BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 3 February 2021

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These are the minutes of the Monetary Policy Committee meeting ending on 3 February 2021.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/february-2021.

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 17 March will be published on 18 March 2021.

Monetary Policy Summary, February 2021

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 3 February 2021, 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 its existing programme 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 Committee's projections for activity and inflation are set out in the accompanying February *Monetary Policy Report*. Covid-19 (Covid) vaccination programmes are under way in a number of countries, including the United Kingdom, which has improved the economic outlook. Nevertheless, recent UK and global activity has been affected by an increase in Covid cases, including from newly identified strains of the virus, and the associated reimposition of restrictions. The United Kingdom and European Union also announced a trade agreement, which has applied since 1 January 2021.

Global GDP growth slowed in 2020 Q4, as a rise in Covid cases and consequent restrictions to contain the spread of the virus weighed on economic activity. Since the MPC's previous meeting, financial markets have remained resilient.

UK GDP is expected to have risen a little in 2020 Q4 to a level around 8% lower than in 2019 Q4. This is materially stronger than expected in the November *Report*. While the scale and breadth of the Covid restrictions in place at present mean that they are expected to affect activity more than those in 2020 Q4, their impact is not expected to be as severe as in 2020 Q2, during the United Kingdom's first lockdown. GDP is expected to fall by around 4% in 2021 Q1, in contrast to expectations of a rise in the November *Report*.

Labour market indicators remain difficult to interpret. The LFS unemployment rate rose to 5.0% in the three months to November, but other indicators suggest that labour market slack has remained higher than implied by this measure. The Government's employment support schemes are likely to limit significantly the immediate rise in unemployment. A further increase in unemployment is projected over the next few quarters. Average Weekly Earnings growth has been notably stronger than expected in the November *Report*, although this may overstate underlying pay growth.

GDP is projected to recover rapidly towards pre-Covid levels over 2021, as the vaccination programme is assumed to lead to an easing of Covid-related restrictions and people's health concerns. Projected activity is also supported by the substantial fiscal and monetary policy actions already announced. Further out, the pace of GDP growth slows as the boost from these factors fades. Spare capacity in the economy is eliminated as activity picks up during 2021.

Twelve-month CPI inflation rose from 0.3% in November to 0.6% in December. 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 2% target in the spring, as the reduction in VAT for certain services comes to an end and given developments in energy prices. In the MPC's central projection, conditioned on the market path for interest rates, CPI inflation is projected to be close to 2% over the second and third years of the forecast period.

The outlook for the economy remains unusually uncertain. It depends on the evolution of the pandemic, measures taken to protect public health, and how households, businesses and financial markets respond 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 3 February 2021

1 Before turning to its immediate policy decision, and against the backdrop of its latest economic projections, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices.

The international economy

2 UK-weighted global GDP growth was expected to have slowed in 2020 Q4, as a rise in Covid-19 (Covid) cases and the consequent restrictions to contain the spread of the virus had weighed on economic activity. It was expected to slow further in 2021 Q1. Covid vaccination programmes were under way in a number of countries, which were expected to boost activity later this year by supporting the gradual removal of restrictions.

3 According to the preliminary flash estimate, euro-area GDP had fallen by 0.7% in 2020 Q4, somewhat stronger than expected, leaving its level around 5% lower than in 2019 Q4. The euro-area unemployment rate had remained stable in December. The level of the jobless rate was materially lower than would typically have been implied by the weakness of output, largely reflecting the impact of employment support schemes.

4 Economic activity in the euro area in the first quarter now appeared likely to be weaker than previously expected. The length and severity of restrictions had increased towards the end of December 2020. The pattern of Covid cases across larger euro-area countries had been mixed over January. New cases had risen sharply in Spain and Portugal and to a lesser extent in France. Cases had fallen back slightly in Germany and Italy in recent weeks. Mobility indices and internet searches related to social spending had remained weak in January, and the services and manufacturing PMIs had fallen slightly to 45.4 and 54.6 respectively.

