BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 5 May 2021

Publication date: 6 May 2021

These are the minutes of the Monetary Policy Committee meeting ending on 5 May 2021.

They are available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2021/may-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 22 June will be published on 24 June 2021.

Monetary Policy Summary, May 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 5 May 2021, the Committee judged that the existing stance of monetary policy remained 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 by a majority of 8-1 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.

Covid-19 (Covid) and the actions taken to contain it have continued to have a dramatic and rapidly changing impact on the United Kingdom and countries around the world. The Committee's updated projections for economic activity and inflation are set out in the accompanying May *Monetary Policy Report*.

Global GDP growth is likely to have slowed in 2021 Q1 as Covid-related restrictions weighed on economic activity, although growth appears to have been stronger than expected in the February *Report*. Covid vaccination programmes have progressed and picked up pace in many countries. Recently, however, new Covid cases have increased significantly in India and some other economies, leading to tighter restrictions. Advanced-economy risky asset prices have continued to increase and longer-term government bond yields have stabilised since March, such that they are higher than at the time of the February *Report*.

UK GDP is expected to have fallen by around 1½% in 2021 Q1, less weak than was assumed in the February *Report*. New Covid cases in the United Kingdom have continued to fall, the vaccination programme is proceeding apace, and restrictions on economic activity are easing. Reflecting these developments, GDP is expected to rise sharply in 2021 Q2, although activity in that quarter is likely to remain on average around 5% below its level in 2019 Q4. GDP is expected to recover strongly to pre-Covid levels over the remainder of this year in the absence of most restrictions on domestic economic activity. Demand growth is further boosted by a decline in health risks and a fall in uncertainty, as well as announced fiscal and monetary stimulus. Consumer spending is also supported by households running down over the next three years around 10% of their additional accumulated savings. After 2021, the pace of GDP growth is expected to slow as the boost from some of those factors wanes. The level of activity is higher in each quarter of the forecast than in the February projections.

The fall in activity over the past year has reflected a decline in both demand and supply. The LFS unemployment rate fell slightly to 4.9% in the three months to February, but it is likely that labour market slack has remained higher than implied by this measure. Overall, there is judged to be spare capacity in the economy at present. The extension of the Government's employment support schemes in *Budget 2021* is expected to limit significantly the near-term rise in the LFS unemployment rate. The MPC also expects the medium-term equilibrium rate of unemployment to rise by less than was forecast in February. Spare capacity is eliminated as activity picks up during 2021, and there is a temporary period of excess demand, before demand and supply return broadly to balance.

Twelve-month CPI inflation rose from 0.4% in February to 0.7% in March, with the February outturn triggering the exchange of open letters between the Governor and the Chancellor published alongside this monetary policy announcement. The weakness of recent CPI outturns has largely reflected the direct and indirect effects of Covid on the economy. As has been the case in recent MPC forecasts, inflation is projected to rise to close to the target in the near term as some of those effects fade. In the central projection, CPI inflation rises temporarily above the 2% target towards the end of 2021, owing mainly to developments in energy prices. These transitory developments should have few direct implications for inflation over the medium term, however. In the central projection, conditioned on the market path for interest rates, inflation returns to around 2% in the medium term.

The outlook for the economy, and particularly the relative movement in demand and supply, remains 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.

In the central projections of the MPC's May *Report*, the economy experiences a temporary period of strong GDP growth and a temporary period of modestly above-target CPI inflation, after which growth and inflation fall back, with inflation around the target two and three years ahead. In judging the appropriate stance of monetary policy, the Committee will, consistent with its policy guidance and as always, focus on the medium-term prospects for inflation, including the balance between demand and supply, rather than factors that are likely to be transient.

The MPC will continue to monitor the situation closely and will take whatever 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 remained appropriate.

