



BANK OF ENGLAND

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 4 November 2015

Publication date: 5 November 2015

These are the minutes of the Monetary Policy Committee meeting ending on 4 November 2015.

They are available at <http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2015/nov.pdf>

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 9 December will be published on 10 December 2015.

Monetary Policy Summary, November 2015

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy in order to meet the 2% inflation target and in a way that helps to sustain growth and employment. At its meeting ending on 4 November 2015, the MPC voted by a majority of 8-1 to maintain Bank Rate at 0.5%. The Committee voted unanimously to maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion, and so to reinvest the £6.3 billion of cash flows associated with the redemption of the December 2015 gilt held in the Asset Purchase Facility.

In September, twelve-month CPI inflation stood at -0.1%, slightly over 2 percentage points below the inflation target. Around four fifths of the deviation from the target reflects falls in energy, food and other imported goods prices, with the remainder reflecting subdued domestic cost growth. The combined weakness in domestic costs and imported goods prices is evident in subdued measures of core inflation, which are currently around 1%.

The outlook for inflation reflects the balance between persistent drags from factors such as sterling and world export prices, and prospective further increases in domestic cost growth. The MPC's objective is to return inflation to target sustainably; that is, without an overshoot once persistent disinflationary forces ultimately wane. Given these considerations, the MPC intends to set monetary policy to ensure that growth is sufficient to absorb remaining spare capacity in a manner that returns inflation to the target in around two years and keeps it there in the absence of further shocks.

The outlook for global growth has weakened since the August *Inflation Report*. Many emerging market economies have slowed markedly and the Committee has downgraded its assessment of their medium-term growth prospects. While growth in advanced economies has continued and broadened, the Committee nonetheless expects the overall pace of UK-weighted global growth to be more modest than had been expected in August. There remain downside risks to this outlook, including that of a more abrupt slowdown in emerging economies.

Domestic momentum remains resilient. Consumer confidence is firm, real income growth this year is expected to be the strongest since the crisis, and investment intentions remain robust. As a result, domestic demand growth has been solid despite the fiscal consolidation. Although it has moderated, growth is projected to pick up a little towards the middle of next year, as a tighter labour market and stronger productivity support real incomes and consumption, and as accommodative credit conditions encourage strong investment and a pickup in the housing market. The Committee judges the risks to domestic demand to be broadly balanced.

Robust private domestic demand is expected to produce sufficient momentum to eliminate the margin of spare capacity over the next year. Domestic cost pressures are expected to build as a result of a pickup in wage growth relative to productivity growth. CPI inflation is nonetheless expected to remain below 1% until the second half of next year, reflecting the continuing drag from commodity and other imported goods prices. Beyond that, the dampening influence of sterling's past appreciation on inflation is expected to be persistent, diminishing only slowly over the MPC's forecast period. In this context, the MPC judges it appropriate to return inflation to the target in around two years.

Reflecting concerns about the global outlook, prices of risky assets have fallen since August. There have also been sizable declines in the yields on safe assets. These have had opposing effects in the forecast. The path for Bank Rate implied by market yields, on which the MPC's projections are conditioned, has fallen and now embodies an even more gradual pace of tightening than at the time of the previous *Report*.

In the Committee's judgement, the lower path for Bank Rate implied by market yields would provide more than adequate support to domestic demand to bring inflation to target even in the face of global weakness. In that case, the MPC's best collective judgement is for the most likely path for inflation to exceed slightly the 2% target in two years and then rise a little further above it, reflecting modest excess demand. The MPC judges that the risks to this projection lie slightly to the downside in the first two years, reflecting global factors.

