Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 20 March 2024

21 March 2024

These are the minutes of the Monetary Policy Committee meeting ending on 20 March 2024.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2024/march-2024**.

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 8 May 2024 will be published on 9 May 2024.

Monetary Policy Summary, March 2024

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 20 March 2024, the MPC voted by a majority of 8–1 to maintain Bank Rate at 5.25%. One member preferred to reduce Bank Rate by 0.25 percentage points, to 5%.

Since the MPC's previous meeting, market-implied paths for advanced economy policy rates have shifted up. In the United States and the euro area, inflationary pressures have continued to abate, though by slightly less than expected. Material risks remain, notably from developments in the Middle East including disruption to shipping through the Red Sea.

Having declined through the second half of last year, UK GDP and market sector output are expected to start growing again during the first half of this year. Business surveys remain consistent with an improving outlook for activity.

The fiscal measures in Spring Budget 2024 are likely to increase the level of GDP by around ¼% over coming years. As the measures will probably also boost potential supply to some extent, the implications for the output gap, and hence inflationary pressures in the economy, are likely to be smaller.

Reflecting uncertainties around the ONS's Labour Force Survey, the Committee is continuing to consider a wide range of indicators of labour market activity. The labour market has continued to loosen but remains relatively tight by historical standards. Although still elevated, nominal wage growth has moderated across a number of measures. Contacts of the Bank's Agents continue to expect some decline in pay settlements this year and to report greater difficulty in passing on cost increases to prices.

Twelve-month CPI inflation fell to 3.4% in February from 4.0% in January and December, a little below the expectation in the February Monetary Policy Report. Services consumer price inflation has declined but remains elevated, at 6.1% in February. Most indicators of short-term inflation expectations have continued to ease.

CPI inflation is projected to fall to slightly below the 2% target in 2024 Q2, marginally weaker than previously expected owing to the freeze in fuel duty announced in the Budget. In the February Report projection, CPI inflation was expected to increase slightly again in Q3 and Q4, accounted for by the direct energy price contribution to 12-month inflation. Services price inflation is expected to fall back gradually.

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. Monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term.

At this meeting, the Committee voted to maintain Bank Rate at 5.25%. Headline CPI inflation has continued to fall back relatively sharply in part owing to base effects and external effects from energy and goods prices. The restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures. Nonetheless, key indicators of inflation persistence remain elevated.

Monetary policy will need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the MPC's remit. The Committee has judged since last autumn that monetary policy needs to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipates.

The MPC remains prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably. It will therefore continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. On that basis, the Committee will keep under review for how long Bank Rate should be maintained at its current level.

Minutes of the Monetary Policy Committee meeting ending on 20 March 2024

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 international economy

2. UK-weighted global GDP was estimated to have grown by 0.4% in 2023 Q4, in line with the projection in the February Monetary Policy Report. The divergence in growth among advanced economies had continued, with the United States again growing faster than had been expected.

3. Euro-area GDP had been flat in 2023 Q4, in line with the February Report projection. Near-term indicators such as PMIs and industrial production had continued to stabilise, but the recovery was somewhat weaker than had been expected. By contrast, US GDP had grown by 0.8% in the fourth quarter, higher than had been anticipated in the February Report. US growth was expected to slow in 2024 Q1, following a weakening in real private consumption and retail sales growth since the start of the year.

4. In China, GDP had grown by 1.0% in 2023 Q4. Going forward, growth was expected to remain at around that rate and, in early March, the government had set an annual growth target of around 5%. Other emerging market economies had seen mixed GDP growth outturns in the fourth quarter, with India growing particularly strongly. Near-term indicators suggested that some momentum was persisting into 2024.

5. Despite the conflict in the Middle East and continuing disruption to shipping through the Red Sea, there had been limited news in energy prices since the MPC’s February meeting. The Brent spot oil price had increased by around 5% to $87 per barrel as OPEC and other aligned oil producers were expected to extend production cuts. European wholesale natural gas spot and near-term futures prices had been broadly flat since the Committee’s February meeting, as temperatures had remained mild and storage levels high.

