BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 16 December 2020

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These are the minutes of the Monetary Policy Committee meeting ending on 16 December 2020.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/december-2020.

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 3 February will be published on 4 February 2021.

Monetary Policy Summary, December 2020

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 16 December 2020, the Committee judged that the existing stance of monetary policy remains appropriate. The MPC voted unanimously to maintain Bank Rate at 0.1%. The Committee voted unanimously for the Bank of England to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion. The Committee voted unanimously for the Bank of England to continue with the programme of £100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and also to commence the previously announced programme of £150 billion of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these government bond purchases at £875 billion and so the total target stock of asset purchases at £895 billion.

The MPC's central projections in the November *Monetary Policy Report* assumed that the pandemic would weigh on near-term spending to a greater extent than projected in the August *Report*, given new restrictions announced in October in response to rising virus cases. They were also conditioned on the assumption that the United Kingdom, after leaving the Single Market and Customs Union on 1 January 2021, moved immediately to a free trade agreement with the European Union. Conditional on those assumptions, UK GDP was projected to decline in 2020 Q4, and then pick up as restrictions were assumed to loosen. Nonetheless, the unemployment rate was projected to rise markedly, consistent with a material degree of spare capacity, before declining gradually. Conditioned on prevailing market yields, CPI inflation was expected to be around 2% in two years' time.

The main news since the November *Report* has been the successful trialling of some Covid vaccines and initial plans to roll them out widely over the first half of next year. This is likely to reduce the downside risks to the economic outlook from Covid previously identified by the Committee. Financial markets worldwide, and some surveys of businesses and consumers, have reacted positively to these developments which are likely to support future UK and global activity.

Nevertheless, recent global activity has been affected by the increase in Covid cases and associated re-imposition of restrictions. UK-weighted global GDP growth in 2020 Q4 is likely to be a little weaker than expected at the time of the November *Report*.

The near-term UK outlook has evolved broadly in line with the Committee's expectations in the November *Report*. UK GDP grew by 0.4% in October, leaving it 8% below its level in 2019 Q4. Activity has been stronger than expected, despite the recent rise in Covid cases and associated lockdowns. Nevertheless, the restrictions on activity introduced after those lockdowns have been tighter than the Committee had assumed in its November forecast, and are expected to weigh more on activity in 2021 Q1. The successful rollout of vaccines should support the gradual removal of restrictions and rebound in activity that was assumed in the November *Report*, although it is less clear how this prospect will affect the immediate economic behaviour of households and businesses. The additional fiscal measures in *Spending Review 2020* are likely to boost GDP by an estimated peak of over 1% during 2021-22.

Developments in the labour market have remained difficult to interpret. The LFS unemployment rate rose to 4.9% in the three months to October, but other indicators suggest that labour market slack has increased by more than implied by this measure. The extension of the government's employment support schemes is likely to limit significantly the near-term rise in unemployment, although a substantial further increase is still likely over the next few quarters.

Twelve-month CPI inflation fell to 0.3% in November, from 0.7% in October, triggering the exchange of open letters between the Governor and the Chancellor published alongside this monetary policy announcement. The weakness of recent outturns largely reflects the direct and indirect effects of Covid on the economy. CPI inflation is expected to rise quite sharply towards the target in the spring, as the VAT cut comes to an end and the large fall in energy prices earlier this year drops out of the annual comparison.

The outlook for the economy remains unusually uncertain. It depends on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It will also depend on the responses of households, businesses and financial markets to these developments.

The MPC will continue to monitor the situation closely. If the outlook for inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

At this meeting, the Committee judged that the existing stance of monetary policy remains appropriate.

Minutes of the Monetary Policy Committee meeting ending on 16 December 2020

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

The international economy

2 The recent increase in Covid cases, and the associated re-imposition of some restrictions on economic activity, had weighed on activity in the euro area and, to a lesser extent, in the United States. UK-weighted global GDP growth in 2020 Q4 was likely to be a little weaker than expected at the time of the November *Monetary Policy Report*, although high-frequency indicators had suggested that virus cases and associated restrictions had had a less severe impact than during the earlier period. Covid vaccine trials had delivered positive results, but it would take time for vaccines to be rolled out fully.