Underlying those projections are significant judgements in a number of areas, as described in the November *Inflation Report*. In any one of these areas, developments might easily turn out differently than assumed, with implications for the outlook for growth and inflation, and therefore for the appropriate stance of monetary policy. Reflecting that, there is a range of views among MPC members about the balance of risks to inflation relative to the best collective judgement presented in the November *Report*. At the Committee's meeting ending on 4 November, the majority of MPC members judged it appropriate to leave the stance of monetary policy unchanged at present. Ian McCafferty preferred to increase Bank Rate by 25 basis points, given his view that the path of domestic costs was more likely to lead to inflation exceeding the target in the medium term than was embodied in the Committee's collective November projections.

All members agree that, given the likely persistence of the headwinds weighing on the economy, when Bank Rate does begin to rise, it is expected to do so more gradually and to a lower level than in recent cycles. This guidance is an expectation, not a promise. The actual path Bank Rate will follow over the next few years will depend on the economic circumstances.

Minutes of the Monetary Policy Committee meeting ending on 4 November 2015

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

Financial markets

2 Following the turbulence in asset prices over the summer and into the early autumn, financial market sentiment had improved somewhat over the month, with volatility falling across a range of asset classes and a recovery in the prices of some risky assets. Despite this, however, short-term and longer-term interest rates in the United Kingdom remained lower than at the time of the *August Inflation Report*. The key question for discussion, therefore, was what accounted for this lower yield curve.

3 Since the Committee's October policy meeting, equity prices had risen by 1% in the United Kingdom, by 6% in the United States, by 7% in the euro area and by 9% in China. Both high-yield and investment-grade corporate bond spreads had narrowed internationally, and there had been some tentative signs of renewed flows into some emerging market mutual funds. Oil prices were little changed, although they remained 13% lower than at the time of the *August Inflation Report*. Measures of implied volatility for US equity prices and oil prices had fallen back to their lowest levels since mid-August, and there had been falls on the month, too, in interest-rate implied volatility. Taken together, these were indicative of some modest improvement in investor sentiment.

4 Short-term interest rates in the United States and euro area had responded to statements by both the ECB and the Federal Reserve. In the euro area, comments by the President of the ECB had been interpreted as signalling a greater likelihood of policy loosening at the ECB's December meeting, and 12-month OIS rates there had fallen by around 10 basis points. Following the FOMC statement of 28 October, market participants were placing greater weight on a tightening in policy in December, and 12-month US OIS rates had risen by around 15 basis points.

5 Short-term interest rates in the United Kingdom had also risen by around 15 basis points following the FOMC statement, but the level of rates at the one-year point remained around 10 basis points lower than at the time of the *August Report*. An increase in Bank Rate to 0.75% was now fully priced in by the fourth quarter of 2016, compared with the second quarter of 2016 in August. And Bank Rate was expected to reach 1.5% only in three years' time, higher than the 1.3% used in the conditioning assumption for the *November Report* but some 30 basis points lower than in the *August Report*. Members discussed the extent to which this fall reflected lower expectations of the most likely path for Bank Rate and the extent to which it reflected increased concerns about downside risks.

6 Reasons to suspect the fall might reflect a downward revision to investors' view of the most likely path for Bank Rate included the downward revision to the outlook for emerging market prospects; it was notable that

there had been a large decline around the same time concerns about emerging markets were affecting financial markets in mid-August. Moreover, UK rates had fallen further on comments by the FOMC that global risks had been a factor in their September decision: as a smaller and more open economy, the United Kingdom might also be thought vulnerable to such risks. Finally, financial-market measures of inflation expectations had declined since August in the United States and United Kingdom, alongside the fall in the yield curve, suggesting that, perhaps in light of lower commodity prices, market participants thought a lower future path for policy would be warranted.

7 There were also, however, reasons to think that the fall in rates reflected increased weight being placed on downside risks, either because of a higher perceived likelihood of risks crystallising, or an increased concern about such downside outcomes. The pickup in volatility of risky asset prices in the summer suggested that uncertainty about global economic prospects had increased, and market intelligence had suggested that some of this uncertainty, particularly regarding the potential impact on the UK economy, had persisted despite the more recent fall back in implied volatilities. Market participants had also reported that investors had been unwilling to position for increases in UK interest rates, having lost money on similar strategies in recent years. In late October, the difference between economists' expectations, as reported by Reuters, of the timing of the first rise in Bank Rate and the later timing derived from market yields was near its widest since May 2013. This might have suggested that markets were placing increased weight on downside risks and the possibility of a cut in Bank Rate.

