Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 5 February 2025

6 February 2025

These are the minutes of the Monetary Policy Committee meeting ending on 5 February 2025.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2025/february-2025**.

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 19 March will be published on 20 March 2025.

Monetary Policy Summary, February 2025

The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

At its meeting ending on 5 February 2025, the MPC voted by a majority of 7–2 to reduce Bank Rate by 0.25 percentage points, to 4.5%. Two members preferred to reduce Bank Rate by 0.5 percentage points, to 4.25%.

There has been substantial progress on disinflation over the past two years, as previous external shocks have receded, and as the restrictive stance of monetary policy has curbed second-round effects and stabilised longer-term inflation expectations. That progress has allowed the MPC to withdraw gradually some degree of policy restraint, while maintaining Bank Rate in restrictive territory so as to continue to squeeze out persistent inflationary pressures.

CPI inflation was 2.5% in 2024 Q4. Domestic inflationary pressures are moderating, but they remain somewhat elevated, and some indicators have eased more slowly than expected. Higher global energy costs and regulated price changes are expected to push up headline CPI inflation to 3.7% in 2025 Q3, even as underlying domestic inflationary pressures are expected to wane further. While CPI inflation is expected to fall back to around the 2% target thereafter, the Committee will pay close attention to any consequent signs of more lasting inflationary pressures.

GDP growth has been weaker than expected at the time of the November Monetary Policy Report, and indicators of business and consumer confidence have declined. GDP growth is expected to pick up from the middle of this year. The labour market has continued to ease and is judged to be broadly in balance. Productivity growth has been weaker than previously estimated, and the Committee judges that growth in the supply capacity of the economy has weakened. As a result, the recent slowdown in demand is judged to have led to only a small margin of slack opening up.

In support of returning inflation sustainably to the 2% target, the Committee judges that there has been sufficient progress on disinflation in domestic prices and wages to reduce Bank Rate to 4.5% at this meeting.

Based on the Committee's evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate.

In addition to the risks around inflation persistence, there are also uncertainties around the trajectories of both demand and supply in the economy that could have implications for monetary policy. Should there be greater or longer-lasting weakness in demand relative to supply, this could push down on inflationary pressures, warranting a less restrictive path of Bank Rate. If there were to be more constrained supply relative to demand, this could sustain domestic price and wage pressures, consistent with a relatively tighter monetary policy path.

The Committee will continue to monitor closely the risks of inflation persistence and what the evolving evidence may reveal about the balance between aggregate supply and demand in the economy. Monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further. The Committee will decide the appropriate degree of monetary policy restrictiveness at each meeting.

Minutes of the Monetary Policy Committee meeting ending on 5 February 2025

1. Before turning to its immediate policy decision, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices. The latest data on these topics were set out in the accompanying **February 2025 Monetary Policy Report**.

2. The Committee discussed recent global economic developments, and in particular the extent to which these had been reflected in yield curves across advanced economies. During the current monetary policy cycle, the level of US and UK three-year forward rates, had been closer to each other than to the equivalent euro-area rates. The gap between the US and UK curves relative to the euro-area curve had widened materially over the previous six months or so, as US and UK rates had increased. Market intelligence suggested that the upward movement in US yields over this period had in part reflected expectations of a more inflationary policy mix, with the possible implementation of tariffs, looser fiscal policy and tighter controls on migration by the new US administration.

3. In the days leading up to the MPC's policy decision, the US administration had made various announcements on trade tariffs, to which some other governments had responded. The Committee noted that this was a rapidly evolving situation, which it would be monitoring closely, and that the ultimate impact would depend on the final composition of policies, as discussed in Box C of the February Report. Nevertheless, there had already been an increase in economic uncertainty globally and a pickup in financial market volatility.

4. Market intelligence suggested that developments in the United States had influenced recent movements in UK government bond yields, alongside domestic factors. Since the MPC's previous meeting, the market-implied path for Bank Rate in the United Kingdom had first risen and then fallen back, ending the period somewhat lower in aggregate. Almost all respondents to the Bank's latest Market Participants Survey (MaPS) were expecting a 25 basis point reduction in Bank Rate at this MPC meeting, in line with market pricing. The median MaPS respondent expected 100 basis points of Bank Rate cuts this year, albeit with the overall distribution skewed towards fewer cuts, consistent with the market-implied path declining by around 85 basis points over the year. In addition to international factors, there had been UK-specific considerations, including data news that had been taken by market participants to suggest risks of a weaker outlook for activity, which had also been partly reflected in a small depreciation in the sterling effective exchange rate.

