Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 14 December 2022

15 December 2022

These are the minutes of the Monetary Policy Committee meeting ending on 14 December 2022.

They are available at **https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2022/december-2022**.

The Bank of England Act 1998 gives the Bank of England operational responsibility for setting monetary policy to meet the Government's inflation target. Operational decisions are taken by the Bank's Monetary Policy Committee. The minutes of the Committee meeting ending on 1 February will be published on 2 February 2023.

Monetary Policy Summary, December 2022

The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 14 December 2022, the MPC voted by a majority of 6-3 to increase Bank Rate by 0.5 percentage points, to 3.5%. Two members preferred to maintain Bank Rate at 3%, and one member preferred to increase Bank Rate by 0.75 percentage points, to 3.75%.

In the MPC's November Monetary Policy Report projections, conditioned on the elevated path of market interest rates at that time, the UK economy was expected to be in recession for a prolonged period and CPI inflation was expected to remain very high in the near term. Inflation was expected to fall sharply from mid-2023, to some way below the 2% target in years two and three of the projection. This reflected a negative contribution from energy prices, as well as the emergence of an increasing degree of economic slack and a steadily rising unemployment rate. The risks around that declining path for inflation were judged to be to the upside.

Domestic wage and price pressures are elevated. There has been limited news in other domestic and global economic data relative to the November Report projections.

Most indicators of global supply chain bottlenecks have eased, but global inflationary pressures remain elevated. Advanced-economy government bond yields have fallen, particularly at longer maturities. The sterling effective exchange rate has appreciated by around 2¾%. There has been some reduction in UK fixed-term mortgage rates since the Committee's previous meeting, but rates remain materially higher than in the summer.

Bank staff now expect UK GDP to decline by 0.1% in 2022 Q4, 0.2 percentage points stronger than expected in the November Report. Household consumption remains weak and most housing market indicators have continued to soften. Surveys of investment intentions have also weakened further.

Although labour demand has begun to ease, the labour market remains tight. The unemployment rate rose slightly to 3.7% in the three months to October. Vacancies have fallen back, but the vacancies-to-unemployment ratio remains at a very elevated level. Annual growth of private sector regular pay picked up further in the three months to October, to 6.9%, 0.5 percentage points stronger than the expectation at the time of the November Report.

Twelve-month CPI inflation fell from 11.1% in October to 10.7% in November. The November figure was slightly below expectations at the time of the November Report. The exchange of open letters between the Governor and the Chancellor of the Exchequer is being published

alongside this monetary policy announcement. Although the introduction of the Energy Price Guarantee (EPG) in October has limited the rise in CPI inflation, the contribution of household energy bills to inflation has risen further. Since the MPC's previous meeting, core goods price inflation has fallen back, while annual food and services price inflation have strengthened. CPI inflation is expected to continue to fall gradually over the first quarter of 2023, as earlier increases in energy and other goods prices drop out of the annual comparison.

The announcement in the Autumn Statement that the extension of the EPG will cap household unit energy prices at a level consistent with a typical household dual fuel bill of £3,000 per year from April 2023 to March 2024 implies a slightly lower near-term path for energy bills than the working assumption made in the November Report. All else equal, this will reduce the MPC's forecast for CPI inflation in 2023 Q2 by around ¾ of a percentage point.

Other additional near-term fiscal support was also announced in the Autumn Statement, but fiscal policy is expected to tighten by progressively larger amounts from fiscal year 2024-25 onwards. Overall, Bank staff estimate that these measures, combined with the impact of the EPG, will increase the level of GDP by 0.4% at a one-year horizon, leave it broadly unchanged at a two-year horizon, but reduce the level of GDP by 0.5% in three years' time, relative to what was assumed in the November Report. The overall impact on the CPI inflation projection at all of these horizons is estimated to be small.

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

The Committee has voted to increase Bank Rate by 0.5 percentage points, to 3.5%, at this meeting. The labour market remains tight and there has been evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence and thus justifies a further forceful monetary policy response.

The majority of the Committee judges that, should the economy evolve broadly in line with the November Monetary Policy Report projections, further increases in Bank Rate may be required for a sustainable return of inflation to target.

There are considerable uncertainties around the outlook. The Committee continues to judge that, if the outlook suggests more persistent inflationary pressures, it will respond forcefully, as necessary.

The MPC will take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. The Committee will, as always, consider and decide the appropriate level of Bank Rate at each meeting.

Minutes of the Monetary Policy Committee meeting ending on 14 December 2022

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 0.5% in 2022 Q3, stronger than had been expected in the November Monetary Policy Report, and was expected to increase by 0.1% in Q4, in line with the projection in the November Report. Most measures of global supply chain bottlenecks had eased, but global inflationary pressures had remained elevated.

