Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 3 August 2022

4 August 2022

These are the minutes of the Monetary Policy Committee meeting ending on 3 August 2022.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/august-2022**.

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 14 September will be published on 15 September 2022.

Monetary Policy Summary, August 2022

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 August 2022, the MPC voted by a majority of 8-1 to increase Bank Rate by 0.5 percentage points, to 1.75%. One member preferred to increase Bank Rate by 0.25 percentage points, to 1.5%.

Inflationary pressures in the United Kingdom and the rest of Europe have intensified significantly since the May Monetary Policy Report and the MPC's previous meeting. That largely reflects a near doubling in wholesale gas prices since May, owing to Russia's restriction of gas supplies to Europe and the risk of further curbs. As this feeds through to retail energy prices, it will exacerbate the fall in real incomes for UK households and further increase UK CPI inflation in the near term. CPI inflation is expected to rise more than forecast in the May Report, from 9.4% in June to just over 13% in 2022 Q4, and to remain at very elevated levels throughout much of 2023, before falling to the 2% target two years ahead.

GDP growth in the United Kingdom is slowing. The latest rise in gas prices has led to another significant deterioration in the outlook for activity in the United Kingdom and the rest of Europe. The United Kingdom is now projected to enter recession from the fourth quarter of this year. Real household post-tax income is projected to fall sharply in 2022 and 2023, while consumption growth turns negative.

Domestic inflationary pressures are projected to remain strong over the first half of the forecast period. Firms generally report that they expect to increase their selling prices markedly, reflecting the sharp rises in their costs. The labour market has remained tight, with the unemployment rate at 3.8% in the three months to May and vacancies at historically high levels. As a result, and consistent with the latest Agents' survey, underlying nominal wage growth is expected to be higher than in the May Report over the first half of the forecast period.

Inflationary pressures are nevertheless expected to dissipate over time. Global commodity prices are assumed to rise no further, and tradable goods price inflation is expected to fall back, the first signs of which may already be evident. Although the labour market may loosen only slowly in response to falling demand, unemployment is expected to rise from 2023. Domestic inflationary pressures are therefore expected to subside in the second half of the forecast period, as the increasing degree of economic slack and lower headline inflation reduce the pressure on wage growth. Monetary policy is also acting to ensure that longer-term inflation expectations are anchored at the 2% target.

The risks around the MPC's projections from both external and domestic factors are exceptionally large at present. There is a range of plausible paths for the economy, which have CPI inflation and medium-term activity significantly higher or lower than in the baseline projections in the August Monetary Policy Report. As a result, in coming to its assessment of the outlook and its implications for monetary policy, the Committee is currently putting less weight on the implications of any single set of conditioning assumptions and projections.

The August Report contains several projections for GDP, unemployment and inflation: a baseline conditioned on the MPC's current convention for wholesale energy prices to remain constant beyond the six-month point; an alternative projection in which energy prices follow their downward-sloping futures curves throughout the forecast period; and a scenario which explores the implications of greater persistence in domestic price setting than in the baseline. These are all conditioned on announced Government fiscal policies, including the Cost of Living Support package announced in May. There are significant differences between these projections in the latter half of the forecast period. However, all show very high near-term inflation, a fall in GDP over the next year and a marked decline in inflation thereafter.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. The economy has continued to be subject to a succession of very large shocks, which will inevitably lead to volatility in output. Monetary policy will ensure that, as the adjustment to these shocks occurs, CPI inflation will return to the 2% target sustainably in the medium term.

The labour market remains tight, and domestic cost and price pressures are elevated. There is a risk that a longer period of externally generated price inflation will lead to more enduring domestic price and wage pressures. In view of these considerations, the Committee voted to increase Bank Rate by 0.5 percentage points, to 1.75%, at this meeting.

The MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. Policy is not on a pre-set path. The Committee will, as always, consider and decide the appropriate level of Bank Rate at each meeting. The scale, pace and timing of any further changes in Bank Rate will reflect the Committee's assessment of the economic outlook and inflationary pressures. The Committee will be particularly alert to indications of more persistent inflationary pressures, and will if necessary act forcefully in response.

