BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 17 March 2021

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These are the minutes of the Monetary Policy Committee meeting ending on 17 March 2021.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/march-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 5 May will be published on 6 May 2021.

Monetary Policy Summary, March 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 17 March 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 MPC's central projections in the February *Monetary Policy Report* assumed that Covid-related restrictions and people's health concerns would weigh on activity in the near term, but that the vaccination programme would lead to those easing, such that UK GDP was projected to recover strongly over 2021 towards pre-Covid levels. At the time of the *Report*, a further increase in unemployment had been projected over the next couple of quarters. CPI inflation was expected to return towards the 2% target in the spring and, conditioned on the market path for interest rates, it was projected to be close to 2% over the second and third years of the forecast period.

Since the time of that forecast, developments in global GDP growth have been a little stronger than anticipated, and the substantial new US fiscal stimulus package should provide significant additional support to the outlook. In part reflecting this and alongside positive news on some vaccination programmes, advanced economy longer-term government bond yields have risen rapidly to levels similar to those seen shortly before the pandemic. For the most part this has reflected higher real yields. Risky asset prices have remained resilient. In the United Kingdom, the sterling effective exchange rate has appreciated and mortgage credit conditions have eased a little. An aggregate measure of UK financial conditions has been broadly unchanged since the February *Report*.

The rates of Covid infections and hospitalisations have fallen markedly across the United Kingdom and the vaccination programme is proceeding at a rapid pace. Plans for the easing of restrictions on activity have been announced and envisage that restrictions could be lifted somewhat more rapidly than was assumed in the February *Report*. *Budget 2021,* published in March, contained a number of significant new policy announcements, including the extension of the Coronavirus Job Retention Scheme and other measures to support the economy in the near term which had not been reflected in the February *Report*.

UK GDP fell by 2.9% in January. This was less weak than expected, due mainly to developments in public sector output, but still leaves GDP around 10% below its 2019 Q4 level. The news in recent plans for the easing of restrictions on activity may be consistent with a slightly stronger outlook for consumption growth in 2021 Q2 than was anticipated in the February *Report*, although it is less clear that this represents news to the MPC's medium-term forecast.

The LFS unemployment rate rose to 5.1% in the three months to December, but it is likely that labour market slack has remained higher than implied by this measure. The extension of the Government's employment support schemes is likely to mean that the near-term rise in the LFS unemployment rate will be more moderate than suggested by the MPC's February *Report* projections, which had been constructed on the basis of existing government policy at that time.

Twelve-month CPI inflation rose slightly to 0.7% in January. The weakness of recent outturns has largely reflected the direct and indirect effects of Covid on the economy, in particular the decline in oil prices seen in early 2020. As has been the case in recent MPC projections, CPI inflation is expected to return swiftly to around the 2% target in the spring, as the effects of those earlier falls in oil prices drop out of the annual comparison, and reflecting more recent increases in energy prices. These developments should have few direct implications for inflation over the medium term, however. Inflation expectations remain well anchored.

There is judged to be a material degree of spare capacity at present. The outlook for the economy, and particularly the relative movement in demand and supply during the recovery from the pandemic, remains unusually uncertain. It continues to depend 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 17 March 2021

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 UK-weighted global GDP growth had been stronger in 2020 Q4 than had been expected in the February *Monetary Policy Report*. This had been driven by upside news in the euro area and emerging markets, and appeared to reflect in part a smaller impact on activity of Covid-related restrictions compared with during the first wave of the pandemic last spring. This weaker relationship between economic activity and a given level of restrictions was expected to have continued, and, consequently, global growth was also likely to be stronger in the first quarter of this year than had been expected in the February *Report*. Covid vaccination programmes had progressed, albeit at different speeds in different countries. The substantial new US fiscal stimulus package should provide significant additional support to global activity.

