



BANK OF ENGLAND

## Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 11 May 2016

**Publication date: 12 May 2016**

These are the minutes of the Monetary Policy Committee meeting ending on 11 May 2016.

They are available at <http://www.bankofengland.co.uk/publications/Pages/news/2016/005.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 15 June will be published on 16 June 2016.

## **Monetary Policy Summary, May 2016**

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 11 May 2016 the MPC voted unanimously to maintain Bank Rate at 0.5%. The Committee also voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

Twelve-month CPI inflation increased to 0.5% in March but remains well below the 2% inflation target. This shortfall is due predominantly to unusually large drags from energy and food prices, which are expected to fade over the next year. Core inflation also remains subdued, largely as a result of weak global price pressures, the past appreciation of sterling and restrained domestic cost growth.

Globally, sentiment in financial markets has improved. There has been a broad-based recovery in risky asset prices, a resumption of capital flows to emerging market economies, and a sharp rise in the price of oil. Near-term prospects for China and other emerging market economies have improved a little, although medium-term downside risks remain. In the advanced economies, growth has picked up in the euro area in Q1 but slowed in the United States. A modest pace of growth in the United Kingdom's main trading partners is likely over the forecast period, broadly similar to that in the February *Inflation Report* projections.

In the United Kingdom, activity growth slowed in Q1 and a further deceleration is expected in Q2. There are increasing signs that uncertainty associated with the EU referendum has begun to weigh on activity. This is making the relationship between macroeconomic and financial indicators and underlying economic momentum harder to interpret at present. In the Committee's latest projections, activity growth recovers later in the year, but to rates that are a little below their historical average. Growth over the forecast horizon is expected to be slightly weaker than in the February projection. The May projection is conditioned on a path for Bank Rate implied by market rates and on continued UK membership of the European Union, including an assumption for the exchange rate consistent with that.

As the dampening influence of past falls in energy and food prices unwinds over the next year, inflation should rise mechanically. Under the same forecast conditioning assumptions described above, spare capacity is projected to be eliminated by early next year, increasing domestic cost pressures and supporting a return of inflation to the 2% target by mid-2018. Thereafter, as in the February *Inflation Report*, inflation is forecast to rise slightly above the target, conditioned on the path for Bank Rate implied by market rates.

Given the outlook described in the May *Inflation Report* projections, returning inflation to the 2% target requires achieving a balance between the drag on inflation from external factors and the support from gradual increases in domestic cost growth. Fully offsetting the drag from external factors over the short run would, in the MPC's judgement, involve too rapid an acceleration in domestic costs, one that would risk being excessive and lead to undesirable volatility in output and employment. Given these considerations, the MPC intends to set monetary policy to ensure that growth is sufficient to return inflation to the target in around two years and keep it there in the absence of further shocks.

Consistent with the projections and conditioning assumptions set out in the May *Inflation Report*, the MPC judges that it is more likely than not that Bank Rate will need to be higher by the end of the forecast period than at present to ensure inflation returns to the target in a sustainable manner. 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 economic circumstances. With macroeconomic and financial indicators likely to be less informative than usual in light of the referendum, the Committee is currently reacting more cautiously to data releases than would normally be the case.

The most significant risks to the MPC's forecast concern the referendum. A vote to leave the EU could materially alter the outlook for output and inflation, and therefore the appropriate setting of monetary policy. Households could defer consumption and firms delay investment, lowering labour demand and causing unemployment to rise. At the same time, supply growth is likely to be lower over the forecast period, reflecting slower capital accumulation and the need to reallocate resources. Sterling is also likely to depreciate further, perhaps sharply. This combination of influences on demand, supply and the exchange rate could lead to a materially lower path for growth and a notably higher path for inflation than in the central projections set out in the May *Inflation Report*. In such circumstances, the MPC would face a trade-off between stabilising inflation on the one hand and output and employment on the other. The implications for the direction of monetary policy will depend on the relative magnitudes of the demand, supply and exchange rate effects. Whatever the outcome of the referendum and its consequences, the MPC will take whatever action is needed to ensure that inflation expectations remain well anchored and inflation returns to the target over the appropriate horizon.