Minutes of the Monetary Policy Committee meeting ending on 5 May 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 likely to have slowed further in 2021 Q1 as restrictions to contain the spread of the Covid-19 (Covid) virus had weighed on economic activity. Nevertheless, the impact of these restrictions on output had been smaller than expected, notably in major advanced economies. In Q2, global activity was expected to accelerate, as Covid vaccination programmes progressed and picked up pace in many countries, and the substantial new US fiscal package was also providing support. New Covid cases had increased significantly in India and some other economies, however, leading to tighter restrictions that would weigh on global activity.

3 According to the preliminary flash estimate, euro-area GDP had fallen by 0.6% in 2021 Q1, leaving the level of GDP around 5½% lower than in 2019 Q4, although this was less weak than had been expected at the time of the MPC's previous meeting. The unemployment rate had fallen by 0.1 percentage points to 8.1% in March, as government employment support schemes had continued.

4 Euro-area GDP growth was expected to pick up slightly in the second quarter, albeit to a slower pace than anticipated at the time of the MPC's previous meeting. There had been increases in Covid cases in some countries, alongside generally tighter restrictions. Set against that, the rate of vaccinations had picked up. The euro-area composite output PMI had risen to 53.8 in April, and the European Commission's consumer confidence survey balance had increased to its highest level since February 2020.

5 According to the advance estimate, US GDP had increased by 1.6% in 2021 Q1, stronger than expected at the time of the MPC's previous meeting, leaving the level of GDP around 1% lower than in 2019 Q4. The increase in Q1 had been more than accounted for by strength in household consumption. In particular, retail sales had picked up sharply in March, with that rise reflecting strength in durable and non-durable goods purchases, and in sales in restaurants and bars. This suggested that the substantial new fiscal package, the American Rescue Plan, had started to have an impact on economic activity, alongside the continued vaccine rollout, and a further easing in state-level Covid restrictions. The labour market had strengthened, with nonfarm payrolls having increased by 916,000 in March, and the unemployment rate having fallen by 0.2 percentage points to 6.0%. Mobility indices and internet searches related to social spending had continued to recover in April, suggesting that GDP growth would pick up further in the second quarter.

6 In China, GDP had increased by 0.6% in 2021 Q1, continuing the recovery since the onset of the Covid crisis. Although this Q1 outturn was a little weaker than expected at the time of the MPC's previous meeting,

activity appeared likely to pick up again in Q2, as the majority of the restrictions imposed ahead of the Chinese New Year had subsequently been removed, and mobility indices had returned to around normal levels.

7 In some other large emerging market economies, most notably in India, there had been a sharp increase in Covid cases alongside a relatively slow vaccine rollout, and an associated tightening in restrictions, which would weigh on economic activity. The economic backdrop in major emerging markets prior to these developments had been mixed. The recovery had slowed in early 2021, with hard indicators, such as industrial production, car sales and retail sales, having weakened. But the latest business surveys had pointed to a steady recovery, with both manufacturing and services PMIs generally indicating an expansion in activity.

8 Indicators of global price pressures had picked up. Container shipping costs had risen again in April, most notably for Asia-Europe shipping routes, in part reflecting a blockage of the Suez Canal in late March. Strains on global supply chains had continued, with delivery delays having picked up. Oil prices had stabilised since the MPC's previous meeting, following increases earlier in the year, with the Brent spot oil price around $12 per barrel higher than at the time of the February *Monetary Policy Report*, while non-oil commodity prices had increased further. The input price index of the JP Morgan global manufacturing PMI had picked up further in April, to its highest level in a decade, and cost pressures had started to be passed through to the output price index, which had also increased.

9 Earlier increases in energy prices and other transient factors had been reflected in the most recent outturns for headline consumer price inflation measures in advanced economies, and these factors were also likely to push inflation somewhat higher in the near term. In the euro area, the twelve-month headline HICP inflation rate had increased to 1.6% in April, from 1.3% in March, while the core inflation rate had decreased slightly to 0.8%. In the United States, annual headline and core PCE inflation had risen in March, to 2.3% and 1.8% respectively.