6. Labour markets in advanced economies had continued to loosen but had remained tight overall. The job vacancies rate in particular had continued to decline across countries. The US unemployment rate had increased to 3.9% in February, while non-farm payrolls had grown by 275,000 in the same month. The unemployment rate in the euro area had edged down to 6.4% in January. Wage growth in the euro area and the United States had fallen in 2023 Q4 but data on the outcome of current wage negotiations in the euro area were not yet

available. The gap in wage growth between the United Kingdom on the one hand, and the euro area and the United States on the other, had continued to narrow as UK wage growth had declined more quickly recently than wage growth in the other two economies. However, annual pay growth had remained higher in the United Kingdom.

7. Headline and core consumer price inflation had continued to trend down in the euro area and the United States since the start of this year. However, February inflation rates in both regions had been slightly higher than expected by market participants, accounted for by news in core inflation. In the euro area, headline HICP inflation had been 2.6% in February, and core inflation 3.1%. In the United States, headline CPI inflation had been 3.2%, and core inflation 3.8%. Services price inflation had remained elevated in both economies.

8. The Committee discussed some factors that might influence the global long-term real equilibrium interest rate. Factors that had previously been operating, such as demographics, were likely to continue to bear down on the long-term real rate. Increased investment into climate transition technologies or artificial intelligence, driven for example by expectations of higher productivity growth, might be raising the long-term real equilibrium interest rate. Sustained increases in fiscal spending could also have an impact. The Committee would continue to discuss these factors.

Monetary and financial conditions

9. Since the Committee's previous meeting, the market-implied paths for policy rates across major advanced economies had shifted up. Corporate bond spreads had, however, narrowed and equity prices had risen, leaving mixed signals on the direction of the overall change in financial conditions.

10. Following significant falls in market expectations of policy rates in December and January, recent stronger than expected economic data, particularly non-farm payrolls and inflation releases in the United States, had pushed out slightly the expected timing of future reductions in policy rates across major advanced economies. Despite the rise in short-term interest rates, risky asset prices had increased. Market intelligence suggested that the narrowing in corporate credit spreads and rising equity prices had reflected growing confidence that global growth, credit conditions and corporate earnings would improve going forward.

11. In line with market expectations, the Bank of Japan had raised its policy rate to positive territory and had also ended its policy of yield curve control.

12. In the United Kingdom, all respondents to the Bank's latest Market Participants Survey (MaPS) had expected Bank Rate to be left unchanged at this MPC meeting. They had also all continued to expect the next move in Bank Rate to be downward. The median respondent

in the latest MaPS had expected a cumulative 75 basis points reduction in Bank Rate this year, starting in August. This was broadly in line with current market pricing but down from 100 basis points in the February MaPS. The median respondent had reported that they perceived the neutral interest rate to be at 3.25%, similar to recent surveys.

13. The Committee discussed the increasing convergence and correlated movements in recent months between market expectations for the UK and US policy rate paths. Market intelligence indicated that, despite differences in recent and projected supply and demand growth, this recent convergence could be attributed to factors such as the similarities in current policy rates and the two economies being in broadly similar stages of the disinflationary process.

14. While quoted mortgage rates had increased somewhat since the Committee's previous meeting, largely reflecting pass-through of increases in risk-free reference rates, they had remained substantially below the levels reached last summer. The availability of secured lending to households had improved slightly in the latest Credit Conditions Survey, and the number of owner-occupied mortgage products advertised was now back at levels recorded before the start of the interest rate tightening cycle. Quoted interest rates on unsecured consumer credit and bank lending to businesses had remained close to their recent peaks.

15. The annual growth rate of aggregate sterling broad money had decreased from -0.3% in December to -1.6% in January, driven by volatility in the holdings of the non-intermediate other financial corporations sector, but had remained slightly above the previous six-month average of -1.8%. Within that, annual growth in household deposits had, however, continued to rise.

Demand and output

16. UK real GDP had fallen by 0.3% in 2023 Q4, weaker than had been expected in the February Monetary Policy Report. This had followed a 0.1% decline in Q3. A Bank staff estimate of market sector output, which was less subject to swings in measured non-market output in health and education, had declined by 0.4% in Q4, after a similar-sized fall in Q3. Within the expenditure components of GDP, domestic household consumption and housing investment had fallen by 0.4% and 1.9% respectively in Q4. Business investment was estimated to have risen by 1.5%.

