Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 22 March 2023

23 March 2023

These are the minutes of the Monetary Policy Committee meeting ending on 22 March 2023.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/march-2023**.

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 10 May will be published on 11 May 2023.

Monetary Policy Summary, March 2023

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 22 March 2023, the MPC voted by a majority of 7–2 to increase Bank Rate by 0.25 percentage points, to 4.25%. Two members preferred to maintain Bank Rate at 4%.

Global growth is expected to be stronger than projected in the February Monetary Policy Report, and core consumer price inflation in advanced economies has remained elevated. Wholesale gas futures and oil prices have fallen materially.

There have been large and volatile moves in global financial markets, in particular since the failure of Silicon Valley Bank and in the run-up to UBS's purchase of Credit Suisse, and reflecting market concerns about the possible broader impact of these events. Overall, government bond yields are broadly unchanged and risky asset prices are somewhat lower than at the time of the Committee's previous meeting.

The Bank of England's Financial Policy Committee (FPC) has briefed the MPC about recent global banking sector developments. The FPC judges that the UK banking system maintains robust capital and strong liquidity positions, and is well placed to continue supporting the economy in a wide range of economic scenarios, including in a period of higher interest rates. The FPC's assessment is that the UK banking system remains resilient.

Reflecting these developments, bank wholesale funding costs have risen in the United Kingdom and other advanced economies. The MPC will continue to monitor closely any effects on the credit conditions faced by households and businesses, and hence the impact on the macroeconomic and inflation outlook.

Additional fiscal support was announced in the Spring Budget. Bank staff have provisionally estimated that this could, relative to the February Report, increase the level of GDP by around 0.3% over coming years. A full assessment, including the extent to which these measures could affect supply as well as demand in the medium term, will be conducted ahead of the May Monetary Policy Report.

GDP is still likely to have been broadly flat around the turn of the year, but is now expected to increase slightly in the second quarter, compared with the 0.4% decline anticipated in the February Report. As the Government's Energy Price Guarantee (EPG) will be maintained at £2,500 for three further months from April, real household disposable income could remain broadly flat in the near term, rather than falling significantly. The labour market has remained tight, while the news since the MPC's previous meeting points to stronger-than-expected employment growth in 2023 Q2 and a flat rather than rising unemployment rate.

Twelve-month CPI inflation fell from 10.5% in December to 10.1% in January but then rose to 10.4% in February, 0.6 percentage points higher than expected in the February Report. As a consequence, the exchange of open letters between the Governor and the Chancellor of the Exchequer is being published alongside this monetary policy announcement. Services CPI inflation was 6.6% in February, 0.1 percentage points weaker than expected at the time of the February Report, but food and core goods price inflation have been significantly stronger than projected. Most of the surprising strength in the core goods component was accounted for by higher clothing and footwear prices, which tend to be volatile and could therefore prove less persistent. Annual private sector regular earnings growth has eased, to 7% in the three months to January, 0.1 percentage points below the expectation in February.

CPI inflation is still expected to fall significantly in 2023 Q2, to a lower rate than anticipated in the February Report. This lower-than-expected rate is largely due to the near-term news in the Budget including on the EPG, alongside the falls in wholesale energy prices. Services CPI inflation is expected to remain broadly unchanged in the near term, but wage growth is likely to fall back somewhat more quickly than projected in the February Report.

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 sequence of very large and overlapping 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.

The Committee has voted to increase Bank Rate by 0.25 percentage points, to 4.25%, at this meeting. CPI inflation increased unexpectedly in the latest release, but it remains likely to fall sharply over the rest of the year. Services inflation has been broadly in line with expectations. The labour market has remained tight, and the near-term paths of GDP and employment are likely to be somewhat stronger than expected previously. Although nominal wage growth has been weaker than expected, cost and price pressures have remained elevated.

The extent to which domestic inflationary pressures ease will depend on the evolution of the economy, including the impact of the significant increases in Bank Rate so far. Uncertainties around the financial and economic outlook have risen.

The MPC will continue to monitor closely indications of persistent inflationary pressures, including the tightness of labour market conditions and the behaviour of wage growth and services inflation. If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required.

