



BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 6 February 2019

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These are the minutes of the Monetary Policy Committee meeting ending on 6 February 2019.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/february-2019>.

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 20 March will be published on 21 March 2019.

Monetary Policy Summary, February 2019

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 6 February 2019, the MPC voted unanimously to maintain Bank Rate at 0.75%. The Committee voted unanimously to maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion. The Committee also voted unanimously to maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

The MPC's latest projections for inflation and activity are set out in the accompanying February *Inflation Report*. They are conditioned on a smooth adjustment to the average of a range of possible outcomes for the UK's eventual trading relationship with the European Union and the gently rising path of Bank Rate implied by market yields.

The world economy has continued to slow over recent months, with a broad-based softening across all regions. That deceleration reflects the past tightening in global financial conditions, as well as the initial impact of trade tensions on business sentiment. Global growth is expected to dip below trend in coming quarters, weighing on UK net trade, before rising to around potential rates. Activity is projected to be supported by the more accommodative monetary policies in all major economic areas that markets now expect.

UK economic growth slowed in late 2018 and appears to have weakened further in early 2019. This slowdown mainly reflects softer activity abroad and the greater effects from Brexit uncertainties at home. These uncertainties could lead to greater-than-usual short-term volatility in UK data, which may therefore provide less of a signal about the medium-term outlook. Heightened uncertainty and elevated bank funding costs are assumed to subside over time, as greater clarity on future trading arrangements is assumed to emerge. These developments, together with looser fiscal policy, provide support to domestic spending. In the Committee's central projection, quarterly GDP growth recovers later this year, with four-quarter growth rising to 2% by the end of the forecast period.

CPI inflation fell to 2.1% in December and is expected to decline to slightly below the MPC's 2% target in the near term, largely due to the sharp fall in petrol prices which has occurred since November. As that effect unwinds, CPI inflation rises above 2%. The MPC judges that demand and potential supply are currently broadly in balance. The weaker near-term outlook is likely to lead to a small margin of slack opening up this year. Thereafter, demand growth exceeds the subdued pace of supply growth and excess demand builds over the second half of the forecast period. As a result, domestic inflationary pressures firm, as the upward pressure on inflation of sterling's past depreciation wanes. Under the assumptions that condition the February *Report*, inflation settles at a rate a little above the target.

The Committee judges that, were the economy to develop broadly in line with its *Inflation Report* projections, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon.

The economic outlook will continue to depend significantly on the nature of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond. The appropriate path of monetary policy will depend on the balance of these effects on demand, supply and the exchange rate. The monetary policy response to Brexit, whatever form it takes, will not be automatic and could be in either direction. The MPC judges at this month's meeting that the current stance of monetary policy is appropriate. The Committee will always act to achieve the 2% inflation target.

Minutes of the Monetary Policy Committee meeting ending on 6 February 2019

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

Financial markets

2 Global financial conditions were broadly similar to those prevailing at the time of the November *Inflation Report*. This had masked significant volatility over the period, however. Prices of risky assets in advanced economies had fallen sharply in the latter part of 2018 and, despite recovering much of that ground in early 2019, had remained lower than they had been three months ago. Within an aggregate measure of financial conditions, lower risky asset prices had been broadly offset by market expectations of more accommodative monetary policies in all major economic areas. The sterling exchange rate had continued to be influenced by Brexit developments.

3 Since the November *Inflation Report*, short-term and longer-term nominal government bond yields had fallen across the major advanced economies, with a significant adjustment in market participants' expectations of the future path of US monetary policy. Three-year instantaneous forward overnight index swap (OIS) rates had fallen by 63, 33, and 25 basis points respectively in the United States, euro area and United Kingdom. Following a number of FOMC communications around the turn of the year, market expectations were no longer implying any US rate rises over the next three years. Euro-area yields had also declined since both the MPC's previous meeting and the November *Report*, partly reflecting weaker euro-area data and the ECB Governing Council's most recent assessment that growth risks had shifted to the downside. These developments in the United States and euro area would act to ease global financial conditions, although they also needed to be set against the weakening in the global economic outlook and developments in risky asset prices.

4 Relative to the November *Report*, advanced economies' equity prices had fallen somewhat. Declines in equity prices had accelerated during the second half of December before partially unwinding, mainly reflecting swings in equity risk premia and developments in US monetary policy expectations.