Against that backdrop, at its meeting on 11 May, the MPC voted unanimously to maintain Bank Rate at 0.5% and to maintain the stock of purchased assets, financed by the issuance of central bank reserves, at £375 billion.

## **Minutes of the Monetary Policy Committee meeting ending on 11 May 2016**

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 Financial market sentiment had continued to improve over the month, with a further recovery in the prices of many risky assets. The sterling exchange rate had also risen, unwinding a little of the falls seen since November. The Committee discussed the potential sources of these movements and how persistent they might prove.

3 Continuing the trend that had begun around the time of the Committee's February *Inflation Report*, risk sentiment had improved further, with increases in euro-area and US equity prices, a narrowing in corporate bond spreads, and a slight fall in the VIX index. Although, on balance, data on global activity in recent months had been broadly in line with expectations, the absence of significant negative surprises might have been sufficient to lead market participants to place less weight on downside risks. In particular, statements by the Chinese authorities about their exchange rate regime, and policy measures they had announced to support growth, had reduced fears of a sharp slowdown in emerging market economies in the near term and increased expectations of demand for commodities. Supporting this, emerging market equity prices had recovered strongly, oil prices had increased and global energy companies had outperformed the broader market. Favourable data regarding euro-area activity might also have helped to improve sentiment.

4 It was likely, too, that concerns over the profitability of advanced economy banking systems, in Europe in particular, had receded a little. The ECB's new series of targeted longer-term refinancing operations should buttress bank balance sheets and the announcement by the Italian government of support for some of its smaller banks had helped to reduce immediate concerns about the health of euro-area banks more broadly.

5 Measures taken by central banks in recent months might also have played some role in the recovery of risky asset prices. The FOMC had stressed the significance of global risks in its assessment of the outlook and a number of central banks had noted the importance of banking system health in their calibration of the appropriate policy stance. The ECB had considerably expanded its asset purchase programme and would shortly commence targeted longer-term refinancing operations, which would reduce funding costs for banks and should support lending to the real economy. Since the Committee's previous meeting, the ECB had announced more details of its plans to purchase corporate bonds; these had contributed to the further narrowing in corporate bond spreads. The strength of the euro and yen exchange rates would act to put downward pressure on inflation in the euro area and Japan, however, while the lower dollar would further underpin the recent increase in US core inflation.

6 Risk-free interest rates in the United Kingdom were little changed on the month and remained lower than at the time of the February *Inflation Report*. The sterling exchange rate had appreciated on the month, although it still stood well below its level at the beginning of November. It was likely that the rise in sterling was related to some reassessment in financial markets of the likelihood of a vote to leave the European Union in the forthcoming referendum.

7 Taken together, developments in financial markets suggested that participants were placing less weight than in February on downside risks materialising in the near term. A number of risks to the global economy remained, including from emerging markets and from weak advanced economy productivity growth. The outcome of the referendum on EU membership continued to be the largest domestic risk.

### The international economy

8 Data on GDP in the first quarter had shown a further slowing in activity growth in the United States but a pickup in growth in the euro area. In the United States, GDP had increased by only 0.1% in 2016 Q1, in line with Bank staff's expectation immediately before the release, but considerably weaker than had been expected at the time of the February *Inflation Report*. Household consumption growth had been sluggish and spending on durable goods had fallen for the first time in nearly five years. Given the underlying strength of the labour market and the positive tone of business surveys, Bank staff expected a pickup in activity growth in the second quarter, but the continuing weakness in productivity and firming of some wage measures suggested that there was a risk that potential output growth in the United States had fallen further than assumed. The preliminary flash estimate of euro-area GDP growth had been 0.6%, above Bank staff expectations of 0.4%; there was little detail as yet on the underlying drivers of the increase. HICP inflation had fallen back in April to -0.2% and core inflation had fallen to 0.7% from 1.0% in March.