8 It was probable that both factors were at play to some degree, and that, although expectations of the most likely path of Bank Rate were now lower, market participants were also placing increased weight on downside outcomes.

The international economy

9 Recent data news in the international economy had on balance continued to be disappointing. Some of the recent data for the United States had been weaker than expected, and indicators of activity in emerging market economies outside China had generally continued to weaken. Although there had been little news overall on the near-term outlook for China itself, or for the euro area, the relevant central banks had either loosened monetary policy or had signalled that they would consider doing so. Among emerging economies there was considerable variation in prospects and uncertainty about the extent to which advanced economies, including the United Kingdom, were vulnerable to a sharper slowdown.

10 In the euro area, the news on the month had been mixed. The composite purchasing managers' index (PMI) for October had increased by 0.3 points to 53.9 and the ECB's Bank Lending Survey had reported that easing credit conditions had continued to support loan growth. Industrial production data for August had shown a 0.5% fall, however. Bank staff continued to expect GDP growth of 0.4% in Q3. The flash estimate for twelve-month HICP inflation in October had been zero, up 0.1 percentage points from September, but a little lower than Bank staff had expected. The ECB's Governing Council had indicated that it would consider a range of options for further stimulus at its meeting in December.

11 In the United States, GDP had risen by 0.4% in the third quarter, down from 1.0% in the second quarter, and lower than Bank staff's expectation at the time of the Committee's previous meeting of 0.5%. But stockbuilding had been weaker than in Q2 and final demand had nonetheless grown by 0.7%. Annual wage growth, on the ECI measure, and core inflation, on the PCE measure, had both been steady in the third quarter at 2.1% and 1.3% respectively. The FOMC would assess progress towards its employment and inflation objectives in determining whether it would be appropriate to tighten policy at its December meeting.

12 In China, the statistical authorities had reported growth of 1.8% in Q3, unchanged from a revised Q2 figure and in line with Bank staff's expectations. Industrial production growth had continued to decline, falling to 5.7% in the twelve months to September, while retail sales growth had picked up a little further, to 10.9%. There had been no clear pattern in the PMIs for October. Activity had continued to be supported by further policy measures, with the People's Bank of China cutting its benchmark lending and deposit rates by 0.25 percentage points and lowering the reserve requirement ratio by 50 basis points. The Chinese authorities had reported a smaller decline in their foreign exchange reserves in September.

13 Forecasts for emerging market economies as a whole had been revised down in the IMF's latest *World Economic Outlook*, the latest in a series of downward revisions. Even after any cyclical weakness had passed, these economies were likely to grow more slowly than had been the case in the decade or so prior to the financial crisis. But there was a substantial degree of variation in performance across countries, with growth having slowed more sharply in Brazil and Russia than in much of Asia, for example, and variation too in the scope for policy stimulus to combat a more severe downturn. There was a wide range of views among Committee members about emerging market prospects.

14 Were a more severe emerging-market downturn to materialise, the advanced economies could be affected via trade, confidence and financial channels, although there would probably be some offset from further falls in commodity prices and capital inflows. The strength of these channels would be likely to vary by country, and key in determining the ultimate impact on advanced-economy activity would be the extent and effectiveness of any policy response.