Monetary and financial conditions

10 Since the MPC's March meeting, advanced-economy risky asset prices had continued to increase. They had, however, stabilised somewhat recently, alongside a sharp pickup in Covid cases in some countries. The rise in equity prices since the Committee's previous meeting had in part reflected a continued drift up in earnings expectations. The market-implied probability of very negative outcomes, as measured by the mass of the lower tail of the option-implied distribution of the S&P 500, had fallen further, although it had remained higher than its pre-pandemic average. Corporate bond spreads had narrowed.

11 Since the Committee's previous meeting, advanced-economy longer-term government bond yields had stabilised, having risen significantly in the period following the February *Monetary Policy Report*. Market-implied measures of advanced-economy policy rates had also been broadly stable since the Committee's previous meeting. At its meeting on 22 April, the ECB Governing Council had left its key policy interest rates and the scale and pace of its asset purchase programmes unchanged. At its 28 April meeting, the Federal Open Market Committee had left unchanged its target range for the federal funds rate and the pace of asset purchases.

12 In the United Kingdom, the sterling effective exchange rate had depreciated a little since the Committee's previous meeting, but was 2¾% higher relative to the February *Report*. The market-implied path for Bank Rate that underpinned the May *Report* projections rose to around 0.6% at the MPC's three-year forecast horizon, an increase of around 50 basis points since the February *Report*. A significant share of market participants expected the pace of the existing £150 billion gilt asset purchase programme to decrease somewhat following this MPC meeting, consistent with the Committee's previous communication that it expected to complete that continuing programme by around the end of 2021.

13 Mortgage credit conditions had continued to ease. Spreads on fixed-term mortgages had fallen and product availability had increased further, although conditions had remained tighter than at the beginning of 2020. The fall in mortgage spreads had partly reflected the typical lagged response of mortgage rates to movements in risk-free rates, and so, all else equal, this effect would be expected to reverse in due course. However, lenders had also reported that there had been changes in some of the factors that had driven the widening in spreads in 2020, namely the interaction of very strong demand for new loans with operational constraints in the mortgage market, and higher borrower credit risk. More recently, these factors had been mitigated by an increase in operational capacity and an improvement in the macroeconomic outlook.

14 The net flow of consumer credit had remained negative in March, consistent with the ongoing weakness of consumer spending. In contrast, household secured net borrowing had been £12 billion in March, the highest monthly flow on record, driven by strength in gross lending for house purchases. This exceptional strength was likely to have been caused predominantly by customers looking to complete transactions ahead of the original end dates for the temporary increases in thresholds for stamp duty and equivalent property taxes that had been in place across the United Kingdom.

15 Indicators of corporate credit conditions in 2021 Q1 had remained stable, and it remained likely that spreads on bank lending to some companies would rise in Q2 as the government-guaranteed lending schemes launched last year came to an end, although the Government's Recovery Loan Scheme was expected to provide support.

Demand and output

16 According to the latest monthly estimate, UK GDP had risen by 0.4% in February, with January's initial decline of 2.9% having been revised up to a fall of 2.2%. Output was expected to have picked up further in March, given the steer from high-frequency indicators of private sector activity and the re-opening of schools. For 2021 Q1 as a whole, Bank staff expected GDP to have fallen by around 1½%, leaving it around 9% below its 2019 Q4 level. That level would be around 3 percentage points higher than had been assumed in the February *Monetary Policy Report*, reflecting in part a greater-than-expected boost from test and trace activities on health output and a less weak profile for consumer spending.

17 The number of new Covid cases and Covid-related hospitalisations and deaths in the United Kingdom had continued to fall, the vaccination programme was proceeding apace, and restrictions on domestic economic activity had been loosened broadly in line with announced plans. In England, non-essential retail premises,

outdoor hospitality and self-contained accommodation had re-opened as planned on 12 April, and the roadmap continued to envisage the opening of indoor hospitality, entertainment and non self-contained accommodation no earlier than 17 May. Restrictions in Scotland has been loosened on 26 April, with further easing envisaged on 17 May and 7 June. In Wales, relaxations had come into effect on 24 and 26 April, and 3 May, and in Northern Ireland on 30 April. The latest ONS Business Insights and Conditions Survey suggested that the share of UK companies open for trading had increased to 83% towards the end of April, with a further 4% of companies planning to reopen by early May, which would take the share to a little above its highest level since the onset of the pandemic. Reflecting these developments, GDP was expected to rise sharply in 2021 Q2, by over 4%, although that would mean that activity remained around 5% below its level in 2019 Q4.