9 In China, the authorities had published a four-quarter GDP growth rate of 6.7% for 2016 Q1 and a quarterly growth rate of 1.1%. Credit had continued to grow rapidly, with the increase in the stock of borrowing in Q1 the strongest on record, and house prices had accelerated further, strikingly so in the larger cities. In other emerging market economies a broad range of indicators had suggested that growth had stabilised since the beginning of the year. Looking forward, activity would probably receive some support from the sharp turnaround in estimated capital flows: portfolio inflows had been strongly positive in both March and April, following a period of net outflows since the summer. Emerging market oil producers would also benefit from the further rise in prices on the month. This rise had seemed in part to reflect supply developments: although OPEC members had not reached agreement on a production freeze at their April meeting, production problems had hit a number of members; non-OPEC supply growth had also slowed, with signs of the lower level of prices relative to their 2014 peak more clearly beginning to weigh on relatively high-cost US producers.

10 The sharp fall in investment in oil fields had been a significant drag on overall investment growth in many major oil producers. However, it was likely that this had been only one contributor to the continuing weakness in aggregate investment across the advanced economies. Investment had fallen as a share of total spending in most major economies during the financial crisis and had not yet recovered to pre-crisis levels, despite

measured average rates of return being high and estimates of the cost of capital being low. Both public and residential investment had been weak in a number of countries, as governments had undertaken fiscal consolidation and as housing demand had slowly caught up with an excess of housing supply. But investment in equipment and machinery had also been very weak.

11 The apparent gap between high average rates of return and the low cost of capital might not be a good indicator of the attractiveness of investments from the point of view of individual companies. The rate of return on the marginal investment project might have fallen relative to the average return on capital, perhaps if barriers to entry in particular industries had increased. Alternatively, uncertainty about future demand might still be high and, following the financial crisis, investors might be particularly reluctant to make irreversible spending decisions unless they had a very high degree of confidence in the payoff. It was notable that hurdle rates for investment projects seemed to have fallen by less than the cost of capital, if at all. This might also reflect a degree of inertia in decision-making criteria – it was possible that companies had been slow to react to the lower level of long-term interest rates and that hurdle rates would fall over time.

12 Structural change in the global economy might also have reduced the required rate of investment. Low rates of capital spending in the advanced economies might have been the counterpart to higher rates of capital spending in emerging market economies, either because growth expectations had been perceived to be higher there, or, more recently, because excess capacity in sectors heavily dominated by emerging markets had reduced the returns on investment in these sectors worldwide. Alternatively, output in the advanced economies might have become less capital intensive. Service sectors accounted for a greater proportion of aggregate output and these sectors tended to be less capital intensive or, at least, to rely to a greater extent on intangible investment, such as intellectual property, that was more difficult to measure. Finally, the relatively disappointing pace of underlying productivity growth since the crisis might be a signal that the required stock of capital was growing more slowly than previously expected.

13 It was likely that all of these factors were present to a greater or lesser extent. Although, with some spare capacity still present in the global economy there was the potential for a further cyclical recovery in capital spending as output growth picked up, it was likely that investment in the medium run would grow more slowly than pre-crisis rates.

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

14 UK GDP growth had slowed to 0.4% in 2016 Q1, from 0.6% in 2015 Q4, in line with Bank staff's expectation. 2016 Q1 had been the weakest quarter for UK growth since late 2012, although Bank staff expected growth eventually to be revised up to 0.5% in the mature data. Production had fallen by 0.4% on the quarter, broadly in line with expectations, while construction output had contracted by 0.9%, compared with an expectation of a modest rise. Services output growth had eased to 0.6% in Q1 as expected. Much of that slowing had been accounted for by a decline in the output of the professional services sector, which could have been associated with uncertainty surrounding the outcome of the EU referendum leading, for example, to a postponement of commercial real estate transactions, IPOs and private equity deals.

