



BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 3 February 2016

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These are the minutes of the Monetary Policy Committee meeting ending on 3 February 2016.

They are available at <http://www.bankofengland.co.uk/publications/Pages/news/2016/002.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 16 March will be published on 17 March 2016.

Monetary Policy Summary, February 2016

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 February 2016, the MPC voted unanimously to maintain Bank Rate at 0.5%. The Committee also voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

In December, twelve-month CPI inflation stood at 0.2%, almost 2 percentage points below the inflation target. Oil prices were more than a third lower, in sterling terms, than a year earlier. Together with muted growth in world prices, the appreciation of sterling since early 2013 has pulled down on import prices more broadly. Overall, these factors can explain the vast majority of the deviation of inflation from the target in December, and to an even greater extent than at the time of the November *Inflation Report*. The remainder of the undershoot reflects subdued domestic cost growth, particularly unit labour costs.

Returning inflation to the 2% target requires balancing the protracted drags from sterling's past appreciation and low growth in world export prices against increases in domestic cost growth. Fully offsetting the drag on inflation from external factors over the short run would, in the MPC's judgement, involve too rapid an acceleration in domestic costs, one that would risk being unsustainable and would lead to undesirable volatility in output and employment. Given these considerations, 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.

Global growth has fallen back further over the past three months, as emerging economies have generally continued to slow and as the US economy has grown by less than expected. There have also been considerable falls in the prices of risky assets and another significant fall in oil prices. The latter appears largely to reflect news about the supply of oil. Developments in financial markets seem in part to reflect greater weight being placed on the risks to the global outlook stemming from China and other emerging economies. Looking ahead, growth in the United Kingdom's main trading partners should continue to be supported by the boost to real incomes from low commodity prices, and to some degree by monetary and fiscal policy. But emerging market economies are likely to grow more slowly than in recent years and the risks to the MPC's central projections of only modest global growth lie to the downside.

Although activity growth in the United Kingdom has slowed to slightly below average rates, the domestic private sector remains resilient. Consumer confidence is robust, supported by a pickup in real income growth, and overall investment intentions continue to be firm, although a sharp retrenchment in capital spending in the oil and gas sector is under way. GDP is expected to grow at around average rates over the forecast period as a tighter labour market and rising productivity support real incomes and consumption.

The MPC has revised down its estimate of the level of potential supply broadly in line with the lower level of demand. Resilient private domestic demand growth is expected to produce sufficient momentum to eliminate the limited margin of spare capacity during the course of this year. However, wage growth has been weaker than anticipated and labour costs are expected to rise a little less quickly than thought at the time of the

November *Inflation Report*, contributing to a slower recovery in inflation. In part that reflects the MPC's expectation that low realised inflation will continue to moderate the increase in wage pressure in the near term. The mechanical return to higher rates of inflation as past falls in energy prices drop from the annual comparison, supported by the recent fall in the sterling exchange rate and some additional stimulus from lower market interest rates, should in time reverse this effect and support wage gains. The MPC judges that inflation expectations remain well anchored, though it remains watchful for signs that low inflation is having more persistent second-round effects on wages.

The scale of recent commodity price falls means that CPI inflation is likely to remain below 1% until the end of the year. As the drags from energy and other imported goods unwind, however, domestic cost pressures are projected to build up sufficiently such that, conditioned on the path for Bank Rate implied by market interest rates, CPI inflation is likely to exceed the 2% target slightly at the two-year point and then rise further above it. This central projection for inflation is modestly below that of three months ago for much of the forecast period but broadly similar by the end. The MPC judges the risks to the central projection to be skewed a little to the downside in the near term, reflecting the possibility of greater persistence of low inflation.

There are significant judgements underlying these projections and a range of views among MPC members about the balance of risks to inflation relative to the best collective judgement presented in the February *Inflation Report*. At its meeting ending on 3 February, the MPC judged it appropriate to leave the stance of monetary policy unchanged. The MPC judges it more likely than not that Bank Rate will need to increase over the forecast period to ensure inflation remains likely to return to the target in a sustainable fashion.

All members agree 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 more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path Bank Rate will follow over the next few years will depend on the economic circumstances.

Minutes of the Monetary Policy Committee meeting ending on 3 February 2016

1 Before turning to its immediate policy decision, and against the backdrop of its latest projections for output and inflation, the Committee discussed financial market developments; the international economy; money, credit, demand and output; and supply costs and prices.