The MPC will make a full assessment of all of the news since the February Report, including the economic implications of recent financial market and banking sector developments, as part of its forthcoming May forecast round.

The MPC will adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit.

Minutes of the Monetary Policy Committee meeting ending on 22 March 2023

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 world GDP had increased by 0.3% in 2022 Q4 and was expected to grow by 0.4% in 2023 Q1. That expectation for the first quarter was stronger than had been anticipated in the February Monetary Policy Report, accounted for by expectations of a sharper rebound in Chinese GDP following the end of its zero-Covid policy in December, as well as upside news to demand in the United States and in the euro area. Downside risks to the outlook nevertheless remained. In particular, it was unclear how credit conditions and economic activity might be affected by recent banking sector stress in a number of advanced economies.

3. In the euro area, GDP had been flat in 2022 Q4, in line with the projection in the February Report, and was expected to increase by 0.1% in 2023 Q1, stronger than had been incorporated into the February Report. The S&P Global euro-area composite output PMI had risen to its highest level in eight months in February, indicating expanding activity in both services and manufacturing.

4. In the United States, GDP had increased by 0.7% in 2022 Q4 and was expected to grow by 0.3% in 2023 Q1, both stronger than had been expected in the February Report. Retail sales and real consumption had grown strongly in January, and the ISM non-manufacturing PMIs suggested robust GDP growth in January and February, although the ISM manufacturing output PMI had remained below the 50 no-change mark. Around 810,000 jobs had been added to the US economy over January and February, and the unemployment rate had remained near record lows.

5. In China, economic activity had rebounded following the end of its zero-Covid policy in December. The economy was now expected to grow by 1.6% in 2023 Q1, materially stronger than the 1% contraction that had been incorporated into the February Report. The rebound was likely to have been concentrated in domestic demand, reflecting the lifting of Covid-related restrictions and less voluntary social distancing as the number of Covid cases had peaked earlier than had been expected previously. The NBS non-manufacturing and Caixin services PMIs in January and February had been strong, and stronger than their manufacturing counterparts. Retail sales had surged, and investment and industrial

production growth had picked up relative to a year earlier. A measure of Chinese supply chain constraints had eased, and most indicators of global shipping costs had continued to decline. Overall, China's reopening was likely to be disinflationary for advanced economies, as the easing of supply chain disruption was expected to outweigh positive spillovers from stronger demand.

6. European natural gas prices had fallen materially since the MPC's February meeting. The Dutch Title Transfer Facility spot price, a measure of European wholesale gas prices, had declined to €42 per MWh, down 26% relative to February and below levels seen just before Russia's invasion of Ukraine in February 2022. The gas futures curve had also fallen further. These falls had been driven by milder weather, less energy use and fuel switching, implying that gas storage levels had continued to be high, although risks remained for the next winter. UK wholesale gas prices had fallen in line with their continental European counterparts. More recently, the possible macroeconomic implications of the financial market volatility that had followed the failure of Silicon Valley Bank had also contributed to falls in commodity prices. The Brent crude oil spot price had fallen by 12%, to $75 per barrel, since the MPC's previous meeting, and the prices of agricultural goods and metals had also declined.

7. Headline consumer price inflation had continued to decline in the euro area and the United States, but core CPI inflation had proved somewhat more persistent than had been expected. In the euro area, annual headline HICP inflation had been 8.5% in February, down from 8.6% in January, but annual core inflation had increased to 5.6%, from 5.3%. Both measures had been higher than expected by market participants, and the increase had largely been accounted for by services price inflation. Energy price inflation had continued to decline, and was expected to decline further on the back of lower wholesale gas prices, which would push down on headline relative to core measures in the near term. Wage growth in the euro area had continued to increase, albeit from a lower level than in other advanced economies.

8. In the United States, annual headline CPI inflation had decreased to 6.0% in February, from 6.4% in January, while core inflation had fallen marginally to 5.5% from 5.6%, in line with market expectations. However, annual headline and core PCE inflation had surprised to the upside in January. This strength had been accounted for by energy and housing cost inflation, which were expected to ease. Annual average hourly earnings growth had ticked up in the United States in February, following some moderation in previous months.