5 Economic growth in the United States had been stronger than in the euro area. US GDP had increased by 1.0% in 2020 Q4, according to the advance estimate, following an increase of 7.5% in Q3. Nonetheless, the level of US output was around 2½% lower than in 2019 Q4. The recovery in the labour market had levelled off in 2020 Q4. The unemployment rate had remained unchanged in December, at 6.7%, and non-farm payrolls had fallen by 140,000, the first fall since April 2020, and well below market expectations. This had been due largely to an increase in job losses in sectors most affected by tighter Covid restrictions such as leisure and hospitality.

6 The United States had seen a sharp rise in Covid cases in 2020 Q4, but new cases had started to decline in January and restrictions had remained looser than in the euro area. US mobility indices had been higher than in a number of other countries, but had remained weak in early 2021. The non-manufacturing and manufacturing output PMIs had risen in December and high-frequency card spending data had continued to recover over recent weeks, pointing to continued growth in 2021 Q1. A new fiscal stimulus package worth around $900 billion had been passed in late December, and in January, President Biden had proposed a further $1.9 trillion package, although this had not yet been passed by Congress.

7 According to the National Bureau of Statistics, GDP in China had increased by 2.6% in 2020 Q4, leaving it 6.5% above its level in 2019 Q4. Economic activity data for December had highlighted continued strong growth in industrial production and service sector output, while retail sales had been below market expectations. The recovery had continued primarily to reflect industrial output and investment, with a slower pickup in consumption, although this divergence had been less pronounced than in the initial wake of the Covid outbreak. Official Chinese manufacturing and non-manufacturing PMIs had weakened in January, to 51.3 and 52.4 respectively, following further restrictions having been introduced to control local outbreaks.

8 In other emerging market economies, activity indicators had continued to suggest that growth was recovering gradually, although there was significant variation across countries. Covid cases had risen again in a number of regions, but tighter restrictions had generally not been reimposed.

9 The Brent spot oil price had risen to $57 per barrel, around $7 higher than at the time of the MPC's previous meeting, reflecting the impact of the positive vaccine news on perceptions of future global demand, and cold weather in Europe and Asia. Oil prices had also been boosted by the announcement that Saudi Arabia would cut oil production further in 2021 Q1. Non-oil commodity prices had risen on average by 7% since the MPC's previous meeting.

10 There had been a sharp rise in some shipping costs, which appeared to reflect a pickup in demand for shipping containers alongside a lack of availability of those containers in some parts of the world. If sustained, this could push up the prices of those goods that were imported to the United Kingdom in this way, especially bulky items for which shipping was a material cost.

11 In the euro area, the twelve-month headline and core HICP inflation rates had increased sharply in January, according to the flash estimate, to 0.9% and 1.4% respectively. In the United States, annual headline and core PCE inflation had ticked up a little in December, to 1.3% and 1.5% respectively.

Monetary and financial conditions

12 Since the MPC's December meeting, equity prices had picked up slightly across major advanced economies, following sharp increases in November. This had been particularly apparent in US markets, where there had been a notable increase in expected shareholder payouts, consistent with a stronger recovery in activity. High-yield and investment-grade corporate bond spreads had generally fallen further. Capital market issuance in 2021 to date had generally been higher than the historical average.

13 This strength in risky asset prices over recent months had been supported by expectations that monetary policy would continue to be accommodative as economies recovered. Short-term interest rates had accordingly remained low, in the United States and elsewhere. In particular, market participants judged that the Federal Reserve's previously announced move to a form of average inflation targeting would result in a looser policy stance for a given economic outlook over the next couple of years.

14 At its meeting on 21 January, the ECB Governing Council had left its key policy interest rates and operations unchanged. At its 27 January meeting, the Federal Open Market Committee had left unchanged its target range for the federal funds rate and the pace of asset purchases.

15 Longer-term government bond yields had generally increased somewhat, particularly in the United States, although less so in the United Kingdom. This had partly reflected expectations of a larger US fiscal support package, which had since been proposed, following election results that had confirmed the Democratic Party's control of the Senate. The pickup in US longer-term interest rates had been accounted for largely by higher inflation compensation. Although this steepening of the US yield curve, which had been mirrored to some extent elsewhere, had been noteworthy, longer-term rates had remained substantially lower than a year earlier. The US dollar effective exchange rate index had been fairly stable since the MPC's December meeting, having fallen by around 7% over the second half of 2020.