Money, credit, demand and output

15 UK GDP was estimated in the ONS's preliminary release to have grown by 0.5% in 2015 Q3, as expected last month. That was somewhat slower than the growth of 0.7% in Q2, driven by a 0.2 percentage point fall in the contribution of the construction sector, where output was estimated to have contracted by 2.2%. Service sector output had risen by 0.7%. Production output had risen by 0.3%, largely on account of a 1.5% increase in the energy sector, while manufacturing output had fallen for the third consecutive quarter. Excluding oil and gas extraction, ONS figures had shown growth of 0.5% in both Q2 and Q3. Bank staff expected quarterly GDP growth in Q3 to be revised up to 0.6% as the data matured. The ONS estimated that four-quarter growth had been 2.3% in Q3, continuing its gentle decline since 2014. The Committee considered how recent developments at an industry level could account for that slowing.

16 Subdued overseas demand and the rise in the sterling exchange rate since mid-2013 were likely to have weighed on growth in both the manufacturing and services sectors. In addition to the direct effect of weak export demand, there had also been some signs, including reports by the Bank's Agents, of this extending along supply chains and through increased competition from abroad for domestic orders. Perhaps consistent with that, profit warnings by UK quoted companies in 2015 Q3, as measured by EY, had been at their highest third-quarter level since 2008. Even so, it was notable that quarterly service sector output growth had strengthened during the course of the year, suggesting a degree of underlying robustness.

17 The low level of oil prices had depressed investment in the extraction sector, but output had been little affected so far. Indeed, it had grown unusually strongly in the year to Q3, by 11%. In large part, that was likely to be the result of past high levels of investment. Output growth in this sector was likely to reverse in due course, as a result of weaker investment in 2015, but it was typical to see relatively long lags between changes in oil prices and output, given low marginal costs of production once investment had been made.

18 Construction output growth had weakened materially since 2014. The extent of the fall in the recent data was at odds with the survey evidence, however, perhaps suggesting that the official data might be revised up over time. The decline in growth in the year to August had been broadly based across different types of construction activity, but particularly marked in non-housing repair and maintenance. Given the usual lags, the weakening in housing construction had appeared broadly consistent with the general softening in the housing market in 2014. But the modest strengthening in the housing market since then would be likely to support house-building over time. For example, private housing starts in England in the first half of the year, at around 60,000, had been 15% higher than in 2014 H2. And house price inflation, albeit a little weaker than earlier in the year, was also firm, at around 6% in the three months to October compared with a year earlier, according to the average of the lenders' indices.

19 Indicators of aggregate activity in Q4 had suggested that growth would be maintained at a similar pace to that in Q3. Bank staff's expectation of GDP growth in Q4 was 0.6%, although forecasts from a range of models suggested downside risks to that estimate. The output index of the Markit/CIPS composite PMI for October had bounced back from its fall in September, to a little above its series average. The composite expectations series had remained unchanged, at a below-average level. The expected volume of business reported in the CBI surveys for Q3 had weakened. In part, that might have reflected reduced confidence in light of increased uncertainty about global growth prospects. Increased uncertainty might lead businesses to delay new orders and to put investment plans on hold, if only perhaps temporarily. The GfK/EC measure of consumer confidence was lower than at the time of the August *Inflation Report*, but remained above its long-run average in October.

20 Credit conditions had continued to support lending volumes and activity, although they had been a little tighter than anticipated three months earlier. Bank wholesale funding spreads had fallen back a little in October, unwinding some of the increase seen since the period of increased financial market volatility, and reducing upward pressure on credit spreads for households and companies. Mortgage approvals for house purchase had fallen back to around 69,000 in September, but they remained higher than a year earlier, and Bank staff expected the resumption of a gradual pickup in mortgage approvals over time, supported by the marked declines in mortgage rates over the past year. As a result, the ratio of household debt to income would be likely

to pick up a little over the next three years. Lending to UK businesses had been little changed in September. After falling steadily since 2009, the ratio of debt in the private non-financial corporate sector to nominal GDP had stabilised over the past year, and was expected to remain stable over the next few years.