3 According to the final release, euro-area GDP had fallen by 0.7% in 2020 Q4, less weak than had been incorporated into the February *Report*, leaving the level of GDP around 5% lower than in 2019 Q4. Restrictions had generally remained in place in many countries amid high numbers of Covid cases at the start of the year. After a subsequent decline, infections in the euro area were rising again, with quite sharp increases in some countries and the possibility of a tightening of restrictions. The rate of vaccinations in the euro area was expected to pick up in the second quarter. Unemployment had remained unchanged at 8.1% in January, as government employment support schemes had continued. Mobility indices had ticked up a little as the first quarter had progressed, and services activity and manufacturing output PMIs had risen to 45.7 and 57.6 respectively in February. Euro-area industrial production had risen in January. Overall, euro-area GDP was expected to contract again in the first quarter, although probably by less than had been incorporated in the February *Report*.

4 US GDP had grown by 1.0% in 2020 Q4 according to the Second Estimate. This had left the level of US output around 2½% lower than in 2019 Q4. The number of new Covid cases had declined markedly from the January peak and some counties had started lifting restrictions. The vaccination programme was progressing rapidly. US mobility indices had been increasing over recent weeks and remained at the higher end of the range across advanced economies, although they had remained significantly lower than in early 2020. The unemployment rate had edged lower to 6.2% in February. The ISM non-manufacturing PMI had fallen to 55.3 in February, while the ISM manufacturing PMI had increased to 60.8, both continuing to suggest positive growth in 2021 Q1. Other indicators such as real personal consumption had pointed to first quarter GDP growth being a little stronger than had been expected at the time of the February *Report*.

5 The fiscal stimulus package, worth $1.9 trillion or nearly 10% of US annual GDP, was almost double what had been assumed in the February *Report* and also considerably higher than market expectations at the time of the MPC's previous meeting. It was set to provide significant additional support to the US economy, with the peak impact on economic growth likely to occur in the second half of this year. Households were to receive a substantial proportion of the funds, both through direct payments and an extension of enhanced unemployment benefits. The package also included additional health spending and an extension of business support schemes.

6 After a strong recovery in the second half of last year, China's GDP growth appeared to have moderated in 2021 Q1, broadly in line with what had been expected at the time of the February *Report*. This had in part reflected growth slowing towards trend. Following a rise in Covid cases, it had also reflected the temporary imposition of some restrictions ahead of the Lunar New Year celebrations, which had curtailed travel plans and had reduced consumption. Official Chinese manufacturing and non-manufacturing PMIs had fallen in February. By contrast, industrial production had accelerated further in January and February, with some factories remaining open during the holiday period, while retail sales had been in line with a somewhat softer consumption picture. Chinese trade flows had also remained strong, supporting global trade.

7 In other emerging market economies, GDP growth in 2020 Q4 had been stronger than had been assumed in the February *Report*, with activity in several of these countries catching up to around pre-Covid GDP levels. Activity indicators pointed to the recovery continuing into the first quarter, although there was significant variation across countries and sectors, with manufacturing PMIs generally stronger than services PMIs. The number of new Covid cases had moderated in several, though not all, countries.

8 The Brent spot oil price had risen further to $68 per barrel, around $13 higher than at the time of the February *Report* and similar to its level in January 2020, before the pandemic had taken hold. The rise was likely to have reflected supply factors, including Saudi Arabia's cut in oil production, but also growing confidence about future demand. Non-oil commodity prices had risen on average by around 5% since the February *Report*, to levels well above those seen in the months prior to the start of the pandemic. Following a sharp rise that had started in November 2020, container shipping costs had stabilised, albeit at a high level, with tentative evidence that container availability had improved somewhat. Given the increases in commodity prices and some shipping costs over past months, global manufacturing input price PMIs had also risen sharply, and some of this increase had been reflected in manufacturing output price PMIs.

9 In the euro area, the twelve-month headline HICP inflation rate had remained at 0.9% in February, while the core inflation rate had decreased slightly to 1.1%. As had been the case with the UK inflation data, the pandemic had led Eurostat to make unusually large changes in their annual update of the weights used to calculate HICP. In the euro area, this had pushed up inflation temporarily at the start of the year, alongside higher energy prices and other transient factors. In the United States, annual headline and core PCE inflation had edged up in January, both to 1.5%, and energy and base effects were expected to push inflation higher in the near term.