18 Following an expected fall of around 5% in 2021 Q1, household spending was projected to increase by around 8% in Q2, contributing significantly to the expected rebound in GDP. That was consistent with intelligence from the Bank's Agents, which suggested that activity would increase most rapidly in consumer-facing companies, and particularly in consumer services. Retail sales volumes had risen by 5.4% in March, bringing the level of sales to 1.5% above their 2019 Q4 average. High-frequency indicators of mobility had increased over recent months and particularly so in April for traffic flows recorded around out-of-town shopping centres. Unlike during the temporary re-opening of the economy last summer, these developments had been matched by indicators of consumer confidence, some of which had risen to around their pre-Covid levels. CHAPS payments data had picked up sharply in April, accounted for by an increase in spending on delayable purchases including cars. Some indicators of social spending, such as restaurant bookings, had also increased significantly, although the supply of such activities remained heavily constrained while only outdoor seating was permitted. Other types of social spending, such as overseas travel bookings, had remained weak.

19 Several early-stage indicators of housing market activity had re-accelerated in recent months, including the RICS new buyer enquiries net balance and the number of mortgage applications reported by UK Finance. This was in part likely to reflect the extension of the temporary increase in the stamp duty threshold in England and Northern Ireland and an equivalent extension in Wales. House price inflation had softened a little on most measures in 2021 Q1, although Rightmove asking prices and the Nationwide house price index had both risen strongly in April.

20 Business investment was estimated to have fallen by around 4% in 2021 Q1, as some temporary strength in the transport and storage sector in 2020 Q4 was expected to have unwound. Investment was then expected to increase in 2021 Q2. According to the April Decision Maker Panel (DMP), businesses expected investment to be around 7% higher between April 2021 and March 2023 due to measures announced in *Budget 2021*. The percentage of companies in the DMP citing Covid as their main source of uncertainty had fallen further in April, although an increasing share of businesses did not expect Covid uncertainty to be resolved before 2022. Reports from the Bank's Agents were also consistent with improved investment intentions, although not to the same extent as in the DMP.

21 Following substantial declines in UK goods trade volumes in January, exports to the European Union had rebounded materially in February, although imports from the European Union had remained weak.

Supply, costs and prices

22 Official indicators had pointed to a stabilisation in labour market quantities around the beginning of the year, despite additional Covid-related restrictions having come into force. The weakness in output at that time had been matched largely by lower average hours worked rather than weaker employment. Labour Force Survey (LFS) employment had fallen slightly in the three months to February, by 0.2%, while HMRC administrative data had shown an increase in the number of employees over the same period. The LFS unemployment rate had edged down to 4.9%, with higher inactivity being the counterpart to lower employment. The Coronavirus Job Retention Scheme (CJRS) had covered 4.8 million jobs, around 20% of the total number of private sector jobs, on average in February. Overall, total hours worked had fallen by 2% in the three months to February, and by around 9% since 2019 Q4.

23 The Committee discussed the near-term outlook for employment. Survey indicators had picked up alongside their output counterparts. The flash composite employment PMI, for example, had risen to around a three-and-a-half-year high in April. The number of online vacancies had risen further in recent weeks, to almost 90% of their 2019 average, with that recovery based broadly across sectors. The number of potential redundancies identified through HR1 notifications had also continued to be relatively muted. Nevertheless, Bank staff expected the LFS unemployment rate to rise slightly to 5.2% in 2021 Q2, as individuals that had paused looking for work during the pandemic, and had therefore been recorded as inactive, resumed their search for a job.