9. The MPC discussed the extent to which lower wholesale energy prices might already have boosted global activity in the first quarter, noting that most of the effect was still likely to come through as government price caps on households in Europe had cushioned the adverse effect on retail prices and activity while wholesale prices had been higher. The Committee also discussed what the net effect of upside news on economic activity and lower

energy prices might be on global inflation. On the one hand, lower energy prices would push down on headline inflation, and also on core inflation via indirect and second-round effects. On the other hand, lower energy prices would push up demand, which, taken together with other factors pushing up GDP, and all else equal, would be likely to put upward pressure on global inflation.

Monetary and financial conditions

10. There had been large and volatile moves in financial markets since the MPC's previous meeting, in particular since the failure of Silicon Valley Bank (SVB) in early March and reflecting market concerns about the possible broader impact of these events. In the days leading up to the MPC's decision, UBS had agreed to buy Credit Suisse, and major advanced economy central banks had announced a coordinated action to enhance the provision of liquidity via the standing US dollar liquidity swap line arrangements. Overall, government bond yields were broadly unchanged and risky asset prices were somewhat lower than at the time of the Committee's previous meeting.

11. The change in aggregate indices of equity prices in major advanced economies had been modest by the end of the period relative to the time of the MPC's previous meeting. Bank equity prices had, however, been particularly affected as market sentiment had deteriorated following news about SVB, ending the period around 20% lower in the United States and around 5 to 10% down in the euro area and the United Kingdom. Measures of UK wholesale bank funding costs had risen, while remaining below the peaks seen in autumn 2022.

12. Prior to concerns emerging about SVB, market-implied monetary policy paths had picked up materially in advanced economies, reflecting positive global macroeconomic news, coupled with market interpretations of the tone of communications from the Federal Open Market Committee (FOMC), and the ECB Governing Council. These factors had also pushed up on market-implied policy paths in other countries, including in the United Kingdom.

13. After the issues at SVB had become public, however, risk sentiment had reversed and volatility had picked up, such that government bond yields globally had moved appreciably lower again. Risk sentiment had remained weak, given fragilities revealed at some other individual banks. Market contacts suggested that the fall in yields had largely reflected a flight to safety as market participants sought to wait out the volatility, while there was also some perception of an increase in downside risks to the outlook for growth and inflation.

14. Market expectations for the near-term path of policy rates in the euro area and the United States had ended the period largely unchanged and were expected to peak at a level similar to that at the time of the MPC's previous meeting, at around 3½% and around 5% respectively. At its meeting ending on 16 March, the ECB Governing Council had raised its

key policy rates by 50 basis points, a little higher than had been implied by market pricing immediately before the announcement. At the FOMC's meeting ending on 22 March, market pricing was consistent with expectations of an increase in the federal funds rate of around 20 basis points. In the United Kingdom, the majority of market contacts expected Bank Rate to be increased by 25 basis points at this MPC meeting, and market pricing had risen consistent with these expectations following the release of February CPI data immediately prior to the MPC's decision. The market-implied path of Bank Rate rose to a peak of a little above 4½% in August 2023, somewhat higher than the peak at the time of the MPC's previous meeting.

15. Further out, market-implied paths remained consistent with expectations of a reduction in policy rates. In the United States, by mid-2026, the market-implied policy rate was just under 2 percentage points lower than the expected peak in rates, while the same rates were around 1½ percentage points lower than the peak in the United Kingdom and ¾ percentage points lower in the euro area.

16. The sterling effective exchange rate had ended the period around ½% higher compared to the time of the MPC's previous meeting.

17. Medium-term inflation compensation measures had increased a little in the United Kingdom, and had remained broadly unchanged in the United States and the euro area, since the MPC's previous meeting. Although interpreting the movements in UK medium-term inflation compensation measures continued to be challenging, it remained the case that there had been a material reduction in these measures since their peak in March 2022, while they had remained above their average levels of the previous decade.