Monetary and financial conditions

10 Since the MPC's February meeting, advanced economy longer-term government bond yields had risen significantly. For the most part this had reflected higher real yields. The upward movement in yields appeared to have been driven by positive news on global economic growth, including on some vaccination programmes and vaccine effectiveness, as well as the size of the US fiscal support package. There had been a high degree of comovement between yields across different economies. The increases had taken longer-term government bond yields to levels similar to those that had been seen shortly before the pandemic. Following a period of increases from low levels, US measures of medium-term inflation compensation had stabilised.

11 Reflecting the same fundamental drivers, market-implied measures of advanced economy policy rates had also risen, although these measures did not point to an increase in policy rates for some time. Consistent with international movements, the near-term market-implied path for Bank Rate had increased since the February MPC meeting, and that curve no longer implied a future reduction in Bank Rate. At its meeting on 11 March, the ECB Governing Council had left its key policy interest rates and the scale of its asset purchase programmes unchanged, while indicating that purchases under the Pandemic Emergency Purchase Programme in the next quarter would be conducted at a significantly higher pace than during the first months of this year.

12 Risky asset prices had continued to increase since the Committee's previous meeting. Advanced economy equity prices were higher, and corporate bond spreads had narrowed.

13 The sterling effective exchange rate index had appreciated by around 3% since the February MPC meeting.

14 Mortgage credit conditions had eased a little since the MPC's February meeting. Mortgage spreads had fallen and product availability had increased further, although conditions had remained significantly tighter than at the beginning of 2020. In addition, as part of *Budget 2021*, the government had announced a new Help to Buy Mortgage Guarantee scheme, intended to support the availability of mortgages at loan-to-value ratios between 91% and 95%.

15 Indicators of corporate credit conditions had remained stable, and government schemes had continued to provide support. At *Budget 2021*, the government had announced a new Recovery Loan Scheme to replace the current set of government-guaranteed lending schemes that would close for applications at the end of March.

Demand, output, money and credit

16 Since the MPC's previous meeting, the number of new Covid cases had fallen markedly across the United Kingdom and the vaccination programme was proceeding at a rapid pace. A *Roadmap out of lockdown* for England had been announced on 22 February, with face-to-face education resuming in schools and colleges on 8 March. Further steps over coming months, depending on the evolution of the pandemic, included the opening of non-essential retail and outdoor hospitality no earlier than 12 April, and the opening of indoor hospitality, entertainment and non self-contained accommodation no earlier than 17 May. In Scotland, restrictions were

being relaxed gradually, with the previous five-level tier system returning no earlier than 26 April. Restrictions had started to be eased in Wales too, with all shops being able to open from 12 April. In Northern Ireland, some restrictions would start to be lifted gradually from 1 and 12 April. Overall, these plans envisaged that restrictions on economic activity could be eased somewhat more rapidly than had been assumed in the February *Monetary Policy Report*.

17 According to the ONS's first quarterly estimate, UK GDP had risen by 1.0% in 2020 Q4, leaving the level of real activity around 8% lower than it had been in 2019 Q4, and a little stronger than the expectation in the February *Report*. Household consumption had declined very slightly, by 0.2%, while business investment had risen by 1.3%. That had left these components of GDP around 9% and 10% below their levels in 2019 Q4 respectively. Total government expenditure had grown strongly in 2020 Q4, by 6.3%.

18 According to the latest monthly GDP estimate, output had fallen by 2.9% in January, a smaller fall than Bank staff expectations and the external consensus forecast. The measured volume of government output in January had been reduced by sharp falls in education output as schools had closed again. There had, nevertheless, been upside news from health output largely reflecting the introduction of the measurement of test and trace activities, as well as the vaccination programme, into the national accounts. Broadly in line with staff expectations, there had been widespread declines in output across private services and consumer-facing services in particular, reflecting the reimposition of lockdown restrictions, while manufacturing output had contracted for the first time since April 2020.

19 Faster indicators of private sector activity, including the latest waves of the ONS Business Impact of Covid-19 Survey, were broadly consistent with the fall in private sector output in 2021 Q1 that had been expected in the February *Report*, as the lockdown weighed on economic activity. Workplace, recreational and retail mobility had remained weaker in the United Kingdom than in other advanced economies, partly reflecting the relative stringency of restrictions.

