



BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 20 June 2018

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These are the minutes of the Monetary Policy Committee meeting ending on 20 June 2018.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2018/june-2018>.

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 1 August will be published on 2 August 2018.

Monetary Policy Summary, June 2018

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 20 June 2018, the MPC voted by a majority of 6-3 to maintain Bank Rate at 0.5%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

In the MPC's most recent projections, set out in the *May Inflation Report*, GDP was expected to grow by around 1¾% per year on average over the forecast, conditioned on the gently rising path of Bank Rate implied by market yields at the time. In those projections, growth continued to rotate towards net trade and business investment and away from consumption. While modest by historical standards, the projected pace of GDP growth over the forecast was nevertheless slightly faster than the diminished rate of supply growth, which averaged around 1½% per year. As a result, a small margin of excess demand was projected to emerge by early 2020, feeding through into higher rates of pay growth and domestic cost pressures. Nevertheless, CPI inflation continued to fall back gradually as the effects of sterling's past depreciation faded, reaching the 2% target in two years.

A key assumption in the MPC's May projections was that the dip in output growth in the first quarter would prove temporary, with momentum recovering in the second quarter. This judgement appears broadly on track. A number of indicators of household spending and sentiment have bounced back strongly from what appeared to be erratic weakness in Q1, in part related to the adverse weather. Employment growth has remained solid. Although manufacturing output recorded a decline in April, and this was accompanied by a fall in goods exports, surveys of business activity have been stable and, as a whole, point to growth in the second quarter in line with the Committee's May projections.

Internationally, activity data have been mixed. Indicators suggest that US growth bounced back strongly in Q2 from the softness in Q1. Euro-area growth has been weaker than expected, and downside risks have increased in some emerging markets, in part reflecting tighter financial conditions. More broadly, the prospects for global GDP growth remain strong, and while financial conditions have tightened somewhat, they continue to be accommodative.

CPI inflation was 2.4% in May, unchanged from April. Inflation is expected to pick up by slightly more than projected in May in the near term, reflecting higher dollar oil prices and a weaker sterling exchange rate. Most indicators of pay growth have picked up over the past year and the labour market remains tight, suggesting that domestic cost pressures will continue to firm gradually, as expected.

The Committee's best collective judgement remains that, were the economy to develop broadly in line with the May *Inflation Report* projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to its target at a conventional horizon. For the majority of members, an increase in Bank Rate was not required at this meeting. All members agree that any future increases in Bank Rate are likely to be at a gradual pace and to a limited extent.

In addition to its discussion of the immediate policy decision, the Committee reviewed its previous guidance on the level of Bank Rate at which the MPC will consider whether to start to reduce the stock of purchased assets. The MPC continues to expect to maintain the stock of purchased assets until Bank Rate reaches a level from which it can be cut materially, reflecting the Committee's preference to use Bank Rate as the primary instrument for monetary policy. Since the previous guidance, the Committee has reduced Bank Rate from 0.5% to 0.25% in August 2016 and has noted that it could lower it further if required. Reflecting this, the MPC now intends not to reduce the stock of purchased assets until Bank Rate reaches around 1.5%, compared to the previous guidance of around 2%. Any reduction in the stock of purchased assets will be conducted at a gradual and predictable pace. Decisions on Bank Rate will take into account any impact of changes in the stock of purchased assets on overall monetary conditions, in order to achieve the inflation target. In the event that potential movements in Bank Rate are judged insufficient to achieve the inflation target, the reduction in the stock of assets could be amended or reversed.

Minutes of the Monetary Policy Committee meeting ending on 20 June 2018

1 Before turning to its immediate policy decision, the Committee discussed financial market developments; the international economy; money, credit, demand and output; and supply, costs and prices.

Financial markets

2 Heightened geopolitical risks and international monetary policy developments had driven movements in financial markets over the period since the Committee's May *Inflation Report*. Taken together, financial conditions – while still accommodative – had tightened somewhat.