24 The extension of the CJRS to the end of September was expected to limit significantly the near-term rise in the LFS unemployment rate. The Bank's Agents had reported that headcount reductions had largely been completed across a range of sectors, although in some sectors, such as hospitality and leisure, the employment outlook had remained uncertain and would depend on how demand evolved in the coming months. Respondents to the Decision Maker Panel were expecting the proportion of workers on full-time furlough to decline from 9% in April to 3% in June, alongside a recovery in employment.

25 Alongside the upward revisions to GDP in the May *Monetary Policy Report*, the economy's supply capacity was also estimated to be higher than in February, both in the recent past and over the forecast. That meant that the higher path for GDP did not translate one-for-one into a higher level of capacity use in the economy as a whole. The temporary adverse effects of the pandemic on productivity, for example, through enforced working from home, appeared to have been smaller than expected, and were judged likely to fade more quickly than in the February projections. The MPC also judged that persistent effects on supply from Covid were likely to be somewhat smaller than previously anticipated. The medium-term equilibrium rate of unemployment was expected to rise by less than had been forecast in February. That was consistent with the downward revision to unemployment itself, which was likely to result in more matches in the labour market being maintained.

26 Private-sector regular Average Weekly Earnings (AWE) had risen by 4.1% in the three months to February on a year earlier, broadly in line with expectations ahead of the release. AWE growth had continued

to be boosted by compositional effects, as lower-paid employees were more likely to have lost their jobs during the pandemic. The annual rate of AWE growth was also set to increase further, reflecting falls in average pay in the spring of last year, largely associated with reduced pay for those employees who had been furloughed at the time. This meant that, even if total pay stayed flat over the coming months, pay growth would rise to around 7% by May. Further ahead, average wage growth would be depressed if job creation were skewed towards lower-paid roles, thereby reversing to some degree the compositional effects seen to date. Pay settlements had generally remained subdued, with the Agents' contacts reporting average settlements of 1½ to 2%.

27 Twelve-month CPI inflation had fallen to 0.4% in February, before rebounding to 0.7% in March, with both figures below their respective February *Report* projections. As the inflation rate in February had been below 1%, an exchange of letters between the Governor and the Chancellor of the Exchequer would be published alongside these minutes. Much of the downside news since the February *Report* had been accounted for by clothing and footwear goods prices, which had fallen unusually sharply in February amid weak demand, before recovering somewhat in March. In absolute terms, weak services inflation, in part associated with the cut in VAT for hospitality, holiday accommodation and attractions, and lower energy prices had continued to weigh on CPI inflation, although the role of the latter factor had been diminishing.

28 The May *Report* projected an increase in CPI inflation over the course of 2021, to 2½% in Q4. This primarily reflected the contribution from energy prices turning positive in April, and rising further later in the year, as the effect of earlier falls dropped out of the annual comparison and more recent increases in wholesale energy prices were passed on to consumer prices. The Agents' contacts had so far reported little pass-through of the broader global increases in producers' input costs to consumer prices.

29 There had been little change in UK household and market-implied inflation expectations since the previous meeting, while movements in measures of business inflation expectations had been mixed. One-year and five to ten-year ahead household inflation expectations as measured by the Citi/YouGov survey had been stable between February and April. The 2021 Q1 Deloitte CFO Survey had shown a pickup in businesses' expectations for consumer price inflation two years ahead, whereas according to the CBI Distributive Trade survey, one-year and two-year ahead business inflation expectations had fallen back in Q1 from the recent highs seen in 2020 H2. In financial markets, measures of inflation compensation were little changed relative to the March MPC meeting and were a little higher than their long-run averages.

The immediate policy decision

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

31 Covid and the actions taken to contain it had continued to have a dramatic and rapidly changing impact on the United Kingdom and countries around the world. The Committee reviewed recent developments against the backdrop of its latest economic projections as set out in the accompanying May *Monetary Policy Report*.

32 Global GDP growth was likely to have slowed in 2021 Q1 as Covid-related restrictions weighed on economic activity. Growth appeared to have been stronger than expected in the February *Report*, however, suggesting that the impact of these restrictions on output had been smaller than anticipated, notably in major advanced economies. Euro-area GDP had fallen by 0.6% in 2021 Q1, leaving the level of GDP around 5½% lower than in 2019 Q4. US GDP had increased by 1.6% in 2021 Q1, leaving the level of GDP around 1% lower than in 2019 Q4, with the American Rescue Plan having started to have an impact on economic activity.