Supply, costs and prices

21 Twelve-month CPI inflation had fallen to -0.1% in September, from zero in August, while the average of a range of measures of core inflation had been stable at 1%. CPI inflation in Q3 as a whole, at 0.0%, had been 0.1 percentage points weaker than envisaged at the time of the August *Inflation Report*. In addition to this downside news in the inflation outturn, further declines in energy prices and the associated futures curves had led Bank staff to expect more reductions in domestic utility prices during 2016. Bank staff had lowered their forecast for CPI inflation in 2016 Q1 by around 0.3 percentage points, with the effects of lower utility prices expected to last into 2017 Q3. With the inflation rate expected to stay below 1% until late summer, there was a material chance that the sequence of open letters from the Governor to the Chancellor of the Exchequer would continue into the latter half of 2016.

22 The outlook for inflation in the medium term depended in part on prospects for domestic cost pressures, especially those emanating from the labour market. Average weekly earnings had grown by 3.0% in the three months to August, compared with a year earlier. Within that, private sector pay growth, which was arguably more relevant for CPI inflation than the whole economy measure, had been 3.4%. This had been lower than Bank staff's expectations, with the downside news concentrated in regular pay growth, and staff expected annual pay growth to ease back a little during the rest of the year. Reports of recruitment difficulties were consistent with increased pay pressures in some sectors, and the extent to which these might broaden remained a key uncertainty in the outlook for domestic costs.

23 On the quantities side, the labour market had begun to tighten again. The number of people employed had increased by 140,000 in the three months to August, taking the employment rate up to 59.9%, a 0.2 percentage point increase compared with the previous three months. The unemployment rate had fallen to 5.4%, the lowest since May 2008, and although vacancies had fallen slightly on the month, they remained close to record high levels, suggesting continued strength in labour demand. The MPC expected the unemployment rate to decline further, albeit at a much slower pace than had been seen over the previous two years.

24 Bank staff estimated that productivity, as measured by output per worker, had risen by 1.2% in the four quarters to Q3. The Committee expected this to increase to around 1.7% over the course of the next 18 months or so. Whole-economy unit labour costs had risen by 1.8% in the four quarters to Q2. Although this was a marked turn-around from the outright declines seen during 2014, largely reflecting the pickup in wage growth since then, they would need to rise further to sustain inflation at the 2% target rate in the medium term. In other words, wage growth would need to outstrip productivity growth over the coming quarters. Experience over the past few years had shown that judgements on both pay and productivity carried a high degree of uncertainty.

25 Turning to external cost pressures, the appreciation of sterling since mid-2013 was likely to continue to bear down on import price growth, and therefore CPI inflation, for a period. A weighted average of the goods

import price index and the services imports deflator suggested that import prices excluding oil and erratic factors had fallen by about 3% over the two years to 2015 Q2. This fall would take time to feed fully into consumer prices and to the rate of CPI inflation.

26 Inflation expectations were also a key determinant of the inflation outlook, especially in the medium term. In financial markets, five-year break-even inflation rates five years forward had been broadly unchanged since the October policy meeting, although they had fallen since the time of the August *Inflation Report*. The decline since mid-August was also apparent in the United States, which perhaps indicated that investors had downgraded their views of global inflation following the recent heightening in concerns about the pace of, and risks to, global activity. Measures of households' inflation expectations had shown no clear pattern recently, and they generally remained below their historical averages, but shorter-term measures tended to move closely with perceptions of current inflation, which were currently low.

27 Having considered the latest data developments, and in view of the cut in Bank staff's near-term inflation projection, the Committee discussed the likelihood that CPI inflation would pick up markedly during 2016, as was its central expectation. There were good reasons to think that the annual inflation rate would soon begin to rise: base effects from food and energy were likely to push up on inflation by about 0.5 percentage points over the next six months; the forecast involved CPI excluding food, alcohol, tobacco and energy rising at much the same pace as it had done over the past three to six months; and the rising projection was consistent with the forecasts from a number of simple empirical models, and certainly within those models' confidence bands.

