The Bank of England pauses

Synopsis: The Bank of England has left the Bank (Base) Rate unchanged at 5.25%.

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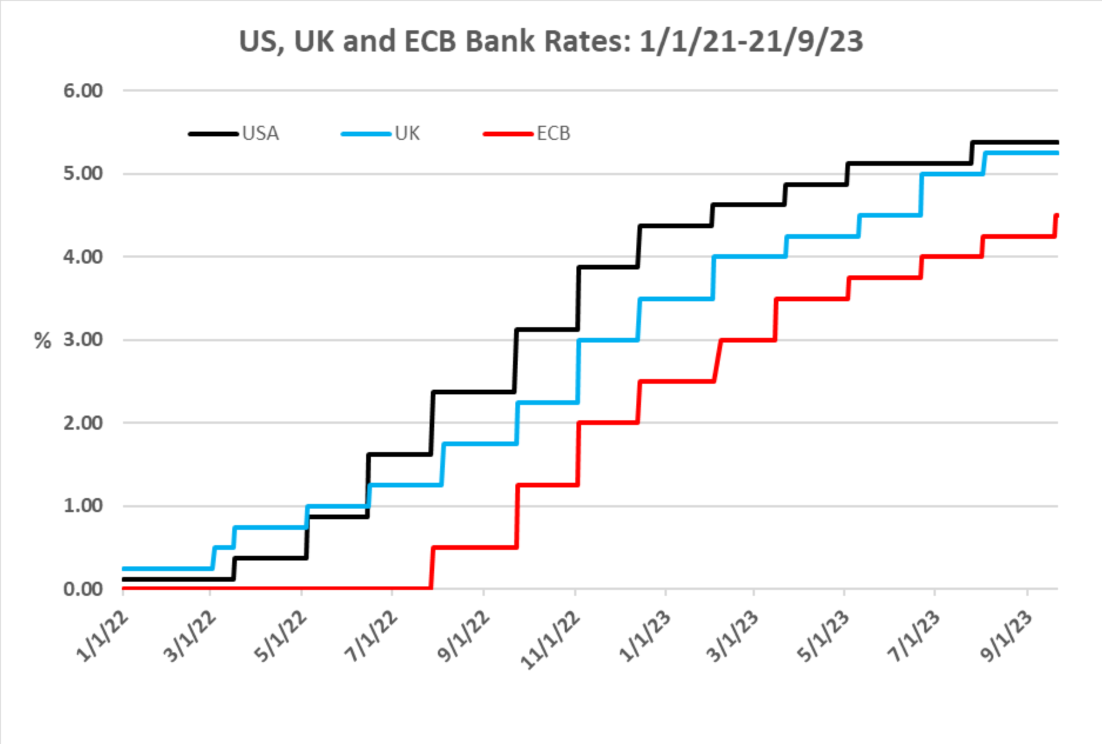

On Wednesday, the US Federal Reserve held its Fed fund rates at 5.25%-5.50%, the second (non-consecutive) pause in its rate hiking cycle. Last week the European Central Bank added 0.25% to its rates, taking the deposit rate to 4.00% and the main lending rate to 4.50%. There was a sense after both decisions that further rises will be few, perhaps if any.

On Thursday the Bank of England followed the Fed's stance, ending 14 consecutive increases with a pause at 5.25%.

The Bank's statement said that *'Developments in key indicators of inflation persistence have been mixed, with the recent acceleration in the Average Weekly Earnings not apparent in other measures of wages and with some downside news on services inflation. There are increasing signs of some impact of tighter monetary policy on the labour market and on momentum in the real economy more generally. Given the significant increase in the Bank Rate since the start of this tightening cycle, the current monetary policy stance is restrictive. At this meeting, the Monetary Policy Committee (MPC) voted to maintain the Bank Rate at 5.25%.'*

As usual, the MPC is less clear cut about the future path of interest rates. Echoing the Fed's theme of yesterday, the Bank says 'Monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.' Higher for longer, in not so many words.

After Wednesday's better-than-expected CPI numbers (please see our earlier Bulletin), the money markets put the odds on no change in the Bank Rate at around 50/50 and the MPC's vote came close to mirroring this, with the decision to stay put being made by five votes to four, with Andrew Bailey casting the final vote in favour of hold. That suggests it might not take much for the Bank to add another 0.25% before 2024 arrives.

One other decision – more widely expected – came from today's meeting. The Bank will reduce its stock of QE-acquired gilts by £100bn nominal over the next 12 months, starting in October, bringing the pile down to £658bn. The reduction is £20bn more than the current year's figure. An assessment of market conditions and of market capacity by the Bank suggested that £100bn was 'unlikely to disrupt the functioning of financial markets'.

Comment

In the absence of a UK equivalent of the Fed's dot-plot, it is impossible to see whether the MPC's members are thinking that there will be another rate rise before the year end. For now, the most recent economic data points to this being the peak rate level, but as the Bank makes clear, if new data goes the wrong way, then rates could rise further.