In the minutes of its May 2022 meeting, the Committee asked Bank staff to work on a strategy for selling UK government bonds (gilts) held in the Asset Purchase Facility and committed to providing an update at its August meeting. Based on this analysis, the Committee is provisionally minded to commence gilt sales shortly after its September

meeting, subject to economic and market conditions being judged appropriate and to a confirmatory vote at that meeting.

Minutes of the Monetary Policy Committee meeting ending on 3 August 2022

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 Committee also discussed its strategy for selling UK government bonds held in the Asset Purchase Facility.

The international economy

2. UK-weighted global GDP growth was likely to have slowed in 2022 Q2, and was projected to remain weak in Q3. The latest rise in gas prices and, to a lesser extent, a tightening in financial conditions, had led to another significant deterioration in the outlook for global economic activity.

3. According to the preliminary flash estimate, euro-area GDP had grown by a higher-than-expected rate of 0.7% in 2022 Q2. This could in part have reflected tourism returning to pre-Covid-19 (Covid) levels as restrictions were eased. Since the May Monetary Policy Report, the euro-area unemployment rate had fallen further below pre-Covid levels, reaching 6.6% in June, while vacancies had continued to grow. However, forward-looking indicators, such as the S&P Global PMI composite output index and other business and consumer confidence survey balances had fallen sharply, indicating weaker GDP growth in Q3.

4. According to the advance estimate, US GDP had fallen by 0.2% in 2022 Q2, the second consecutive quarter of negative growth. While the fall had been mainly accounted for by lower stockbuilding, domestic final demand growth had also slowed. The unemployment rate had remained at 3.6%, while there were early signs of a levelling out of the increase in vacancies in high-frequency data. The US ISM manufacturing and non-manufacturing PMIs had both fallen in June to their lowest readings since mid-2020, although they had remained above 50, indicating GDP growth could remain weak, but positive, in Q3.

5. China's GDP had fallen by 2.6% in 2022 Q2, significantly weaker than had been expected and related largely to the strict regional lockdowns due to Covid and continued weakness in the property sector. GDP growth in Q3 was expected to recover, due to the easing of Covid restrictions.

6. European spot and futures gas prices had roughly doubled since the MPC's previous meeting in mid-June, as the risks of Russia limiting severely the flow of gas to Europe had started to crystallise. The Dutch Title Transfer Facility spot price, a measure of European wholesale gas prices, had risen to around €200 per MWh, close to its peak around the start

of the Russia-Ukraine war. In response to Russia's restriction of gas flows, EU member countries had agreed to a voluntary 15% reduction in gas consumption until the spring of 2023. Prices of other commodities, such as food, oil, and metals, had fallen materially since the MPC's previous meeting, with the movements in the latter two prices likely to have reflected a weakening near-term global growth outlook.

7. Indicators of global supply constraints had remained elevated, although there were some early signs that supply bottlenecks had started to ease. Some indicators of shipping costs had declined from their peaks, while PMI surveys indicated that manufacturing delivery times had fallen back across different regions.

8. High energy and other commodity prices, global supply bottlenecks and strong labour markets had contributed to increases in global inflation rates. Euro-area annual headline and core HICP inflation in July had increased to 8.9% and 4.0% respectively. In the United States, annual headline and core PCE inflation had increased to 6.8% and 4.8% in June respectively, and annual US CPI inflation had increased to 9.1% in June.

Monetary and financial conditions

9. Since the MPC's previous meeting, financial markets had continued to be volatile. Market participants now expected that central banks in major advanced economies would react more forcefully to near-term inflationary pressures, but could need to respond to weaker activity thereafter. Ten-year government bond yields had fallen by around 70, 80 and 90 basis points in the United Kingdom, United States and Germany respectively since the MPC's June meeting, more than reversing the increases seen between the May and June meetings. Risky asset prices had recovered, following large declines in equity prices and increases in corporate bond spreads between the MPC's May and June meetings.