Financial markets

2 The further decline over the month in the prices of a broad range of risky assets had begun to suggest one or more common underlying causes and, in contrast to the previous month, it was more difficult to identify idiosyncratic factors at play. It was likely that there had been some increase in risk aversion on the part of investors and perhaps further reassessment of the balance of risks to the global economy.

3 Short and longer-term interest rates had fallen across the major advanced economies, equity prices were generally lower and volatility had remained elevated. Following on from declines over the turn of the year, this meant that the prices of many risky assets had by and large retraced their rises since last autumn. Perhaps reflecting concerns about the sustainability of debt levels in emerging market economies in the face of lower commodity prices and weakening Chinese demand, equity and bond prices in these markets had fallen below their summer troughs. Corporate bond spreads had also widened beyond levels seen during the previous summer, with the Bank's market contacts noting a reappraisal by investors of liquidity conditions in secondary markets as one possible additional factor. Taken together, these moves were consistent with investors placing more weight on the possibility that risks from emerging markets, perhaps exacerbated by the fall in oil prices, would depress demand globally. There had been sharp movements in financial markets in Japan and other advanced economies following the Bank of Japan's reduction in the interest rate it paid on excess reserves to negative levels.

4 Asset prices in the United Kingdom had largely moved in line with those abroad and, unlike in previous months, the equity prices of UK-focused companies had moved similarly to the broader index. UK short-term and longer term interest rates had declined, and the profile for Bank Rate that underlay the projections contained in the Committee's February *Inflation Report*, derived from market yields, rose to only a little over 1% by the end of the three-year forecast period. Market implied interest rates had fallen further in the United Kingdom following the Bank of Japan's policy announcement, with the three-year instantaneous forward falling to a little less than 0.9%.

5 The sterling effective exchange rate was little changed on the month and remained lower than at the time of the Committee's November *Report*. Committee members discussed the extent to which this reflected news about domestic prospects or was a consequence of the more general increase in concern about downside risks to the global economy.

6 Regarding domestic prospects, data releases on the UK macroeconomy had on balance been a little weaker but arguably less so than in the United States. Short-term interest rates had fallen by a little more in the United Kingdom than in the United States or euro area, however. While the fall in sterling was consistent in terms of direction with some weakening in perceptions about the UK outlook, it was greater than could be accounted for purely by changes in interest rates in the United Kingdom relative to those overseas. Market intelligence suggested that investors were paying a little more attention to possible outcomes of any referendum during the year on UK membership of the European Union, and options prices indicated that the price of protection against the risk of sterling depreciation compared with the price of protection against an appreciation remained higher than in the second half of 2015. But there was less evidence that this had affected other UK asset prices. Spreads between UK gilts yields and those of other government bonds had been stable.

7 Sterling had in the past generally fallen against other major currencies during periods of global asset price volatility, perhaps because the United Kingdom had tended to run a current account deficit. The current weakness was perhaps not unusual in this light, against a backdrop of heightened risk aversion, particularly given the previous strength of sterling, which meant that, even after the most recent depreciation, it was still appreciably higher than it had been for most of the past five years.

The international economy

8 The outlook for the global economy continued to be coloured by developments in China and other emerging markets, and by the further fall in oil prices since December. Although the economic data on the month had been broadly in line with expectations, the Committee's view remained that risks to the global outlook lay to the downside.

9 Oil prices had been volatile during the month, ending it 12% higher than at the time of the Committee's previous policy meeting and around 12% down since the beginning of the year. News about supply factors had continued to put downward pressure on prices. Following the lifting of sanctions, it was now likely that Iranian production would come on stream a little faster than previously expected; at the same time, tensions between Iran and Saudi Arabia had made it less probable that OPEC would reach agreement on cutting production. The International Energy Agency had once again revised up its forecast for non-OPEC production and US inventory levels had risen by more than expected.

10 In China, according to official estimates, GDP had grown by 6.8% in the four quarters to 2015 Q4, broadly in line with expectations. This aggregate picture masked considerable divergence across expenditure components, however. Household consumption growth had risen further over 2015, while the contribution of investment spending had fallen back, notwithstanding a pickup in credit since the summer and reductions in official interest rates. There had also been some sectoral rebalancing, as the share of domestic activity accounted for by services continued to grow and manufacturers brought a greater proportion of their production process on shore, which together were reducing the import intensity of Chinese growth. This rebalancing was likely to put downward pressure on world trade, although the extent to which it would depress demand for UK exports specifically was less clear.