5 Dollar, euro and sterling non-financial investment-grade and high-yield corporate bond spreads had fallen back since the MPC's previous meeting, but had remained elevated relative to the November *Report*. Non-financial corporate bond issuance in these currencies had been fairly healthy this year, particularly compared to the subdued levels seen towards the end of 2018. Issuance in sterling markets this January had been greater than in January 2018, although issuance by UK-focused companies had been limited.

6 UK unsecured bank funding spreads had retraced somewhat in January, bringing spreads on five-year senior unsecured bonds broadly into line with the equivalent instruments for euro-area banks. It was difficult to interpret these latest moves, however, given limited UK issuance and against a backdrop of factors specific to the euro area pushing up spreads there.

7 The sterling effective exchange rate index had fallen by 1% relative to the 15-day average underpinning the November *Report*. Sterling had continued to be sensitive to market participants' interpretation of Brexit news. Sterling implied volatilities, which had been elevated towards the end of 2018, had fallen back to a little above the levels seen at the time of the November *Report*. Sterling-dollar risk reversals had remained negative, suggesting market participants continued to view the risks to the exchange rate as skewed to the downside.

8 Five-year inflation swap rates, five years forward had declined somewhat since their December peak, although much of the fall had coincided with the release of a House of Lords' Economic Affairs Committee report that had recommended adjusting the method of calculating RPI. Market contacts had suggested that there had been an associated change in expectations of the return that those investing in RPI-linked assets were likely to receive. This had pushed down on financial market-derived measures of inflation expectations. After stripping out this effect, five-year inflation swap rates, five years forward had remained elevated relative to the equivalent US and euro-area measures, which had fallen over recent months.

The international economy

9 Economic data covering the second half of 2018 pointed to a sharper and possibly more persistent slowdown in global growth. At the time of the November *Inflation Report*, growth had been expected to ease, but there were now growing signs that the past tightening in global financial conditions, including the effects of earlier policy tightening in the United States and China, as well as the impact of negative sentiment around trade tensions, had contributed to a faster deceleration in activity.

10 The flash estimate of euro-area GDP had indicated that growth remained subdued in 2018 Q4, at 0.2%, the same rate as in Q3, and weaker than had been expected at the time of the November *Report*. Some of the euro-area weakness had been concentrated in Italy, which had entered a technical recession.

11 Some of the euro-area weakness had continued to reflect idiosyncratic and temporary factors. Car production had fallen again in 2018 Q4, and there had been signs that other sectors in the car-related supply chain had been affected as a result of extended EU-wide emissions tests being introduced last September. In addition, protests against fuel tax increases in France had appeared to have affected sentiment, with the French flash composite PMI falling further in January.

12 But there was also evidence of a more persistent slowdown in the euro area. Recent weakness in industrial production had been broader than just the automobile sector, suggesting other factors such as weaker global trade and associated trade tensions might be playing a role. There had been a marked decline in euro-area export growth to China through the course of last year, and the euro-area manufacturing new export orders PMI had continued to weaken in 2018 Q4 and had remained soft in January. Overall, Bank staff expected euro-area GDP growth to remain at 0.2% in 2019 Q1.

13 After strong growth during much of 2018, US GDP growth was expected to have slowed to 0.5% in Q4, and to a greater extent than had been projected at the time of the November *Report*. Given the delay of the first release of Q4 GDP data due to the partial federal government shutdown, that assessment was reliant on other

indicators of activity. After boosting growth in Q3, stockbuilding appeared likely to have made a negative contribution in Q4. Net trade data had remained weak in October, while the manufacturing ISM PMI had fallen sharply in December.

14 The partial shutdown of the federal government in the United States, that had started just before Christmas, was likely to have had a negative impact on GDP growth in 2019 Q1. However, in the absence of any further near-term shutdown, the estimated impact was judged to be small and would be reversed in Q2. Underlying fundamentals in the US economy had appeared to have remained relatively solid. Non-farm payrolls had continued to increase robustly in January, while the manufacturing ISM PMI had reversed part of its decline in December.