The immediate policy decision

28 The Committee set monetary policy to meet the 2% inflation target and in a way that helped sustain growth and employment. CPI inflation had fallen to -0.1% in September and was likely to remain around this level until the turn of the year. As set out in the Governor's latest letter to the Chancellor of the Exchequer, around four fifths of the deviation of inflation from the target in the latest data reflected the impact of falls in commodity prices and the past appreciation of sterling. The outlook for inflation into next year and beyond would therefore depend on the persistence of these factors, the extent to which demand grew in excess of supply, and how rapidly any pressure of demand on supply fed into wages and price inflation.

29 Prices of risky assets had generally risen on the month, suggesting that some of the heightened concerns since the summer about the outlook for China and other emerging market economies might have abated. In China, growth in Q3 had been in line with expectations, supported by further easing in monetary policy. In contrast, indicators of activity in other emerging markets had continued to weaken and the Committee judged that growth was unlikely to return to pre-crisis rates in the medium term, although there was a considerable degree of variation across countries. Even allowing for this, the risks to the United Kingdom from emerging market economies lay to the downside, although there was a wide range of views about emerging market prospects.

30 In the advanced economies, growth in US GDP had surprised to the downside in Q3, but much of this had reflected a drag from stockbuilding that would probably prove temporary. In the euro area, GDP growth of

around 0.4% was likely in the third quarter, with similar rates likely to persist into next year. Inflation remained low, however, and the ECB had signalled its readiness to consider further stimulus measures. Overall, growth in the United Kingdom's main trading partners was likely to pick up a little from current rates but remain below pre-crisis averages and below the Committee's projection in the August *Inflation Report*.

31 Domestically, the ONS's preliminary estimate was that GDP had increased by 0.5% in the third quarter, as expected last month, and in the near term the economy was expected to grow at or around long-run average rates, a pace slightly slower than seen in 2013 and 2014. Recent estimates of construction output were weaker than indicated by survey measures and might well be revised. In addition, with sentiment in the housing market continuing to improve, economic activity would probably be supported by a pickup in dwellings investment in coming quarters. Despite continuing fiscal consolidation, household spending growth, underpinned by rising incomes, was expected to continue at around its current pace, and the savings rate was likely to fall further given further improvement in mortgage credit conditions and a lower yield curve. By and large, business investment indicators continued to signal strong growth, despite some weakening in recent surveys and a pickup in profit warnings. Overall, the risks to private domestic spending were broadly balanced.

32 With limited slack remaining, the extent to which demand growth would generate increased inflationary pressure depended in part on the outlook for supply. Employment growth had picked up again, although there had been some reduction in average hours worked, and hourly productivity growth had risen by 1½% in the year to Q2. The Committee's best collective judgement was that spare capacity of around ½% of GDP remained, although there was a wide degree of uncertainty around this and a range of views among members of the Committee. Going forward, the contribution to supply growth from rising labour input was expected to slow as rising real income growth meant the shift towards longer working hours abated, and greater difficulties in recruitment began to lead firms over time to put more emphasis on productivity improvements. In the short run, some of the recent strength in productivity might nonetheless prove temporary, as surveys suggested that firms still expected to expand recruitment further to meet demand. The outlook for supply remained broadly balanced with the risk that growth in labour supply might slow more rapidly being offset by the possibility that more of the recent strength in productivity was structural rather than cyclical.

33 The near-term outlook for CPI inflation was weaker than at the time of the August *Inflation Report*, due in large measure to lower oil prices and recent weaker-than-expected inflation outturns. Oil and gas futures curves were also lower and, conditional on these, weaker consumer energy prices were likely to persist for a little longer than the Committee had previously expected. As a result, it seemed more likely than not that inflation would remain below 1% into the second half of 2016. In addition, although sterling had depreciated a little in recent months, the relatively high level of the exchange rate meant that lower import prices were still pulling down on CPI inflation. This effect was expected to diminish only gradually and was still likely to be affecting inflation in two years' time, although there remained considerable uncertainty about how much and how quickly moves in the exchange rate fed through to CPI inflation.