11 The relative stability in reported Chinese economic data contrasted with continuing volatility in financial indicators. Chinese equity prices had fallen further and were now around half their 2015 peak, although they were still above their level in late 2014. The exchange rate had depreciated a little further since the start of the year. Data for December had shown a \$100 billion fall in Chinese foreign exchange reserves and there had been a sharp turnaround in capital flows. The current sensitivity of capital flows to changes in sentiment made it more difficult for policy makers in a number of economies in Asia and Latin America, particularly those with high levels of debt denominated in foreign currency, to offset weakening in activity with looser monetary or fiscal policy.

12 In the United States, GDP growth in the last quarter of 2015 had fallen back to 0.2%, in line with recent indicators but around ½ percentage point weaker than Bank Staff had expected at the time of the November *Inflation Report*. The slowing in growth, from 0.5% in Q3, had been broadly based, with continuing drags from net trade and falling investment in the mining and extraction industries. Weakness in stockbuilding had also depressed growth. Wage growth continued to be subdued – the Employment Cost Index had increased by 2% in the year to Q4 – but, with US productivity growth also disappointingly weak, unit labour cost growth was closer to its historical average. The FOMC had left interest rates unchanged at its January meeting.

13 GDP had risen in Q4 by 0.2% in France and by 0.8% in Spain. Across the euro area as a whole, surveys continued to point to growth of a little below ½% in 2015 Q4. Although the German Ifo index had fallen back in January, euro area growth was likely to continue at around this pace into 2016, as the drag from emerging markets was offset by stimulus from lower oil prices and looser monetary and, to a lesser extent, fiscal policy. HICP inflation had picked up to 0.4% in December; taking account of recent falls in oil prices, however, Bank staff expected inflation to fall back over the coming months. Markets had interpreted recent comments by the President of the ECB as indicating that more monetary stimulus might be forthcoming at the Governing Council's March meeting.

Money, credit, demand and output

14 UK GDP was estimated to have grown by 0.5% in 2015 Q4, in line with Bank staff's expectation. The latest vintage of official estimates displayed remarkably steady growth during 2015, fluctuating between 0.4% and 0.5% per quarter. There had been little change in the business survey activity readings during the month, and Bank staff expected that recent quarterly growth rates would continue during the first half of 2016.

15 The economy was estimated to have expanded by 1.9% in the four quarters to 2015 Q4, nearly a percentage point slower than had been registered a year earlier. There were three main factors that lay behind the slowdown in demand growth: the rate of easing in credit conditions following the 2012 euro-area crisis had waned, prompting a slowing in some credit-sensitive components of demand such as housing investment; the government's fiscal consolidation programme had led to reduced growth in public spending; and the appreciation of sterling since 2013 had reduced the demand for exports. On the supply side, the positive shock to labour supply seen in 2013 had levelled off.

16 In light of the slightly softer growth picture, the Committee discussed the balance of demand and the main risks around the central outlook. The Q4 output data appeared consistent with the view that robust consumer and business demand was prevailing over weak external influences. Bank staff estimated that growth in consumer-related services had been solid, with particular strength in categories that might be considered discretionary, such as motor trades, hotels and travel providers. This was likely to have been partly a consequence of the energy-related boost to household real incomes. Growth in business services was also estimated to have been robust in Q4, although in annual terms it had edged down, probably reflecting softer export demand. The latter was also likely to have weighed on manufacturing output, which had been broadly flat. Construction output had fallen slightly and, although it was possible that skill shortages in the sector had acted to limit activity, the prolonged weakness had been somewhat puzzling.

17 A key question was whether the support from private domestic demand would endure. One concern was that the recent weakening in global demand, coupled with the pronounced falls in risky asset prices, might weigh more heavily on UK domestic demand than had been allowed for in the forecast. Were this to happen, it was likely to be most evident in business investment, which historically had been sensitive to global influences. In addition, uncertainty relating to the pending referendum on the United Kingdom's membership of the European Union could present a downside risk to near-term business spending. It was notable, however, that companies' reported investment intentions had not softened significantly, and relatively high rates of return on capital could support this component of spending as the economy continued to normalise.

18 The Committee's central expectation for household demand involved a further decline in the saving ratio, from a level that was already historically low. It was possible that households would be reluctant to reduce their saving ratio to such a degree, perhaps because of concerns about debt levels and the expected effects of fiscal consolidation. It was also possible that growing concerns about the global economic outlook and the associated rise in financial market volatility could weigh on consumer sentiment. That said, consumer confidence indicators had remained near record highs, possibly buoyed by high levels of employment and growth in real incomes. Also, household credit conditions had loosened significantly over the past few years, which would support spending.

