

Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 21 September 2022

22 September 2022

These are the minutes of the Monetary Policy Committee meeting ending on 21 September 2022.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/september-2022>.

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 2 November will be published on 3 November 2022.

Monetary Policy Summary, September 2022

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 21 September 2022, the MPC voted to increase Bank Rate by 0.5 percentage points, to 2.25%. Five members voted to raise Bank Rate by 0.5 percentage points, three members preferred to increase Bank Rate by 0.75 percentage points, to 2.5%, and one member preferred to increase Bank Rate by 0.25 percentage points, to 2%. The Committee also voted unanimously to reduce the stock of purchased UK government bonds, financed by the issuance of central bank reserves, by £80 billion over the next twelve months, to a total of £758 billion, in line with the strategy set out in the minutes of the August MPC meeting.

In the August Monetary Policy Report, the MPC noted that the risks around its projections from both external and domestic factors were exceptionally large, given the very large increase in wholesale gas prices since May and the consequent impacts on real incomes for UK households and on CPI inflation.

Since August, wholesale gas prices have been highly volatile, and there have been large moves in financial markets, including a sharp increase in government bond yields globally. Sterling has depreciated materially over the period.

Uncertainty around the outlook for UK retail energy prices has nevertheless fallen, following the Government's announcements of support measures including an Energy Price Guarantee. The Guarantee is likely to limit significantly further increases in CPI inflation, and reduce its volatility, while supporting aggregate private demand relative to the Committee's August projections. An additional Growth Plan announcement is scheduled to take place shortly after this MPC meeting, which is expected to provide further fiscal support, and is likely to contain news that is material for the economic outlook. Once this announcement has been made, and as part of its November MPC round, the Committee will make a full assessment of the impact on demand and inflation from all these announcements, along with other news, and determine further implications for monetary policy.

There has been some modest downside news to underlying UK GDP growth in 2022 Q3, and faster indicators and contacts of the Bank's Agents suggest that the level of consumer spending is likely to have peaked in this quarter. There have been some indications that the demand for labour is weakening, although the labour market nonetheless tightened further over the summer, with inactivity materially higher than anticipated. Consumer services prices and nominal wages have continued to rise more

rapidly than expected, although core goods price inflation has been lower than expected.

Twelve-month CPI inflation fell slightly from 10.1% in July to 9.9% in August, with the release triggering the exchange of open letters between the Governor and the Chancellor of the Exchequer that is being published alongside this monetary policy announcement. Given the Energy Price Guarantee, the peak in measured CPI inflation is now likely to be lower than projected in the August Report, at just under 11% in October. Nevertheless, energy bills will still go up and, combined with the indirect effects of higher energy costs, inflation is expected to remain above 10% over the following few months, before starting to fall back.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. The economy has been subject to a succession of very large shocks. Monetary policy will ensure that, as the adjustment to these shocks continues, CPI inflation will return to the 2% target sustainably in the medium term. Monetary policy is also acting to ensure that longer-term inflation expectations are anchored at the 2% target.

There have been further signs since the August Report of continuing strength in domestically generated inflation. In and of itself, the Government's Energy Price Guarantee will lower and bring forward the expected peak of CPI inflation. For the duration of the Guarantee, this might be expected to reduce the risk that a long period of externally generated price inflation leads to more persistent domestic price and wage pressures, although that risk remains material.

The labour market is tight and domestic cost and price pressures remain elevated. While the Guarantee reduces inflation in the near term, it also means that household spending is likely to be less weak than projected in the August Report over the first two years of the forecast period. All else equal, and relative to that forecast, this would add to inflationary pressures in the medium term.

In view of these considerations, the Committee voted to increase Bank Rate by 0.5 percentage points, to 2.25%, at this meeting.

The MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. Policy is not on a pre-set path. The Committee will, as always, consider and decide the appropriate level of Bank Rate at each meeting. The scale, pace and timing of any further changes in Bank Rate will reflect the Committee's assessment of the economic outlook and inflationary pressures. Should

the outlook suggest more persistent inflationary pressures, including from stronger demand, the Committee will respond forcefully, as necessary.