16 In the United Kingdom, there had been relatively little reaction in financial markets to the announcement on 24 December 2020 of a Trade and Co-operation Agreement (TCA) between the European Union and the United Kingdom, the terms of which had been largely in line with expectations of market contacts. The sterling effective exchange rate index had increased by around 2% since the December MPC meeting, reflecting positive news about the UK vaccination programme as well as a reduction in Brexit uncertainty. Indicators of near-term uncertainty around the outlook for the exchange rate, such as sterling-US dollar option-implied volatilities over the next month, had declined sharply and were no longer elevated relative to comparable measures for other advanced economies.

17 The near-term market-implied path for Bank Rate had fallen slightly since the December MPC meeting, and the trough of the Overnight Index Swap curve now implied a reduction in Bank Rate of around 10 basis points by mid-2022. Market contacts did not expect the MPC to announce any change to Bank Rate or to its asset purchase programme at this meeting.

18 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 MPC's previous meeting. These UK measures had also been fairly stable over the past year, contrasting with greater variability in their US counterparts. Two UK-specific factors had recently depressed the UK inflation curve at different horizons. First, at longer horizons, market pricing had adjusted following the publication of the response by HM Treasury and the UK Statistics Authority to the joint consultation on the timing of the reform to the RPI, which would occur no earlier than February 2030. Second, at shorter horizons, the recent agreement of the TCA had reduced the long-standing market perception of a risk of a sharp depreciation in sterling.

19 Mortgage credit conditions had been broadly stable since the MPC's December meeting. There had been signs of marginal easing at higher loan-to-value ratios, where product availability had increased further, although conditions remained significantly tighter than at the beginning of 2020. Lenders responding to the Bank of England's Q4 Credit Conditions Survey conducted in early December had reported that demand for secured lending for house purchase was expected to decline slightly in the period from December 2020 to February 2021 compared to the period from September to November 2020. This was likely to have reflected

the tightening in Covid restrictions and the imminent end of the temporary increase in the Stamp Duty threshold in England and Northern Ireland, and similar measures in Scotland and Wales. Nevertheless, the number of mortgage approvals for house purchase had remained high in December, such that the total for 2020 as a whole had been similar to that in recent years.

20 Household secured net borrowing had been £5.6 billion in December, in line with the strength of recent months, and largely accounted for by strong gross lending for house purchase. In contrast, the net flow of consumer credit had been slightly negative again in December, accounted for by repayments on credit cards and other forms of consumer credit, such as personal loans.

21 Total net finance raised by corporates had picked up slightly, to small positive levels in November and December, with strong equity market issuance alongside positive net lending. Net bank lending to small and medium-sized enterprises had fallen slightly following strength in recent months, but remained positive.

Demand and output

22 According to the latest monthly estimate, GDP had fallen by 2.6% in November 2020, to around 9% below its 2019 Q4 average. Consumer-facing services output had fallen sharply amid an England-wide national lockdown. Manufacturing and construction output had nevertheless continued to increase on the month, and declines in government and other services output had been more limited than anticipated.

23 Including upward revisions in the 2020 Q3 Quarterly National Accounts and upside news in the data for October, the shortfall in the level of monthly GDP in November 2020 relative to 2019 Q4 had been around 7 percentage points smaller than implied by the November *Monetary Policy Report* projection. Firms and households had continued to adapt to Covid-related restrictions, with more businesses remaining operational than in summer 2020.

24 A range of official and high-frequency indicators had suggested a modest rebound in activity in December as restrictions were eased during the month. Bank staff estimated that GDP had risen by around ½% in 2020 Q4, as a whole, relative to the previous quarter.

25 Over the fourth quarter of 2020, the number of Covid cases had risen further and restrictions had subsequently tightened in consequence across the United Kingdom around the turn of the year. An England-wide lockdown, including the closure of schools, had taken effect from 5 January. Similar measures had been in place in Wales since 20 December, and in Northern Ireland and most of Scotland since 26 December. Restrictions in Scotland had been tightened further on 4 January and 13 January, including the closure of non-essential click-and-collect services. The restrictions would remain in place until at least mid-February in Scotland and Wales, and early March in England and Northern Ireland. The Chancellor had announced, on 5 January, one-off top-up grants for retail, hospitality and leisure businesses worth up to £9,000, and a discretionary fund of around £600 million to support other impacted businesses. *Budget 2021* had been scheduled for 3 March.