3 Around the end of May, uncertainty surrounding the formation of a coalition government in Italy had culminated in sharp increases in the yields on Italian government bonds. The Italian ten-year sovereign spread to German Bunds had risen from 130 basis points at the time of the MPC's previous meeting to over 280 basis points, before falling back to around 220 basis points at the time of the Committee's June meeting. The two-year spread, which at the start of May had been around 25 basis points, had peaked at 350 basis points following a particularly sharp move on 29 May that had probably been exacerbated by thin liquidity. Although this spread had since fallen back, the deterioration in liquidity had persisted. Italian bank equity prices had fallen sharply, and remained significantly lower than their levels at the time of the May MPC meeting. There had been some spillover to the yields of other euro-area periphery countries' debt, as ten-year sovereign spreads to Bunds had increased relative to early May levels by around 80 basis points in Portugal, 60 basis points in Spain and 30 basis points in Ireland, before largely unwinding. Throughout this period euro-area periphery countries' spreads had remained well below levels seen in 2011-12.

4 These developments had prompted a modest deterioration in global risk sentiment for a period around the end of May. UK, euro-area and emerging market equity prices had fallen somewhat, and yields on safe assets had declined. The moves in shorter- and longer-term yields had partially reversed by early June. However, an increase in trade tensions appeared to have weighed on market interest rates and equities globally, particularly in the days leading up to the Committee's meeting. Relative to their respective levels at the time of the MPC's previous meeting, the Euro Stoxx index was 3.5% lower, the FTSE All-Share index was 0.6% higher, and the S&P 500 was 3.4% higher.

5 On 13 June the FOMC had announced a 25 basis point increase in the target range for the federal funds rate. Short-term market interest rates had risen a little in response to the FOMC's statement and the increase in the median assessment of appropriate monetary policy in 2018 and 2019. Market pricing was now for the federal funds rate to reach around 2¾% by the end of 2019. On 14 June the ECB Governing Council had announced that it anticipated the rate of its net asset purchases would fall at the end of September from the current €30bn per month to €15bn per month, before ceasing at the end of December. It had also announced that it expected its key policy interest rates to remain at their present levels at least through the summer of

2019. The date at which markets were fully pricing a 10 basis point interest rate increase had moved out to towards the end of 2019.

6 The euro, having dipped during the market volatility at the end of May and then recovered at the start of June, had depreciated by around 2% intraday against the US dollar after the ECB announcement. The euro effective exchange rate index was 1% lower than at the time of the MPC's previous meeting. The dollar effective exchange rate index was 2.5% higher over the same period, and 5.5% higher than at the start of April, against a backdrop of continued relatively robust US growth, loosening fiscal policy, increasing trade tensions and tightening US monetary policy.

7 The strengthening dollar and higher US Treasury yields in recent months had coincided with some signs of financial stress in a number of emerging market economies. This had been reflected in currency depreciations, increases in sovereign yields, and some limited portfolio outflows. There had been significant depreciations in the Argentinian peso, Turkish lira, Mexican peso and Brazilian real, reflecting vulnerabilities specific to those countries, although a broader set of currencies had seen smaller depreciations. Central banks in a number of countries, including Argentina and Turkey, had raised official interest rates in response. These financial stresses had so far remained contained, and emerging market economies generally appeared to be more resilient than in earlier episodes of emerging market stress, for example in 2013.

8 In the United Kingdom, instantaneous forward OIS rates had fallen slightly following the release of the *May Inflation Report* and since then, though volatile, were broadly unchanged. The implied probability of a 25 basis point increase at the August meeting was around 45% and market prices continued to imply that participants expected around three 25 basis point increases in Bank Rate over the next three years. These market expectations were broadly consistent with economists' expectations in the latest Reuters poll. While the sterling effective exchange rate index was 2.3% lower than the *May Inflation Report* conditioning assumption, much of this fall had taken place ahead of the MPC's May meeting as the market had reappraised the near-term path for UK monetary policy in response to weaker-than-expected economic data. Since then, the sterling ERI had remained in a relatively narrow range and was 0.8% lower relative to its level at the time of the May MPC meeting. Ten-year gilt yields were around 15 basis points lower than at the time of the Committee's previous meeting. UK bank funding spreads and sterling non-financial corporate bond spreads had picked up further at the end of May but remained below historic norms.