At its August meeting, the MPC had communicated that it was provisionally minded to commence gilt sales shortly after its September meeting, subject to economic and market conditions being appropriate. At this meeting, the Committee agreed that the conditions were appropriate, and voted to begin the sale of UK government bonds held in the Asset Purchase Facility shortly after this meeting.

Minutes of the Monetary Policy Committee meeting ending on 21 September 2022

1. Members of the Monetary Policy Committee (MPC) wished to express their heartfelt condolences to the Royal Family, following the death of Her Majesty Queen Elizabeth II.
2. This meeting, which had originally been scheduled to end on 14 September, had been postponed by one week in light of the period of national mourning. Ahead of the rescheduled meeting, in order to support its deliberations, the Committee had received a further briefing from Bank staff on recent economic and financial developments.
3. 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 international economy

4. UK-weighted global GDP growth appeared to be slowing in 2022 Q3, with data coming in a touch below the already weak expectations at the time of the August Monetary Policy Report. Wholesale gas prices had been highly volatile since the MPC's previous meeting, adding to uncertainty around projected inflation dynamics and the degree to which the real disposable income of households would be reduced going forward.
5. GDP in the euro area was expected to be flat in 2022 Q3, in line with the August Report, following stronger-than-expected growth of 0.8% in Q2. In the United States, GDP was expected to grow by 0.2% in the third quarter, marginally lower than had been anticipated in the August Report, following Q2 GDP growth of -0.1%, which had been weaker than expected. Manufacturing PMIs had softened across both economies over July and August, while the services PMI had remained robust in the United States, though had dipped below 50 in the euro area in August. Consumer and business confidence indicators had continued to fall in both regions in July, but had stabilised in August, with US consumer confidence measures increasing notably. Labour markets had remained strong. The US unemployment rate had fallen in July, matching its February 2020 pre-pandemic level, but had ticked up a little in August to 3.7%, as the participation rate had increased. In the euro area, the unemployment rate had fallen to 6.6% in July, the lowest on record. Vacancy rates had stabilised over recent months in both economies, albeit at high levels, and wage growth although moderating a little, had remained strong.

6. China's GDP growth was likely to be weaker in 2022 Q3 than had been anticipated at the time of the August Report. In July, fixed asset investment and industrial production had fallen, and the rate of growth in retail sales had slowed, although these indicators had picked up again in August. Taken together, these data suggested that the recovery from strict regional lockdowns earlier in the year due to Covid-19 (Covid) outbreaks was bumpy. The property market had continued to weaken, with secondary market property prices declining moderately in August for the twelfth consecutive month. Manufacturing PMIs had been below 50 in August, in part driven by a drought in southern China that had been affecting electricity supply. Services PMIs, while above 50, had fallen, reflecting the impact of renewed Covid lockdowns in some regions in recent months. Against this backdrop, the People's Bank of China had cut lending rates, and the government had announced further credit and fiscal easing measures.

7. Inflationary pressures had remained strong in advanced economies. In the euro area, annual HICP inflation had increased by 0.2 percentage points to 9.1% in August, with core inflation increasing by a similar amount to 4.3%. While energy price increases had made the biggest contribution to annual headline inflation, increases on the month were due to increases in contributions from food and core goods prices. In the United States, annual headline CPI inflation had fallen in August, to 8.3%, from 8.5% in July, but annual core CPI inflation had risen to 6.3% from 5.9%, above market expectations. The easing in the headline CPI measure had been accounted for by a fall in the contribution from energy, while the increase in the core CPI measure had been accounted for in large part by higher core services inflation. These CPI data were consistent with annual headline PCE inflation, the Federal Open Market Committee's (FOMC) target variable, having fallen to 6.0% in August and core PCE inflation having remained unchanged at 4.6%.

8. European gas spot and futures prices had been highly volatile since the MPC's previous meeting. They had risen during most of August from an already high level given strong demand: European countries had continued to build gas stocks at pace ahead of winter, in part to mitigate the risk of a potential cessation in Russian gas supplies. Following a short period of easing prices in late August, that risk had largely crystallised in early September when Russia closed the Nordstream 1 pipeline, leading to a further price spike. Prices had remained volatile subsequently. At the time of this MPC meeting, the Dutch Title Transfer Facility spot price, a measure of European wholesale gas prices, stood at around €210 per MWh, around 25% higher than in the August Report. Several policy measures had been announced by EU governments and suggested by the European Commission that were aimed at reducing the burden from high energy bills on households and companies.