17. Monthly GDP had risen by 0.2% in January, to its highest level since September 2023. Strength in monthly growth had been concentrated in the construction and government services sectors. Private services output had risen slightly.

18. GDP and market sector output growth were both expected to pick up and be positive over the first half of the year. The flash S&P Global/CIPS UK composite output PMI had been

little changed in March at slightly below its long-run historical average, while the future output PMI had eased back slightly from its two-year high in February. There was a similarly positive signal from most other business surveys of current and future market sector activity. Intelligence from the Bank's Agents had also become slightly more optimistic about the outlook. Bank staff continued to expect GDP growth of 0.1% in 2024 Q1 and early indications suggested a small further rise in output growth in Q2.

19. Although consumption had been weaker than expected over 2023, there had been some early signs of a gradual recovery. Retail sales volumes had been volatile but had risen by 3.4% in January following a 3.3% decline in December. Intelligence from the Agents suggested that consumption growth was likely to remain weak in 2024 Q1 but to improve thereafter. GfK consumer confidence had been broadly stable over recent months, with the future personal financial situation sub-balance remaining only slightly below its long-run average. The number of mortgage approvals for house purchases had risen in January to its highest level since October 2022. The UK House Price Index had been broadly flat over recent months, but other timelier indicators of house prices had tended to rise slightly.

20. The Spring Budget 2024 had taken place on 6 March, accompanied by an Economic and fiscal outlook from the Office for Budget Responsibility. The Government had announced a package of fiscal measures, including a further 2p cut in the main rate of employee and self-employed national insurance contributions from April 2024. Bank staff had provisionally estimated that these new measures would increase the level of GDP by around ¼% over coming years. As the measures would probably also boost potential supply to some extent, the implications for the Committee's output gap projection, and hence inflationary pressures in the economy, were likely to be smaller. A full assessment of this news would be conducted as part of the May Report forecast round.

Supply, costs and prices

21. Reflecting uncertainties around the ONS's Labour Force Survey (LFS), the Committee was continuing to consider a wide range of indicators of labour market activity. These collectively pointed to the labour market remaining relatively tight in absolute terms, though continuing to loosen.

22. The ONS had released updated LFS estimates in February but had advised caution in interpreting the results owing to low sample sizes. These estimates also did not reflect the most recent migration and population data. The LFS unemployment rate was estimated to have fallen over the past six months, to 3.9% in the three months to January. Other indicators, such as the claimant count and Agents' intelligence on recruitment difficulties, pointed to a flat or slightly rising profile of unemployment. The vacancies-to-unemployment ratio had remained slightly above its 2019 Q4 levels.

23. The collective steer from a range of measures pointed to modestly positive quarterly employment growth, in line with the February Monetary Policy Report projections. The Committee noted that employment growth had been relatively resilient in an environment of subdued activity, suggesting that companies were potentially retaining their existing employees to meet future increases in demand. This was also consistent with Agents' intelligence. The Committee would monitor whether or not this retention would restrain any tightening in the labour market as GDP growth picked up.

24. Against the backdrop of easing labour market tightness and receding inflation expectations, most indicators of pay growth had declined, although they had remained elevated. Annual private sector regular Average Weekly Earnings (AWE) growth had been 6.1% in the three months to January, 1.1 percentage points lower than in the three months to October and broadly in line with the February Report projection. AWE had moved increasingly into line with other measures such as median private sector pay growth derived from HMRC payrolls data.

25. The Committee discussed the degree of persistence in wage growth. Some shorter-term measures of wage growth had eased, such as an underlying measure based on a range of pay indicators which had been running at a three-month on three-month annualised pace of around 5%, and suggested a moderation in inflationary persistence. On the other hand, adjusting AWE data on a CPI-weighted basis indicated that pay growth could be moderating at a slower pace than the headline data were suggesting. Some forward-looking indicators also pointed to slower moderation. Expectations for future wage growth from the Decision Maker Panel (DMP) Survey had remained flat at 5.2%. The latest intelligence on average pay settlements collected by the Agents had remained close to the levels observed in the Agents' annual survey presented in the February Report. Agents' contacts had generally expected lower pass-through of higher labour costs to prices compared to 2023, however.