3 According to the third release, euro-area GDP had risen by 12.5% in 2020 Q3, 0.2 percentage points below the flash estimate included in the November *Report*, leaving its level almost 4.5% lower than in 2019 Q4. In the largest euro-area economies, Covid cases had risen sharply, particularly in October. Countries had imposed progressively tighter restrictions through the autumn, and cases had generally been declining through the latter half of November. Most recently, Germany and the Netherlands had imposed significant new restrictions, however. The economic effect of such restrictions, coupled with the impact of voluntary social distancing, was likely to weigh on euro-area activity in Q4. Mobility indices had fallen in October and November, especially in France and Italy, and internet searches related to social spending had also declined. Having recovered its February 2020 level by July, the euro-area services activity PMI had since dropped to 47.3 in the December flash release. In contrast, the manufacturing output PMI in December had risen and remained well above its February level, at 56.6. Overall, indicators pointed to a fall in euro-area activity in Q4, weaker than expected in the November *Report*.

4 Despite this renewed weakness in activity, the euro-area unemployment rate, at 8.4% in October, had been only 1 percentage point above its 2019 Q4 level. Unemployment had risen by materially less over the course of 2020 than would typically have been implied by the weakness of output, largely reflecting the impact of government employment support schemes.

5 US GDP growth had been unrevised at 7.4% in 2020 Q3, according to the second estimate, leaving the level of output around 3.5% lower than in 2019 Q4. Indicators suggested that US GDP growth had slowed sharply in 2020 Q4, but had remained positive and was likely to be a little stronger than expected at the time of the November *Report*. Mobility had declined by much less than in the euro area, consistent with less stringent restrictions. Similarly, the non-manufacturing output PMI had fallen by materially less than its euro-area equivalent. Monthly consumption data to October and high-frequency card spending data to December were consistent with household spending having slowed in Q4 but remaining resilient. New Covid cases had started

rising sharply again from early December in most US states. More stringent restrictions had already been introduced in a few states in response, and there was a risk that further restrictions might need to be imposed.

6 The US labour market had continued to recover, although more slowly than in the summer. The unemployment rate had fallen further in November, to 6.7%, compared with a peak of 14.7% in April. Non-farm payrolls had risen by 245,000, somewhat below market expectations. The MPC's November *Report* projections were conditioned on a new fiscal support package taking effect from 2021 Q1.

7 China's economic recovery had continued into the fourth quarter. Industrial production and services output had both increased in November on a year earlier, by 7.0% and 8.0% respectively, while retail sales growth had continued to narrow the gap with industrial growth, rising further to 5.0% on a year earlier. Recent data suggested that Chinese GDP in 2020 Q4 would be significantly above its 2019 Q4 level, having already exceeded that level by 3% in 2020 Q3, according to the National Bureau of Statistics. Nevertheless, the level of activity was likely to be a little lower than pre-Covid expectations, such as those incorporated in the January *Report.*

8 In other emerging market economies, activity had continued to recover, albeit at a slower pace than in the summer. The average manufacturing PMI across seven large emerging market economies had fallen slightly in November to 53.3, but that had nevertheless represented the fourth consecutive month that the index had been above the 50 no-change mark. Developments in new Covid cases had differed across regions. Confirmed cases had been rising sharply in Russia and Turkey, for example, and as a result these countries had re-imposed restrictions in recent weeks, while cases had been falling in India.

9 The Brent spot oil price was \$50 per barrel, around \$11 per barrel higher than at the time of the MPC's previous meeting, and primarily reflecting the impact of the positive vaccine news on perceptions of future global demand. Oil prices had also been boosted a little by the Organization of the Petroleum Exporting Countries and partner countries' (OPEC+) decision to increase oil production more gradually than previously planned from January 2021.

10 The recent divergence in consumer inflation rates across the United States and euro area had persisted. In the euro area, the twelve-month headline and core HICP inflation rates had remained unchanged at very low levels in November, according to the flash estimate, at -0.3% and 0.2% respectively. In the United States, annual headline and core PCE inflation had ticked down a little in October, to 1.2% and 1.4% respectively.

Monetary and financial conditions

11 Since the November MPC meeting, positive Covid vaccine news, and the removal of uncertainty around the result of the US presidential election, had pushed global risky asset prices up significantly. UK asset price movements had also reflected developments in trade negotiations between the United Kingdom and the European Union.