33 Covid vaccination programmes had progressed and picked up pace in many countries. Recently, however, new Covid cases had increased significantly in India and some other economies, leading to tighter restrictions. In the May *Report* central projections, UK-weighted world GDP was expected to rise over 2021 as vaccination programmes continued and Covid-related restrictions eased over time, although the speed and extent of the recovery was expected to vary across regions. The stronger outlook for GDP was also expected to result in a smaller impact of the pandemic on global supply capacity than had been assumed previously.

34 Advanced-economy risky asset prices had continued to increase and longer-term government bond yields had stabilised since March, such that they were higher than at the time of the February *Report*. In the United Kingdom, the sterling effective exchange rate had appreciated by 2¾% relative to the February *Report* and the market-implied path for Bank Rate had increased to 0.6% at the MPC's three-year forecast horizon. Mortgage credit conditions had continued to ease.

35 As of 5 May 2021, the total stock of assets held in the Asset Purchase Facility had reached £815 billion, including £70 billion of the £150 billion programme of UK government bond purchases announced on 5 November 2020.

36 UK GDP was expected to have fallen by around 1½% in 2021 Q1, leaving it around 9% below its 2019 Q4 level. That level would be around 3 percentage points higher than had been assumed in the February *Report*, reflecting in part a greater-than-expected boost from test and trace activities on health output and a less weak profile for consumer spending.

37 Official indicators had pointed to a stabilisation in labour market quantities around the beginning of the year, despite additional Covid-related restrictions having come into force. The LFS unemployment rate had fallen slightly to 4.9% in the three months to February, but it was likely that labour market slack had remained higher than implied by this measure. Overall, there was judged to be spare capacity in the economy at present.

38 New Covid cases in the United Kingdom had continued to fall, the vaccination programme was proceeding apace, and restrictions on economic activity were easing. Reflecting these developments, GDP was expected to rise sharply in 2021 Q2, although activity in that quarter was likely to remain on average around 5% below its level in 2019 Q4. Following an expected fall of around 5% in Q1, household spending was projected to grow by around 8% in Q2, contributing significantly to the expected rebound in GDP.

39 In the May *Report* projections, GDP was expected to recover strongly to pre-Covid levels over the remainder of this year in the absence of most restrictions on domestic economic activity. Demand growth was further boosted by a decline in health risks and a fall in uncertainty, as well as announced fiscal and monetary

stimulus. Consumer spending was also supported by households running down over the next three years around 10% of their additional accumulated savings, rather than the 5% assumed in the February *Report*. Business investment was expected to rise as sales recovered and uncertainty declined, and in the first two years of the forecast period it was further supported by the temporary capital allowance super-deduction announced in *Budget 2021*. The near-term recovery in GDP was also underpinned by strong government spending. After 2021, the pace of GDP growth was expected to slow as the boost from some of those factors waned. The level of activity was higher in each quarter of the forecast than in the February projections.

40 The extension of the Government's employment support schemes in *Budget 2021* was expected to limit significantly the near-term rise in the LFS unemployment rate. Given the expected near-term recovery in activity, most furloughed employees were expected to return to work when the scheme ended, leading to a peak in the jobless rate at just under 5½% in 2021 Q3 in the May *Report* projections. Unemployment was projected to remain lower than in the February *Report*, partly reflecting the more positive outlook for activity. Consistent with that news, the MPC also expected the medium-term equilibrium rate of unemployment to rise by less than had been forecast in February.

41 The fall in activity over the past year had reflected a decline in both demand and supply. Alongside the upward revisions to projected output, the economy's supply capacity was also estimated to be higher than in February, both in the recent past and over the forecast. That meant that the higher expected path for GDP did not translate one-for-one into a higher level of capacity use in the economy as a whole. The MPC judged that persistent effects from Covid on supply capacity were likely to be somewhat smaller than previously anticipated. In the May *Report* central projections, spare capacity was eliminated as activity picked up during 2021, and there was a temporary period of excess demand, before demand and supply returned broadly to balance.