20 Indicators of consumption for the first quarter had been mixed. Retail sales volumes had fallen by around 8% in January, although these data had not been a good guide to the retail goods components of household spending in the national accounts over recent quarters. Respondents to the latest Bank of England/Ipsos MORI household survey had reported an increase in income expectations. The share of households in that survey that said they would spend more than usual after restrictions eased had edged up to 15%, while 40% had said that they would spend less than usual. Consumer confidence had picked up recently, although it was difficult to judge whether that represented news for the MPC's forecast, which had already incorporated a recovery in spending as the health outlook improved. Nevertheless, the news in recent plans for the easing of restrictions on activity might be consistent with a slightly stronger outlook for consumption growth in 2021 Q2 than had been anticipated in the February *Report*, although it was less clear that this represented news to the MPC's medium-term forecast.

21 The net flow of consumer credit had become more negative in January, driven by a contraction in gross credit card lending, and consistent with the weakness of consumption following the reimposition of lockdown restrictions. In contrast, household secured net borrowing had been £5.2 billion in January, in line with the

strength of recent months, and accompanied by continued strength in gross lending for house purchase. The number of approvals for house purchase had remained high in January, at 99,000. At *Budget 2021*, the temporary increase in the Stamp Duty threshold in England and Northern Ireland had been extended. There had been a weakening in many leading indicators of housing demand over previous months, although the most recent surveys had suggested some recovery.

22 Measures of business confidence, including the expectations components of PMIs, had picked up over recent months, but, as with their household counterparts, that might not represent news to the MPC's projections. Companies' expectations for the level of business investment over the coming year in the February Decision Maker Panel had been broadly unchanged. At *Budget 2021*, the government had introduced an enhanced deduction for qualifying plant and machinery investment from corporate taxes, to last until March 2023. This would temporarily raise incentives for companies to increase, and potentially bring forward, their investment plans. For eligible retail, hospitality and leisure properties, the Budget had included an extension of the 100% business rates holiday until the end of June, followed by 66% business rates relief for the period from 1 July 2021 to 31 March 2022. There had also been announcements of additional grants for qualifying businesses.

23 UK trade in goods volumes had fallen substantially in January, with exports and imports excluding non-monetary gold declining by around 19% and 21% on the month respectively. UK goods exports to the European Union had fallen by 44%, compared with a 7% rise in goods exports to non-EU economies. The equivalent figures for imports to the United Kingdom from the European Union and from non-EU economies had been -28% and -13% respectively. A number of factors were likely to be driving these developments, including stockpiling around the end of the UK-EU transition period, some disruption as new trading arrangements had been introduced, and the impact of renewed Covid-related restrictions on trade flows and particularly the demand for imports. The January data on UK exports to the European Union were more uncertain than usual, owing to a shift to a new reporting system. Trade was expected to have recovered somewhat in February, as inventories built up before the end of the transition period were used up.

Supply, costs and prices

24 The Labour Force Survey (LFS) unemployment rate had risen slightly to 5.1% in the three months to December, in line with expectations in the February *Monetary Policy Report*. LFS employment had fallen by 0.4% in the three months to December, compared with an expectation that it would remain flat. The counterpart to lower employment had been a slightly higher rate of inactivity. There had, however, been some stabilisation in HMRC payrolls data around the turn of the year and in other more timely indicators, such as PMI employment balances in February. The number of potential redundancies identified through HR1 notifications had continued to be relatively muted through the first quarter. The stock of vacancies had ticked up in recent weeks, although it had remained well below pre-Covid levels.

25 Taking a longer view, there had remained a disparity between the LFS estimate of employees, which had remained fairly flat since the start of the pandemic, and other indicators such as HMRC payrolls data that had

pointed to falls since 2020 Q1. Although the reasons behind the divergence were still difficult to pin down precisely, it had probably reflected a mix of measurement challenges in the LFS, some reported reclassification from the self-employed to employees specific to the LFS, and a drop in the UK population through lower net inward migration.