10. A significant number of central banks globally had increased their policy rates over the past six weeks, including more than three quarters of the central banks for which the Bank for International Settlements published data. At its July meeting, the Federal Open Market Committee had increased the target range for the federal funds rate by 75 basis points, to 2¼ to 2½%. At its July meeting, the ECB Governing Council had raised its key policy interest rates by 50 basis points and had approved a Transmission Protection Instrument, to ensure that the monetary policy stance was transmitted smoothly across all euro-area countries as the Governing Council continued to normalise monetary policy. The near-term path for market-implied policy rates in both the United States and euro area implied a sharp pickup in rates in 2022, but thereafter flat-lined or fell back a little, at levels lower than at the time of the MPC's previous meeting.

11. In the United Kingdom, market pricing was broadly consistent with an increase in Bank Rate of 50 basis points at this MPC meeting. Following the Governor's announcement in his

Mansion House speech on 19 July that the MPC would publish more details on its strategy for beginning to sell the gilts held in the Asset Purchase Facility alongside the August Monetary Policy Report, a majority of market participants now expected that such sales would begin shortly after the MPC's September meeting. Expectations for the extent of these sales were little changed, according to respondents to the Bank's latest Market Participants Survey (MaPS).

12. Further out, market-implied expectations for the path of Bank Rate had fallen since the MPC's previous meeting, now peaking at just under 3% in March 2023. This path continued to be higher than the expectations for Bank Rate of respondents to the latest MaPS, although the gap between the two paths had narrowed slightly, as the median respondent to MaPS now expected Bank Rate to peak at 2.5%, compared to 2% at the time of the MPC's previous meeting.

13. Medium-term inflation compensation measures were lower across advanced economies, including the United Kingdom, than at the time of the May Report. That might have reflected concerns about the weaker global growth outlook, lower prices for some commodities, and tighter monetary policy in the near term. Medium-term UK inflation compensation measures had remained above their average levels of the past decade.

14. Based on the 15-working day average to 26 July on which the August Report had been conditioned, the sterling effective exchange rate was around 3% lower than the corresponding level at the time of the May Report. The depreciation of sterling against the US dollar had accounted for around 60% of this fall. Sterling had appreciated somewhat in the run-up to this MPC meeting.

15. Lending rates for new fixed-rate mortgages in the United Kingdom had continued to increase materially, reflecting a further response to the increases in risk-free market rates that had been observed since autumn 2021. The pass-through of these increases in risk-free rates to mortgage rates had been close to the full pass-through that had typically been seen prior to the global financial crisis, when interest rates had been further away from their lower bound. The latest Credit Conditions Survey suggested that secured credit availability for households had declined in the second quarter, with lenders reporting that this had largely reflected a worsening economic outlook. Respondents had expected secured credit availability to decrease slightly further in 2022 Q3. As usual, increases in interest rates on unsecured household borrowing and sight deposit rates had been smaller than for mortgage lending.

Demand and output

16. Monthly GDP was estimated to have increased by 0.5% in May, following a 0.2% decline in April. The May outturn had been weaker than Bank staff had expected, but there was still

uncertainty around the scale of the upward impact on activity from the additional trading day in May associated with the timing of the Platinum Jubilee bank holiday period.

17. Following a 0.8% quarterly increase in GDP in 2022 Q1, Bank staff now expected GDP to have fallen by 0.2% in Q2 as a whole, weaker than the 0.1% growth expected in the May Monetary Policy Report. Headline growth had been depressed by the run-down of NHS Test and Trace activity and by the impact of the Platinum Jubilee over the quarter as a whole. Bank staff had estimated that GDP growth excluding those factors was likely to have been around ½%, compared to around 1% in previous quarters. That was also slightly weaker than had been expected in the May Report, but broadly consistent with indicators of output growth from business surveys that had declined over the quarter. The slowdown in underlying growth was in part likely to be a reflection of the fall in real incomes due to higher global energy and tradable goods prices.