9. Prices of other commodities, including oil and metals, had eased since the August Report, potentially reflecting market participants adjusting downwards their expectations

of the global economic outlook. The Brent crude oil spot price had fallen by around 10% to \$93 per barrel. Agricultural prices had risen, driven in part by weather-related disruption, as hot weather across Europe, America, and Asia had affected supply. There had been further evidence that supply chain disruptions might be easing, with shipping costs declining appreciably.

Monetary and financial conditions

10. Since the MPC's previous meeting, there had been large and volatile movements in financial markets globally, and particularly in the United Kingdom. Market participants expected that central banks in major advanced economies would continue to react strongly to near-term inflationary pressures. Yields had also moved materially higher at longer horizons, which contrasted to June and July. Ten-year government bond yields had increased by around 150, 80 and 110 basis points in the United Kingdom, United States and Germany respectively. Equity prices globally had ended the period lower than at the time of the MPC's August meeting, although corporate bond spreads had been little changed.

11. The near-term path for market-implied policy rates had picked up sharply across major advanced economies since the MPC's August meeting. At its meeting on 8 September, the ECB Governing Council had raised its key policy interest rates by 75 basis points, in line with prior market expectations. Market contacts expected that the FOMC would increase the target range for the federal funds rate by at least 75 basis points at its meeting ending on 21 September.

12. The median respondent to the Bank's latest Market Participants Survey (MaPS) expected Bank Rate to be increased by 50 basis points at this meeting, while market-implied pricing was consistent with an increase in Bank Rate of between 50 and 75 basis points. The Committee was also expected to confirm its plans, as set out in the August minutes, to commence gilt sales and reduce the stock of purchased gilts held in the Asset Purchase Facility by around £80 billion over the next twelve months.

13. Further out, market-implied expectations for the path of Bank Rate had risen sharply since the MPC's previous meeting, now peaking at around 4¾% in mid-2023. The increase in the path for market-implied policy rates since August had been significantly larger in the United Kingdom than in the United States or the euro area. The peak in UK rates was higher than the corresponding peaks for the United States and the euro area, which now reached 4.5% and 2.8% respectively. According to market participants, the rise in UK rates had reflected a number of factors, including the impact of increases in natural gas prices, news about domestic inflationary pressures, and expectations of fiscal easing. The market-implied path for Bank Rate continued to be higher than the expectations for Bank Rate of respondents to MaPS. The median

respondent expected Bank Rate to peak at around 3½% in March 2023, with the gap between this and the market-implied path being ascribed mainly to a combination of domestic and global factors skewing risks to the upside.

14. Medium-term inflation compensation measures across advanced economies had been quite volatile since the MPC's August meeting, and had ended the period little changed in the United States but somewhat higher in the euro area. UK measures, which had fallen steadily from their recent peaks in March 2022, had troughed in late July and then had been volatile. These UK measures had ended the period somewhat higher than at the time of the August MPC meeting, and remained well above their average levels of the past decade.

15. The sterling effective exchange rate had depreciated by around 4½% since the previous MPC meeting, and was now around 3% lower compared to the 15-day moving average on which the August Report projections had been conditioned. The fall over this period had been relatively broad-based against other major currencies.

16. Lending rates for new fixed-rate mortgages in the United Kingdom had increased further in August across all loan-to-value (LTV) categories, by between 8 and 25 basis points. This had principally reflected a further response to the increases in risk-free market rates that had been observed since autumn 2021, although rates on high LTV mortgages had only just returned to around their peaks during Covid. There had also been some indications of reduced mortgage credit availability, primarily reflecting a response to the worsening economic outlook rather than a reduction in lenders' risk appetite. Interest rates on unsecured household borrowing had also increased, but as usual by less than the corresponding risk-free reference rates. Also as usual, the pass-through of reference rate rises to deposit rates was greater for term than for sight deposit rates.