The international economy

9 Alongside somewhat tighter financial conditions and higher geopolitical uncertainty, the near-term news on global activity had been mixed. The slowdown in 2018 Q1 had been broad-based, with GDP growth weaker than in the previous quarter for every G7 economy, as well as China. Global growth was still expected to bounce back in Q2, broadly in line with expectations at the time of the *May Inflation Report*. But, taking the first half of the year as a whole, there were signs that underlying global growth momentum, while still strong by historical standards, might have slowed slightly.

10 Euro-area GDP in 2018 Q1 had been unrevised at 0.4%, around its estimated trend rate, but 0.3 percentage points weaker than in the previous quarter. This slowdown had been more than accounted for by the contribution from net trade, partly offset by stronger household consumption growth. There appeared to have been some negative effects from adverse weather conditions. By country, the largest contributions to the slowdown had come from France and Germany. Bank staff expected that euro-area GDP growth would remain at 0.4% in Q2, 0.2 percentage points lower than expected in the May *Inflation Report*. Industrial production had fallen sharply in April, and the euro-area PMI composite output index had also fallen further in May. In both cases the weakness had been fairly broad-based across countries. Although some of this weakness was likely to have reflected temporary factors, the data raised the question of whether underlying momentum in the euro area could be somewhat slower than previously thought. It was also possible that political uncertainty and the associated financial market turbulence could weigh on growth further ahead.

11 In the United States, the second estimate of GDP growth in 2018 Q1 had been revised down from 0.6% to 0.5%, with an upward revision to business investment more than offset by a downward revision to housing investment and to the contribution from inventories. Nevertheless, the data for Q2 had been somewhat above expectations, including data on personal consumption, retail sales, durable goods, international trade and nonfarm payrolls, and the revisions to Q1 had suggested that there was likely to be a stronger contribution from inventories. As a result, Bank staff now expected that GDP growth in the second quarter would be 1.1%, 0.3 percentage points higher than in the May *Inflation Report*. Further ahead, growth was likely to remain robust in 2018 H2, given the support to demand from recent changes to fiscal policy.

12 In China, high-frequency and survey data had continued to suggest that quarterly GDP growth in the second quarter would pick up slightly to 1.6%, following a soft patch in the first quarter in which growth fell to 1.4%. Within this, industrial production had been stronger than expected, while fixed-asset investment and retail sales had both been weaker. The picture of growth across other emerging markets had been somewhat divergent, with growth little changed relative to the previous quarter in India and Indonesia, much weaker in South Africa, but picking up in Brazil, Mexico and Turkey. The reversal in portfolio inflows to emerging markets since mid-April and the tightening of monetary policy in several of them could weigh on growth prospects in the period ahead.

13 World goods trade volumes had continued to grow reasonably strongly, increasing by 1.4% in 2018 Q1 compared to the previous quarter. But trade tensions had increased further. On 23 May, the United States had initiated a formal investigation into possible tariffs on imports of automobiles and automotive parts; on 1 June, the tariffs previously announced on US imports of steel and aluminium had been broadened to include other countries, and some of the affected countries had taken retaliatory measures; and on 15 June, the United States had confirmed the introduction of tariffs on imports of mainly capital and intermediate goods from China. Although the direct effect of these tariffs was likely to be modest, there was a clear risk of further escalation. A major increase in protectionism worldwide could have a significant negative impact on global growth.

14 Brent spot oil prices had been volatile since the Committee's previous meeting, although they were little changed overall. Oil prices were now 11% higher than at the start of 2018, largely reflecting supply factors. Since the previous meeting, prices had been responding mainly to news about future supply following the

reintroduction of US sanctions on Iran. The increase in commodity prices over the past year had been putting some upward pressure on consumer price inflation in advanced economies. In the euro area, annual headline HICP inflation in May had picked up sharply, from 1.3% to 1.9%. Much of this pickup had reflected the contribution from energy. Core inflation had also risen, from 0.8% to 1.1%, although this remained subdued. In the United States, annual core and headline PCE inflation had both been unchanged in April, at 1.8% and 2.0% respectively, having both increased by around 0.5 percentage points since mid-2017.