12 Equity prices had picked up sharply across major advanced and emerging economies, and high-yield and investment-grade corporate bond spreads had fallen materially, both of which had been large movements by historical standards. The increase in equity prices had been most pronounced in the euro area and the United Kingdom, two economies perceived to have suffered particularly badly from the effects of Covid. It had also been somewhat more pronounced for sectors that had been particularly affected by the crisis, such as airlines, and travel and leisure companies.

13 The recent recovery in equity prices was estimated to have been accounted for mainly by falls in equity risk premia. Analysts' expectations of corporate earnings in both 2021 and 2022 had changed only slightly, although these measures had tended in the past to adjust to news with a lag. Market tail risks had narrowed, with options prices suggesting that the compensation demanded by investors for the risk of a sharp fall in equity prices over the next six months had fallen. There were nevertheless some signs of continued investor caution. Although measures of equity market implied volatility, such as the VIX, had fallen back, they had remained historically elevated.

14 Since the MPC's previous meeting, US and euro-area government bond yields had been little changed, in contrast to the larger moves in risky asset prices. There had also been material rises in market measures of inflation expectations in both the United States and the euro area. This suggested that markets had taken on board central bank guidance that policy would continue to remain accommodative. At its meeting on 5 November, the Federal Open Market Committee had left unchanged its target range for the federal funds rate and the pace of asset purchases. At its meeting on 10 December, the ECB Governing Council had announced a package of measures including an increase in the envelope of its pandemic emergency purchase programme (PEPP) by €500 billion, an extension of the PEPP's horizon to at least the end of March 2022, and a recalibration of the conditions of the third series of targeted longer-term refinancing operations, including three additional operations in 2021. These announcements were broadly in line with prior market expectations.

15 In the United Kingdom, the market-implied path for Bank Rate had ended the period little changed relative to the November MPC meeting. The trough of the Overnight Index Swap curve now implied a reduction in Bank Rate of around 10 basis points by the first half of 2022. Ten-year government bond yields had ended the period little changed relative to the time of the MPC's previous meeting. Market contacts did not expect the MPC to announce any change to Bank Rate or to its asset purchase programme at this meeting.

16 Medium-term measures of UK inflation compensation, such as the five-year inflation swap rate, five years forward, had ended the period little changed relative to the November *Report.* But that measure had fallen sharply following the announcement on 9 November that the government and the UK Statistics Authority would publish the response to their joint consultation on the timing of the reform to the RPI alongside *Spending Review 2020* on 25 November. It had then picked up again after that announcement. This reflected some initial expectations that the transition might take place in 2025, reversed by the confirmation that it would in fact occur no earlier than February 2030.

17 The sterling effective exchange rate index had ended the period little changed relative to the time of the MPC's previous meeting. Measures of near-term uncertainty around the outlook for the exchange rate, such as

sterling-US dollar option-implied volatilities over the next month, had increased a little since the November MPC meeting, and were more elevated than in the run-up to some previous Brexit deadlines.

18 Mortgage credit conditions had been broadly stable in November, with some signs of easing in recent weeks. Quoted rates on new fixed-rate mortgages had appeared to level off in November, and there had been small falls in some rates during November. This had been particularly apparent at lower loan-to-value ratios (LTVs). At higher LTVs, there had been some signs of increased product availability. Despite the recent stabilisation in credit conditions, mortgage spreads had remained materially higher than at the start of the year. The Committee had discussed previously two possible explanations in particular for this tightening, namely the interaction of very strong demand for new loans with operational constraints in the mortgage market, and higher borrower credit risk.

19 Household secured net borrowing had been £4.3 billion in October, strong relative to most months earlier in 2020. In contrast, the net flow of consumer credit had been slightly negative again in October, with positive net car finance borrowing more than offset by larger net repayments on other consumer credit. Total net finance raised by corporates had been broadly flat, with strong capital market issuance largely offset by net repayments of loans. Net bank lending to small and medium-sized enterprises had continued to rise strongly, however.