26 The February *Report* projections assumed a 4% fall in GDP in 2021 Q1, leaving it around 12% below its 2019 Q4 level. The restrictions to date had been more broad-based across the United Kingdom, and tighter in some aspects, than in November 2020. The greater prevalence of the virus and stronger guidance to stay at home were expected to lead to greater consumer caution and so dampen spending further, while the closure of schools would reduce measured education output. High-frequency indicators, such as spending on cards and indicators of travel, had declined in recent weeks to below their levels in November. The proportion of businesses continuing to trade, as reported in the ONS Business Impact of Covid-19 Survey, had also fallen to below its November rate across most sectors of the economy, perhaps in part due to seasonal factors but also reflecting the more protracted nature of the restrictions.

27 The United Kingdom and European Union had announced a Trade and Co-operation Agreement on 24 December 2020, which had applied since 1 January 2021. The main features of that agreement had been similar to the assumptions made in the November 2020 *Report* projections, with some barriers to trade, including customs processes and some regulatory requirements, but, subject to rules of origin, no tariffs nor quantitative restrictions on goods traded between the two regions. Since the beginning of the year, available indicators and intelligence from the Bank's Agents' contacts suggested freight volumes had been weak, even taking into account the seasonal pattern of trade. That might have reflected firms using stocks they had accumulated ahead of the end of the transition period, or a reduction in demand related to Covid. But it might also have reflected some firms losing export orders or choosing not to trade in anticipation of potential delays at the border or as they prepared the necessary documentation. The percentage of firms in the Decision Maker Panel (DMP) citing Brexit as one of their top three sources of uncertainty had fallen only slightly in January, with little change among businesses in the goods sector, which had been more affected by new customs rules.

28 Surveys of investment intentions had firmed in recent months, but had remained historically weak. The overall degree of uncertainty, as reported by the DMP, had been broadly unchanged in January. Fewer businesses had been expecting Covid-induced uncertainty to be resolved by mid-2021, with a corresponding increase in those expecting such uncertainty to persist into 2022.

Supply, costs and prices

29 The Labour Force Survey (LFS) unemployment rate had risen to 5.0% in the three months to November, below the 5.8% rate that had been expected at the time of the November *Monetary Policy Report*. It was likely that the degree of slack in the labour market had remained higher than implied by this measure, however. LFS employment had fallen by 0.3% in the three months to November, with the LFS estimate of employees broadly flat over the same period and since the start of the pandemic. In contrast, HMRC employee numbers had fallen by over 800,000 between February and December 2020, and the ONS's Workforce Jobs-based estimate of employees had shown a similar fall to the HMRC data up to 2020 Q3. Average actual weekly hours worked had picked up to 30.1 in the three months to November from 27.3 in the three months to August, somewhat stronger than had been expected in the November *Report* but still below the average of around 32 hours during 2019.

30 One issue contributing to the difficulty in constructing survey-based estimates of employment was uncertainty around net migration, and hence the size of the population, during the pandemic. While the usual source for migration data had been suspended, other sources had suggested that the United Kingdom's foreign-born population might have fallen recently. Estimates of employment in the LFS might be overstated as a result, although to what extent was unclear, as this issue had also interacted with wider difficulties in sampling households during the pandemic. This should not have affected estimates of labour market proportions, such as the LFS unemployment rate, to the same extent, however.

31 On 17 December 2020, the Government had announced that the Coronavirus Job Retention Scheme (CJRS) would be extended until the end of April 2021. According to administrative data, just under 4 million employees had been covered by the scheme in December. The latest ONS Business Impact of Covid-19 Survey implied take-up had risen to just over 4½ million employees in the fortnight to 10 January, as greater restrictions had been reintroduced nationwide. That was slightly higher than the number of employees furloughed following the restrictions that had been put in place in November, but well below the peak recorded during the first national lockdown in spring 2020 of close to 9 million. The CJRS was providing particular support to workers in the hospitality and retail sectors.