18. Most business survey indicators had weakened further in July. For example, the S&P Global/CIPS PMI composite output index had fallen from 53.7 in June to 52.1, below its long-run average but remaining consistent with positive GDP growth. Within the aggregate, there had been particular weakness in manufacturing output. The composite future output index had risen slightly in July, however. According to the Bank's Agents, activity had grown at a moderate pace recently, with output constrained by ongoing shortages of labour and goods, and with companies reported to be more optimistic than households about the economic outlook.

19. Overall, Bank staff now expected GDP to increase by 0.4% in 2022 Q3, slightly weaker than had been incorporated in the May Report. With headline growth likely to be boosted by the unwind of the effect of the Platinum Jubilee, underlying growth was expected to slow further but to remain positive.

20. Following 0.5% growth in 2022 Q1, household consumption growth was expected to have slowed in Q2, with a further slowdown anticipated in Q3 to around 0.1% growth. Retail sales volumes had fallen by 0.1% in June, with particular weakness in clothing and footwear, and household goods stores. This had continued the downward trend in retail spending observed since the second half of 2021. According to the Bank's Agents, there had been signs of consumer demand softening, as the fall in household real incomes was depressing spending. Food retailers had reported declines in sales volumes to the Agents, and there had also been widespread reports of a slowdown in sales of durable goods, which could be consistent with a change in the composition of spending. According to ONS data, output had surpassed its pre-pandemic level in some consumer-facing service sectors, such as hotels and restaurants, and land transport, but it was unclear whether the output of these sectors would rise much further in the near term. GfK consumer confidence had remained unchanged in July at the record-low level recorded in June. There had been some early indications of a slowing in housing demand in the June RICS survey.

21. Business investment had fallen by 0.6% in 2022 Q1 and had been persistently lower than expected in previous Monetary Policy Report projections. Relative to its pre-pandemic level, that weakness had been particularly apparent in investment in transport equipment and buildings and structures. Official data for business investment had been subject to significant revision in the past. According to the Bank's Agents, investment intentions had softened slightly recently but had remained positive. Current investment spending had continued to be held back by cost pressures and shortages, and a greater number of the Agents' contacts had indicated that uncertainty about demand might curtail investment in future.

22. Following changes in measurement associated with the United Kingdom's withdrawal from the European Union, it remained very difficult to interpret recent external trade data, including being able to make consistent comparisons in these series across time.

Supply, costs and prices

23. The Labour Force Survey (LFS) unemployment rate had been 3.8% in the three months to May, equal to its pre-pandemic trough and consistent with a tight labour market. LFS employment growth had been strong, picking up to 0.9% in the three months to May. The corollary of stable unemployment and strong employment growth had been a further decline in the inactivity rate. Nevertheless, the employment rate had remained somewhat below its level immediately prior to the pandemic, with the inactivity rate still somewhat higher than it had been during that earlier period.

24. Indicators of labour demand had remained strong, alongside evidence of continued recruitment difficulties. The stock of vacancies had been relatively stable in recent months, remaining close to its record high in the three months to June. The vacancy-to-unemployment ratio, a measure of labour market tightness, had also remained elevated and, on an industry basis, this ratio for each sector of the economy had been higher than its corresponding pre-pandemic level. The Bank's Agents' survey on employment and pay, conducted over the six weeks to early July, had reported strong employment intentions among businesses, although respondents had expected recruitment difficulties to limit these intentions being realised. Indeed, the Agents' contacts had reported continued broad-based recruitment difficulties, with attrition and vacancy rates higher than normal for many businesses.

25. Indicators of nominal pay growth had remained strong, consistent with the effects of continued labour market tightness and higher CPI inflation outturns. Annual growth in private sector regular Average Weekly Earnings (AWE) had been 5% in the three months to May, broadly in line with expectations at the time of the May Monetary Policy Report. Adjusted for the mechanical effects of the changes in workforce composition and the Coronavirus Job Retention Scheme, Bank staff estimated that underlying nominal private sector regular pay growth had been around 4½% in the three months to May, in excess of pre-pandemic rates

of around 3 to 3½%. The HMRC PAYE measure of the median of pay growth had been around 5% in June, also above its pre-pandemic rate.