Money, credit, demand and output

15 UK quarterly GDP growth in Q1 2018 had been unrevised at 0.1% in the second estimate. The release had included the first estimate of the expenditure components.

16 Consumption growth had slowed in the first quarter, although by slightly less than had been expected at the time of the *May Inflation Report*. The news from other components of spending had been mixed. Business investment had fallen and net trade had been flat, with both weaker than had been anticipated in the *May Report*. Set against that, housing investment, government spending and stockbuilding had all been stronger than expected. As usual, however, there was considerable uncertainty around the early estimates of the expenditure components. That was particularly the case in the latest release, where there had been a large negative contribution from the alignment adjustment, reflecting the fact that the expenditure data had pointed to stronger growth than the output measure.

17 The Committee discussed the outlook for consumption. Those household sector indicators that had been weak in the first quarter had subsequently recovered. Having fallen in March, retail sales had rebounded strongly in April and May. Consumer credit flows had also recovered in April, suggesting that the March weakness may have been driven by temporary factors. HMRC property transactions had increased by 3.5% in April, reversing the fall seen in the previous month. That had left the overall level of transactions broadly in line with its average since 2013, although other housing market indicators, notably prices, had remained subdued. According to the average of lenders' indices, the slowing in UK house price inflation since 2016 had been concentrated particularly in London and South East England. RICS data suggested that pattern had continued in Q2, with house price inflation in other regions of the United Kingdom stable, and in most cases positive.

18 A range of surveys suggested that consumer confidence had generally increased since the start of the year, perhaps reflecting higher employment and a reduced drag on real incomes from inflation. The latest Bank of England/NMG household survey, conducted in April, reported that households' expectations for both nominal income and nominal spending over the next year had picked up since the second half of last year. The GfK/EC survey response on consumers' confidence in their own financial situation over the next 12 months had risen back to levels seen before the EU referendum.

19 Taken together, the data released since the Committee's *May Report* suggested that the downside risks that had been implied by a number of household sector indicators had dissipated. The latest official measures and survey indicators were consistent with the MPC's central projection of strengthening, if still relatively subdued, consumption growth supported by gently rising real income growth. Against the backdrop of the fall in

the estimated household savings ratio since the referendum, there were no apparent signs of increased precautionary saving by households.

20 Set against that, the Committee noted that UK bank funding spreads had risen, as had mortgage spreads. Unsecured credit conditions had continued to tighten slightly.

21 Business surveys, which had not weakened in Q1 by as much as official estimates of output growth, had remained close to their average over the past two years. The IHS Markit/CIPS composite output index had risen in May to its highest level since the end of last year, although the expectations index had fallen back, to around the subdued levels seen over the second half of 2017.

22 Some official data for Q2 had been weak. The index of production had fallen in April, with manufacturing output falling for a third consecutive month. It was possible that this reflected a lagged effect of disruption associated with adverse weather in the first quarter, with surveys suggesting that there had been a reversal in April of involuntary stockbuilding in Q1. Excluding oil and erratics, volumes of goods exports had fallen in April. However, the data tended to be noisy, and export surveys had remained robust. Construction output had picked up but by less than Bank staff had expected, although there was even greater uncertainty around these early estimates, which had tended to be revised up substantially over recent years.

23 Overall, the Committee's assessment was that data released since the *May Report* had been consistent with its view that the slowdown in Q1 had been temporary. Updating for all the latest available information, Bank staff continued to expect GDP growth of 0.4% in Q2, in line with the *May Report*.

24 The Committee noted the ONS's introduction of a new series of monthly GDP estimates and the ending of its preliminary estimate of quarterly GDP. These changes would not materially alter the extent of the information available to the Committee at its policy meetings.