18. There had been a further reduction in UK owner-occupied fixed-term mortgage rates since the MPC's previous meeting, although rates remained materially higher than in summer 2022. The average quoted rate on a two-year fixed-rate 75% loan-to-value mortgage had fallen by 35 basis points in February, to 4.8%. More generally, the pass-through of higher risk-free reference rates during the current monetary policy tightening cycle had occurred broadly in line with what had typically been the case in the past, excepting the temporary period of slightly faster-than-typical pass-through in 2022 Q4. There were no clear signs as yet that the recent increase in UK bank funding costs had affected mortgage rates.

19. Net secured lending to households had decreased somewhat further, to £2.5 billion in January from £3.1 billion in December. Mortgage approvals for house purchase, which had been falling since autumn 2022, had remained fairly stable in January, at historically low levels of just under 40,000.

20. There had continued to be weakness in other housing market indicators. The official UK House Price Index had fallen by 0.5% a month on average over December and January, and leading indicators such as the Halifax and Nationwide house price indices pointed to falls of

around 3 to 4% compared to their peak in autumn 2022. Indicators of housing market activity from the RICS survey had increased a little in February but had remained weak.

21. Sight deposit rates had risen since the MPC's February meeting, though by less than the increase in Bank Rate. Relative to changes in the corresponding risk-free reference rates, the increase in sight deposit rates since the beginning of the current tightening cycle had been significantly less pronounced than it had been in past cycles, in contrast to time deposits, which had been broadly in line. There was some evidence that households might have rebalanced away from sight to time deposits in response.

Demand and output

22. According to the ONS's first quarterly estimate, real GDP had been flat in 2022 Q4, marginally weaker than had been expected in the February Monetary Policy Report. Household consumption had risen by 0.1%, while business investment had been estimated to have increased by almost 5%. Investment had also been revised up since the start of 2022, such that its level in 2022 Q3 was only 4½% below its pre-pandemic level, rather than 8% as in the previous estimate.

23. Monthly GDP had increased by 0.3% in January, following a 0.5% fall in December. This volatility in the monthly path had in large part been accounted for by a fall and subsequent partial rebound in health and education output around the turn of the year, reflecting the pattern of public-sector strike activity and sickness. Market sector output had risen by 0.1% in January, partially unwinding the 0.2% decline in December. Looking through the bank holiday-related volatility in GDP at various points last year, the level of market sector output had been broadly unchanged since the spring.

24. Bank staff continued to expect GDP to decline by 0.1% in 2023 Q1, as had been projected in the February Report. That was broadly consistent with the overall signal from business surveys of activity. In February, the S&P Global/CIPS UK composite output and new orders PMI indices had risen to levels close to their historical averages, whereas the CBI composite output balance had picked up but had remained contractionary.

25. Household consumption and business investment were also likely to be subdued in the first quarter. Retail sales volumes had risen by 0.5% in January, following a 1.2% decline in December. GfK consumer confidence had increased in February, to its highest level since April 2022, but had nevertheless remained well below its historical average. Most surveys of businesses' investment intentions had remained weak.

26. The Spring Budget had taken place on 15 March, accompanied by an Economic and fiscal outlook from the Office for Budget Responsibility. Additional fiscal support had been announced, including further energy support measures for households and businesses,

temporary 100% capital allowances for qualifying business investment undertaken between 2023-24 and 2025-26, a package of measures aimed at increasing labour market participation, higher defence spending and a freeze in fuel duty. Bank staff had provisionally estimated that these additional policy measures could, relative to what had been assumed in the February Monetary Policy Report, increase the level of GDP by around 0.3% over coming years. A full assessment of this news, and the extent to which it could affect supply as well as demand in the medium term, would be conducted as part of the May Monetary Policy Report forecast round.

27. Bank staff now expected GDP to increase slightly in the second quarter, compared with the 0.4% decline incorporated in the February Report. The Bank's Agents had reported that, while subdued overall, activity was holding up better than contacts had previously expected, particularly in the consumer services sector. The composite future output PMI had risen further in February, with the associated report highlighting improved confidence regarding the near-term economic outlook. The news that the Government's Energy Price Guarantee (EPG) for a typical annual dual-fuel bill would be maintained at £2,500 in April rather than increased, suggested that real household disposable income could remain broadly flat in the near term, rather than falling significantly as had been expected previously.