42 Following substantial declines in UK goods trade volumes in January, exports to the European Union had rebounded materially in February, although imports from the European Union had remained weak. There remained uncertainty around the extent to which the United Kingdom's withdrawal from the European Union would lower supply growth over the forecast period.

43 Twelve-month CPI inflation had risen from 0.4% in February to 0.7% in March, with the February outturn triggering the exchange of open letters between the Governor and the Chancellor published alongside this monetary policy announcement. The weakness of recent CPI outturns had largely reflected the direct and indirect effects of Covid on the economy.

44 The Committee discussed how recent developments in global cost pressures might affect consumer prices. The pickup in pressures could reflect some combination of: temporary changes in demand patterns related to the pandemic and associated restrictions; temporary disruptions to supply capacity; and more persistent changes to the structure of global production and supply chains. The impact on consumer prices was likely to differ depending on the mix of these factors. For instance, some developments would tend to lead to a permanent increase in the level of consumer prices, which would imply a pickup in inflation in the near term, but would not by itself suggest a permanent impact on medium-term inflationary pressures. Other temporary developments would imply an initial increase in the price level and so near-term inflation, but could

subsequently unwind, suggesting a fall in the price level further out. The Committee would monitor developments in the relevant indicators in order to assess how persistent an impact they might have on consumer prices.

45 As had been the case in recent MPC forecasts, UK CPI inflation was projected to rise to close to the target in the near term as some of the effects of Covid on the economy faded. In the May *Report* central projection, inflation was expected to rise temporarily above the 2% target towards the end of 2021. This primarily reflected the contribution from energy prices turning positive in April, and rising further later in the year, as the effect of earlier falls dropped out of the annual comparison and more recent increases in wholesale energy prices were passed on to consumer prices. These transitory developments should have few direct implications for inflation over the medium term, however.

46 In the May *Report* central projection, conditioned on the market path for interest rates, inflation was expected to return to around 2% in the medium term. Inflation expectations remained well anchored.

47 The Committee turned to its immediate policy decision.

48 The outlook for the economy, and particularly the relative movement in demand and supply, remained 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.

49 In the central projections of the MPC's May *Report*, the economy experienced a temporary period of strong GDP growth and a temporary period of modestly above-target CPI inflation, after which growth and inflation fell back, with inflation around the target two and three years ahead. In judging the appropriate stance of monetary policy, the Committee would, consistent with its policy guidance and as always, focus on the medium-term prospects for inflation, including the balance between demand and supply, rather than factors that were likely to be transient.

50 Taken together, the Committee judged that the risks to the central projection for UK GDP were skewed to the downside in the first year of the forecast period, reflecting risks from pandemic developments. Further out, risks to GDP were judged to be broadly balanced. The risks to the forecasts for potential supply growth and CPI inflation were judged to be broadly balanced. Different members placed different weights on these risks, however.

51 Downside risks to the economic outlook remained from a resurgence of Covid in the United Kingdom. A drop in vaccine effectiveness could be triggered, either during this year or subsequently, by viral mutations. A pickup in cases could lead to caution in the spending behaviour of households. This possibility could also weigh on companies' hiring and investment decisions for some time, alongside downside risks from the rise in corporate debt since the onset of the pandemic. Adverse Covid developments in other countries could also have economic spillovers to the United Kingdom.

52 However, there were also upside risks to spending in the United Kingdom if households' caution dissipated more quickly than anticipated in coming quarters. A fast and effective vaccine rollout meant that

many individuals might feel safe to return to pre-Covid spending behaviour, supplemented by considerable pent-up demand from the earlier periods of restrictions. It was possible that consumer confidence would continue to rise materially over 2021 and that the proportion of accumulated saving that households spent could be higher than anticipated. More generally, given a number of positive developments since the February *Report*, including the near-term fiscal stimulus in *Budget 2021* and the much lower projected path of unemployment, there might be greater momentum in GDP growth than was incorporated in the May *Report* projections.