Supply, costs and prices

19 Twelve-month CPI inflation had risen to 0.2% in December from 0.1% in November. As it had remained under 1%, the December outturn would necessitate an open letter from the Governor to the Chancellor of the Exchequer to be published alongside the minutes of this meeting and the Committee's February *Inflation Report*. CPI inflation excluding energy, food, beverages and tobacco had increased from 1.2% to 1.4% in December. That partly reflected a temporary boost in the contribution of airfares related to the proximity of the price collection date to the Christmas holiday period. That effect would probably unwind in the January data, leading to a small reduction in this measure of core inflation.

20 It had been a year since the decline in CPI inflation had necessitated the first open letter in the current sequence. At that time, the Committee had expected inflation to recover somewhat over the following year, in

large part as an arithmetic result of the declines in global energy prices in the second half of 2014 – the single largest contributor to below-target inflation – dropping out of the twelve-month comparison. In the event, however, the sterling price of Brent crude oil had continued to decline and in December had been more than a third lower than a year earlier. Wholesale gas prices had fallen by a similar amount. Declines in retail food prices, another factor contributing significantly to the CPI inflation undershoot, had also persisted. At -2.9% in December, depressed consumer food price inflation continued to reflect the influence of lower input costs and more intense competition amongst retailers.

21 Consequently, and as set out in the open letter that would accompany the publication of these minutes, the factors holding inflation below the 2% target appeared much as they had done a year ago: falls in commodity prices; the past appreciation of sterling; and, to a lesser degree, the below-average growth of domestic wage costs. The Committee considered the latest developments regarding each of these factors.

22 The Brent oil price had risen significantly since the MPC's January meeting but was lower than at the time of the November *Inflation Report*. The direct effect of that fall on retail fuel prices, coupled with the smaller impact of a reduction in food input prices, implied that CPI inflation in Q2 would probably be around 0.4 percentage points lower than anticipated at the time of the November *Report*. Although the outlook for commodity prices was, as ever, highly uncertain, in the absence of further declines the direct impact on CPI inflation of the most recent falls would dissipate around the turn of next year. The impact of the latest declines in wholesale gas prices might take longer to feed through to retail prices, given the typical lags involved in the supply chain. Since the end of 2013 wholesale gas prices had halved, and since the time of the November *Report* they had fallen by 20%. During the month, three of the six largest retail suppliers of domestic gas had reduced standard tariffs by around 5%, following a similarly sized price reduction by the UK's largest supplier in August 2015. The assumption built into the Committee's February forecasts was that the remaining large suppliers would also reduce their retail gas prices by around 5% during the spring. Given the scale of the reduction in wholesale gas prices over the past couple of years, however, the Committee had also assumed that further significant rounds of retail gas price reductions would take place in autumn 2016 and during 2017.

23 The sterling ERI had appreciated by around 18% between its low point in early 2013 and the time of the November 2015 *Inflation Report*. But, since that time, it had depreciated by 3½%. If sustained, the latest moves would act to offset to some degree the lingering drag on inflation from sterling's earlier appreciation. The precise speed with which movements in the exchange rate would be passed through into final consumer prices remained uncertain and would depend upon their underlying causes, which were difficult to diagnose in real-time.

24 While the vast majority of the shortfall between inflation and its target had reflected recent movements in commodity prices and the sterling exchange rate, restrained domestic cost growth had continued to play a role. In the three months to November, whole-economy average weekly earnings had increased by 2.0% compared with a year earlier. Excluding bonuses, average pay had increased by 1.9% over the same period. These figures had been broadly as expected at the time of the Committee's previous policy meeting, but the dip in average weekly earnings growth towards the end of 2015 had been more pronounced than had been

anticipated at the time of the November *Inflation Report*. In its updated February projections, the Committee had revised down the path of wage growth in the near term.

25 The Committee had discussed candidate explanations for the apparent weakness of average weekly pay, despite historically low levels of unemployment and other signs of a tight labour market, at previous meetings: the impact of the decline in average hours worked over the past year; the effect on aggregate pay of shifts in the composition of employment growth towards roles and industries that typically attracted lower pay levels; and the possible influence of low rates of CPI inflation, consistent with intelligence from the Bank's Agents. Elements of all of those factors could be at play. The Citigroup measure of household inflation expectations over the following twelve months released during the month had fallen slightly to 1.2% in January, while expectations five to ten years ahead had been stable at 2.7%. Taking all the available indicators as a whole, the Committee judged that inflation expectations remained well anchored, but it would remain watchful for signs that low inflation was having more persistent second-round effects on wage bargaining.