15 Headline GDP growth for China in 2018 Q4 had been reported at 6.4% on a year earlier, down from 6.5% in Q3. Activity data had been mixed. Annual industrial production growth had risen to 5.7% in December, but the Caixin and NBS manufacturing PMIs had both remained below 50 in January. The strength in trade recorded in the early part of 2018 had dropped off markedly, with Chinese exports and imports falling by 4.4% and 7.6% on a year earlier, respectively, in December. Part of that weakness might reflect the fading boost from front loading of purchases ahead of tariff increases, but could also point to downside risks to the wider economy. Growth of total social financing had slowed further to 9.8% on a year earlier in December, the weakest in over a decade.

16 In other emerging market economies, growth was expected to have slowed in 2018 Q4. Annual industrial production growth for seven of the major non-China emerging market economies had fallen to 1.8% in November, down from 2.9% in Q3. The emerging market composite PMIs had, however, picked up slightly in Q4.

17 Oil prices had been volatile over the past month, but had remained low relative to much of 2018, at around \$60 per barrel. Non-oil commodities prices had been broadly flat since the MPC's last meeting.

18 In the United States, annual growth in the headline CPI, the latest available measure of consumer inflation, had eased to 1.9% in December. Annual core CPI inflation had remained at 2.2%. In the euro area, the flash estimate for January HICP inflation had fallen to 1.4% on a year earlier, from 1.6% in December. Core inflation had risen very slightly to 1.1%.

Money, credit, demand and output

19 UK GDP had grown by 0.3% in the three months to November, compared with 0.8% in the three months to August. Manufacturing output and total industrial production had both fallen by 0.8% in the three months to November, while services output was up by 0.3% and construction output had risen 2.1%. Bank staff expected GDP growth to remain around 0.3% in 2018 Q4, in line with the forecast at the time of the November *Inflation Report* and marginally stronger than had been expected at the MPC's December meeting.

20 Business surveys of companies' output pointed to a further weakening in GDP growth in 2019 Q1. For example, the CBI's composite output balance had fallen in January, as had the IHS Markit/CIPS composite output index. Output balances in the BCC's latest Quarterly Economic Survey had remained relatively strong, although this related to an earlier sample period than the other surveys. Overall, the Committee judged that GDP growth would slow slightly further in Q1, to 0.2%, albeit with significant uncertainty around that estimate.

21 The Committee discussed the composition of demand growth in 2018 Q4 and 2019 Q1. Shifting expectations about Brexit among businesses and households could be leading to greater-than-usual short-term volatility in these data, which might therefore provide less of a signal about the underlying path of the economy over the medium term. There was also greater evidence that the weaker global environment had been affecting UK GDP, primarily through trade channels.

22 The contribution of net trade to quarterly GDP growth in 2018 Q3 had, as expected, been revised down significantly in the Quarterly National Accounts release, from 0.5 percentage points to zero (excluding flows relating to non-monetary gold). Timelier monthly trade data had shown a slight weakening in underlying export and import volumes growth in October and November which, taken together, suggested that net trade would drag on GDP growth in Q4. The weakening in export growth had been concentrated in goods trade and, within that, goods exports to the European Union. That was broadly consistent with the slowdown in survey indicators of exports recorded over recent months and, in turn, the weakening in external demand.

23 There had been greater evidence from survey data that some companies had been building up inventories ahead of Brexit. A special survey of companies' preparations for EU withdrawal conducted by the Bank's Agents had reported that around half of all respondents had been building up their stock levels or planned to, with that fraction rising closer to two-thirds in the manufacturing and consumer services sectors. The increases in stocks of purchases and finished goods reported in the January IHS Markit/CIPS manufacturing survey had been the highest, or close to the highest, since the survey began in 1992. And surveys from the CBI had reported increased stockbuilding in the manufacturing and wholesale sectors, although not in the retail sector. Based on these surveys, Bank staff judged that an increase in inventories would add to demand in 2019 Q1, although the net impact on GDP growth was expected to be modest given that a large proportion of any additional spending on stockbuilding was likely to be on imports.

24 Business investment had been estimated to have fallen by 1.1% in 2018 Q3. Most indicators of investment intentions had also remained weak and Bank staff expected further falls in business investment in Q4 and 2019 Q1. The number of respondents to the Decision Maker Panel that viewed Brexit as one of the top three current sources of uncertainty had remained elevated and there was clearer evidence from this and other surveys that that uncertainty had been having a greater depressive effect on those companies' investment spending.