17. The Committee discussed the broader impact so far of the recent tightening in UK monetary policy. Increases in risk-free market rates since autumn 2021 had led to higher retail bank lending rates with around the full degree of pass-through that had typically been seen prior to the global financial crisis. Relative to past tightening cycles, there was a larger share of borrowers with fixed-rate mortgage debt, who would be shielded from higher rates for a time, but who would face a higher jump in rates when they did need to refinance. Households might have experienced an increase in the value of their houses over that period, which could dampen the effect on consumer spending. The MPC would continue to monitor closely the transmission of its monetary policy actions.

Demand and output

18. According to the ONS's first quarterly estimate, UK GDP had fallen by 0.1% in 2022 Q2, slightly above the expectations of a 0.2% fall incorporated into the August Monetary Policy Report projection. The upside news had reflected a smaller-than-expected impact from the additional bank holiday for the Platinum Jubilee in June, with the staff assessment of underlying GDP growth for Q2 remaining unchanged at around ½%. Within the expenditure components, household consumption had fallen by 0.1% on the quarter, total government expenditure had fallen by 3.9%, partly reflecting the extensive roll-back of Test and Trace activity, and business investment had risen by 3.8%.

19. Monthly GDP had risen by 0.2% in July, weaker than expectations at the time of the August Report, reflecting some modest downside news to underlying growth that was expected to slow in 2022 Q3. The downside news came from manufacturing and construction output. Services output had risen in July in line with expectations. Bank staff now expected GDP to fall by 0.1% in Q3, below the August Report projection of 0.4% growth, and a second successive quarterly decline. That fall would also, in part, reflect the smaller-than-expected bounce back in growth following the bank holiday in Q2 and the expected impact from the additional bank holiday in September for the Queen's state funeral.

20. The expected slowing in underlying growth in 2022 Q3 was consistent with weakness in the latest business surveys. The S&P Global/CIPS PMI composite output index had fallen in July and again in August, reaching 49.6, the first time it had fallen below the 50 level since early 2021. Other business survey indicators had also pointed to near-term growth being close to zero. The composite PMI output expectations series had fallen in the three months to August. According to contacts of the Bank's Agents, growth in manufacturing output had continued to be held back by supply chain disruptions, although to a slightly lesser extent than in recent quarters, but demand had also weakened. Business investment intentions were also reported to be easing, with firms citing uncertainty about demand and the broader economic outlook, and rising costs.

21. The squeeze on real disposable incomes had continued to impact negatively on household spending. Retail sales volumes had fallen by 1.6% in August, continuing a downward trend since mid-2021, and the fall had been broad-based across the main components. Some faster indicators of consumer-facing services, such as travel and transport, had flattened off over recent months, although this had partly reflected the impact of strikes. According to contacts of the Bank's Agents, spending in some parts of the hospitality sector had fallen over the summer compared with a year ago. A number of indicators of housing activity had weakened in the three months to August, although

house prices had remained strong. The ONS UK house price index had picked up in July, following a fall in the three months to June.

Supply, costs and prices

22. Twelve-month CPI inflation had fallen slightly to 9.9% in August, in line with expectations at the time of the August Monetary Policy Report. This outturn had triggered the exchange of letters between the Governor and the Chancellor of the Exchequer that was published alongside these minutes. Core CPI inflation, excluding food, beverages and tobacco and energy, had risen slightly to 6.3%, also in line with expectations at the time of the August Report. Core goods inflation had been stable at 6.6%, below expectations at the time of the August Report, but services inflation had risen to 5.9% in August, the second month in a row of upside news. Annual services inflation had remained high across a broad range of sectors.

23. On 8 September, the Government had announced the Energy Price Guarantee, which would cap household unit energy prices at a level consistent with a typical annual household dual-fuel bill of £2,500 from October for a period of two years. As for consumers, there would be support for all businesses, charities and public sector organisations in meeting energy bills, for a six-month period. After this initial six-month scheme, the Government would provide ongoing focused support for vulnerable industries. The Energy Bills Support Scheme, which had been extended in May and would provide a £400 universal rebate on energy bills to households, would also help them with the rise in energy bills. The ONS had announced in August that this one-off payment would not affect headline CPI inflation, in line with expectations at the time of the August Report.