32 Evidence from the Decision Maker Panel (DMP) suggested that employment expectations remained weak in the very near term, and higher-frequency data on online job advertisements had indicated that vacancies had fallen since early January. Companies in the DMP continued to expect an increase in employment in 2021 Q2 and Q3. Although companies' employment intentions as reported to the Bank's Agents had continued to point to lower headcount overall in twelve months' time, the balance of recent evidence had improved. Fewer respondents had said that they were planning redundancies, and a small but increasing number of firms were tentatively looking to hire in 2021 as demand improved.

33 Whole-economy total and private-sector regular Average Weekly Earnings (AWE) had risen by 3.6% and 3.4% respectively in the three months to November compared to a year earlier, both significantly stronger than the rates of around 1% that had been expected at the time of the November *Report*.

34 The Committee discussed how to interpret recent developments in pay and other labour costs, and what might have accounted for growth in AWE having been notably stronger than expected. Several factors made it harder than usual to extract an underlying signal from the AWE data. Earnings growth was being pulled down by the reduced pay of those employees who had been furloughed. Against this, pay growth was being pushed up by compositional effects from the fact that the jobs that had been lost during the pandemic had disproportionately been lower-paid. For 2020 Q3, it was now possible to construct estimates of the scale of these effects, with the latter slightly offsetting the former. That suggested that underlying annual pay growth had been just under 1% compared with the headline estimate of just under 1½% in Q3. For the fourth quarter, it was possible that compositional effects had boosted headline pay to a greater degree than in the third quarter, but that would account for only part of the rise in earnings growth observed in recent data. That could indicate that underlying pay growth had been more resilient than the Committee's assessment of wider economic conditions would typically imply, although earnings data were often noisy.

35 Alternative indicators of labour and other company costs had generally been weaker than the official AWE data. A special survey conducted by the Bank's Agents suggested that the average pay settlement was expected to fall to 2.2% in 2021, from a reported 2.5% in 2020. Survey respondents had also reported that their total input costs had fallen slightly in 2020, but there had been a greater fall in sales volumes such that unit costs had increased by around 5% in aggregate. Unit costs had increased to a greater degree for consumer services and construction businesses, which had experienced the greatest drop in sales volumes, while also incurring higher costs to ensure Covid safety than other sectors.

36 Twelve-month CPI inflation had risen from 0.3% in November to 0.6% in December, broadly in line with expectations prior to the release and at the time of the November *Report*. Core CPI inflation, excluding energy, food, beverages and tobacco, had also risen, from 1.1% to 1.4%. Both of these measures had continued to be depressed by the temporary reduction in the VAT rate for hospitality, holiday accommodation and attractions. The share of the CPI basket that was imputed had fallen from 17% in November to 4% in December, although this share would increase again in January due to the more stringent restrictions that had been introduced.

37 Bank staff expected headline CPI inflation to remain close to its current level in January and February, before picking up rapidly in March and April to reach over 1½%. This pickup was expected to largely reflect developments in energy prices, given large past declines in oil prices and utility price cuts dropping out of the annual comparison, as well as the impact of recent substantial increases in sterling oil and gas prices. The temporary reduction in VAT would also end in April, which was likely to boost CPI inflation slightly. Set against this, the annual update of CPI weights was expected to shift the CPI basket away from services and towards goods, and push down inflation slightly in coming quarters.

38 There had been little news on household and corporate inflation expectations. One-year ahead household inflation expectations in the January Citi/YouGov survey had fallen back, reversing the sharp increase in the December survey, while five to ten-year ahead expectations had been stable.

The immediate policy decision

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

40 Covid vaccination programmes were under way in a number of countries, including the United Kingdom, which had improved the economic outlook. Nevertheless, recent UK and global activity had been affected by an increase in Covid cases, including from newly identified strains of the virus, and the associated reimposition of restrictions. The United Kingdom and European Union had also announced a trade agreement, which had applied since 1 January 2021, the main features of which were similar to the assumptions made in the November 2020 *Monetary Policy Report*.

41 The Committee reviewed recent developments against that backdrop and in light of its latest projections for activity and inflation as set out in the accompanying February *Monetary Policy Report*.