Supply, costs and prices

25 Twelve-month CPI inflation had been 2.4% in May, unchanged from April. Annual core CPI inflation had been 2.1% in May, also unchanged from April. Both measures were 0.1 percentage points higher on the rounding than projected in the *May Inflation Report*. That had reflected upside news across a number of components, such as transport goods and services. Relative to the *May Report*, the rise in the sterling oil futures curve implied a slightly higher profile for CPI inflation over the next six months, which was expected to pick up slightly before falling back to around its current rate. The depreciation of sterling relative to the conditioning path underlying the *May Report* would also tend to push up on inflation further ahead.

26 CPI services inflation had been 2.3% in May, down from 2.8% in January 2018 and well below the average of 3.3% over the CPI inflation targeting period. However, while services were typically less import-intensive than goods, and so might in principle provide a better signal about domestic inflationary pressures, the services component of the CPI still had an import weight of around 17% compared with around 25% for the aggregate CPI. That suggested not taking too strong a signal from subdued services price inflation about the broader domestically generated inflationary pressures in the economy.

27 At the same time, growth of unit wage costs appeared to have picked up. Headline annual wage growth in the three months to April had been 2.5% in the whole economy and 2.6% for the private sector while regular pay had risen by 2.8% and 2.9% respectively, broadly in line with expectations in the *May Report*. Bank staff estimated that four-quarter unit wage cost growth had been 2.9% in the first quarter, though this may have been elevated somewhat by the particularly weak GDP growth reading in Q1.

28 High-frequency measures of private sector regular pay growth had eased compared with last year and annual wage growth was expected to slow a little over the coming months before strengthening again. Data on settlements in the early months of the year were running at around 0.5 percentage points higher than the same period last year, and may pick up further given recent settlements in some parts of the public sector. Surveys of pay had picked up further in recent months, corroborated by intelligence from the Bank's Agents.

29 There had been limited news on labour market quantities. Unemployment had been unchanged at 4.2%, slightly higher than forecast at the time of the *May Inflation Report*. The employment rate had been slightly stronger than expected at 61.1%, although average hours had been slightly lower than expected. That followed downside news on average hours in the first quarter, where micro data evidence from the Labour Force Survey had suggested that some of the shortfall in average hours may have been related to the adverse weather.

The immediate policy decision

30 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In pursuing that objective, the main challenges for the Committee had continued to be to assess the economic implications of the United Kingdom withdrawing from the European Union and to identify the appropriate policy response to that changing outlook, including to the substantial depreciation of sterling that had been associated with the decision. During the negotiation period, those economic implications would be influenced significantly by the expectations of households, firms and financial markets about the United Kingdom's eventual economic relationships with the European Union and other countries, and the transition to them.

31 In the MPC's most recent projections, set out in the *May Inflation Report*, GDP had been expected to grow by around 1¾% per year on average over the forecast, conditioned on the gently rising path of Bank Rate implied by market yields at the time. In the central projection, growth continued to rotate towards net trade and business investment and away from consumption. While modest by historical standards, the projected pace of GDP growth over the forecast had nevertheless been expected to be slightly faster than the diminished rate of supply growth, which the Committee projected would average around 1½% per year. As a result, a small margin of excess demand had been projected to emerge by early 2020, feeding through into higher rates of pay growth and firmer domestic cost pressures. Nevertheless, CPI inflation had been expected to continue to fall back gradually as the effects of sterling's past depreciation faded, reaching the 2% target in two years, conditioned on a path for Bank Rate that embodied around three 25 basis point rises over the next three years.

32 The Committee reviewed the extent to which the outlook had changed since the *May Report*.

33 Internationally, activity data had been mixed. Although aggregate global growth appeared to have recovered from the soft patch in Q1 broadly in line with the May projections, regional divergence had increased. Indicators suggested that US GDP growth had bounced back strongly in Q2. Euro-area growth had been weaker than anticipated, and downside risks had increased in some emerging markets, in part reflecting tighter financial conditions. Downside risks from geopolitical developments had also increased. More broadly, the prospects for global GDP growth remained strong, and while financial conditions had tightened somewhat, they continued to be accommodative.