26 HMRC administrative data had indicated that 4.7 million private sector jobs had been furloughed at the end of January, higher than in 2020 Q4, but lower than during the first phase of the pandemic last spring. Timelier data from the ONS's Business Impact of Coronavirus Survey for February had pointed to a continued high uptake of furlough. Overall, these data were broadly in line with expectations at the time of the February *Report*. At *Budget 2021*, the Government had announced the extension of the Coronavirus Job Retention Scheme (CJRS) until the end of September 2021. The proportion of salary covered by the government would be tapered to 70% in July, and then to 60% in August and September, with employers topping up to 80%. There would also be two further rounds of the Self-Employed Income Support Scheme grants, covering February to April and May to September 2021.

27 Regular Average Weekly Earnings (AWE) growth had risen in line with expectations, at 4.1% for the whole economy and 4.0% for the private sector in the three months to December on a year earlier. However, bonuses had surprised to the upside, such that whole economy total pay growth had been slightly higher than forecast at the time of the February *Report*. There remained challenges in interpreting pay data, including the likely influence of compositional effects, as lower paid workers had been more likely to have lost their jobs during the pandemic. These challenges would be likely to affect the AWE data for some months to come.

28 The Committee discussed developments in, and the prospects for, spare capacity in the economy. The starting level of the output gap was very uncertain, not least given the large falls in both demand and supply that had occurred since the start of the pandemic. It was likely that spare capacity had widened by more than implied by the LFS unemployment rate. For example, there had been increased flows into inactivity that could lead to higher unemployment as the lockdown eased and people sought work more actively. Furloughed employees looking for new jobs might also have been a source of downward pressure on wages not captured by the unemployment rate. On the other hand, it was possible that the strength of wage growth suggested a more limited degree of slack in the labour market.

29 Looking ahead, the expected easing of Covid restrictions made it likely that there would be increases in both supply and demand over the coming months. The announced extension to the CJRS was likely to mean that the near-term rise in the LFS unemployment rate would be more moderate than suggested by the MPC's February *Report* projections. Measures of spare capacity within firms had widened relative to pre-Covid levels, although there was uncertainty about their interpretation given the mandated lockdowns, and there had been an unusual dispersion across sectors. The nature of the recovery across sectors would be important for the prospects for aggregate spare capacity.

30 Twelve-month CPI inflation had risen slightly in January to 0.7%. Core CPI inflation, excluding food, beverages, tobacco and energy, had been unchanged at 1.4%. The weakness of recent outturns largely reflected the direct and indirect effects of Covid on the economy, in particular the decline in oil prices that had

occurred in early 2020. It was likely that the February inflation outturn, published after the March MPC meeting, would prompt another exchange of letters between the Governor and the Chancellor of the Exchequer, alongside the release of the May minutes.

31 Thereafter, Bank staff expected CPI inflation to return swiftly to around the 2% target in the spring. Higher energy price inflation was expected to contribute the majority of the rise in CPI inflation, as the effects of earlier falls in oil prices dropped out of the annual comparison, and reflecting more recent increases in energy prices. A recovery in inflation, as temporary drags on the twelve-month rate were removed, had been a feature of recent *Reports*. The core CPI inflation rate was expected to fall temporarily in July, reflecting base effects from the same period last year.

32 There had been further upside news to the short-term inflation outlook since the February *Report* given recent increases in oil prices and an increase in the Ofgem price cap. This upside news was only partly offset by the extension of the reduced VAT rate for hospitality, holiday accommodation and attractions, and the freezing of fuel and alcohol duties announced in the Budget. The January release had included an update to CPI weights, which was in line with Bank staff's expectations at the time of the February *Report*, and was also likely to push down inflation in the summer. These developments should have few direct implications for inflation over the medium term.

33 Pricing surveys for goods and services appeared broadly consistent with the expected recovery in CPI inflation to around the 2% target over the coming months. Some indicators of costs had shown particularly pronounced increases. Manufacturing input and output price PMIs had been historically high in February, with firms reporting transport disruption and raw material shortages. Agents' contacts had also reported a significant increase in raw materials costs, although so far there had been limited pass-through of higher costs to intermediate or consumer prices.