26 The aggregate unemployment rate had continued to decline in the three months to November and, at 5.1%, stood fractionally below its level immediately before the financial crisis. Employment had risen by 264,000 in the three months to November by comparison with the three months to August. And, while average hours were still lower than had been forecast in November, they had risen 0.2% over the same period. As a result, the total number of hours worked was expected to have risen by 1% in 2015 Q4. The short-term unemployment rate, the proportion of people who had been unemployed for less than six months, which was normally thought of as a guide to wage pressure, had been below its pre-crisis level for the previous two years.

27 These developments, coming with the recent dip in wage growth, raised the possibility that there was more slack than assumed and that the economy could therefore function with a rate of unemployment permanently lower than previously estimated. However, the Committee's best collective judgement was that the amount of slack remaining in the labour market was modest, and that the risks around that estimate were balanced.

28 Overall, the most recent falls in oil and other commodity prices meant that the near-term outlook for inflation was somewhat lower than three months earlier and that the expected pickup in inflation in 2016 would be rather less steep. Inflation was nevertheless likely to rise sustainably above zero during the early part of the year, absent further shocks: Bank staff expected an increase to around ½% during 2016 Q1. Looking further ahead, as set out in detail in the Committee's latest February *Inflation Report*, once the temporary drag from energy and other imported prices had ultimately faded, strengthening domestic cost growth was projected to take inflation back to the 2% target in around two years' time and then slightly above it. The Committee judged that the risks to its central projection for inflation were skewed to the downside in the first year of the forecast but balanced thereafter.

The immediate policy decision

29 The Committee set monetary policy to meet the 2% inflation target, and in a way that helped sustain growth and employment. At 0.2% in December, twelve-month CPI inflation remained well below the target. As set out in the Governor's latest letter to the Chancellor of the Exchequer, the vast majority of the shortfall reflected the impact of falls in commodity prices and the past appreciation of sterling. The outlook for inflation would therefore depend on the persistence of these external factors, the extent to which, in the United Kingdom, demand grew in excess of supply, and how rapidly pressure of demand on supply would outweigh any other forces currently depressing wages and price inflation.

30 Prices of risky assets had been considerably lower than at the time of the Committee's November *Inflation Report*. Concerns about the prospects for China and other emerging economies, perhaps reinforced by further falls in oil prices, had appeared to have weighed on investors' perceptions of the global outlook. GDP in China had increased by around 6¾% in 2015 and there had been further evidence of rebalancing away from investment and towards consumption. There had been significant net capital outflows during the year, however, and further large falls in Chinese equity prices and a tightening in domestic financial conditions more recently. The sensitivity of capital flows to changes in sentiment arguably made it more difficult for some emerging market economies to offset any weakening in activity with looser monetary or fiscal policy.

31 The advanced economies were likely to grow at a moderate pace during 2016. US GDP growth had fallen back to 0.2% in 2015 Q4 reflecting weakness in a broad range of components, some of which would probably prove temporary. Employment had continued to increase at a robust pace and there remained underlying momentum in activity. That said, productivity growth had remained weak. In the euro area, indicators remained consistent with growth of a little less than ½% in Q4, although there had been some softening in the most recent surveys. Low oil prices would put further downward pressure on inflation in the near term and market participants were expecting the ECB to re-assess its policy strategy at its March meeting. Looking further forward, growth in the United Kingdom's main trading partners would continue to be supported by the boost to real incomes from low commodity prices, and to some degree by monetary and fiscal policy. But emerging market economies would be likely to grow more slowly than in recent years and the risks to the Committee's central projection of only modest global growth lay to the downside.

32 Market interest rates and the prices of risky assets in the United Kingdom were also generally lower than at the time of the November *Inflation Report*. The path for Bank Rate upon which the Committee's February projections were conditioned rose to only a little above 1% by the end of the three-year projections, and the sterling exchange rate was around 3½% lower. In part, this lower level of sterling probably reflected the larger fall in interest rates in the United Kingdom and, possibly, uncertainty relating to the forthcoming referendum on EU membership. But sterling tended also to fluctuate with concerns about the global economy and it was a likely that this too was playing a role.