34 Domestically, the incoming data had been broadly consistent with the Committee's judgement in the May *Report* that the dip in output growth in the first quarter would prove temporary. A number of indicators of household spending and sentiment had bounced back strongly from what appeared to be erratic weakness in Q1, partly related to the adverse weather. Employment growth had remained solid. A key judgement in the Committee's May projections had been that growth would continue to rotate towards net trade and business investment and away from consumption. Manufacturing output had declined in April, and this had been accompanied by a fall in goods exports. However, surveys indicated that stockbuilding had fallen back as well, suggesting that some of the April fall in manufacturing output may have reflected involuntary stockbuilding in Q1. Surveys of business activity had been stable and, as a whole, pointed to output growth in the second quarter in line with the Committee's May projections.

35 CPI inflation had been 2.4% in May, unchanged from April. In the near term, inflation was expected to pick up by slightly more than projected in May, reflecting higher dollar oil prices and a weaker sterling exchange rate. Most indicators of pay growth had picked up over the past year, and the official data and other indicators had continued to be consistent with there being only a small margin of spare capacity in the labour market, which suggested that domestic cost pressures would continue to firm gradually, as expected.

36 The Committee turned to the immediate policy decision. As in May, the best collective judgement of the MPC remained that, were the economy to evolve in line with the May *Inflation Report* projections, an ongoing tightening of monetary policy over the forecast period would be appropriate to return inflation sustainably to its target at a conventional horizon. All members agreed that any future increases in Bank Rate were likely to be at a gradual pace and to a limited extent.

37 All members agreed that the domestic labour market had remained strong, and there was widespread evidence that slack was largely used up. Pay and domestic cost growth had continued to firm broadly as expected.

38 For the majority of members, an increase in Bank Rate at this meeting was not required. For these members, the news since the previous meeting had given them greater reassurance that the softness of activity in the first quarter had been largely temporary. In particular, indicators of household consumption had recovered strongly from their subdued levels at the time of the previous meeting. Set against that, the outlook for global growth had weakened somewhat, and global financial conditions had tightened, with some modest impact on UK bank funding and corporate credit spreads. Data on manufacturing output and goods exports in April had been weak, although business surveys had generally suggested steady underlying GDP growth. For

these members, there was value in seeing how the data evolved from here, in order to learn more about the extent to which conditions were evolving in line with the *May Inflation Report* projections.

39 Three members favoured an immediate increase in Bank Rate. These members had a higher degree of confidence that the slowdown in Q1 was temporary or erratic and would largely be unwound. They felt that the economy was developing broadly in line with the *May Inflation Report* forecasts, but the most recent indicators of labour demand and pay settlements indicated some upside risks to the expected pickup in average weekly earnings and unit wage costs. These members also felt that the benefits of waiting for additional information were limited. Rather, they judged that a modest tightening of monetary policy at this meeting could mitigate the risks of a more sustained period of above-target inflation that might ultimately necessitate a less gradual subsequent change in policy and hence a sharper adjustment in growth and employment.

The MPC's asset purchases as Bank Rate rises

40 In addition to its discussion of the immediate policy decision, the Committee reviewed its guidance on the level of Bank Rate at which the MPC would consider whether to start to reduce the stock of purchased assets – both UK government and sterling non-financial investment-grade corporate bonds – subject to the economic circumstances at the time.

41 As set out in a box in the November 2015 *Inflation Report*, the Committee's preference has been to use Bank Rate as the primary instrument for monetary policy. Given that preference, and in order to have the scope to adjust policy substantially in either direction should that be required, the MPC had expected to maintain the stock of purchased assets until Bank Rate had reached a level from which it could be cut materially.

42 While these principles still held, the effective lower bound for Bank Rate had fallen. Since the previous guidance had been issued, the Committee had reduced Bank Rate from 0.5% to 0.25% in August 2016 and had noted that it could lower it further if required – judging that the lower bound was close to, but a little above, zero. The introduction of the Term Funding Scheme had helped to reinforce the reduction in Bank Rate and ensure it was passed through to the interest rates faced by households and businesses. These developments had demonstrated that the effective lower bound for interest rates was lower than in the past.