15 Indicators of aggregate activity for Q2 had been mixed. Both the output and expectations indices of the Markit/CIPS composite PMI for April had fallen to their lowest levels since 2013. However, both manufacturing output and distribution sector expectations in the CBI survey had continued to improve in April. While Bank staff's summary measure of macroeconomic uncertainty had eased a little on the month, it remained above its historical average. The GfK/EC measure of consumer confidence had continued to deteriorate in April, primarily reflecting a worsening of confidence in the general economic situation. Overall, the Committee expected GDP growth to slow further in Q2 to 0.3%.

16 In light of the weak picture for investment growth in other advanced economies, the Committee discussed its latest projections for UK investment. UK business investment had fallen in 2015 Q4, largely driven by a sharp drop in extraction investment related to the previous decline in oil prices. Following a softening in early 2016, the available surveys for April of UK investment intentions had improved a little on the month. Nevertheless, these forward-looking indicators were still consistent with subdued investment growth in the short term, with some evidence – including that from the Bank's Agents – of businesses delaying expenditure decisions on account of the uncertainty around the outcome of the EU referendum. Beyond that horizon, in the MPC's latest projections, conditioned on the assumption that the United Kingdom would vote to remain in the European Union, business investment was expected to grow more quickly than its historical average, as the drag from uncertainty unwound, credit conditions remained supportive and capacity pressures encouraged businesses to invest.

17 The prospects for housing investment would be dependent, at least in part, on the outlook for housing activity. Activity had picked up sharply in March: according to HMRC there had been around 165,000 property transactions, compared with almost 117,000 transactions in February. Notwithstanding that rise, mortgage approvals for house purchase had actually fallen a little on the month to around 71,000 and for Q1 as a whole had been in line with expectations in the February *Inflation Report*. The much stronger than expected volume of transactions in March was likely to have in part reflected an increase in cash purchases. In addition, intelligence from some lenders suggested that the lag between approving a mortgage and purchasing a house in March might have shortened for those mortgagors who had sought to complete transactions ahead of the increase in stamp duty levied on the purchase of additional homes, which had come into effect in April. Given the number of transactions potentially brought forward into Q1 and the possibility of some house purchases being delayed until after the EU referendum, it was likely that there would be a sharp fall in transactions and a somewhat smaller fall in mortgage approvals in Q2.

18 Looking beyond that near-term volatility, the MPC continued to expect housing market activity to increase gradually. While the rise in stamp duty levied on the purchase of additional homes and the reduction in the scope for mortgage interest tax relief from April 2017 were likely to slow the growth of demand from buy-to-let investors, demand from owner-occupiers was expected to pick up, supported by the historically low cost of mortgage borrowing. Nevertheless, the MPC expected activity to increase a little more slowly than in its February *Inflation Report* projections: intelligence from the Bank of England's Agents had suggested that the supply of properties coming onto the market would continue to remain subdued; and the PRA's supervisory guidance on underwriting standards in the buy-to-let market announced in March might also act to reduce credit supply somewhat.

19 Annualised house price inflation, according to the average of the lenders' indices, had slowed to 5.9% in the three months to April relative to the previous three months, from 8.4% in the three months to March. Looking ahead, despite some near-term volatility, the MPC's expectation remained that house prices would increase at similar rates over the three-year forecast period, conditional on the prevailing level of market interest rates. Consequently, it was likely that the household debt to income ratio would rise gradually over the coming three years.

20 As regards the rest of the property sector, commercial property transactions had weakened significantly in the first quarter, having fallen by nearly 40%. It was unclear how much of this was due to referendum-related uncertainty: the series was very volatile and there had already been signs that the market had begun to ease, particularly in London. Nevertheless the fall on the quarter was substantial. In addition, prices had fallen in March for the first time in three years and by the largest amount since 2009. A more subdued commercial property market could depress aggregate activity through lower fees and services associated with completing transactions, through reducing the incentives for new developments, and through reducing the value of existing properties that companies might wish to have used as collateral in financing investment. The lags between transactions and prices on the one hand, and output and investment on the other, were long and variable, however.