25 Household consumption growth had been unrevised at 0.5% in 2018 Q3 in the Quarterly National Accounts, continuing the pattern of relatively steady growth reported over the past couple of years. Over that same period, real household disposable income had grown at a similar pace, leaving the household saving ratio broadly flat. Indicators of consumer spending had weakened since then, however. Retail sales volumes had

fallen by 0.2% in 2018 Q4 and some surveys of retail spending had continued to point to weaker growth. Indicators of consumer confidence had generally softened over recent months, with a sharper fall in the Bank's seasonally adjusted GfK/European Commission measure in January driven by declines in households' perceptions and expectations of the general economic situation. The annual growth rate of consumer credit had declined again in December, to 6.6%, with evidence suggesting that this had in part been driven by a tightening in credit supply conditions. Acting against these indications of weaker spending growth, real household labour income was likely to grow substantially in both Q4 and 2019 Q1, reflecting a pickup in wage growth, solid employment growth and falling CPI inflation.

26 Weakness in the housing market had become more apparent over recent months, both in its scale and geographical extent. Bank staff now expected the UK House Price Index to be broadly flat in 2019 Q1, consistent with timelier indicators of prices from Nationwide and Rightmove. Secondary market housing transactions had remained subdued, and the Bank's latest Credit Conditions Survey had reported a fairly sharp decline in mortgage demand from households. Less timely data on starts and construction output in the primary housing market had been relatively strong towards the end of last year, but construction orders had weakened and Bank staff expected housing investment to fall in Q1.

27 Overall, the Committee judged that household consumption growth was likely to slow slightly around the turn of the year, reflecting the weakness in most indicators of spending and in the housing market. But the extent of any fall was likely to be cushioned by the strength of real labour income growth, even if some of that additional income ended up being saved, perhaps for precautionary reasons.

Supply, costs and prices

28 Twelve-month CPI inflation had fallen back in December to 2.1%, 0.1 percentage points stronger than expected by Bank staff immediately before the release. This had been 0.3 percentage points weaker than anticipated at the time of the November *Inflation Report*, however, with the downside news largely reflecting the fall in petrol prices over the period.

29 Over coming months, CPI inflation was expected to remain close to 2%, dipping slightly below the target in the first quarter of the year before temporarily edging back above 2% in April. In part, this modest monthly volatility reflected projected developments in consumer gas and electricity prices. The energy price cap set by the government regulator for gas and electricity markets, Ofgem, had come into effect at the start of January and would depress CPI inflation in the first quarter of this year. The cap was related to Ofgem's assessment of wholesale energy costs. Information provided by Ofgem on its approach to estimating these costs meant that the price cap was now expected to increase in April by more than had been anticipated at the time of the November *Report*.

30 Looking further ahead, external cost pressures were expected to ease and domestic cost pressures to strengthen. Twelve-month core CPI inflation had increased slightly to 1.9% in December and services CPI inflation had fallen slightly to 2.4%. Part of that fall in services inflation had been due to a less sharp increase in airfares relative to the increase in December 2017. A measure of core services CPI inflation – which excluded

airfares, package holidays and education – had risen slightly on the month, to 2.2%, largely reflecting an increase in hotel room prices.

31 Whole-economy total average weekly earnings (AWE) growth had picked up to 3.4% in the three months to November, 0.5 percentage points higher than expected at the time of the November *Report*. Private-sector AWE growth was unchanged on the month at 3.5%, 0.6 percentage points higher than anticipated at the time of the November *Report*. Whole-economy and private-sector regular pay growth had been unchanged at 3.3% and 3.4% respectively, both 0.3 percentage points stronger than expected at the time of the November *Report*.

32 Based on the Bank's database of pay settlements, the twelve-month median settlement had increased from 2% at the start of 2018 to 3% in December. Across all the major sectors of the economy, median settlements in 2018 had been higher than in 2017, particularly in the public sector. The annual pay survey conducted by the Bank's Agents had suggested pay settlements were likely to remain around this level, with the average predicted settlement for 2019 at 2.9%, slightly higher than the 2.8% reported for last year, which was itself slightly below respondents' expectations for 2018 in the same survey a year ago. Taken with a lower profile for CPI inflation than in previous years, real pay growth was likely to rise slightly further over the next few months.