26. The Agents' employment and pay survey had reported an increase in recent wage settlements relative to estimates from the broadly equivalent survey conducted at the start of 2022. This survey had also suggested that businesses expected to increase pay deals by around 6% over the next twelve months, which was a little higher than in the previous survey. A significant minority of respondents in the latest survey had not provided an expected pay settlement figure for the next twelve months, with some indicating that they preferred to wait to observe future CPI outturns before deciding. Given the expected path of CPI inflation in the coming months, this suggested a potential upside risk to pay growth in the near term. Around a quarter of respondents to the latest survey had given or were considering awarding one-off payments to compensate staff. Underlying private sector regular AWE pay growth was expected to pick up further, to around 6% over the second half of 2022, driven by persistent tightness in the labour market and by higher inflation.

27. The Government had recently announced pay awards for a broad set of public sector employees of around 4%, on average, which compared to an annual rate of public sector AWE regular pay growth of 1.8% in the three months to May.

28. Twelve-month CPI inflation had risen to 9.4% in June, 0.3 percentage points above the May Report projection. In contrast, core CPI inflation, excluding food, beverages and tobacco and energy, had fallen to 5.8%, around ½ percentage point below the expectation at the time of the May Report. Relative to the May Report, there had been upside news in fuel, food and, to a lesser extent, services prices. The softening in core CPI inflation had been accounted for by a deceleration in core goods prices, in large part reflecting outright falls in used car prices. Services inflation, which was more closely associated with domestically generated inflation, had risen further, to 5.2%.

29. CPI inflation was expected to rise to around 10% in July and remain at around this level through the rest of the third quarter, reflecting higher fuel, food and services prices.

30. In 2022 Q4, CPI inflation was expected to rise to just over 13%, about 3 percentage points higher than the expectation at the time of the May Report and more than 2 percentage points higher than at the time of the June MPC meeting. The majority of that upside news was due to higher expected household energy prices. That primarily reflected the very substantial rise in wholesale gas futures prices that had occurred since the May Report, most recently due to Russia's restrictions of gas supplies to European markets in July and due to the risk of further curbs. Since May, sterling gas futures prices for end-2022 had nearly doubled. To a lesser extent, the upside news reflected Ofgem's announced changes to the method for updating its price cap, which had been shared with the Bank in advance of publication. These changes included putting more weight on the most recent sharp

increases in wholesale gas prices, via transitional observation windows. In the August Monetary Policy Report projections, the price cap was assumed to rise by around 75% in October, compared to around 40% in the May Report. That would increase the typical annual dual-fuel bill from just under £2,000 to around £3,500 in October. The switch to resetting the cap on a quarterly, rather than semi-annual, basis meant that the price cap would be reset again in January.

31. The direct contribution of energy to CPI inflation was projected to reach 6½ percentage points in 2022 Q4, nearly 2½ percentage points higher than in the May Report and expected to account for more than half of the overshoot of CPI inflation relative to the 2% target. The rise in energy prices was likely to have additional indirect effects on CPI inflation by increasing firms' costs, which were then likely to be passed on to a wide range of prices for non-energy goods and services. Bank staff estimated that these indirect effects would contribute around 1 percentage point to CPI inflation in 2022 Q4 and, assuming gas prices followed the Monetary Policy Report conditioning assumption, would continue to add significantly to inflation during the following year.

32. Core CPI inflation was also expected to pick up again in the near term, reaching around 6¼% by the end of the year, largely reflecting strengthening services price inflation. Indicators of costs and prices more broadly had remained elevated, although recent developments had been mixed. The S&P Global/CIPS PMI composite input and output indicators had fallen back somewhat in July from their recent highs. The inflation rates of the ONS's measures of both producer output prices and services producer prices had risen further, to historically elevated levels. The Agents' contacts had reported that input price inflation had remained elevated and that many companies expected to pass higher costs into prices to protect their margins, which remained below normal.