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

21 Twelve-month CPI inflation had increased to 0.5% in March, but had remained well below the 2% target, necessitating a further open letter from the Governor to the Chancellor of the Exchequer, to be published alongside the May *Inflation Report* and the minutes of this MPC meeting. The 0.2 percentage point increase on the month had been largely accounted for by an increase in airfares related to the proximity of the March CPI collection date to the Easter holidays, during which the cost of air travel typically increased substantially. This effect would very probably prove temporary, an assumption corroborated by online airfares data. Bank staff therefore expected CPI inflation to drop back in April before gradually increasing over the summer as the effects of past declines in energy and food prices on the twelve-month calculation faded. The roughly 25% increase in the sterling oil price since the beginning of the year would support this upward trend. Moreover, the most recent data regarding import prices suggested that the drag on inflation from the 15% appreciation of sterling between the summers of 2013 and 2015 might now be past its peak. This, too, would act to raise CPI inflation over the coming quarters.

22 The sterling effective exchange rate index had remained volatile. A substantial proportion of its recent movement appeared related to the forthcoming referendum. Continued volatility seemed likely in the remaining weeks leading up to the vote. There could also be a further substantial move in the sterling exchange rate following the referendum, in one direction or the other, depending on its outcome. The outlook for inflation would be highly sensitive to any such movements.

23 The annual growth in whole economy average weekly earnings had declined to 1.8% in the three months to February, compared with 2.1% in the three months to January. The decline had been a consequence of

weaker bonus payments in February than a year earlier, particularly in the financial services sector where bonus payments were usually concentrated in the first three months of the year. This was likely to reflect weaker profits amongst financial firms over the past year, some switching of the timing of bonus payments from February to March, and possibly also the impact of a shift towards fixed remuneration and away from bonus payments in the financial sector following the introduction of the bonus cap. It was, in any event, not clear how much of a signal these figures gave about underlying pay trends in the economy more broadly. Excluding bonuses, whole economy regular pay had increased by 2.2% in the three months to February compared with a year earlier, and by 2.5% in the private sector. After having stalled in the middle of 2015, there was tentative evidence that the recovery in rates of pay growth had resumed. Between March and October 2015, private-sector regular pay had grown at an annualised pace of only 1.1%; the equivalent growth rate over the period since then had been 4%.

24 As with the wage data, the employment data released since the previous MPC meeting had contained little news. The LFS unemployment rate had been 5.1% in the three months to February, the same as in the previous three months, in line with expectations immediately prior to the data release and roughly as expected at the time of the February *Inflation Report*. Employment had increased by 20,000 in the three months to February compared with the previous three months and by 360,000 compared with the same period a year ago. In a similar manner to the output data, it was possible that the employment figures over the coming months would be depressed by the postponement of recruitment decisions by some firms until after the result of the EU referendum had become clear.

25 The Citigroup measure of household inflation expectations one year ahead had remained broadly stable at 1.6% in April and the equivalent measure of expectations five-to-ten years ahead had also been stable, at 2.8%. The Q2 Barclays Basix measures of expectations one, two and five years ahead had picked up since the survey had last been taken in 2015 Q4. Five-year break-even inflation rates five years forward had fallen by around 10 basis points on the month and a measure of inflation expectations at a similar horizon derived from inflation swaps had fallen by around 20 basis points. Both were lower than at the time of the February *Inflation Report*. Overall, the Committee continued to judge that measures of household and financial market participants' expectations of inflation remained consistent with the inflation target in the medium term. Staff analysis suggested that longer-term expectations inferred from inflation swaps had been more sensitive to movements in shorter-term expectations over the past year, during which time inflation had been close to zero, than previously. The Committee would continue to monitor expectations of inflation closely.

### **The immediate policy decision**

26 The Committee set monetary policy to meet the 2% inflation target, and in a way that helped sustain growth and employment. At 0.5% in March, twelve-month CPI inflation had remained well below the target. As set out in the Governor's latest letter to the Chancellor, the vast majority of the shortfall reflected the impact of falls in commodity prices and the past appreciation of sterling. It was likely that CPI inflation would decline in April as an Easter-related spike in airfares unwound. Further ahead, the pickup in inflation depended on both a lessening drag from external factors and an increase in domestic cost growth.