43 Reflecting this, the MPC now intended not to reduce the stock of purchased assets until Bank Rate reached around 1.5%, compared to previous guidance of around 2%. Consistent with its previous guidance, a decision to start reducing the stock of purchased assets would reflect the economic circumstances at the time.

44 Any reductions in the stock of purchased assets would be conducted over a number of years at a gradual and predictable pace. The MPC continued to view sales and reinvestment decisions as equivalent from a monetary policy perspective.

45 The pace of any reductions would depend on economic and financial market conditions at the time, and would take account of the need to maintain the orderly functioning of the gilt and corporate bond markets. In calibrating this pace, the Committee would seek to learn from the experience of other central banks. While any

reduction in the stock of purchased assets would be solely a decision for the MPC based on meeting its objectives, the Bank would liaise with the Debt Management Office ahead of implementing any change in its asset purchase programme.

46 Decisions on Bank Rate would take into account any impact of changes in the stock of purchased assets on overall monetary conditions, in order to achieve the inflation target. In the event that potential movements in Bank Rate were judged insufficient to achieve the inflation target, the reduction in the stock of assets could be amended or reversed.

The Sterling Monetary Framework

47 Consistent with the framework for engagement on the Sterling Monetary Framework (SMF) agreed by the Bank's Governors and the MPC in June 2017, the Committee had been briefed on potential operational changes to the SMF that could come into effect as the stock of purchased assets was reduced.

48 The Bank was minded to continue to use a variant of the current floor system to control short-term interest rates. This would mean that the Bank would meet banks' demand for central bank reserves in full at Bank Rate. As asset sales reduced the quantity of reserves outstanding, the Bank would stand ready to meet banks' demand for additional reserves through regular repo operations. This would result in the level of reserves stabilising as the stock of purchased assets was reduced. The level at which that happened would depend on banks' demand for reserves, which in turn would depend on financial market and wider economic conditions. However, reflecting both a wider range of counterparties and changes to liquidity regulation, demand for reserves was likely to be materially higher at any given level of Bank Rate than before the financial crisis. Over time, the Bank expected to learn more about the demand for reserves, and hence the likely size of its balance sheet in the medium term, including through engagement with market participants.

49 The Bank would also need to decide on the mix of assets to hold in the longer term to back its liabilities. The Bank could choose either to hold assets such as gilts, or repo operations, or some combination of the two. The Bank had made clear an intention prior to the crisis to back a portion of notes demand with gilts. More broadly, the size and composition of the Bank's balance sheet would be determined by private demand for reserves under the floor system, what is needed to support efficient market functioning, and the forthcoming financial arrangement between the Bank and HM Treasury under the Memorandum of Understanding to be published later today.

The MPC's vote

50 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 sterling non-financial investment-grade corporate bonds, financed by the issuance of central bank reserves, at £10 billion;

The Bank of England should maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion;

The Committee intends not to reduce the current stock of purchased assets until Bank Rate reaches around 1.5%.

Regarding Bank Rate, six members of the Committee (the Governor, Ben Broadbent, Jon Cunliffe, Dave Ramsden, Silvana Tenreyro and Gertjan Vlieghe) voted in favour of the proposition. Three members (Andrew Haldane, Ian McCafferty and Michael Saunders) 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 second, third and fourth propositions.

Consistent with the Committee's forward guidance, and as described in the market notice accompanying these minutes, the Committee agreed to reinvest £2.9 billion of cash flows associated with the redemptions of the July 2018 gilt held by the Asset Purchase Facility.

51 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
Dave Ramsden, Deputy Governor responsible for markets and banking
Andrew Haldane
Ian McCafferty
Michael Saunders
Silvana Tenreyro
Gertjan Vlieghe

Clare Lombardelli was present as the Treasury representative.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Dido Harding was also present on 14 June as an observer for the purposes of exercising oversight functions in her role as a member of the Bank's Court of Directors.