33 The labour market had remained tight. The unemployment rate had been unchanged at 4.0% in the three months to November. The employment rate had increased to 61.2%, a record high and slightly stronger than expected at the time of the November *Report*. The latest increase was concentrated in full-time employment, in both the number of self-employed and employees, and was driven by those between 18 and 34 years old. The ONS's measure of vacancies had rebounded in the three months to December, which was consistent with labour demand remaining strong. But some surveys had suggested a softening in employment growth. The employment indices in the PMIs had fallen in November and December, and had seen another sharp fall in January, with the composite index now below its historical average. The latest Deloitte CFO survey had also indicated weaker hiring intentions.

34 Average hours had declined, almost fully reversing the rebound in hours worked in the three months to August. While the average hours data were volatile, the combined effect of stronger employment growth and weaker average hours was that total hours worked had fallen by 0.1% in the three months to November.

35 In contrast to some financial market measures of inflation compensation that were elevated, household and corporate measures of inflation expectations had remained close to their historical averages. Moves in short-term and longer-term measures of households' expectations had generally been small. That said, there was some evidence that short-term household measures had not fallen back as much as would usually have been expected given recent developments in CPI inflation. Companies' inflation expectations had fallen back to around 2% in 2018 Q4.

The immediate policy decision

36 The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In pursuing that objective, the main challenges the Committee faced had been to assess the economic implications of the United Kingdom withdrawing from the European Union and to identify the appropriate policy response to that changing outlook. That outlook depended significantly on the nature of EU withdrawal, in particular: the form of new trading arrangements between the European Union and the United Kingdom; whether the transition to them was abrupt or smooth; and how households, businesses and financial markets responded. The implications for the appropriate path of monetary policy would depend on the balance of the effects on demand, supply and the exchange rate. The MPC judged that the monetary policy response to Brexit, whatever form it took, would not be automatic and could be in either direction.

37 Since the Committee's previous meeting, key parts of the EU withdrawal process had remained unresolved and uncertainty had intensified. Businesses had appeared increasingly to be responding to Brexit-related uncertainties, and there were some signs that those uncertainties might also be affecting households' spending and saving decisions.

38 The Committee continued to condition its economic projections on a smooth adjustment to the average of a range of possible outcomes for the UK's eventual trading relationship with the European Union, and the other standard asset price assumptions including the sterling effective exchange rate remaining close to the level prevailing in the period leading up to the February *Report*. These assumptions, and a range of other related judgements affecting the MPC's projections, would need to be updated in due course, once greater clarity emerged about the nature of EU withdrawal.

39 The Committee considered how the economic outlook had changed since its December meeting and, given the conditioning assumptions set out above, the implications of the projections set out in the accompanying February *Inflation Report*.

40 Economic data covering the second half of 2018 pointed to a sharper and possibly more persistent slowdown in global growth. At the time of the November *Inflation Report*, growth had been expected to ease, but there were now growing signs that the past tightening in global financial conditions, as well as the impact of negative sentiment around trade tensions, had contributed to a faster deceleration in activity. Although risky asset prices were lower, financial markets were now expecting more accommodative monetary policies in all major economic areas, leaving global financial conditions broadly unchanged.

41 Following the downward revision to its projections for world growth, the Committee judged that there were now balanced risks around the global outlook. On the downside, the risks of a sharper slowdown in China appeared to have increased and trade tensions could escalate further, with both of these factors potentially affecting the euro area to a greater degree than so far. On the upside, the available hard economic data in the United States had generally continued to point to a stronger picture than that suggested by survey data, and it was also possible that trade tensions might be resolved in coming months.

42 UK GDP was expected to grow by 0.3% in 2018 Q4 and by 0.2% in 2019 Q1. Subdued near-term activity mainly reflected softer activity abroad and the greater effects from Brexit uncertainties at home. Net trade and business investment were likely to have been dragging on GDP growth around the turn of this year. Stockbuilding was likely to make a positive contribution in Q1, although, given that a large proportion of any such spending was likely to be on imports, the net impact on GDP growth was expected to be modest. Shifting expectations about Brexit appeared to be leading to greater-than-usual short-term volatility in economic data.