28. The Committee discussed these developments in activity. Some of the prospective upside news in GDP was likely to reflect developments in energy prices, including recent declines in wholesale prices as well as the EPG adjustment, and hence a further unwind of the terms of trade shock that households and businesses had been experiencing. But some of the news could reflect other factors, including the continued momentum in employment growth. This channel was similar to the judgement that the MPC had made in the February Report that lower perceptions of the risk of job losses could result in lower precautionary saving by households than had previously been assumed. Activity could therefore be less weak than expected.

Supply, costs and prices

29. The labour market had remained tight, while the news since the MPC's previous meeting pointed to stronger-than-expected employment growth and participation. The Labour Force Survey (LFS) unemployment rate had remained at 3.7% in the three months to January, 0.1 percentage points below the expectation at the time of the February Monetary Policy Report. LFS employment had grown by 0.2% in the three months to January, slightly stronger than had been expected at the time of the February Report. This stronger-than-expected rise in employment had been the counterpart to a fall in the inactivity rate of the 16+ population. LFS data for 2022 Q4 suggested that the flow into inactivity from employment and unemployment had fallen to around pre-Covid levels, alongside a decline in the share of the inactive aged 50-64 who did not expect to work again.

30. Some other indicators of labour market quantities had strengthened in recent months, alongside a similar development in some output indicators. The composite employment index in the S&P Global/CIPS UK PMI and HMRC employee payrolls had both increased in February. The rate of decline in the stock of vacancies had continued to abate in the three months to February. There had been just over 1.1 million vacancies in the three months to February, around one third higher than prior to the pandemic. Contacts of the Bank's Agents had reported that the labour market remained tight, with little sign of loosening. Nevertheless, contacts had reported that churn in jobs had fallen back, and that recruitment difficulties had eased recently but remained elevated. Overall, Bank staff expected employment growth of 0.2% in 2023 Q2, in comparison to the 0.4% decline that had been anticipated in the February Report, and for the unemployment rate to remain around its current low level rather than starting to rise.

31. Annual private sector regular Average Weekly Earnings (AWE) growth had eased slightly to 7% in the three months to January, 0.1 percentage points below the expectation at the time of the February Report. Three month on three month private sector regular AWE growth had fallen significantly in recent months. Other pay growth indicators, such as the KPMG/REC survey measure of pay for new permanent hires, suggested that private sector regular pay growth could undershoot somewhat the near-term projections in the February Report. In that Report, earnings growth had been projected to soften in the second half of this year, as lower inflation expectations, which were anticipated to be quantitatively more important than changes in slack in the current environment, pulled down on pay growth.

32. Twelve-month CPI inflation had risen to 10.4% in February from 10.1% in January. This 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 February figure had been 0.6 percentage points higher than the expectation at the time of the February Report, with the upside news concentrated in clothing and footwear, and food and non-alcoholic beverages. Clothing and footwear prices had tended to be volatile and this news could therefore prove less persistent. Core CPI inflation, excluding energy, food, beverages and tobacco, had risen to 6.2% in February from 5.8% in January, and had been 0.3 percentage points higher than the expectation made at the time of the February Report.

33. Bank staff still expected CPI inflation to fall significantly in 2023 Q2, to a lower rate than had been anticipated in the February Report. This lower-than-expected rate was due largely to developments in administered energy prices. Retail gas and electricity prices were currently subject to the Government's Energy Price Guarantee (EPG). As part of the Spring Budget, the Government had announced that the EPG would now be maintained at £2,500, for a typical dual-fuel bill, for the three months from April. This change in the EPG represented downside news to the outlook for household energy prices, lowering directly the forecast for CPI inflation in 2023 Q2 by around 1 percentage point, all else equal. Other

measures announced in the Budget, such as the freezing of fuel duty, had contributed around a further ⅓ percentage points of downside news to the inflation forecast, from April.

