inflation expectations both one and five-to-ten years ahead had increased slightly, although both remained below their pre-crisis averages. The CBI measure of distribution sector firms' inflation expectations one and two years ahead had also increased a little. In financial markets, the UK instantaneous forward inflation swap curve had been virtually unchanged on the month and remained close to historical averages at all horizons.

### **The immediate policy decision**

26 The Committee set monetary policy to meet the 2% inflation target and in a way that helped to sustain growth and employment.

27 Twelve-month CPI inflation had been zero in June, necessitating a further exchange of open letters between the Governor and the Chancellor of the Exchequer. As described in the Governor's letter (published alongside both this set of minutes and the August *Inflation Report*), the Committee judged that three quarters, or 1½ percentage points, of the deviation of inflation from the 2% target reflected the unusually low contributions

from energy, food and other imported goods prices. The remaining quarter, or ½ a percentage point, of the deviation reflected the past weakness of domestic cost growth, and of wages in particular.

28 Domestic cost growth had been subdued by the considerable margin of spare economic capacity that had opened up during the recession following the financial crisis. Over the past few years, however, the combination of solid output growth and weak productivity growth meant that the margin of slack had diminished substantially. The LFS unemployment rate had fallen by more than 2 percentage points since the middle of 2013. The tightening labour market had begun to feed through to increased pay growth, and there were signs of capacity constraints becoming evident in some parts of the economy. The most recent employment data had been weak, however.

29 With some underutilised resources remaining in the economy and with inflation below the target, the Committee intended to set monetary policy in order to ensure that growth was sufficient to absorb the remaining economic slack so as to return inflation to the target within two years. The question was what stance of monetary policy would achieve that objective and best balance the risks of inflation around the target.

30 Internationally, the news had been mixed on the month, with continued signs of steady growth in the United States and euro area and weaker signals in emerging economies, including commodity producing ones. Committee members discussed the extent to which the recent reductions in commodity prices were a signal of a generalised softening of global demand prospects or were attributable to supply-side factors. There had been some respite in the Greek debt crisis as some progress had been made towards the agreement of a new support programme. By comparison with three months ago, the risks of a disorderly outcome to the crisis in the near term were lower. Volatility in Chinese equity prices had been a reminder of the challenges faced by the authorities there in managing the transition to a more sustainable composition of demand and liberalisation of the financial sector. On balance, the Committee judged it likely that UK-weighted global demand would increase at a solid, though unspectacular, pace over the next three years: below pre-crisis norms but probably marginally stronger than in 2014. The risks to that central expectation were judged to be moderately skewed to the downside.

31 The new UK government's Budget implied a broadly similar path of fiscal consolidation to the previous coalition's plans, which had been factored into the Committee's projections three months earlier. If anything, slightly less of the consolidation was now planned during the Committee's three-year forecast period, with correspondingly more after that. Some members drew attention to the fact that the OBR's projections implied that cyclically adjusted borrowing was set to fall rather more sharply as a share of GDP during the next three years than it had over the past three, and it was possible that the impact on growth would be greater than had been factored into the Committee's August *Inflation Report* projections.

32 Credit conditions had improved considerably since the immediate aftermath of the financial crisis. Although they had increased a little since May, bank funding costs had fallen substantially over the past few years and this had been reflected in a material easing in the retail cost of credit. Over the past year alone, the average quoted interest rate on a 75% LTV two-year fixed-rate mortgage had fallen by 70 basis points. There were signs of increased momentum in the housing market. The net flow of lending to private non-financial

companies was positive in 2015 so far, having been negative for most of the period since the crisis. And net capital market issuance had remained strong in the first half of the year. These improvements in financial conditions had supported private domestic spending and could be expected to continue to do so in future. These developments had been at least partly offset by the tightening of financial conditions implied by the appreciation of sterling over and above that commensurate with changes in expectations of future interest rate differentials between sterling and foreign currency assets.

33 Overall, the headwinds to activity appeared to be gradually lessening and were expected to continue to diminish over the three-year forecast period. In light of this, and signs that the domestic economy appeared on track to eliminate any remaining spare capacity within a year or so and that wage growth was picking up in response, the Committee discussed the stance of monetary policy.