33. Short-term measures of inflation expectations across households, businesses and financial markets had remained substantially elevated relative to their historical averages. Respondents to the Decision Maker Panel had increased their expectations for their own price increases over the next twelve months to 6.6% on average in July, from 6.3% in June. The 2022 Q2 Deloitte CFO Survey had reported a median expectation for CPI inflation of 3.4% in two years' time. Two-year ahead expectations reported in the CBI Distributive Trades Survey had remained above its historical average in 2022 Q2. The Citi/YouGov measure of households' expectations at the one-year horizon had edged down in July but had remained at historically elevated levels. Households' short-term inflation expectations tended to move more in line with measured inflation rates than equivalent indicators of medium-term inflation expectations.

34. Most medium to longer-term measures of inflation expectations had remained above their historical averages, albeit to a less extent than their short-term counterparts. Financial market indicators of medium-term inflation expectations had fallen from their recent highs to a

level that was still above historical averages. The Citi/YouGov indicator of households' expectations at the five to ten-year horizon had eased by 0.2 percentage points to 3.8% in July but had remained at a historically elevated level. The Bank's Survey of Economic Forecasters, published in the August Report, had a median expectation for CPI inflation of 2% at the three-year horizon. The Committee would continue to monitor measures of inflation expectations very closely.

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. Inflationary pressures in the United Kingdom and the rest of Europe had intensified significantly since the May Monetary Policy Report and the MPC's previous meeting. That largely reflected a near doubling in wholesale gas prices since May, owing to Russia's restriction of gas supplies to Europe and the risk of further curbs. As this fed through to retail energy prices, it would exacerbate the fall in real incomes for UK households and further increase UK CPI inflation in the near term. CPI inflation was expected to rise more than forecast in the May Report, from 9.4% in June to just over 13% in 2022 Q4, and to remain at very elevated levels throughout much of 2023, before falling to the 2% target two years ahead.

37. UK GDP growth was slowing in underlying terms and to a slightly greater extent than had been expected previously. This was in part a reflection of the fall in real incomes due to higher global energy and tradable goods prices, as well as constraints on output from ongoing shortages of labour and goods. Companies had remained more optimistic about the economic outlook than households. The labour market was tight but not tightening further. The United Kingdom was now projected to enter recession from the fourth quarter of this year.

38. The Agents' employment and pay survey had reported that businesses expected to increase pay by around 6% over the next twelve months, a little higher than in their previous survey. Indicators of consumer and producer services price inflation had risen further in the latest data, although there had been some moderation in core consumer goods inflation. Respondents to the Decision Maker Panel had increased further their expectations for their own price increases over the next twelve months. Most other measures of inflation expectations had remained elevated, particularly in the near term, although financial market indicators of medium-term inflation expectations were lower than their recent highs.

39. The risks around the MPC's projections from both external and domestic factors were exceptionally large at present. There was a range of plausible paths for the economy, which had CPI inflation and medium-term activity significantly higher or lower than in the baseline

projections in the August Monetary Policy Report. As a result, in coming to its assessment of the outlook and its implications for monetary policy, the Committee was currently putting less weight on the implications of any single set of conditioning assumptions and projections.

40. The August Report contained several projections for GDP, unemployment and inflation: a baseline conditioned on the MPC's current convention for wholesale energy prices to remain constant beyond the six-month point; an alternative projection in which energy prices followed their downward-sloping futures curves throughout the forecast period; and a scenario which explored the implications of greater persistence in domestic price setting than in the baseline. These were all conditioned on announced Government fiscal policies, including the Cost of Living Support package announced in May. There were significant differences between these projections in the latter half of the forecast period. However, all showed very high near-term inflation, a fall in GDP over the next year and a marked decline in inflation thereafter.