33 By contrast, domestic household and business confidence indicators had remained robust. Private domestic demand growth was proving resilient and continued to be sufficient to offset weaker global demand and retrenchment in investment in the mining and extraction sector. The ONS's preliminary estimate indicated

that GDP had increased by 0.5% in the fourth quarter, as anticipated last month. The economy was expected to grow at a pace slightly slower than the rates seen in 2013 and 2014. As was the case in other advanced economies, the further fall in oil prices and market interest rates would support demand in the months to come, also boosted by a tighter labour market and the lower exchange rate.

34 With limited slack remaining, the extent to which demand growth would generate increased inflationary pressure would depend in part on the outlook for supply. The Committee had revised down its estimate of the level of potential supply broadly in line with the lower level of demand, but there were signs that, as growth in potential labour supply was slowing, productivity growth was recovering towards more normal rates. Overall potential supply growth was likely to rise steadily, albeit more slowly than the Committee had projected three months ago. This reflected a reassessment of the path for average hours worked. That said, given frequent disappointments in recent years, there remained considerable uncertainty about the pace of productivity growth. There were also uncertainties about how much further unemployment could fall without generating upward pressure on wages, with a range of views across the Committee.

35 The near-term outlook for CPI inflation was weaker than at the time of the November *Inflation Report*, due in very large part to lower oil prices, which would depress consumer energy price inflation for a little longer than the Committee had previously expected. Although the inflation rate was likely to rise in the short term, the scale of recent commodity price falls would probably mean that CPI inflation would remain low for much of this year. The drags from energy and utility prices, and from the prices of imported non-energy goods and services, were nevertheless expected to diminish in time, in the absence of further downside shocks.

36 Although the tightening in the labour market had led to some increase in wage pressure during 2015, wage growth and labour costs had been weaker than expected in the final months of the year. The rate of increase in unit labour costs was below rates consistent with meeting the inflation target in the medium term. Reflecting uncertainty over the equilibrium unemployment rate, this weakening could suggest more slack than the Committee was assuming. Alternatively, the period of low inflation might be weighing on the level of wage settlements. For employers, recent low inflation appeared to be a factor affecting the starting level in negotiations. For employees, the boost to real incomes from the fall in energy prices may have made lower nominal wages more acceptable, even in a period of tightening in the labour market. These dampening effects were likely to wane as the drag on CPI inflation from external factors lessened and headline inflation picked up. Nominal wage growth would, therefore, in all likelihood increase, albeit probably initially at a slower pace than the Committee had previously expected. There were downside risks to this view in the near term and the Committee remained watchful for signs that low inflation was having more persistent second round effects on wages. Inflation expectations were judged to be well anchored. That, together with the recent fall in the exchange rate and some additional stimulus from the lower expected path for Bank Rate, meant that the pickup in domestic costs was judged sufficient to mean that CPI inflation was likely to exceed the 2% target slightly at the two-year point and then rise further above it.

37 Against that backdrop, all members of the Committee thought that maintaining the current stance of policy was appropriate at this meeting. For one member, the more prolonged period of low inflation suggested that the pickup in the pace of wage growth would be initially more muted than previously expected; with the upside risks

to inflation therefore likely to emerge somewhat later, an immediate tightening in monetary policy was no longer necessary. The Committee judged it more likely than not that Bank Rate would need to increase over the forecast period to ensure inflation remained likely to return to the target in a sustainable fashion. There continued to be a spread of views among members about the outlook for activity and inflation, in particular regarding: how responsive wage settlements would be to the fall in unemployment and the prospective increase in CPI inflation; the impact of exchange rate movements; and on the degree to which companies would seek to increase margins through raising prices.

38 All members agreed that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate did begin to rise, it was expected to do so more gradually and to a lower level than in recent cycles. Such guidance, however, was an expectation and not a promise: the path that Bank Rate would actually follow over the next few years would depend on economic circumstances.

39 The Governor invited the Committee to vote on the propositions that:

Bank Rate should be maintained at 0.5%;

The Bank of England should maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

Regarding Bank Rate, the Committee voted unanimously in favour of the proposition.

Regarding the stock of purchased assets, the Committee vote unanimously in favour of the proposition.

40 The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor responsible for monetary policy
Jon Cunliffe, Deputy Governor responsible for financial stability
Nemat Shafik, Deputy Governor responsible for markets and banking
Kristin Forbes
Andrew Haldane
Ian McCafferty
Gertjan Vlieghe
Martin Weale

Dave Ramsden was present as the Treasury representative.