43 Household spending growth had been a significant positive contributor to GDP growth, underpinned by the recovery in real income growth. There were nevertheless some signs that consumption growth had been slowing and that Brexit uncertainties may be affecting spending. Consumer confidence, and particularly households' expectations of the general economic situation, had weakened significantly recently. Housing investment was likely to make a small positive contribution to GDP growth in Q4 but a small negative contribution in Q1, consistent with recent weakness in the housing market.

44 In the February *Inflation Report* central projection, conditioned on a somewhat lower path of Bank Rate and more expansionary fiscal policy than in the November *Report*, four-quarter GDP growth was projected to rise gradually to 2% by the end of the forecast period. Heightened uncertainty and elevated bank funding costs were assumed to subside gradually over the forecast period, as greater clarity on future trading arrangements was assumed to emerge. Business investment growth was therefore expected to recover further out. Consumption growth recovered gradually, broadly in line with growth in household real income. The contribution of net trade to growth was likely to be weaker than previously assumed, driven in part by the weakness in global demand.

45 Following its regular assessment of the supply side of the economy, the MPC judged that demand and supply were currently broadly in balance. The labour market had remained tight: the unemployment rate had been unchanged at 4.0% and the employment rate had reached another record high. Vacancies had also rebounded in the most recent data. Measures of capacity utilisation had suggested that there was only modest scope to increase output with existing resources. There had nevertheless been some signs in the most recent data of a weakening in labour demand. The employment indices in the January PMIs had continued to fall quite sharply, while the Deloitte CFO survey had indicated weaker hiring intentions. In the near term, the softer outlook for demand growth also meant that a small margin of spare capacity was likely to re-emerge this year.

46 Over the medium term, potential supply growth was projected to remain subdued relative to pre-crisis norms. It was also expected to increase a little more slowly during the first half of the forecast period than had been expected in November, due to slightly lower underlying productivity growth. While the pace of UK demand growth was modest, it nonetheless exceeded potential supply growth from the start of next year onwards, so that excess demand built over the second half of the forecast period.

47 CPI inflation had fallen from 2.3% in November to 2.1% in December. In the near term, inflation was expected to fall to slightly below the MPC's 2% target, largely reflecting the sharp fall in petrol prices which had occurred since November. As the effect of lower petrol prices unwound, CPI inflation was expected to rise slightly above 2%. Sterling's past depreciation had continued to put some upward pressure on inflation,

although that effect waned over the forecast period. In contrast, building excess demand was expected to lead to a firming of domestic inflationary pressures. The balance of these effects meant that, under the assumptions that conditioned the February *Report*, inflation settled at a rate a little above the target.

48 Abstracting from the impact of the House of Lords' Economic Affairs Committee report on RPI, some financial market indicators of inflation expectations had remained elevated relative to their historical averages, and compared with equivalent measures in the euro area and United States. Household and corporate measures of inflation expectations had remained close to their historical averages. The MPC would continue to monitor closely the full range of indicators of inflation expectations.

49 The Committee turned to its immediate policy decision.

50 The MPC judged at this month's meeting that the current stance of monetary policy was appropriate. Under the assumptions conditioning the February *Inflation Report*, a period of softer growth domestically and in the rest of the world was likely to prove only temporary and, in the UK, excess demand was expected to build over the second half of the forecast period. As a result, CPI inflation was expected to settle at a rate a little above the 2% target in the medium term, following a temporary period of slightly below-target inflation over coming months.

51 The Committee also judged that, were the economy to develop broadly in line with its *Inflation Report* projections, an ongoing tightening of monetary policy over the forecast period, at a gradual pace and to a limited extent, would be appropriate to return inflation sustainably to the 2% target at a conventional horizon.

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

Bank Rate should be maintained at 0.75%;

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 £10 billion;

The Bank of England should maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.

The Committee voted unanimously in favour of all three propositions.

53 Consistent with the Committee's previous guidance, and as described in the market notice accompanying these minutes, the Committee agreed to reinvest £20.6 billion of cash flows associated with the redemption of the March 2019 gilt held by the Asset Purchase Facility.

54 The following members of the Committee were present:

Mark Carney, 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.

As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, Bradley Fried was present on 31 January and 4 February, and Dave Prentis was present on 31 January, as observers for the purpose of exercising oversight functions in their roles as members of the Bank's Court of Directors.