Demand, output, money and credit

20 According to the ONS's first quarterly estimate, UK GDP had risen by 15.5% in 2020 Q3, leaving the level of real activity around 10% lower than it had been in 2019 Q4. Government expenditure had been in line with the MPC's expectations at the time of the November *Monetary Policy Report*, at around 8% below its 2019 Q4 level. While headline GDP growth had been broadly in line with expectations, private consumption had been materially lower and remained 13% below its level in 2019 Q4. Within this, the weakness in consumer goods consumption, at 4% below its 2019 Q4 level, had been significantly more pronounced than had been implied by the comparable retail sales and car sales data. Consumer services consumption had remained particularly weak, at 17% below its 2019 Q4 level. The Quarterly National Accounts, to be released on 22 December, would provide more detail about these different consumption components. Business investment growth of 8.8% had been stronger than expectations, but its level had remained around 20% lower than in 2019 Q4.

21 Covid cases had picked up further and restrictions had tightened across the United Kingdom. The England-wide national lockdown had ended on 2 December, and regional tiered restrictions had been reintroduced. These restrictions were more widespread and stricter than in the period preceding the lockdown, and had included Greater London, which accounted for nearly a quarter of UK gross value added, entering the highest tier of restrictions on 16 December. Two weeks of heightened restrictions in Northern Ireland had been eased on 11 December. Covid cases in Wales had increased following the end of the firebreak on 9 November, and further limits on the closing time for hospitality venues and the sale of alcohol had been introduced on 4 December. Scotland had continued to be subject to the five-level system of restrictions, and there had been some increase in the average level of restrictions.

22 According to the latest monthly estimate, UK GDP had risen by 0.4% in October, in line with the external market consensus but significantly above expectations at the time of the November *Report*. It had been 8% below its 2019 Q4 level. The data had shown increases on the month in the output of government services, production and construction. That had left the level of output in those three sectors 11%, 5% and 8% below their 2019 Q4 levels respectively. Private non-distributive services, at 10% below its 2019 Q4 level, had seen a drag from lower accommodation and food services output in October. For 2020 Q4 as a whole, Bank staff now expected GDP to contract by a little over 1%, taking it to 11% below its level in 2019 Q4, broadly in line with expectations in the November *Report*.

23 While household consumption appeared to have fallen in November, that decline looked likely to have been less than expected at the time of the latest *Monetary Policy Report*, and much less than during the lockdown earlier in the year. Intelligence from the Bank's Agents and the British Retail Consortium's retail sales data suggested that in-store spending in particular had fallen by less than expected, perhaps reflecting lower consumer caution and greater firm preparedness than during the earlier lockdown. For example, the Agents had reported that there had been greater online capacity and a larger number of stores had remained open, including for the collection of online orders.

24 GDP growth in December was now expected to be weaker than at the time of the November *Report*. The forecast had been conditioned on an assumption that following the end of the England-wide lockdown and for the United Kingdom as a whole, the average level of restrictions prevailing in mid-October would take effect for the remainder of 2020 Q4. The government had announced a higher average level of restrictions in England, as well as stricter restrictions on hospitality within each tier, in response to rising virus cases. This was likely to weigh on social consumption in December, with the Bank's Agents reporting that Christmas bookings for hospitality venues had been significantly lower than in previous years, even before the announcement of additional restrictions. There had continued to be some positive offset from delayable consumption, for example from spending on technology, DIY and furniture, but other sectors, such as fashion and beauty, had remained particularly weak.

25 Some categories of consumer goods spending would be supported by the resilience of the housing market. There was uncertainty over how long that strength would persist. Residential property transactions had reached their highest levels since March 2016 in October and mortgage approvals for house purchase their highest since 2007, following significant weakness earlier in the year. House prices on a variety of measures had increased further on the month. However, the housing market was being supported by transitory factors, including the release of pent-up demand from the spring and by the temporary increase in the Stamp Duty threshold in England and Northern Ireland, and similar measures in Scotland and Wales. The Bank's Agents had reported early signs of the market slowing.

26 Since the November *Report*, the Government had announced its *Spending Review 2020*, including significant further Covid-related spending for fiscal years 2020-21 and 2021-22. This had included spending on the NHS and related public services, furlough and income support schemes, as well as support for businesses. Bank staff estimates suggested that this could support GDP by over 1% during 2021-22.

27 Companies in the Decision Maker Panel (DMP) had reported a small fall in uncertainty over November, but levels remained elevated, with Covid cited as the largest source of uncertainty for 44% of businesses. Positive news of vaccine efficacy and deployment might have contributed to improved sentiment. While companies in the November DMP still expected the consequences of Covid to weigh over the first half of 2021, they had revised up sales and employment expectations for this period. Expectations for business investment had remained weak, however, with respondents indicating that spending would be 25% lower in 2020 Q4 than it would have otherwise been on account of Covid. The nature of future UK-EU trading arrangements had been cited by around half of firms as one of the top three sources of uncertainty.