24. The introduction of the Energy Price Guarantee meant that CPI inflation was expected to rise by less in the near term, peaking at a little under 11% in October. The rise in inflation reflected the impact of the further increase in energy prices in the CPI as they rose to the level of the Guarantee. The Government's announcements would reduce significantly the degree to which energy prices, which had seen a sequence of rises over the course of the year, would contribute to the level of headline CPI inflation. The direct contribution of energy to annual CPI inflation was now projected to be around 4 percentage points in 2022 Q4, compared to around 6½ percentage points at the time of the August Report. By the start of 2023, the near-term inflation outlook was a little over 5 percentage points lower than would have been the case had household energy bills risen with the announced increase in the Ofgem price cap from October, and with the increase in the cap in January that would have been expected under the existing Ofgem framework, given the recent behaviour of wholesale gas prices.

25. There had been some easing in the composite input and output price PMIs, but these had remained elevated relative to their historical averages. Over July and August, the Agents' contacts had noted that energy costs, pay and the depreciation of sterling were becoming increasingly important factors in cost pressures facing companies. Bank staff expected core CPI inflation to stay close to the current level in coming months, elevated relative to historical averages.

26. While getting a precise steer on inflation expectations was difficult, short-term measures of inflation expectations had increased further on the month and had remained substantially higher than past averages. There had been mixed signals from medium to longer-term measures of inflation expectations, although for most measures their level had also remained elevated relative to historical averages. The Citi/YouGov indicator of household expectations at the five to ten-year horizon had risen, but the Bank's Inflation Attitudes Survey five-year inflation expectations measure had fallen back. Year-ahead CPI inflation expectations from the Decision Maker Panel of firms had remained elevated relative to the inflation target in August. The Committee would continue to monitor measures of inflation expectations very closely.

27. Regarding the labour market, the Labour Force Survey (LFS) measure of employment growth in the three months to July had slowed to 0.1%, from 0.5% in the three months to June. Both outturns had been weaker than the MPC's expectations at the time of the August Report. The easing in employment growth might have reflected continued recruitment difficulties and perhaps some early signs of weakening labour demand, in particular in the manufacturing sector. In August there had been a small fall in vacancies across the economy as a whole. Contacts of the Bank's Agents had reported that recruitment difficulties might have moderated somewhat recently. Employment surveys had been softening in recent months. However, they remained near their historical averages and were consistent with ongoing positive employment growth.

28. The LFS unemployment rate had fallen to 3.6% in the three months to July, its lowest level since 1974 and below expectations at the time of the August Report. Since the start of 2022, however, the unemployment rate had remained broadly flat. The June and July releases indicated that inactivity had been significantly higher than expected at the time of the August Report, with a particularly large increase in July. The MPC discussed the surprising strength in inactivity, which had continued to be a key component of the tightness in the labour market. While flows out of inactivity had recently been strong, flows into inactivity had remained high. LFS survey responses indicated that a large proportion of the rise in inactivity was met by a rise in workers aged above 64 or those at working age who did not want a job.

29. Annual whole-economy total pay growth had been 5.5% in the three months to July, 0.3 percentage points higher than in the three months to June, and 0.6 percentage points higher than the expectation at the time of the August Report. Private sector regular pay had risen by 6.0% in the three months to July, stronger than the expectations of 5.5% at the time of the August Report, and bonuses had also surprised to the upside. The mechanical effects of the changes in workforce composition and the Coronavirus Job Retention Scheme on pay growth had been fading, such that headline nominal private sector regular pay growth was now a more informative indicator of underlying pay growth than it had been at any point since the onset of the pandemic.

30. Nominal pay growth was expected to rise further by the end of the year. The Agents' contacts had reported that the current and expected high level of inflation, as well as industrial disputes, had been playing an increasing role in pay awards. A significant proportion of firms had given, or had been considering giving, their staff one-off payments to help with rising living costs or were reviewing their broader remuneration packages.

The immediate policy decision

31. The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment.

32. The most material economic news since the MPC's previous meeting had been on fiscal policy, with the announcement of the Government's response to the energy price shock and the scheduling of an additional Growth Plan announcement.