53 There were also risks to potential supply. On the upside, there might be even less of an increase in the medium-term equilibrium rate of unemployment if, as some evidence suggested, those who had become unemployed recently were more likely to remain attached to the labour market. As business investment in intellectual property, and ICT, machinery and equipment had held up during 2020, there might not be as large an adverse effect on capital services and total factor productivity as was assumed in the May projections. That said, there were also downside risks to potential supply, since the pandemic might still necessitate some sectoral reallocation and re-skilling between, and within, sectors in the longer term.

54 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.

55 At this meeting, most members of the Committee judged that the existing stance of monetary policy, which included the previously announced £150 billion increase in the target stock of purchased assets, remained appropriate. The Committee had previously said that 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. Although those downside risks were judged to have fallen somewhat recently, the same considerations still applied. These members also judged that the conditions set out in the MPC's existing policy guidance, which were in any case necessary but not sufficient conditions for any future tightening in monetary policy, were not met.

56 When assessing the conditions under which that policy guidance might be met in the future, the Committee would place weight on the implications of any changes to its projections for spare capacity and inflation, and to the risks around them. In addition, clear evidence of significant progress against those conditions should be demonstrated by developments in economic data. For example, the pace of spending by households and businesses as restrictions were lifted might contribute to that evidence, as well as how unemployment and wider measures of slack in the labour market were affected by the removal of government support schemes. The sustainability of medium-term inflationary pressures would depend to a large extent on the evolution of the labour market and hence underlying wage pressures once the furlough scheme ended, as well as any persistent developments in non-wage costs.

57 For one member, the improved economic outlook warranted a reduction in the degree of additional stimulus being provided to the UK economy at this meeting, by reducing the scale of asset purchases in the current programme from £150 billion to £100 billion. There was now clear evidence that the economy was growing rapidly, with both household and company spending surprising significantly and persistently to the

upside, and consumer and business confidence bouncing back. Moreover, looking ahead, there were good reasons for believing this strength in domestic demand would be maintained, including by the running down of the large stock of accumulated savings, leading to a larger and more sustained period of excess demand than was incorporated in the May central projections. With strong cost-push pressures being amplified by demand-pull factors, this posed upside risks to meeting the inflation target over the medium term. At a reduced pace of purchases, the proposed reduction in the size of the current programme to £100 billion would mean that it would be completed in August rather than by around the end of 2021.

58 The MPC would continue to monitor the situation closely and would take whatever 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.

59 The Chair 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 the first and second propositions.

Eight members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Jonathan Haskel, Dave Ramsden, Michael Saunders, Silvana Tenreyro and Gertjan Vlieghe) voted in favour of the third proposition. One member (Andrew Haldane) voted against this proposition, preferring to continue with the existing programme of UK government bond purchases but to reduce the target for the stock of these purchases from £875 billion to £825 billion.

Operational considerations

60 The existing programme of £150 billion of UK government bond purchases had started in January and its completion was expected by around the end of 2021. As envisaged since the announcement of the programme in November 2020 and consistent with developments in financial markets since then, the pace of these continuing purchases could now be slowed somewhat. The expected completion point of the purchase programme remained unchanged. This operational decision should not be interpreted as a change in the stance of monetary policy. As measured by the target stock of purchased assets, that stance remained unchanged. Further details of the planned operational approach to gilt purchases between the May and August 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.

61 In addition, and as also described in the Market Notice accompanying these minutes, the Committee agreed to reinvest £16.4bn of cash flows associated with the redemptions of the June 2021 gilt held by the APF.

62 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.

63 The MPC had been briefed on the Bank of England's plans for providing soon more public information on the proposed framework for adjusting the Corporate Bond Purchase Scheme to account for the climate impact of the issuers of the bonds it held. The Bank would be seeking feedback on the calibration of this framework, before implementing it by the time of the next scheduled round of reinvestment operations in 2021 Q4.

64 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.