28 Evidence from the Bank's Agents suggested that preparations had continued for the introduction of new trading arrangements with the European Union from 1 January 2021. Results from the DMP Survey suggested that around 70% of businesses that trade with the EU were fully prepared, or as ready as they could be, for the end of the transition period. However, some businesses were not yet ready and a significant minority of Agents' contacts, mostly but not exclusively small and medium-sized enterprises, did not know if they would be sufficiently ready for changes in trading arrangements with the EU. Furthermore, businesses had concerns about factors beyond their control, such as the resilience of supply chains and disruption at ports. Many companies had also suggested that they would need to engage in further preparations before the end of the year, with small firms reporting the most still to be done. A number of contacts had said that their preparations had been hindered by challenges relating to Covid. Despite these preparations, most companies had expected significant short-run disruption. Recent congestion at ports, reflecting the consequences of asynchronous moves in global activity and a build-up of empty shipping containers in the United Kingdom, could compound the risk of short-term disruption emerging after 1 January 2021.

Supply, costs and prices

29 The LFS unemployment rate had risen to 4.9% in the three months to October and it remained likely that labour market slack had increased to a greater extent than implied by this measure. The number of people reporting redundancy in the three months prior to interview had reached a record high in the three months to October. LFS employment had fallen by 0.4% in the three months to October, with that decline more than accounted for by the weakness in self-employment. The number of LFS employees had risen by 39,000 over this period and also by 26,000 since the onset of the pandemic. In marked contrast, HMRC employee numbers had fallen by around 770,000 since February, while the ONS's Workforce Jobs-based estimate of employees, derived from a survey of employers, had shown a 680,000 fall in 2020 Q3 relative to Q1. There was increasing evidence that those workers who had moved from unemployment to inactivity during the early stages of the pandemic had now resumed their search for a job. The average number of hours worked had increased further in the three months to October, but remained well below its 2019 Q4 level.

30 On 5 November, the Government had announced that the Coronavirus Job Retention Scheme (CJRS) would be extended until the end of March, with employees receiving 80% of their current salary for hours not worked. Support through the Self-Employment Income Support Scheme had also been increased, with the third grant covering November to January calculated at 80% of average trading profits, up to a maximum of £7,500.

Taken in isolation, these announcements were consistent with a lower path for unemployment through the winter compared with the profile in the November *Report*, while providing material additional support to household incomes. According to the latest ONS Business Impact of Covid-19 Survey, the preliminary estimate of the number of private sector employees using the CJRS had risen to 3.4 million employees over the month of November, somewhat lower than had been assumed in the November *Report*.

31 Other timely labour market news had been mixed since the Committee's previous meeting. The number of potential redundancies identified through HR1 notifications had continued to fall through much of November, although a degree of uncertainty surrounded these estimates. Employment intentions across a range of measures had remained materially below historical averages, despite recent rises. The stock of job vacancies had continued to recover but had remained well below levels at the start of the year, indicating continuing weakness in labour demand.

32 Private-sector regular Average Weekly Earnings (AWE) had risen by 2.4% in the three months to October compared to a year earlier, stronger than expected in the November *Report*. Part of the recent increase in earnings growth was likely to have reflected some employees previously on the CJRS returning to work, as well as compositional effects from the sectoral skew of employment losses towards industries with lower-paid employees. On an underlying basis, pay growth appeared closer to zero over the past few months. That was consistent with other indicators such as business surveys. The Bank's Agents had continued to report widespread cases of pay being frozen or settlements deferred, and most contacts had expected pay growth to be restrained in 2021. In its *Spending Review 2020*, the Government had announced a temporary pause in headline pay awards for some public-sector workers in 2021-22.

33 Twelve-month CPI inflation had fallen to 0.3% in November from 0.7% in October, with core CPI inflation, excluding energy, food, beverages and tobacco, declining from 1.5% to 1.1%. Both of these measures had continued to be depressed by the temporary reduction in the VAT rate for hospitality, holiday accommodation and attractions. Acting in the other direction, second-hand car prices had risen strongly recently, reflecting an increase in demand during the pandemic and tight supply conditions in that market. Bank staff expected CPI inflation to be at or slightly above ½% during the rest of the winter. Headline inflation was then projected to rise quite sharply in the spring, to 1½%, or slightly above, as the VAT cut came to an end and the large fall in energy prices earlier this year dropped out of the annual comparison.