27 On their own, movements in asset prices had been supportive of inflation over the period since the February *Inflation Report*. Sterling had depreciated, the market path for interest rates had fallen and both risky asset prices and the price of oil had risen. It was probable that at least some of these movements in domestic asset prices reflected market participants' perceptions about the consequences of the forthcoming referendum on UK membership of the European Union. While the impact of the referendum on some asset prices was not clear cut, there appeared to have been a more pronounced effect on sterling. Bank staff estimated that roughly half of the 9% fall in sterling since its November 2015 peak could be accounted for by risks associated with a vote to leave the European Union. Consistent with the usual forecast convention that government policy would be followed, the Committee had taken a judgment not to allow that part of the fall in the exchange rate associated with the referendum to affect the May *Inflation Report* projections, such that the conditioning path for sterling was a little higher than in the February *Report*.

28 The news on the outlook for global growth had been mixed over the past three months. Euro-area GDP had surpassed expectations in 2016 Q1 although both core and headline inflation had weakened in April. US GDP growth had slowed further in Q1 and had been considerably weaker than expected in the February *Inflation Report*. Nevertheless, recent US business surveys had been more positive, pointing to a recovery in growth in the second quarter. Prospects for China had improved a little in the near term, supported by a continued rapid expansion of credit, although medium-term downside risks had increased. The near-term improvement in China had helped to strengthen commodity prices and improved the outlook for other emerging markets. Capital flows to emerging market economies were estimated to have been positive in March and April following a period of net outflows. Overall, the outlook for the next three years was for modest growth in the United Kingdom's main trading partners, with the risks tilted to the downside, broadly similar to the February *Inflation Report* projections.

29 The near-term outlook for activity in the United Kingdom had softened. The slowing in service sector growth in Q1 was consistent with reports from the Bank's Agents of a postponement of some business transactions ahead of the referendum. Measures of uncertainty had picked up sharply since the February *Inflation Report*, the forward-looking business surveys had weakened and surveys of investment intentions had generally eased. A further slowing in growth was expected in Q2 and, even following a vote to remain in the European Union, it was possible that there would be a more prolonged drag on business spending if delayed projects took time to be re-started. Beyond the near term, despite subdued global activity and the ongoing fiscal consolidation, UK activity growth was expected to pick up in the event of a remain vote, supported by solid private domestic demand growth. GDP growth was nevertheless expected to be somewhat weaker than projected three months ago. There were two main factors behind that softer outlook. First, productivity growth had disappointed relative to expectations in Q4 and its expected path was now modestly weaker. Second, and against a backdrop of the continuing fiscal consolidation and relatively high debt-to-income ratios, the Committee had judged that households would be a little less willing than previously assumed to reduce saving rates in order to support spending growth in the coming years.

30 Domestic price pressures remained subdued. Despite the continued tightening in the labour market, both headline annual wage and unit labour cost growth remained below historical norms and, in the judgement of the MPC, below rates consistent with meeting the inflation target. However, at least some of the recent weakness

in pay was likely to have reflected a change in the pattern of bonus payments: private sector regular pay growth had picked up more rapidly in recent months. Moreover, as in the February *Inflation Report*, the lessening drag on inflation from external factors, a strengthening of productivity growth and the elimination of spare capacity were all expected to push nominal wage growth higher over the coming quarters. That in turn would support the recovery in domestic cost pressures. Conditional on the assumption that interest rates followed the market path, and an assumed continuation of EU membership, inflation would, in the best collective judgement of the Committee, return to the 2% target by mid-2018, before rising slightly further above it in the third year of the projection. There continued to be a range of views among members about the outlook for inflation, in particular regarding: the current and prospective supply capacity of the economy; how responsive wage settlements would be to diminishing labour market slack and the prospective increase in CPI inflation; and the impact of exchange rate movements.