42 UK-weighted world GDP growth was expected to have slowed in 2020 Q4, as a rise in Covid cases and consequent restrictions to contain the spread of the virus had weighed on economic activity. UK-weighted world GDP was projected to be broadly flat in 2021 Q1, as Covid-related restrictions continued to weigh on activity, before picking up over subsequent quarters as those restrictions were expected to ease. The recovery in global GDP continued to be supported by policy measures. Activity in the US was projected to recover relatively quickly, reflecting the comparatively rapid vaccination programme that was in prospect, as well as the impact of fiscal stimulus. In the euro area, activity was expected to be reduced by tighter restrictions at the start of the year and was projected to recover to pre-Covid levels a little later, partly reflecting the comparatively slower start to the vaccination programme.

43 Since the MPC's previous meeting, financial markets had remained resilient. The strength in risky asset prices over recent months had been supported by expectations that monetary policy would continue to be accommodative as economies recovered. Longer-term government bond yields had generally picked up somewhat, particularly in the United States, where that pickup had been accounted for largely by inflation compensation rising from relatively low levels in recent quarters.

44 As of 3 February 2021, the total stock of assets held in the Asset Purchase Facility had reached £759 billion, an increase of £14 billion as part of the £150 billion programme of UK government bond purchases announced on 5 November 2020.

45 Since the MPC's previous meeting, the Government had extended the Coronavirus Job Retention Scheme until the end of April 2021 and announced one-off top-up grants for retail, hospitality and leisure businesses. *Budget 2021* had been scheduled for 3 March.

46 UK GDP was expected to have risen a little in 2020 Q4 to a level around 8% lower than in 2019 Q4. This was materially stronger than expected in the November *Report*. Companies and households had continued to adapt to Covid-related restrictions, with more businesses remaining operational during this period than had been expected.

47 The MPC's February forecasts retained the assumption that trade and activity would be lower in the first half of 2021 as companies adjusted to the introduction of new trading arrangements with the European Union. The reduction in exports and the impact on domestic supply chains were projected to lower GDP by around 1% in 2021 Q1.

48 While the scale and breadth of the Covid restrictions in place at present meant that they were expected to affect activity more than those in 2020 Q4, their impact was not expected to be as severe as in 2020 Q2, during the United Kingdom's first lockdown. High-frequency indicators, such as spending on cards and indicators of travel, had declined in recent weeks to below their levels in November. The proportion of businesses continuing to trade had also fallen to below its November rate across most sectors of the economy. Overall, GDP was expected to fall by around 4% in 2021 Q1, in contrast to expectations of a rise in the November *Report*.

49 GDP was projected to recover rapidly towards pre-Covid levels over 2021, as the vaccination programme was assumed to lead to an easing of Covid-related restrictions and people's health concerns. Consumer

spending was expected to rise materially, supported by households running down around 5% of the large pool of additional aggregate savings accumulated while spending on some activities was restricted. Business investment was also expected to rise as sales recovered and uncertainty declined, albeit more slowly than consumer spending. Activity was also supported by the substantial fiscal and monetary policy actions already announced. GDP was projected to reach its 2019 Q4 level in 2022 Q1. Further out, the pace of GDP growth slowed as the boost from these factors faded.

50 Labour market indicators remained difficult to interpret. The LFS unemployment rate had risen to 5.0% in the three months to November, but other indicators suggested that labour market slack had remained higher than implied by this measure. The Government's employment support schemes were likely to limit significantly the immediate rise in unemployment. A further increase in unemployment was projected over the next few quarters, with the unemployment rate projected to peak at around 7¾% in the middle of 2021.

51 In the February projections, the sharp rebound in spending over 2021 resulted in a small margin of excess demand emerging by the end of the year. Excess demand was expected to diminish gradually over the third year of the forecast, and by the end of the forecast period, conditioned on the forecast assumptions, demand and supply were judged likely to be broadly in balance.

52 Average Weekly Earnings (AWE) growth had been notably stronger than expected in the November *Report*, although this might overstate underlying pay growth. Alternative indicators of labour and other company costs had generally been weaker than the official AWE data, although unit costs were likely to have been more resilient given the large fall in sales over the past year.

53 Twelve-month CPI inflation had risen from 0.3% in November to 0.6% in December. The weakness of recent outturns had largely reflected the direct and indirect effects of Covid on the economy. CPI inflation was expected to rise quite sharply towards the 2% target in the spring, as the reduction in VAT for certain services came to an end and given developments in energy prices. Core inflation, although also expected to pick up slightly, was nevertheless expected to remain below 2% in the near term, as had been the case for some time prior to the pandemic.