34 There had been little news on household or business inflation expectations since the previous MPC meeting. One-year and five-year ahead household inflation expectations as measured by the February Bank/Kantar survey had remained unchanged at levels similar to those that had been seen over recent years.

The immediate policy decision

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

36 The MPC's central projections in the February *Monetary Policy Report* had assumed that Covid-related restrictions and people's health concerns would weigh on activity in the near term, but that the vaccination programme would lead to those easing, such that UK GDP had been projected to recover strongly over 2021 towards pre-Covid levels. At the time of the *Report*, a further increase in unemployment had been projected over the next couple of quarters. CPI inflation had been expected to return towards the 2% target in the spring

and, conditioned on the market path for interest rates, it had been projected to be close to 2% over the second and third years of the forecast period.

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

38 Recent developments in global GDP growth had been a little stronger than had been anticipated. This had been driven by upside news in the euro area and emerging markets, and appeared to reflect in part a smaller impact on activity of Covid-related restrictions compared with during the initial period of restrictions in the first half of 2020. New Covid cases appeared to be rising again in the euro area as a whole, with the possibility of a tightening of restrictions in some countries. The vaccination programme had been progressing rapidly in the United States but more slowly in the euro area.

39 The substantial new US fiscal stimulus package should provide significant additional support to the economy. The package was almost double what had been assumed in the February *Report*, and would largely take the form of committed spending and fixed transfers to households. Given its scale, the effects from that package would not just boost demand in the United States, but would have spillover effects for demand across the world including in the United Kingdom.

40 In part reflecting this and alongside positive news on some vaccination programmes, advanced economy longer-term government bond yields had risen rapidly to levels similar to those that had been seen shortly before the pandemic. For the most part this had reflected higher real yields. Risky asset prices had remained resilient. In the United Kingdom, the sterling effective exchange rate had appreciated and mortgage credit conditions had eased a little. An aggregate measure of UK financial conditions had been broadly unchanged since the February *Report*. The Committee would as usual assess and incorporate developments in financial conditions as part of its forecast process leading up to the publication of the May *Report*.

41 As of 17 March 2021, the total stock of assets held in the Asset Purchase Facility had reached £785 billion, a net increase of £40 billion as part of the £150 billion programme of UK government bond purchases announced on 5 November 2020.

42 Since the MPC's previous meeting, the rates of Covid infections and hospitalisations had fallen markedly across the United Kingdom and the vaccination programme was proceeding at a rapid pace. Plans for the easing of restrictions on activity had been announced and envisaged that restrictions could be lifted somewhat more rapidly than had been assumed in the February *Report*.

43 *Budget 2021*, published in March, had contained a number of significant new policy announcements. There would be a material fiscal loosening in the near term, including: the extensions of the Coronavirus Job Retention Scheme, the reduced VAT rate for hospitality, holiday accommodation and attractions, and the increase in the stamp duty threshold; and the announcements of a capital allowance super-deduction, other forms of immediate business and household support, the Recovery Loan Scheme, and a new Help to Buy Mortgage Guarantee scheme. Some medium-term tightening measures had also been announced, such as an increase in the main rate of Corporation Tax from 19% to 25% from April 2023, the freezing of income tax

personal allowances and thresholds from April 2022, and further reductions in overall departmental spending plans in addition to those in *Spending Review 2020*. The MPC would be able to make a fuller assessment of the impact of these measures, and the overall effects of fiscal policy, on growth, unemployment and inflation over the forecast period as part of its May *Report* process.

44 UK GDP had fallen by 2.9% in January. This had been less weak than expected, due mainly to developments in public sector output, but still left GDP around 10% below its 2019 Q4 level. The news in recent plans for the easing of restrictions on activity might be consistent with a slightly stronger outlook for consumption growth in 2021 Q2 than had been anticipated in the February *Report*, although it was less clear that this represented news to the MPC’s medium-term forecast. Consumer confidence had picked up and there were some early indications of rising spending intentions in some previously restricted forms of expenditure. Set against that, households’ overall reported propensities to spend had so far only nudged up. Looking ahead, the Committee would monitor closely the extent to which voluntary social distancing reduced as restrictions were lifted and the vaccination programme progressed further, and the implications of that for spending.