41. The MPC's remit was clear that the inflation target applied at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognised that there would be occasions when inflation would depart from the target as a result of shocks and disturbances. The economy had continued to be subject to a succession of very large shocks, which would inevitably lead to volatility in output. These shocks had pushed global energy and other tradable goods prices to elevated levels. Those price increases had raised UK inflation and, since the United Kingdom was a net importer of these items, would necessarily weigh on households' real incomes. This real economic adjustment was something monetary policy was unable to prevent. These global shocks could interact with domestic factors, including the tight labour market and the pricing strategies of firms, and could lead to more persistent inflationary pressures. The role of monetary policy was to ensure that, as the adjustment in the real economy occurred, CPI inflation returned to the 2% target sustainably in the medium term. Monetary policy was also acting to ensure that longer-term inflation expectations were anchored at the 2% target.

42. The labour market remained tight, and domestic cost and price pressures were elevated. There was a risk that a longer period of externally generated price inflation would lead to more enduring domestic price and wage pressures. In view of these considerations, all members of the Committee judged that an increase in Bank Rate was warranted at this meeting.

43. Eight members of the Committee judged that a 0.5 percentage point increase in Bank Rate, to 1.75%, was warranted at this meeting. For these members, a more forceful policy action was justified. Against the backdrop of another jump in energy prices, there had been indications that inflationary pressures were becoming more persistent and broadening to more domestically driven sectors. In a tight labour market and an environment in which companies were finding it easier to pass on price increases, a higher and more protracted

path for CPI inflation over the next 18 months could increase the risk that an eventual decline in external price pressures would not be sufficient to restrain expectations of above-target inflation further ahead. Some of these members also judged that spending could be stronger than was assumed in the August Report projections if, for example, the labour market proved more resilient or some households drew down their accumulated savings to a greater extent. Overall, a faster pace of policy tightening at this meeting would help to bring inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening cycle later.

44. One member preferred a 0.25 percentage point increase in Bank Rate at this meeting. For this member, Bank Rate might already have reached the level consistent with returning inflation to the 2% target in the medium term. Demand would continue its recent slowing as household incomes were squeezed further and as past Bank Rate increases took full effect. Set against that, the labour market remained tight, and underlying wages and services prices had recently accelerated. While slowing demand would lower these domestic inflationary pressures, there was uncertainty over how much and how quickly this would occur. This member also shared concerns that the high near-term rate of CPI inflation would lead to second-round effects, prolonging the period of above-target inflation. Policy could act against those effects by generating a greater degree of slack and at the risk of oversteering medium-term inflation below target. Balancing these considerations, this member agreed that a further tightening was appropriate at this meeting, but felt that a smaller increase in Bank Rate would help minimise the risks, while retaining the option to act more forcefully if required at future meetings.

45. The MPC would take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. Policy was not on a pre-set path. The Committee would, as always, consider and decide the appropriate level of Bank Rate at each meeting. The scale, pace and timing of any further changes in Bank Rate would reflect the Committee's assessment of the economic outlook and inflationary pressures. The Committee would be particularly alert to indications of more persistent inflationary pressures, and would if necessary act forcefully in response.

46. The Chair invited the Committee to vote on the proposition that:

> Bank Rate should be increased by 0.5 percentage points, to 1.75%.

47. Eight members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Jonathan Haskel, Catherine L Mann, Huw Pill, Dave Ramsden and Michael Saunders) voted in favour of the proposition. One member (Silvana Tenreyro) voted against the proposition, preferring to increase Bank Rate by 0.25 percentage points, to 1.5%.

The MPC's strategy for UK government bond sales

48. As set out in the minutes of its May 2022 meeting, the Committee had asked Bank staff to work on a strategy for selling UK government bonds (gilts) held in the Asset Purchase Facility (APF) and had committed to providing an update at its August meeting. This would allow the Committee to make a decision at a subsequent meeting on whether the Bank of England should commence gilt sales.

49. The process of reducing the size of the APF had begun in February 2022, when the Committee had voted to cease gilt reinvestments and to initiate sales of sterling non-financial investment-grade corporate bonds.

