BANK OF ENGLAND

Monetary Policy Summary

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These are the minutes of the Monetary Policy Committee meeting ending on 13 January 2016.

They are available at http://www.bankofengland.co.uk/publications/Pages/news/2016/001.aspx

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 3 February will be published on 4 February 2016.

Monetary Policy Summary, January 2016

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy in order to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 13 January 2016, the MPC voted by a majority of 8-1 to maintain Bank Rate at 0.5%. The Committee voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion, and so to re-invest the £8.4 billion of cash flows associated with the redemption of the January 2016 gilt held in the Asset Purchase Facility.

Twelve-month CPI inflation rose to 0.1% in November and is likely to rise modestly further in the coming months as some of the large falls in energy and food prices a year earlier drop out of the annual comparison. But the 40% decline in dollar oil prices means that the increase in inflation is now expected to be slightly more gradual in the near term than forecast in the Committee's November *Inflation Report* projections. Although a large part of the current deviation of CPI inflation from the 2% target reflects unusually large drags from energy and food prices, core inflation also remains relatively subdued – a consequence of the past appreciation of sterling, weak global inflation and restrained domestic cost growth.

The outlook for inflation in the medium term reflects the balance between the persistence of the dampening influence of factors such as the past appreciation of sterling and subdued world export prices, and prospective further increases in domestic cost growth. The MPC's objective is to return inflation to the target sustainably, without an overshoot once those persistent disinflationary forces have waned. Given that, the MPC intends to set monetary policy to ensure that growth is sufficient to absorb remaining spare capacity in a manner that returns inflation to the target in around two years and keeps it there in the absence of further shocks.

The MPC set out its most recent detailed assessment of the economic outlook in the November 2015 *Inflation Report*. At that time, the Committee's central view was that, if Bank Rate were to follow the gently rising path implied by the prevailing market yields, CPI inflation would slightly exceed the 2% target in two years' time and then rise further above it, reflecting modest excess demand. The MPC judged that the risks to this projection lay a little to the downside in the first two years, reflecting global factors.

Since then, the data regarding international activity have evolved broadly as expected. Recent volatility in financial markets has underlined the downside risks to global growth, primarily emanating from emerging markets. Although the most recent declines in oil prices will depress global inflation in the near term, given they appear primarily to reflect developments on the supply side of the market, these conditions should in time provide net support to spending in the United Kingdom and its major trading partners.

Domestically, the most recent data suggest that, after faster growth over the previous two years, output growth was steady during 2015 at rates a little below pre-crisis norms. Although indicators of private domestic spending appear healthy, business surveys imply that the near-term outlook for aggregate activity is slightly weaker than in the MPC's November central projection. Productivity growth appears to have recovered somewhat over 2015, but the underlying supply capacity of the economy, and therefore the degree of inflationary pressure resulting from a given pace of demand growth, remain difficult to judge. Despite continued reductions in the rate of unemployment, pay growth remains restrained and appears to have dipped slightly in the most recent data. Overall, while domestic cost growth over the past year has been below that necessary for inflation to return sustainably to the 2% target, its pace can be expected to increase over time.

As in previous months, there is a range of views among MPC members about the balance of risks to inflation relative to the target in the medium term. At the Committee's meeting ending on 13 January, eight members judged it appropriate to leave the stance of monetary policy unchanged at present. Ian McCafferty preferred to increase Bank Rate by 25 basis points, given his view that the path of domestic costs was more likely to lead to inflation exceeding the target in the medium term than was embodied in the Committee's collective November projections.

All members agreed that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so only gradually and to a level lower than in recent cycles. This guidance is an expectation, not a promise. The actual path that Bank Rate will follow over the next few years will depend on the economic circumstances.