33. Against a backdrop of very significant rises in wholesale gas prices in recent months, the Government had announced a package of measures to support households and businesses with their energy bills, including an Energy Price Guarantee. The Guarantee would have the effect of reducing the near-term outlook for CPI inflation compared both with a counterfactual scenario in which there had been no policy action, and, to a lesser degree, relative to the August Monetary Policy Report projection, which also had no policy action but had been based on the lower path for gas prices at the time. It would also limit the reduction in household spending over the first two years compared with the very weak August Report projection. The scheme would therefore act primarily to offset some of the impacts of the externally generated energy price shock on households and businesses. The Government had also announced that a Growth Plan would be set out on 23 September.

34. Since August, wholesale gas prices had been highly volatile, and there had been large moves in financial markets, including a sharp increase in government bond yields globally. Sterling had depreciated materially over the period. There had been some

modest downside news to underlying UK GDP growth in Q3, and faster indicators and contacts of the Bank's Agents had suggested that the level of consumer spending was likely to have peaked in Q3. There had been some indications that the demand for labour was weakening, although the labour market had nonetheless tightened further over the summer, with inactivity materially higher than anticipated at the time of the August Report. Consumer services prices and nominal wages had continued to rise more rapidly than expected, although core goods price inflation had been lower than expected.

35. In the August Report, the MPC had noted that the risks around its projections from both external and domestic factors were exceptionally large, given the very large rise in wholesale gas prices since May and the consequent impacts on real incomes for UK households and on CPI inflation. The announced Energy Price Guarantee was expected to have the effect of significantly reducing the degree of uncertainty around the outlook for UK retail energy prices over the period of the Guarantee, and therefore also for CPI inflation.

36. The MPC's remit was clear that the inflation target applied at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognised that there would be occasions when inflation would depart from the target as a result of shocks and disturbances. The economy had been subject to a succession of very large shocks. Monetary policy would ensure that, as the adjustment to these shocks continued, CPI inflation returned to the 2% target sustainably in the medium term. Monetary policy was also acting to ensure that longer-term inflation expectations were anchored at the 2% target.

37. There had been further signs since the August Report of continuing strength in domestically generated inflation. In and of itself, the Government's Energy Price Guarantee would lower and bring forward the expected peak of CPI inflation. For the duration of the Guarantee, this might have been expected to reduce the risk that a long period of externally generated price inflation led to more persistent domestic price and wage pressures, although that risk remained material.

38. The labour market was tight and domestic cost and price pressures remained elevated. While the Guarantee reduced inflation in the near term, it also meant that household spending was likely to be less weak than projected in the August Report over the first two years of the forecast period. All else equal and relative to that forecast, this would add to inflationary pressures in the medium term.

39. In view of these considerations, all members of the Committee judged that an increase in Bank Rate was warranted at this meeting.

40. All members also agreed that the forthcoming Growth Plan would provide further fiscal support and was likely to contain news that was material for the economic outlook. In the November MPC round, the Committee would make a full assessment of the impact on demand and inflation from all these announcements, along with other news, and determine further implications for monetary policy.

41. Five members judged that a further 0.5 percentage point increase in Bank Rate to 2.25% was warranted at this meeting. For these members, a tight labour market with wage growth and domestic inflation well above target-consistent rates justified a further, forceful response from monetary policy. The impact of the Energy Price Guarantee meant that the pressure of demand relative to supply was likely to be stronger than previously expected. In the near term, the Guarantee would lower and bring forward the expected peak in CPI inflation. This should restrain expectations of above-target inflation further ahead, but was not necessarily sufficient to do so alone, given inflation would still be very high for several months. The November forecast round would provide the Committee with an opportunity to make a full assessment of the impact on demand and inflation of the Government's fiscal announcements.

42. Three members preferred a 0.75 percentage point increase in Bank Rate to 2.5% at this meeting. For these members, recent data outturns had already registered more persistent inflationary pressures, and medium-term measures of inflation expectations had remained high. The Energy Price Guarantee, while welcome in its reduction of the near-term peak in inflation, would provide additional support to households, which would add to demand pressure. Faster policy tightening now would help to bring inflation back to the target sustainably in the medium term, and reduce the risks of a more extended and costly tightening cycle later.