26. Twelve-month CPI inflation had fallen to 3.4% in February from 4.0% in January and December, a little below the expectation in the February Report. The latest CPI release had triggered the exchange of open letters between the Governor and the Chancellor of the Exchequer that was being published alongside these minutes. The decline in CPI inflation over recent months could largely be attributed to falls in food and core goods price inflation, as external cost pressures had continued to abate. Services price inflation had declined but remained elevated.

27. Energy prices had continued to drag on annual CPI inflation. Despite the 5% rise in the Ofgem price cap in January, energy was expected to continue to contribute negatively to CPI inflation over the next six months owing to the upcoming reduction in the price cap from April. The freeze in fuel duty announced in the Budget would provide a further marginal drag compared to the February Report projections.

28. Core goods price inflation had fallen to 1.9% in February, slightly lower than expected in the February Report, as cost pressures from previous shocks and global goods price inflation had continued to dissipate. Food and non-alcoholic beverages inflation had also fallen, to 5.0% in February from 6.9% in January. The level of producer input and output prices for both core goods and food had receded significantly from their previous peaks over the past year and had then flattened, while Agents' contacts similarly anticipated falling or flat input costs.

29. Services price inflation had remained higher than CPI inflation, at 6.1% in February, a decrease of 0.4 percentage points from January and in line with February Report expectations. Higher-frequency services price measures that excluded components that were not typically reliable indicators of trends in inflation persistence, such as rents, airfares, package holidays and education, had risen by around 4½% on a three-month on three-month annualised basis. The moderation of services price inflation in recent months appeared to have been accounted for largely by weakness in non-labour rather than labour costs.

30. Households' median short-term inflation expectations had continued to ease in the February Bank of England Inflation Attitudes Survey, while longer-term expectations had remained steady and close to historical averages. Inflation expectations in the Citi/YouGov survey of households had remained somewhat higher than the Bank measures. The one-year ahead measure had been in decline, though had remained above historical averages, while the longer-term measure had been steadier. Business expectations looking one and three years ahead in the February DMP Survey had eased marginally compared to January but had remained above 2%. In the latest MaPS, median CPI expectations of market participants at the one-year point had fallen a little, while median expectations at the three and five-year horizons had remained unchanged at 2%.

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. In the MPC's February Monetary Policy Report projections, GDP growth had been expected to pick up gradually during the forecast period. CPI inflation had been expected to fall temporarily to the 2% target in 2024 Q2 before increasing again in Q3 and Q4, to around 2¾%. Conditioned on the market-implied path for Bank Rate at the time of the February Report, inflation had then been projected to remain above the 2% target over nearly all of the remainder of the forecast period, owing to persistence in domestic inflationary pressures. The Committee had judged that the risks around the modal inflation projection were skewed to the upside over the first half of the forecast period, stemming from geopolitical factors. Risks from domestic price and wage pressures had been judged to be evenly balanced.

33. Since the MPC's previous meeting, market-implied paths for advanced economy policy rates had shifted up, including in the United Kingdom.

34. Having declined through the second half of last year, UK GDP and market sector output were expected to start growing again during the first half of this year. Business surveys remained consistent with an improving outlook for activity. Reflecting uncertainties around the ONS's Labour Force Survey, the Committee was continuing to consider a wide range of indicators of labour market activity. The labour market had continued to loosen but remained relatively tight by historical standards. To the extent that companies had been retaining their existing employees to meet future increases in demand, employment growth was likely to be weaker relative to output growth in the near term, consistent with a further easing in labour market tightness. Should labour demand prove stronger, there could be less of an easing.