34 The Committee discussed recent inflation developments. Compared to the projections in the August *Report*, CPI inflation had generally surprised to the upside over recent months, although it had remained very weak in an absolute sense and some indicators of pricing intentions from business surveys had also remained depressed. While core CPI inflation had fallen in November, it had not been noticeably lower compared with its level at the start of the year, after adjusting for the estimated impact of the temporary VAT reduction, unlike in some other countries.

35 One-year ahead household inflation expectations in the November Citi/YouGov survey had reached a nine-year high, while five to ten-year ahead expectations had remained elevated. In contrast, the Bank/Kantar

one-year and five-year ahead measures had remained below their longer-run averages, although the recent changes in methodology had made historical comparisons more difficult.

The immediate policy decision

36 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

37 The MPC's central projections in the November *Monetary Policy Report* had assumed that the pandemic would weigh on near-term spending to a greater extent than projected in the August *Report*, given new restrictions announced in October in response to rising virus cases. They had also been conditioned on the assumption that the United Kingdom, after leaving the Single Market and Customs Union on 1 January 2021, moved immediately to a free trade agreement with the European Union. Conditional on those assumptions, UK GDP was projected to decline in 2020 Q4, and then pick up as restrictions were assumed to loosen, though the level of activity in the first quarter of 2021 was expected to remain materially lower than in 2019 Q4. Over the remainder of the forecast period, GDP was projected to recover further as the direct impact of Covid on the economy began to wane, and as activity was supported by the substantial fiscal measures already announced and accommodative monetary policy. Nonetheless, the unemployment rate was projected to rise markedly, consistent with a material degree of spare capacity, before declining gradually. Conditioned on prevailing market yields, CPI inflation was expected to be around 2% in two years' time.

38 The Committee reviewed recent developments, including the extent to which they had been in line with the projections in the November *Report*.

39 Financial markets worldwide had reacted positively to the news on Covid vaccines, and also to a reduction in uncertainty surrounding the result of the US presidential election. Equity prices had picked up sharply across major advanced and emerging economies. These movements had been large by historical standards, and were estimated to have been accounted for mainly by falls in equity risk premia, although there were nevertheless some signs of continued investor caution. UK asset price movements had also reflected developments in trade negotiations between the United Kingdom and the European Union.

40 As of 16 December, the total stock of assets held in the Asset Purchase Facility had reached £743 billion, an increase of £299 billion as part of the combined £300 billion programmes of asset purchases announced on 19 March and 18 June. Within that increase, £10 billion of sterling non-financial investment-grade corporate bonds had been purchased since March, and the remainder was UK government bonds.

41 The Committee discussed the case for a six-month extension of the Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME). The extension would cover both the Drawdown Period and Reference Period of the scheme. Consistent with the original objectives of the scheme, as set out at the announcement of its introduction in March 2020, this would ensure that the TFSME could continue to support, and provide an incentive for, lending to the real economy, and provide insurance against adverse movements in funding conditions.

42 Recent global activity had been affected by the increase in Covid cases and associated re-imposition of restrictions. In the near term, UK-weighted global GDP growth was likely to be a little weaker than had been expected at the time of the November *Report*.

43 The positive news on vaccine trials, and plans for widespread rollout, were likely to support future UK and global activity. This would be expected to reduce uncertainty about the path of the economy, supporting future spending by households and companies. Financial market movements, and some surveys of businesses and households, had been broadly consistent with this interpretation. Vaccination programmes across countries would take time to roll out, which would affect the timing of the lifting of restrictions.