31 The appropriate policy stance would depend on how the economy evolved and the nature and persistence of the shocks hitting it. The most immediate and significant risk to the outlook concerned the forthcoming referendum on the United Kingdom's membership of the European Union. In that light, the Committee discussed the implications for monetary policy both of a vote to remain and of a vote to leave.

32 In the event of a vote to remain, which had been the assumed convention for the MPC's May *Inflation Report* projections, the appropriate path for monetary policy would depend, as usual, on the underlying pace of activity growth and the associated path for inflation. However, in the near term, the referendum was making macroeconomic and financial market indicators less informative than usual. As a consequence, it was possible that uncertainty effects were weighing more on recent data than assumed in the projections set out in the May *Inflation Report*, such that the underlying momentum of the economy was stronger. On the other hand, if uncertainty effects were weighing by less, the underlying momentum of the economy was likely to be weaker. Given this difficulty in identifying the underlying signal in the economic data, the Committee was reacting more cautiously to data news in advance of the referendum than would normally be the case. Beyond the referendum, the MPC would need to re-assess the outlook for activity growth, inflation and the appropriate stance of monetary policy as uncertainty dissipated.

33 A vote to leave the European Union could materially affect the outlook for output and inflation. In the face of greater uncertainty about the UK's trading relationships, sterling was likely to depreciate further, perhaps sharply. In addition, households could defer consumption and firms could delay investment decisions, lowering labour demand and increasing unemployment. Asset prices might fall, leading to tighter financial conditions. Slower capital accumulation and the need to reallocate resources across the economy in response to changing trading and investment patterns would likely reduce potential supply over the forecast horizon. Taken together, the combination of movements in demand, supply and the exchange rate could lead to a materially lower path for growth and a notably higher path for inflation than in the projections set out in the May *Inflation Report*. In those circumstances, the MPC would face a trade-off between stabilising inflation on the one hand and output and employment on the other. The implications for the direction of monetary policy would depend on the relative magnitudes of the demand, supply and exchange rate effects. The MPC would take whatever action was needed, following the outcome of the referendum, to ensure that inflation expectations remained well anchored and inflation returned to the target over the appropriate horizon.

34 Taking into consideration all of the recent developments, all Committee members judged it appropriate to maintain the current stance of policy at this meeting. The central projections set out in the May *Inflation Report* were conditioned on a gentle rise in interest rates over the forecast period. Under that central case, the MPC judged it more likely than not that Bank Rate would need to be higher at the end of that period than at present in order to return inflation to the target in a sustainable manner.

35 All members agreed that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate did begin to rise, it was expected to do so more gradually and to a lower level than in recent cycles. Such guidance, however, was an expectation and not a promise: the path that Bank Rate would actually follow over the next few years would depend on economic circumstances.

36 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, the Committee voted unanimously in favour of the proposition.

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

37 The Committee noted that the Bank of England and Financial Services Bill had been given Royal Assent on 4 May, making it an Act of Parliament. Among the legislative changes introduced by the Act were provisions to reduce the number of scheduled meetings of the Monetary Policy Committee from twelve to eight per year, in line with the recommendations of Kevin Warsh's review: 'Transparency and the Bank of England's Monetary Policy Committee'. Following its previously announced intentions, the Committee confirmed that the scheduled Committee meeting ending on 13 October 2016 would be the first to be dropped under the new arrangements. Similarly, the meetings provisionally planned for January, April, July and October 2017 would also be removed from the schedule.

38 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

Gertjan Vlieghe

Martin Weale

Ian McCafferty was present on 4 May but was, unexpectedly and unavoidably, unable to attend on 6 May and 11 May. He communicated his vote to the Governor, and the Committee, in accordance with the provisions of paragraph 12 of Schedule 3 to the Bank of England Act 1998, agreed that he should be treated as present at the meeting for the purposes of sub-paragraph (4) of paragraph 11.

Dave Ramsden was present as the Treasury representative.