5. Bank staff expected that GDP had fallen by 0.1% in 2024 Q4 and projected that it would rise by 0.1% in 2025 Q1. The Committee discussed the extent to which recent developments reflected underlying demand and supply drivers, acknowledging significant uncertainties around the current and prospective balance between them. The recent slowdown in demand was assumed to have led to only a small margin of slack opening up, as growth in the supply capacity of the economy appeared to have been weakening for some time. Within potential supply, potential productivity appeared to have been very weak while labour supply growth had been strong. Business survey indicators of output growth had deteriorated over recent months, as had broader metrics of business and consumer confidence, which would be consistent with a slowdown in demand, and the household savings rate had continued to be high. The ratio of broad money to nominal GDP had returned to close to its pre-Covid trend, suggesting an erosion of the money overhang that had emerged during the pandemic.

6. Twelve-month CPI inflation had fallen slightly, to 2.5% in December. The latest evidence from key indicators suggested progress on underlying disinflation in domestic prices and wages had generally continued. There had nevertheless been substantial upside news to the near-term outlook for headline CPI inflation, which was now expected to rise quite sharply in the near term, to 3.7% in 2025 Q3, owing in part to energy prices, before easing again. Measures of households' short-term inflation expectations had increased somewhat over the previous few months, while businesses' short-term inflation expectations had picked up slightly but had remained well below recent peaks.

The immediate policy decision

7. The Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. The MPC adopts a medium-term and forward-looking approach to determine the monetary stance required to achieve the inflation target sustainably.

8. The Committee's latest projection for CPI inflation was set out in the accompanying February Monetary Policy Report. In support of returning inflation sustainably to the 2% target, the Committee was maintaining its focus on the persistence of inflationary pressures in the medium term. Progress on disinflation in domestic prices and wages had generally continued.

9. Since the MPC's previous meeting, CPI inflation had fallen slightly, while services inflation had moderated. Annual private sector regular AWE growth had increased, although the news from other pay indicators had been mixed. Pay growth was expected to slow to around 3¾% by year-end, broadly consistent with estimates from the Agents' annual pay survey, as well as the Decision Maker Panel. GDP growth had been weaker than expected at the time of the November Report, and indicators of business and consumer confidence had declined. GDP growth was expected to pick up from the middle of this year. The labour

market had continued to ease and was judged to be broadly in balance. Productivity growth had been weaker than previously estimated, and the Committee judged that growth in the supply capacity of the economy had weakened.

10. Reflecting recent developments in global energy costs and regulated prices, CPI inflation was expected to rise quite sharply in the near term, to 3.7%. The MPC judged that this would not lead to additional second-round effects on underlying domestic inflationary pressures. Compared with economic conditions during the succession of large external cost shocks in 2021-22, the labour market was now looser and therefore some of the dynamics observed previously were unlikely to reoccur. Nevertheless, given the recent extended period over which inflation had remained above the 2% target, the threshold for second-round effects might now be somewhat lower.

11. In the medium term, and conditioned on the market path for interest rates, inflation was expected to return to around the 2% target. The MPC's February forecast remained consistent with the second case for the evolution of persistent inflationary pressures that the Committee had identified previously. That is, the emerging margin of slack in the economy was projected to act against some continuing second-round effects in domestic prices and wages, allowing CPI inflation to fall back to target sustainably.

12. Taking recent developments together, the Committee was now placing greater weight on the second and third cases that it had been considering. Nevertheless, there were considerable risks around the path of spare capacity in the economy and inflationary pressures over the medium term, to which monetary policy might need to respond.

13. In terms of upside risks, the continued elevated rate of wage growth, and the upside news in the near-term outlook for headline CPI, could present a risk to inflation persistence, particularly if it were to affect firms' and households' inflation expectations.

14. In terms of downside risks, domestic inflationary pressures could be weaker than projected in the forecast. In addition, recent developments in activity could reflect greater weakness in demand relative to supply, and UK and global uncertainties could weigh further on demand and the labour market. This could lower wage pressures and dampen companies' pricing power going forward.