44 The Committee discussed possible reasons why the impact of the pandemic on economic activity in the United Kingdom had, to date, appeared to have been greater than in the United States and most large euro-area countries. Differences in economic experiences across countries had depended substantially on the prevalence of the virus. The relative weakness in UK activity was in part related to differences in the measurement of health and education services across countries. UK household spending had also appeared to be weaker than elsewhere, although there was uncertainty about the extent to which this was the case, given the disparity between the official data on consumer goods consumption and retail sales. It appeared that UK household spending on social activities such as entertainment, hospitality and tourism had fallen to a greater extent than elsewhere, which looked to have been related to weaker mobility indicators and possibly a more cautious response to infection risk. Mobility had recovered more slowly following the first wave of the pandemic, and to a lesser extent than in other countries. UK workers appeared to have returned more slowly to workplaces than in major euro-area countries. It was unclear as yet to what degree this had reflected individuals' preferences, different approaches across sectors to working from home, or reliance on public transport to travel to work which was particularly pronounced in London.

45 UK household consumption in 2020 Q3 had been materially weaker than had been suggested by other indicators, such as retail sales and car sales. In November, consumption appeared to have been more resilient than during the earlier lockdown period, with indicators suggesting that in-store spending had fallen by less than expected. In December, though, a higher-than-expected average level of restrictions in response to the rise in Covid cases would tend to weigh on activity, particularly on social consumption.

46 Business investment in 2020 Q3 had been stronger than expected, but had remained 20% below its 2019 Q4 level. The Decision Maker Panel suggested that investment intentions had remained weak on account of both Covid and UK-EU trade uncertainties. The Bank's Agents had reported that some businesses were investing to adapt to changes in the business environment caused by the pandemic.

47 Overall, the near-term UK outlook had evolved broadly in line with the Committee's expectations in the November *Report*. UK GDP had grown by 0.4% in October, leaving it 8% below its level in 2019 Q4. Bank staff's central expectation was for GDP to contract by a little over 1% in 2020 Q4 as a whole. Activity had been stronger than expected, despite the recent rise in Covid cases and associated lockdowns. Nevertheless, the restrictions on activity introduced after those lockdowns had been tighter than the Committee had assumed in its November forecast, and were expected to weigh more on activity in 2021 Q1. The successful rollout of

vaccines should support the gradual removal of restrictions and rebound in activity that was assumed in the November *Report*, although it was less clear how this prospect would affect the immediate economic behaviour of households and businesses.

48 UK trade and GDP were judged likely to be adversely affected as the United Kingdom adjusted to new trading arrangements with the European Union. Recent evidence from the Bank's Agents suggested that a significant minority of businesses, particularly smaller firms, might not be fully prepared for changes in trading arrangements with the EU from 1 January 2021. At least some short-term disruption appeared likely.

49 Bank staff estimated that the additional fiscal measures in *Spending Review 2020* were likely to boost GDP by an estimated peak of over 1% during 2021-22.

50 Developments in the labour market had remained difficult to interpret. The LFS unemployment rate had risen to 4.9% in the three months to October, but other indicators suggested that labour market slack had increased by more than implied by this measure. The extension of the government's employment support schemes was likely to limit significantly the near-term rise in unemployment, although a substantial further increase was still likely over the next few quarters.

51 Twelve-month CPI inflation had fallen to 0.3% in November, from 0.7% in October, triggering the exchange of open letters between the Governor and the Chancellor published alongside this monetary policy announcement. The weakness of recent outturns largely reflected the direct and indirect effects of Covid on the economy, including the temporary impact of lower energy prices and the reduction in VAT, as well as some downward pressure from spare capacity. CPI inflation was expected to rise quite sharply towards the target in the spring, as the VAT cut came to an end and the large fall in energy prices earlier this year dropped out of the annual comparison.

52 The Committee turned to its immediate policy decision.

53 The outlook for the economy remained unusually uncertain. It depended on the evolution of the pandemic and measures taken to protect public health, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It would also depend on the responses of households, businesses and financial markets to these developments.

54 The appropriate path of monetary policy would depend in part on the balance of the effects of the United Kingdom's new trading arrangements with the European Union on demand, supply and the exchange rate. In the event that those trade negotiations did not reach an agreement, the exchange rate would probably fall and, relative to the projections in the November *Report*, CPI inflation would be likely to be higher and GDP growth weaker. Compared with previous periods during which non-negotiated Brexit outcomes had been possible, the economy was starting from a weaker position with greater spare capacity, increasing the Committee's tolerance for a temporary overshoot in inflation. It would be important to ensure that medium-term inflation expectations remained well anchored.