34. Staff expected CPI inflation to decline further beyond 2023 Q2, due largely to falls in wholesale gas futures prices. If that level of futures prices were to be sustained, it would mean that the EPG would not bind on household energy bills from July. Instead, Ofgem price caps would set the price of domestic energy bills, resetting every three months as per Ofgem's method. The latest Bank staff estimates suggested that the direct energy contribution to CPI inflation would turn negative by the end of this year.

35. Households' and businesses' short-term inflation expectations had continued to fall back. The quarterly Bank/Ipsos survey had reported a fall in year-ahead inflation expectations to around 4%. By contrast, the measure of one-year ahead inflation expectations in the Citi/YouGov survey of households had edged up in February, though had remained materially below its peak observed last August. The DMP survey had reported that businesses' expectations about their own prices a year ahead had fallen further in February, albeit they had remained at an elevated level. The Bank/Ipsos measures of households' two- and five-year ahead inflation expectations had been close to their historical averages.

36. The Committee discussed the persistence of inflation. Services CPI inflation had reached 6.6% in February and was expected to remain broadly unchanged in the near term, in part due to the continued pass-through of labour and other costs. Nevertheless, the easing in pay growth that had been expected in the February Report appeared more evident in the latest indicators. The labour market had remained tight, and the news since the previous MPC meeting pointed to stronger-than-expected employment growth in 2023 Q2 and a flat rather than rising unemployment rate.

The immediate policy decision

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

38. In the MPC's February Monetary Policy Report projections, annual CPI inflation had been expected to fall back sharply towards the end of this year, alongside a much shallower projected decline in output than in the November Report forecast. Conditioned on the market-implied path for Bank Rate at that time, an increasing degree of economic slack, alongside falling external pressures, would lead CPI inflation to decline to below the 2% target in the medium term. There were considerable uncertainties around this medium-term outlook, and the Committee had judged that the risks to inflation were skewed significantly to the upside.

39. Since the previous MPC meeting, there had been considerable news in global and domestic economic data relative to the near-term projections in the February Report. Global

growth was expected to be stronger than projected, with GDP no longer being expected to contract in either China or the euro area in 2023 Q1. Core consumer price inflation in advanced economies had remained elevated. Wholesale gas futures and oil prices had fallen materially.

40. UK GDP was now expected to increase slightly in the second quarter, compared with the 0.4% decline anticipated in the February Report. The labour market had remained tight, with an unemployment rate of 3.7% in the three months to January and a rise in employment as a counterpart to a fall in the inactivity rate. The news since the MPC's previous meeting pointed to stronger-than-expected employment growth in 2023 Q2 and a flat rather than rising unemployment rate.

41. Additional fiscal support had been announced in the Spring Budget. Bank staff had provisionally estimated that this could, relative to the February Report, increase the level of GDP by around 0.3% over coming years. A full assessment, including the extent to which these measures could affect supply as well as demand in the medium term, would be conducted ahead of the May Monetary Policy Report.

42. Twelve-month CPI inflation had fallen from 10.5% in December to 10.1% in January but had then risen to 10.4% in February, 0.6 percentage points higher than had been expected in the February Report. Services CPI inflation had been 6.6% in February, 0.1 percentage points weaker than had been expected at the time of the February Report, but food and core goods price inflation had been significantly stronger than projected. Most of the surprising strength in the core goods component was accounted for by higher clothing and footwear prices, which had tended to be volatile and could therefore prove less persistent. Annual private sector regular earnings growth had eased, to 7% in the three months to January, 0.1 percentage points below the expectation in February. Three month on three month growth in this measure of pay had fallen significantly in recent months.

43. CPI inflation was still expected to fall significantly in 2023 Q2, to a lower rate than had been anticipated in the February Report. This lower-than-expected rate was largely due to the near-term news in the Budget including on the Energy Price Guarantee, alongside the falls in wholesale energy prices since the previous MPC meeting. Services CPI inflation was expected to remain broadly unchanged in the near term, but wage growth was likely to fall back somewhat more quickly than had been projected in the February Report.