45 UK trade in goods volumes had fallen substantially in January for a number of reasons, although they were expected to have recovered somewhat in February.

46 The LFS unemployment rate had risen to 5.1% in the three months to December, but it was likely that labour market slack had remained higher than implied by this measure. The extension of the Government’s employment support schemes, beyond the point at which most restrictions on activity might be lifted, was likely to mean that the near-term rise in the LFS unemployment rate would be more moderate than had been suggested by the MPC’s February *Report* projections, which had been constructed on the basis of existing government policy at that time. As support from those schemes would still be available when the economic recovery was expected to be proceeding strongly, the risk of currently furloughed workers not being reintegrated smoothly into the labour force was reduced. Some recent indicators also suggested that there had already been a stabilisation in employment trends.

47 Twelve-month CPI inflation had risen slightly to 0.7% in January, while core CPI inflation had been unchanged at 1.4%. The weakness of recent CPI outturns had largely reflected the direct and indirect effects of Covid on the economy, in particular the decline in oil prices seen in early 2020. As had been the case in recent MPC projections, CPI inflation was expected to return swiftly to around the 2% target in the spring, as the effects of those earlier falls in oil prices dropped out of the annual comparison, and reflecting more recent increases in energy prices. The announcements in *Budget 2021* on the extension of the VAT reduction for hospitality, holiday accommodation and attractions, and the freezing of some duties, constituted small downside news for the short-term inflation outlook, but were more than offset by the energy price news since the February *Report*. These developments should have few direct implications for inflation over the medium term, however.

48 Pricing surveys for goods and services appeared broadly consistent with the expected recovery in CPI inflation over the coming months, although it would be important to monitor whether recent increases in input costs were being passed through to intermediate or consumer prices, particularly once demand started to pick

up. Inflation expectations remained well anchored, across a wide range of financial market, professional forecaster, household and corporate measures.

49 The Committee turned to its immediate policy decision.

50 There was judged to be a material degree of spare capacity at present. The outlook for the economy, and particularly the relative movement in demand and supply during the recovery from the pandemic, remained unusually uncertain. It continued to depend on the evolution of the pandemic, measures taken to protect public health, and how households, businesses and financial markets responded to these developments.

51 Since the MPC's previous meeting, the news on near-term economic activity had been positive, although the extent to which that news changed the medium-term outlook was less clear. Different MPC members placed different weights on the balance of risks around the outlook. On the upside, for example, receding fears of infection, further progress in the vaccination programme, the extension of government support schemes, and less voluntary social distancing could allow households to resume more normal spending behaviour and start to run down a greater proportion of their accumulated savings than had previously been anticipated, boosting jobs and investment. On the downside, households and businesses could continue to exercise caution in their consumption and investment decisions, while delays in vaccination programmes globally or the 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.

52 Alongside demand developments, the outlook for inflation would depend critically on the path of supply. Many of the adverse effects on potential output from the pandemic were likely to be temporary, with the same factors that would raise output in coming quarters also being likely to lift supply, as they had done in the opposite direction over the past year. There was a range of views across MPC members on the degree of spare capacity in the economy currently, whether demand would outstrip supply during the recovery from the pandemic, and how the assessment of supply should take into account the unique nature of the economic shock from the pandemic. Further discussion of these issues would be an important part of the Committee's forecast process ahead of the May *Report*.

53 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 continued. As the Committee had previously said, 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.

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

55 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.

56 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.

57 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 March and May MPC meetings were set out in the Market Notice accompanying these minutes. Should market functioning worsen materially, the Bank of England stood ready to increase the pace of purchases to ensure the effective transmission of monetary policy.

58 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.

59 The MPC's Remit had been updated at *Budget 2021*, setting out that the economic strategy of the Government included supporting the transition to a net zero emissions economy. In the coming months, the Bank of England would provide more information about its proposed approach to adjusting the Corporate Bond Purchase Scheme to account for the climate impact of the issuers of the bonds it held, with a view to adapting its approach by the time of the next scheduled round of reinvestment operations in 2021 Q4.

60 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.

61 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 10 and 15 March, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.