55 The near-term UK outlook had evolved broadly in line with the Committee's expectations in the November *Report*. The main news had been the successful trialling of some Covid vaccines and initial plans to roll them out widely over the first half of next year. This was likely to reduce the downside risks to the economic outlook from Covid previously identified by the Committee. It could also diminish the uncertainties facing businesses and households, boosting future UK and global activity. Nevertheless, it was not yet clear by how much this news would affect economic prospects, and there was a range of views on these issues across different MPC members.

56 In the next few months, the anticipation of an effective vaccine rollout could affect the economic behaviour of businesses and households in different ways. For instance, although there would probably be a pickup in confidence, there could still be caution in spending decisions among some households ahead of the full rollout of vaccines. Some consumers might postpone social spending until they were vaccinated, which could weigh on activity in 2021 Q1, while others might choose to bring spending forward, which might affect near-term virus dynamics.

57 Further ahead, the planned rollout of effective vaccines would be expected to have a positive impact on activity and inflation. Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case. This reflected in turn their assessment of the outlook for the main components of GDP.

58 The prospects for aggregate private consumption would depend principally on the outlook for the labour market and households' saving behaviour, as well as the degree of substitution between different types of consumption. Hiring intentions and vacancies had picked up somewhat but remained weak, and there continued to be a significant risk of a more persistent period of elevated unemployment.

59 The aggregate stock of household saving had increased sharply since the onset of the pandemic. Within that aggregate pattern, some households, especially those at the lower part of the income distribution, had seen their savings fall. Among households whose savings had risen, the increase in perceived risks might motivate some to maintain a persistent increase in their precautionary saving. For others, the increase in savings had been involuntary, the consequence of restrictions on social activities, and they could subsequently choose to run down savings to finance consumption. It was unclear how soon, and to what extent, those who had accumulated the largest stocks of excess saving would choose to spend them.

60 The rollout of vaccines and a consequent lifting of restrictions would reduce uncertainty about future demand and improve the prospects for businesses' continued viability, while higher equity prices would reduce the cost of capital, all of which could support capital spending. But some companies might prioritise balance sheet repair, and there could be a permanently lower level of demand for certain types of goods and services, which could weigh on investment in those sectors. Moreover, uncertainties related to the UK-EU trade negotiations had remained elevated.

61 At its previous meeting, the Committee had agreed an increase in the target stock of purchased UK government bonds. Risk management considerations had implied that policy should lean strongly against downside risks to the outlook, to support the economy and to help to ensure that weakness in the economy was

not amplified by a tightening in monetary conditions that could slow the return of inflation to the target. These considerations still applied.

62 At this meeting, all members of the Committee judged that the existing stance of monetary policy remained appropriate.

63 The MPC would continue to monitor the situation closely. If the outlook for inflation weakened, the Committee stood ready to take whatever additional action was necessary to achieve its remit. The Committee did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

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

> Bank Rate should be maintained at 0.1%;
>
> The Bank of England should maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £20 billion;
>
> The Bank of England should continue with the programme of £100 billion of UK government bond purchases, financed by the issuance of central bank reserves, and the Bank of England should also commence the previously announced programme of £150 billion of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at £875 billion.

The Committee voted unanimously in favour of all of the propositions.

65 At the November MPC meeting, the Committee had agreed to increase the target stock of purchased UK government bonds by £150 billion. The Committee continued to expect this programme of purchases to start in January and to be completed by around the end of 2021. The Committee envisaged that the pace of purchases could remain at around its current level initially, with flexibility to slow the pace of purchases later. Further details of the planned operational approach to gilt purchases from January until the February *Monetary Policy Report* were set out in the Market Notice accompanying these minutes. Should market functioning worsen materially again, the Bank of England stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy.

66 In addition, and as described in the same Market Notice, the Committee agreed to reinvest £7.0bn of cash flows associated with the redemptions of the January 2021 gilt held by the APF.

67 The Committee would keep the asset purchase programme under review. If needed, there was scope for the Bank of England to re-evaluate the existing technical parameters of the gilt purchase programme.

68 The Committee agreed to a six-month extension to the TFSME. As described in a second Market Notice accompanying these minutes, the Drawdown Period would now run until 31 October 2021, extended from 30 April 2021.

69 The following members of the Committee were present:

Andrew Bailey, Chair
Ben Broadbent
Jon Cunliffe
Andrew Haldane
Jonathan Haskel
Dave Ramsden
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, Brad Fried was present on 14 December, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.