54 In the MPC's central projection, conditioned on the market path for interest rates, CPI inflation was projected to be close to 2% over the second and third years of the forecast period. The risks around the MPC's inflation projection were judged to be broadly balanced. Measures of inflation expectations had remained well anchored.

55 The Committee turned to its immediate policy decision.

56 The outlook for the economy remained unusually uncertain. It depended on the evolution of the pandemic, measures taken to protect public health, and how households, businesses and financial markets responded to these developments.

57 Relative to the February *Report* central projections, the Committee judged that the risks around economic activity from pandemic developments were, on balance, tilted to the downside, although less so than in the

November *Report*, and were judged to be broadly balanced by the end of the three-year forecast period. Different members placed different weights on the nature, scale and direction of these risks, and it was possible to envisage both more negative and more positive scenarios for the economic outlook than in the February *Report* central projections.

58 On the downside, the possible emergence of vaccine-resistant variants of the virus could trigger a renewed rise in infections and further periods of restrictions on economic activity in the future. There was also some evidence that people were more fearful of the virus now, following the identification of new variants. That could cause households and businesses to factor in greater uncertainty around their future income prospects, leading them to save more than during the pre-Covid period. The experience of some economies, such as New Zealand and Australia, that had suppressed significantly the domestic transmission of the virus, pointed to a relatively muted recovery in spending on social activities subsequently, although this observation predated vaccine programmes.

59 On the upside, with the vaccination programme proceeding at pace across the United Kingdom, a large proportion of the mortality and hospitalisation risk facing the population was likely to be removed relatively soon, potentially leading to a rapid change in economic behaviour by households and companies as restrictions eased. The experience following the end of the restrictions in the spring of 2020 had been a sharp bounce back in consumption. There was a large and growing stock of household saving that could be run down to a greater extent than was assumed in the February *Report*. Even small changes in the propensity to consume out of this accumulated wealth would lead to large changes in the expected outturns for consumption and the economy as a whole. The combined effects of higher demand and lower uncertainty about both the United Kingdom and European Union’s trading relationship and the course of the pandemic would also positively affect businesses when they were making their investment and hiring decisions.

60 Risks around the medium-term supply projection in the February *Report*, and hence around the inflation outlook all else equal, were two-sided, reflecting primarily the magnitude of any persistent effects of the pandemic. There remained the potential for more persistent labour market scarring than assumed in the February *Report*, and there might be constraints to the ability of the supply side of the economy to respond to the large shifts in demand and its composition that were being seen at the moment. On the other hand, the February *Report* forecast included an assumption that rising joblessness translated quite quickly into a higher medium-term equilibrium rate of unemployment, which might prove overly pessimistic about potential supply in the economy.

61 At its November 2020 meeting, the Committee had agreed a £150 billion increase in the target stock of purchased UK government bonds, and this purchase programme had now commenced. 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 its existing programme of UK government bond purchases, financed by the issuance of central bank reserves, maintaining the target for the stock of these purchases at £875 billion.

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

65 The existing programme of £150 billion of UK government bond purchases had started in January and the Committee continued to expect it to be completed by around the end of 2021. The Committee continued to envisage 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 between the February and March MPC meetings 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 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.

The MPC's monetary policy toolkit

67 Since the previous MPC meeting, the Committee had been briefed on the findings of the Prudential Regulation Authority's (PRA) structured engagement with PRA-regulated firms on the operational considerations around the possible implementation of a zero or negative Bank Rate. That engagement had taken place to explore the feasibility of such a monetary policy being introduced at some point in the future, were the MPC to judge it appropriate in order to meet the inflation target. As had been stressed in the information request that the PRA had sent to CEOs in October 2020, PRA-regulated firms had not been asked to begin taking steps to ensure that they were operationally ready to implement a negative Bank Rate, and the decision of the PRA to start engagement with PRA-regulated firms had not been intended to send any signal about the likelihood or imminence of such a policy.