43. One member preferred a 0.25 percentage point increase in Bank Rate to 2% at this meeting. For this member, recent data outturns had suggested that activity was already weakening, and the risks of second-round effects from near-term inflation were falling. On the latter, higher-than-expected services price inflation could reflect energy price or base effects in some sectors that would not persist, and wage growth across services sectors had been negatively correlated with producer price inflation in recent quarters. Set against that, there could be further pressures of demand on supply in the medium term, including from expected fiscal policy. On balance, for this member, an increase of 0.25 percentage points was appropriate at this time, although the member had also considered the case for an increase of 0.5 percentage points.

44. The MPC would take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. Policy was not on a pre-set path. The Committee would, as always, consider and decide the appropriate level of Bank Rate at each meeting. The scale, pace and timing of any further changes in Bank Rate

would reflect the Committee's assessment of the economic outlook and inflationary pressures. Should the outlook suggest more persistent inflationary pressures, including from stronger demand, the Committee would respond forcefully, as necessary.

45. Consistent with the guidance set out in the minutes of its August meeting, and given that economic and market conditions were judged appropriate, all members of the Committee agreed at this meeting that the Bank of England should reduce the stock of UK government bond purchases, financed by the issuance of central bank reserves, by an amount of £80 billion over the next twelve months, comprising both maturing gilts and gilt sales, to a total of £758 billion.

46. The Committee reaffirmed that, as a matter of course, it would not continue to vote at each meeting on propositions regarding the stock of purchased assets outside a scheduled annual review. The Committee also reaffirmed that, as set out in the minutes of its August meeting, there would be a high bar for amending the planned reduction in the stock of purchased gilts outside such a review. In judging whether that bar was met, the Financial Policy Committee would also have a role through its assessment of financial stability.

47. The Chair invited the Committee to vote on the propositions that:

Bank Rate should be increased by 0.5 percentage points, to 2.25%;

The Bank of England should reduce the stock of UK government bond purchases, financed by the issuance of central bank reserves, by £80 billion over the next twelve months, to a total of £758 billion.

48. Five members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Huw Pill, and Silvana Tenreiro) voted in favour of the first proposition. Three members (Jonathan Haskel, Catherine L Mann and Dave Ramsden) voted against the first proposition, preferring to increase Bank Rate by 0.75 percentage points, to 2.5%. One member (Swati Dhingra) voted against the first proposition, preferring to increase Bank Rate by 0.25 percentage points, to 2%.

49. The Committee voted unanimously in favour of the second proposition.

Operational considerations

50. On 21 September 2022, the total stock of assets held in the Asset Purchase Facility (APF) was £857 billion, comprising £838 billion of UK government bond purchases and £18.9 billion of sterling non-financial investment-grade corporate bond purchases.

51. In light of the revised timing of this MPC meeting, the Bank had announced on 9 September that sales of APF corporate bonds via auctions would start one week later than previously announced, with the first operation to take place on 27 September. The Bank would stand ready to conduct corporate bond buybacks during specified execution windows from the week beginning 24 October.

52. The details of the gilt sales programme voted on at this MPC meeting were set out in a Market Notice accompanying these minutes. These supplemented details set out in the Market Notice published by the Bank on 1 September, confirming the commencement of these operations and providing further detail on the precise timing and size of gilt sale operations in the quarter ahead.

53. Alongside these minutes, the Governor had exchanged letters with the Chancellor of the Exchequer, regarding the implications of the MPC's decision at this meeting on gilt sales for various operational arrangements related to the APF.

54. The Committee had been briefed at its August meeting on operational changes to the Sterling Monetary Framework that would come into effect alongside the start of a gilt sales programme. The Bank would launch a new Short Term Repo (STR) facility to help to ensure that short-term market rates remained close to Bank Rate, and to allow the MPC to make future decisions about APF unwind independently of the implications for the supply of reserves. Details of the STR had been set out in a Market Notice on 1 September. The first operation would take place on 6 October, following the commencement of the gilt sales programme.

55. The following members of the Committee were present:

Andrew Bailey, Chair

Ben Broadbent

Jon Cunliffe

Swati Dhingra

Jonathan Haskel

Catherine L Mann

Huw Pill

Dave Ramsden

Silvana Tenreyro

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, Anne Glover was also present on 8 September, as an

observer for the purpose of exercising oversight functions in her role as a member of the Bank's Court of Directors.