44. More generally, a lower path of energy prices would unwind further the terms of trade shock that households and businesses had been experiencing. The direct contribution of household energy prices to CPI inflation was now expected to turn negative by the end of this year, and this could also act to reduce inflation indirectly and via a dissipation of second-round effects. Lower energy prices would, however, boost activity, which, taken together with

any other demand news pushing up GDP and employment, would, all else equal and over time, put upward pressure on inflation.

45. There had been large and volatile moves in global financial markets, in particular since the failure of Silicon Valley Bank and in the run-up to UBS's purchase of Credit Suisse, and reflecting market concerns about the possible broader impact of these events. Overall, government bond yields were broadly unchanged and risky asset prices were somewhat lower than at the time of the Committee's previous meeting.

46. The Bank of England's Financial Policy Committee (FPC) had briefed the MPC about recent global banking sector developments. The FPC judged that the UK banking system maintained robust capital and strong liquidity positions, and was well placed to continue supporting the economy in a wide range of economic scenarios, including in a period of higher interest rates. The FPC's assessment was that the UK banking system remained resilient.

47. Reflecting these developments, bank wholesale funding costs had risen in the United Kingdom and other advanced economies. The MPC would continue to monitor closely any effects on the credit conditions faced by households and businesses, and hence the impact on the macroeconomic and inflation outlook.

48. 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 sequence of very large and overlapping 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.

49. Seven members judged that a 0.25 percentage point increase in Bank Rate, to 4.25%, was warranted at this meeting. The considerable news since the previous MPC meeting could be evaluated in the framework for monitoring the persistence of inflationary pressures set out in the February minutes. Although nominal wage growth had been weaker than expected, the labour market had remained tight and the unemployment rate was now expected to be flat in 2023 Q2 rather than rising. Services CPI inflation had been broadly in line with expectations. Alongside these developments, headline CPI inflation had surprised significantly on the upside and the near-term path of GDP was likely to be somewhat stronger than expected previously. These members put some weight on the possibility that the stronger domestic and global outlook for demand was also being driven by factors over and above the weaker path of energy prices, given that the strengthening had at least in part preceded the falls in prices. Renewed and sustained demand for labour could still reinforce

the persistence of higher costs in consumer prices, even if second-round effects related to energy price inflation were to diminish.

50. Two members preferred to leave Bank Rate unchanged at 4% at this meeting. As the effects of the energy price shock and other cost-push shocks unwound, headline CPI inflation should fall sharply over 2023, which would also reduce associated persistence in domestic price setting. At the same time, the lags in the effects of monetary policy meant that sizeable impacts from past rate increases were still to come through. That implied the current setting of Bank Rate would be likely to reduce inflation to well below target in the medium term. As the policy setting had become increasingly restrictive, this would bring forward the point at which recent rate increases would need to be reversed.

51. The extent to which domestic inflationary pressures eased would depend on the evolution of the economy, including the impact of the significant increases in Bank Rate so far. Uncertainties around the financial and economic outlook had risen.

52. The MPC would continue to monitor closely indications of persistent inflationary pressures, including the tightness of labour market conditions and the behaviour of wage growth and services inflation. If there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required.

53. The MPC would make a full assessment of all of the news since the February Report, including the economic implications of recent financial market and banking sector developments, as part of its forthcoming May forecast round.

54. The MPC would adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit.

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

> Bank Rate should be increased by 0.25 percentage points, to 4.25%.

56. Seven members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Jonathan Haskel, Catherine L Mann, Huw Pill and Dave Ramsden) voted in favour of the proposition. Two members (Swati Dhingra and Silvana Tenreyro) voted against the proposition, preferring to maintain Bank Rate at 4%.

Operational considerations

57. On 22 March 2023, the total stock of assets held for monetary policy purposes was £826 billion, comprising £818 billion of UK government bond purchases and £7.7 billion of sterling non-financial investment-grade corporate bond purchases.

58. 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.

59. On the occasion of her final meeting, the Chair expressed his appreciation on behalf of the Committee to Clare Lombardelli for her role as Treasury representative since 2017.