68 The PRA's engagement with regulated firms had indicated that implementation of a negative Bank Rate over a shorter timeframe than six months would attract increased operational risks. The PRA informed the MPC

that the majority of PRA-regulated firms would need to make some changes to their systems and processes in order to implement a negative Bank Rate, including tactical solutions that were typically shorter-term fixes, involving workarounds on the periphery of core systems, along with overrides in downstream systems and customer communications. On the basis of these material risks and given the PRA's statutory objectives, the Prudential Regulation Committee (PRC) had concluded that any shorter implementation period could adversely impact some firms' safety and soundness. Consistent with its statutory objectives, the PRA had informed the MPC of this conclusion and that it stood ready to engage with firms as required to ensure that the implementation of a negative Bank Rate could be achieved by PRA-regulated firms in a safe and sound way.

69 There was a question for the MPC about whether, and if so at what point, the Committee should request that the PRA should engage with PRA-regulated firms again to enable firms to begin tactical preparations in order to be ready to implement a negative Bank Rate in a safe and sound way. On the one hand, such a request could be misconstrued as a signal that the MPC setting a negative Bank Rate was in prospect, or even imminent. This was a signal that the Committee did not wish to send. On the other hand, if the option of a negative Bank Rate in the future were to be a feasible one in practice within the monetary policy toolkit, then the tactical preparations would clearly need to commence at some point.

70 For some, the risk that the MPC requesting the commencement of such preparations for a negative Bank Rate would be misconstrued as a policy signal would be manageable with careful communication. There was, therefore, little reason not to request the beginning of those preparations now, thereby adding to the MPC's toolkit at the earliest opportunity.

71 For others, requesting the PRA should engage with PRA-regulated firms to commence such necessary preparatory work would almost inevitably be interpreted as a signal on the direction and nature of future monetary policy. Such an action, and consequent guidance on future policy, might become desirable at some future point depending on the evolution of the economy and the financial system. But it was not warranted by the current conjuncture and the outlook described in the MPC's latest economic projections. There might also be circumstances in which it would be acceptable for there to be a delay between a policy decision to set a negative Bank Rate and its implementation. For these reasons, on this view, it was not necessary at the present time to request that the PRA should engage with PRA-regulated firms to commence preparations to implement a negative Bank Rate.

72 While the Committee was clear that it did not wish to send any signal that it intended to set a negative Bank Rate at some point in the future, on balance, it concluded overall that it would be appropriate to start the preparations to provide the capability to do so if necessary in the future. The MPC therefore agreed to request that the PRA should engage with PRA-regulated firms to ensure they commence preparations in order to be ready to implement a negative Bank Rate at any point after six months. The MPC understood that the PRA would make such a request by way of a follow-up letter to CEOs of PRA-regulated firms. The MPC also requested that Bank staff should commence internal technical preparations to deliver the option of a tiered system of reserve remuneration that could be ready to be implemented, should it be judged appropriate, alongside a negative Bank Rate. The MPC stressed again that these requests, and any subsequent related supervisory actions determined by the PRA, should not be interpreted as a signal that the setting of a negative

Bank Rate or a tiered system of reserve remuneration were imminent, or indeed in prospect at any time. Monetary policy decisions would as always remain driven by the evolution of the economic outlook and the MPC's commitment to meeting the 2% inflation target. The MPC would continue to work with the PRC and the Financial Policy Committee to enable them to assess the impact of setting a negative Bank Rate on the objectives of those two Committees.

73 In addition, and against the backdrop of the recent significant expansion in the scale of the Asset Purchase Facility, the Committee agreed to ask Bank staff to commence work to reconsider the previous guidance on the appropriate strategy for tightening monetary policy should that be required in the future. That previous guidance stated that the stock of purchased assets would be expected to be maintained until Bank Rate reached a level from which it could be cut materially. And, in June 2018, the Committee had agreed that it intended not to reduce the stock of purchased assets until Bank Rate reached around 1.5%. As with the decision to request the PRA should engage with PRA-regulated firms to commence preparations to implement a negative Bank Rate, this request to Bank staff should not be interpreted as a signal about the future path of monetary policy.

74 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.

75 As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Anne Glover was present on 28 January and 1 February, as an observer for the purpose of exercising oversight functions in her role as a member of the Bank's Court of Directors.