50. In line with previous communications on APF reduction, the Committee's strategy for asset sales would be guided by a set of key principles. First, the Committee had a preference to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. Second, sales would be conducted so as not to disrupt the functioning of financial markets. Third, to help achieve that, sales would be conducted in a relatively gradual and predictable manner over a period of time.

51. In the run-up to this MPC meeting, Bank staff had set out a framework for assessing whether conditions were appropriate for the Bank of England to start gilt sales, consistent with these key principles. Using this framework, Bank staff had briefed the MPC on the current state of economic and market conditions, including whether these would be consistent with sales being conducted without disrupting the functioning of financial markets. The Financial Policy Committee (FPC) had also been briefed.

52. Based on the staff's analysis, the MPC was provisionally minded to commence gilt sales shortly after its September policy meeting, subject to economic and market conditions being judged appropriate and to a confirmatory vote at that meeting. The Committee had asked the Bank to be in a position to begin a sales programme before the end of September.

53. In the event that this should proceed, the MPC agreed to set an amount for the reduction in the stock of purchased gilts held in the APF over a twelve-month period from the point at which the policy was voted on, comprising both maturing gilts and gilt sales. The Committee judged that, over the first twelve months of a sales programme starting in September, a reduction in the stock of purchased gilts held in the APF of around £80 billion was likely to be appropriate. Given the profile of maturing gilts over this period, this would imply a sales programme of around £10 billion per quarter.

54. The planned details of the proposed programme were set out in a provisional Market Notice accompanying these minutes.

55. For following years, the MPC intended to set an amount for the reduction in the stock of purchased gilts over the subsequent twelve-month period, as part of an annual review. As such, the Committee could amend the design parameters of the sales programme as required, for example to take into account the variation in gilt maturities across those periods.

56. The MPC agreed that there would be a high bar for amending the planned reduction in the stock of purchased gilts outside a scheduled annual review. That was in order to remain consistent with the principles that Bank Rate should be the active policy tool when adjusting the stance of monetary policy, and that unwind should be predictable. If such amendments were judged necessary in order to meet its remit, for example if potential movements in Bank Rate alone were judged insufficient to meet the inflation target, or if markets were judged to be very distressed, the MPC would first consider amending or halting the sales programme before considering restarting reinvestments or additional asset purchases. The FPC would also have a role through its assessment of financial stability.

Operational considerations

57. On 3 August 2022 the total stock of assets held in the Asset Purchase Facility (APF) was £863 billion, comprising £844 billion of UK government bond purchases and £19.1 billion of sterling non-financial investment-grade corporate bond purchases.

58. Consistent with the Committee's decision at its February 2022 meeting to begin to reduce the stock of UK government bond purchases by ceasing to reinvest maturing assets, the £5.9 billion of cash flows associated with the redemption of the September 2022 gilt held by the APF would not be reinvested.

59. Consistent with the Committee's decision at its February 2022 meeting to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023 that should unwind fully the stock of corporate bond purchases, the Bank would begin sales of corporate bonds in the week commencing 19 September 2022, with operational details to be published around a month ahead of auctions commencing.

60. The Committee had been briefed on operational changes to the Sterling Monetary Framework that would come into effect alongside the start of a gilt sales programme. The Bank would launch a new Short Term Repo (STR) facility to help to ensure that short-term market rates remained close to Bank Rate, and to allow the MPC to make future decisions about APF unwind independently of the implications for the supply of reserves. Alongside these minutes, the Bank was publishing an Explanatory Note setting out the broader framework for controlling short-term interest rates during the APF reduction programme, and a Market Notice describing the STR in more detail.

61. Finally, on behalf of the Committee, the Chair expressed his appreciation to Michael Saunders for his contributions to the work of the MPC since becoming a member in 2016.

62. The following members of the Committee were present:

Andrew Bailey, Chair
Ben Broadbent
Jon Cunliffe
Jonathan Haskel
Catherine L Mann
Huw Pill
Dave Ramsden
Michael Saunders
Silvana Tenreyro

Clare Lombardelli was present as the Treasury representative.