34 Because monetary policy affected the economy only with a lag, it needed to be adjusted in anticipation of the likely path of inflation in the medium term, rather than in response to the current rate of inflation. Just as there was a range of views among Committee members on the most likely evolution of output and inflation relative to the best collective forecasts set out in the *Report*, so too there was a range of views on the costs and benefits of moving policy sooner or waiting longer. On the one hand, moving earlier would allow a more gradual path for interest rates, all else equal. On the other hand, in an environment of heightened uncertainty, the benefits of waiting for more information about the strength of the economy would be greater than usual. The Committee's best collective judgement, published in the August *Inflation Report*, was that its aim of returning inflation to the target within two years was expected to be achieved if Bank Rate rose gently over forecast period.

35 All Committee members agreed that the central message of the February 2014 *Inflation Report* guidance remained relevant: given the likely persistence of headwinds weighing on the economy, when Bank Rate did begin to rise, it was expected to do so more gradually than in previous cycles. Moreover, the persistence of those headwinds, together with the legacy of the financial crisis, meant that Bank Rate was expected to remain below average historical levels for some time to come. That guidance on the likely pace and extent of interest rate rises was an expectation, not a promise: the actual path Bank Rate would follow over the next few years was uncertain, and would depend on economic circumstances.

36 For most members, the outlook for inflation described in the August *Inflation Report* meant that it was not necessary to change the policy stance at this meeting. In light of the reduction in oil prices and appreciation of sterling over the past three months, it appeared that the increase in inflation over the following year would be more gradual than had previously been supposed. To the extent that the appreciation of sterling could be expected to weigh on inflation for a persistent period, the corresponding pickup in domestic costs necessary to return inflation to the target within three years would be greater. The data on wage growth had surprised significantly to the upside over the past quarter, though this reflected the more volatile bonus payment component. Measured productivity had also surprised significantly to the upside, leaving the growth of unit wage costs in line with the May forecast. They agreed on the importance of monitoring developments relative to the forecast – in particular regarding wage growth, productivity, measures of core inflation, import prices, and the risks to the international environment.

37 Some members saw upside risks to the inflation forecast, reflecting the likelihood of: stronger demand growth, buoyed by improved credit conditions and consumer confidence; a smaller degree of spare capacity than assumed in those projections, with commensurately stronger pay growth; and faster and less pronounced pass-through to consumer prices of the appreciation of sterling, such that the drag on inflation at the policy horizon from import prices would probably be less than had collectively been assumed.

38 For one member, these risks to the medium-term inflation outlook were now, on balance, sufficiently to the upside to justify an immediate increase in Bank Rate. They increased the risk of a more significant overshoot of inflation following its return to the target. For this member, it was unlikely that much greater clarity could be achieved by waiting to see how the data evolved over the next few months, while postponing the start of the process of gradually raising Bank Rate increased the risk of having to increase it more sharply later on.

39 The Governor invited the Committee to vote on the propositions that:

Bank Rate should be maintained at 0.5%;

The Bank of England should maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

Regarding Bank Rate, eight members of the Committee (the Governor, Ben Broadbent, Jon Cunliffe, Nemat Shafik, Kristin Forbes, Andrew Haldane, David Miles and Martin Weale) voted in favour of the proposition. Ian McCafferty voted against the proposition, preferring to increase Bank Rate by 25 basis points.

Regarding the stock of purchased assets, the Committee voted unanimously in favour of the proposition.

40 Consistent with the Committee's forward guidance, and as described in a market notice accompanying these minutes, the Committee agreed to re-invest the £16.9 billion of cash flows associated with the redemption of the September 2015 gilt held by the Asset Purchase Facility.

41 Finally, the Governor expressed his appreciation to David Miles for his contribution as a member of the Committee.

42 The following members of the Committee were present:

Mark Carney, Governor  
Ben Broadbent, Deputy Governor responsible for monetary policy  
Jon Cunliffe, Deputy Governor responsible for financial stability  
Nemat Shafik, Deputy Governor responsible for markets and banking  
Kristin Forbes  
Andrew Haldane  
Ian McCafferty  
David Miles  
Martin Weale

Dave Ramsden was present as the Treasury representative.

As permitted under the Bank of England Act 1998, as amended by the Financial services Act 2012, Anthony Habgood was also present on 3 and 5 August as an observer in his role as a member of the Oversight Committee of Court.