15. The MPC judged that monetary policy still remained clearly in restrictive territory, following recent reductions in Bank Rate. However, there was a range of views among members on the remaining degree of restrictiveness.

16. While cyclical developments in the economy played a significant role in determining the monetary stance at policy-relevant horizons, the long-term real equilibrium interest rate, R*, could also play a role in that assessment as a long-term anchor for the policy rate, albeit not as a direct guide for setting policy. As set out in Box A in the February Report, there was

evidence that R* had risen modestly since the MPC's previous assessment in 2018, but there was significant uncertainty around the range of estimates at any point and the extent of any increase.

17. The Committee turned to the immediate policy decision.

18. Seven members preferred to reduce Bank Rate to 4.5% at this meeting, on the basis that there had continued to be sufficient progress on disinflation in domestic prices and wages. There was a range of views underlying these members' outlooks for the economy, with various risks around both the domestic and global environment.

19. On one view, looking through the expected near-term pickup in CPI inflation, the disinflation process had remained on track, and weakening activity and a looser labour market could weigh further on inflation. There was increased uncertainty around both the UK and global economic outlooks, with potentially countervailing forces acting on the prospects for domestic inflation. This warranted an approach to policymaking which was both gradual in continuing to lean against the persistence in inflation and careful in recognising increased uncertainty and that there were two-sided risks to inflation.

20. On another view, the upside news in indicators of pay growth and inflation over recent quarters, in parallel with continued weakness in activity, was symptomatic of constrained supply relative to demand. In large part, this reflected tepid productivity growth, which was unlikely to recover significantly over the forecast period. On this basis, weakness in observed activity and employment going forward could continue to reflect constrained supply rather than an accumulation of economic slack. This view continued to warrant a cautious and gradual removal of monetary policy restriction.

21. Two members preferred a 0.5 percentage point reduction in Bank Rate, to 4.25%, although they had different views on inflation dynamics, the structural factors underpinning them, and future monetary policy. Disaggregated data pointed to inflation continuing to decline through both wage and price-setting channels. The prospect of weak activity and lower labour demand was likely to reduce wage pressures as well as moderate firms' pricing power. For one member, a more activist approach at this meeting would give a clearer signal of financial conditions appropriate for the United Kingdom, even as monetary policy would need to remain restrictive for some time to anchor inflation expectations, and Bank Rate would likely stay high given structural persistence and macroeconomic volatility. For the other member, the subdued outlook for demand remained consistent with CPI inflation staying sustainably at the target in the medium term despite the expected near-term uptick in regulated prices, and Bank Rate needed to account for policy transmission and supply capacity over the medium term.

22. Based on the Committee's evolving view of the medium-term outlook for inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint was appropriate.

23. In addition to the risks around inflation persistence, there were also uncertainties around the trajectories of both demand and supply in the economy that could have implications for monetary policy. Should there be greater or longer-lasting weakness in demand relative to supply, this could push down on inflationary pressures, warranting a less restrictive path of Bank Rate. If there were to be more constrained supply relative to demand, this could sustain domestic price and wage pressures, consistent with a relatively tighter monetary policy path.

24. The Committee would continue to monitor closely the risks of inflation persistence and what the evolving evidence might reveal about the balance between aggregate supply and demand in the economy. Monetary policy would need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term had dissipated further. The Committee would decide the appropriate degree of monetary policy restrictiveness at each meeting.

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

Bank Rate should be reduced by 0.25 percentage points, to 4.5%.

26. Seven members (Andrew Bailey, Sarah Breeden, Megan Greene, Clare Lombardelli, Huw Pill, Dave Ramsden and Alan Taylor) voted in favour of the proposition. Two members (Swati Dhingra and Catherine L Mann) voted against the proposition, preferring to reduce Bank Rate by 0.5 percentage points, to 4.25%.

Operational considerations

27. On 5 February, the stock of UK government bonds held for monetary policy purposes was £646 billion.

28. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Swati Dhingra
Megan Greene
Clare Lombardelli
Catherine L Mann
Huw Pill
Dave Ramsden
Alan Taylor

Sam Beckett was present as the Treasury representative.

David Roberts was also present on 27 January and 3 February, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.