35. Twelve-month CPI inflation had fallen to 3.4% in February from 4.0% in January and December, a little below the expectation in the February Report. Services consumer price inflation had declined but remained elevated, at 6.1% in February. Higher-frequency measures of core services inflation, such as the three-month on three-month annualised rate, had been around 4½%. Most indicators of short-term inflation expectations had continued to ease. Although still elevated, nominal wage growth had moderated across a number of measures. An underlying measure based on a range of pay indicators had been running at a three-month on three-month annualised pace of around 5%. Contacts of the Bank's Agents continued to expect some decline in pay settlements this year and to report greater difficulty in passing on cost increases to prices. CPI inflation was projected to fall to slightly below the 2% target in 2024 Q2, marginally weaker than had previously been expected owing to the freeze in fuel duty announced in the Budget.

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. Monetary policy would ensure that CPI inflation returned to the 2% target sustainably in the medium term.

37. Monetary policy would need to remain restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term in line with the MPC's remit. The Committee had judged since last autumn that monetary policy needed to be restrictive for an extended period of time until the risk of inflation becoming embedded above the 2% target dissipated. The Committee recognised that the stance of monetary policy could remain restrictive even if Bank Rate were to be reduced, given that it was starting from an already restrictive level.

38. Eight members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. Headline CPI inflation had continued to fall back relatively sharply in part owing to base effects and external effects from energy and goods prices. The restrictive stance of

monetary policy was weighing on activity in the real economy, was leading to a looser labour market and was bearing down on inflationary pressures. Nonetheless, key indicators of inflation persistence remained elevated.

39. There was a range of views among these members on the extent to which the risks from persistent inflationary pressures had receded. At one end of this range, developments in nominal indicators, including at higher frequencies, suggested that the restrictive stance of policy and the unwinding of second-round effects associated with declining short-term inflation expectations were having a material impact in reducing the more persistent and slower-moving components of inflation. At the other end of this range, wage growth remained too high and was expected to moderate only slowly, as reflected in the Agents' latest intelligence. There were limited signs so far that services price inflation would return to a target-consistent pace sufficiently rapidly, with evidence of diminishing second-round effects still tentative. Some upside risks remained around both the wage and CPI inflation projections.

40. For all of these members, a further accumulation of evidence on inflation persistence would be required to warrant a shift in the monetary policy stance, with members differing on the extent of evidence that was likely to be needed. They would continue to consider the degree of restrictiveness of policy at each meeting.

41. One member preferred a 0.25 percentage point reduction in Bank Rate at this meeting. For this member, waiting for more reassurance before reducing Bank Rate would weigh further on living standards and supply capacity. Bank Rate needed to become less restrictive now to enable a smooth transition in the policy stance and to account for lags in transmission. While this did not preclude the possibility of maintaining Bank Rate if upside risks were to materialise, consumer price inflation was already, and had been for some time, on a firm downward trajectory. Consumption had not recovered to pre-pandemic levels, in sharp contrast to some other advanced economies where it was driving economic growth. The outlook for demand remained weak, with vacancies falling sharply and forward-looking indicators of nominal pay growth easing.

42. The MPC remained prepared to adjust monetary policy as warranted by economic data to return inflation to the 2% target sustainably. It would therefore continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including a range of measures of the underlying tightness of labour market conditions, wage growth and services price inflation. On that basis, the Committee would keep under review for how long Bank Rate should be maintained at its current level.

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

Bank Rate should be maintained at 5.25%.

44. Eight members (Andrew Bailey, Sarah Breeden, Ben Broadbent, Megan Greene, Jonathan Haskel, Catherine L Mann, Huw Pill, Dave Ramsden) voted in favour of the proposition. Swati Dhingra voted against the proposition, preferring to reduce Bank Rate by 0.25 percentage points, to 5%.

Operational considerations

45. On 20 March, the total stock of assets held for monetary policy purposes was £729.9 billion, comprising £729.8 billion of UK government bond purchases and £0.1 billion of sterling non-financial investment-grade corporate bond purchases.

46. The following members of the Committee were present:

Andrew Bailey, Chair
Sarah Breeden
Ben Broadbent
Swati Dhingra
Megan Greene
Jonathan Haskel
Catherine L Mann
Huw Pill
Dave Ramsden

Sam Beckett was present as the Treasury representative.