34 Although some survey measures of inflation expectations remained below past averages, this was less true for financial market measures and the Committee judged that expectations remained well anchored. As external pressures faded, therefore, CPI inflation was likely to pick up. The extent of the pickup hinged on the

path for domestic cost growth, labour costs in particular. Unit labour costs were still rising more slowly than was consistent with meeting the inflation target in the medium term. Wage growth has risen over the past year, but this had been less evident more recently, and growth remained below past average rates. Recruitment difficulties were nonetheless likely to continue to put upward pressure on pay, as supply capacity was used up over the coming year. Supported by the pickup in productivity growth, the Committee's central expectation was for a return to rates of pay growth similar to pre-crisis averages in the medium term. There were risks in both directions. On the downside, the period of low inflation might be reflected in weaker wage pressures, especially in the near term. On the upside, the tightening in the labour market could result in greater pressure on pay.

35 The Committee judged it appropriate to set policy in order return inflation to the target in around two years and to keep it there in the absence of further shocks. Compared with the Committee's August projections inflation was likely to remain lower until late 2017. The yield curve had flattened since August. Were Bank Rate to follow the path implied by market yields, the MPC's best collective judgement was that the most likely path of inflation would exceed slightly the 2% target in two years and then rise a little further above it, reflecting modest excess demand. The risks to the Committee's projection lay to the downside in the first two years, however, and taking account of the balance of risks, the Committee's mean projection for inflation was at the target at the two-year point, as it had been in August, and above it in year three.

36 Against this backdrop, most members of the Committee thought that the current stance of monetary policy remained appropriate. There continued to be a wide spread of views among members about the outlook for activity and inflation, and individual members placed differing weights on the risks from developments in emerging markets and the potential influences on domestic demand growth. With measures of core inflation running at around 1%, and unit labour costs still below pre-crisis averages, however, for most members, indicators of underlying inflationary pressure were not strong enough to justify an increase in Bank Rate. For one member, the risk that domestic costs would rise more rapidly than in the central projection was sufficient to warrant an immediate increase in Bank Rate. As well as reducing the risk of inflation persistently exceeding the target, this member believed that an immediate start to policy normalisation would facilitate a more gradual path for Bank Rate over time, a desirable policy aim in itself.

37 All members agreed that the likely persistence of the headwinds restraining economic growth following the financial crisis meant that, when Bank Rate did begin to rise, it was expected to do so more gradually and to a lower level than in recent cycles. Such guidance, however, was an expectation and not a promise: the path that Bank Rate would actually follow over the next few years would depend on economic circumstances.

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

Bank Rate should be maintained at 0.5%;

The Bank of England should maintain the stock of purchased assets financed by the issuance of central bank reserves at £375 billion.

Regarding Bank Rate, eight members of the Committee (the Governor, Ben Broadbent, Jon Cunliffe, Nemat Shafik, Kristin Forbes, Andrew Haldane, Gertjan Vlieghe and Martin Weale) voted in favour of the proposition. Ian McCafferty voted against the proposition, preferring to increase Bank Rate by 25 basis points.

Regarding the stock of purchased assets, the Committee voted unanimously in favour of the proposition.

39 Consistent with the Committee's forward guidance, and as described in a market notice accompanying these minutes, the Committee agreed to re-invest the £6.3 billion of cash flows associated with the redemption of the December 2015 gilt held by the Asset Purchase Facility.

40 The following members of the Committee were present:

Mark Carney, Governor
Ben Broadbent, Deputy Governor responsible for monetary policy
Jon Cunliffe, Deputy Governor responsible for financial stability
Nemat Shafik, Deputy Governor responsible for markets and banking
Kristin Forbes
Andrew Haldane
Ian McCafferty
Gertjan Vlieghe
Martin Weale

James Richardson was present as the Treasury representative on the first day of the Committee's meeting, Dave Ramsden on the second and third days.