3. In the euro area, GDP had increased by 0.3% in 2022 Q3, stronger than incorporated into the November Report but weaker than the 0.8% growth in Q2. Bank staff expected GDP to fall by 0.2% in the fourth quarter, a little weaker than had been anticipated in the November Report. The composite output PMI had increased slightly in November but had remained in contractionary territory for the fifth month in a row. The weakness had been broad based across euro-area economies and across sectors.

4. In the United States, GDP had increased by 0.7% in 2022 Q3, stronger than had been expected in the November Report. The share of services in consumption had risen throughout the third quarter, tentatively pointing to the expected rotation in US demand, although this had partly reversed in October. In the fourth quarter, US GDP was expected to rise by 0.1%, broadly in line with the expectation in the November Report. Non-farm payrolls had increased by 263,000 in November and the unemployment rate had remained unchanged at 3.7%.

5. In China, a sharp increase in Covid cases had contributed to a slowing in activity. China’s quarterly GDP growth in 2022 Q4 was likely to be some way below the 1.4% rate that had been anticipated at the time of the November Report. Covid outbreaks and related restrictions had weighed on consumption, and import growth had contracted sharply as a result. Chinese export growth had also contracted in November, reflecting slowing global growth and some Covid-related disruption to production. The Chinese government had issued new guidelines recently that had eased some zero-Covid policies. The weakening property sector had continued to have a negative impact on activity.

6. Most measures of global supply chain constraints had eased in recent months, broadly in line with the assumption in the November Report. This was evident in the movements in

October and November of an indicator of supply constraints based on global PMI surveys, although that indicator had remained elevated compared with historical averages. In China, that measure had increased in October and November, but had remained below recent peaks and around its historical average. Shipping costs had fallen across a number of regions. Further Covid outbreaks and any associated disruption to output in China could pose a risk to global supply chains in future, although the precise effect would depend on the Chinese economy's response to changes in Covid policies and the extent to which global supply chains had become more resilient.

7. Energy price movements had been mixed since the MPC's previous meeting. At the time of the December MPC meeting, the Brent crude oil spot price was around $80 a barrel, having fallen by around 15%, although only to around the same level as at the start of the year. The Dutch Title Transfer Facility spot price, a measure of European wholesale gas prices, was €137 per MWh, up 18% since the previous MPC meeting. Gas futures prices had remained elevated, reflecting concerns around the impact of Russian restrictions to gas supplies and an expectation that supply constraints would continue into next winter. Global agricultural goods prices were broadly unchanged over this period and compared to a year ago, though remained at elevated levels

8. According to the flash estimate, euro-area annual HICP inflation had fallen from 10.6% in October to 10.0% in November, with core HICP inflation remaining at 5.0%. US CPI inflation had fallen from 7.7% in October to 7.1% in November, suggesting PCE inflation would also ease further.

9. The MPC discussed the outlook for global inflation. In the November Report, world export price inflation had been expected to peak at 14% in 2022 Q2, and UK-weighted world consumer price inflation to peak at just over 8% in 2022 Q4. Developments since then had been consistent with that view. World export prices had been projected to fall over 2023 as a whole and global consumer price inflation was expected to decline to 1.9% by the end of next year. Absent further shocks, the assumed future path of energy prices and the easing of global supply constraints were consistent with this fall in global traded goods prices. Services price inflation in advanced economies could fall back more quickly than expected if its recent strength had in part reflected indirect effects of energy prices. The tightening in monetary policy across many economies would bear down on global demand and inflation, as the effects of increases in policy rates fed through with a lag. Further shocks to energy and other commodity prices continued to present some upside risks to the central outlook, as would more persistent tightness in advanced economy labour markets. In addition, there could be upside risks to services price inflation if persistently high input costs became embedded, including through higher wage growth.

Monetary and financial conditions

10. Since the MPC's November meeting, government bond yields had moved lower across major advanced economies, particularly at longer maturities. Ten-year yields had fallen by around 20, 60 and 20 basis points in the United Kingdom, United States and Germany respectively. Those movements had only partially offset the significantly larger increases in global yields that had occurred since the end of July. Supported by the recent reduction in yields, risky asset prices had risen globally since the MPC's previous meeting.

11. Market expectations for the near-term path of policy rates were little changed across major advanced economies since the MPC's previous meeting. Both the Federal Open Market Committee and the ECB Governing Council were expected to raise policy rates by 50 basis points at their forthcoming meetings concluding on 14 and 15 December respectively. The market-implied policy paths in the United States and euro area were expected to peak around the middle of next year at a little under 5% and a little under 3% respectively, not materially changed from at the time of the MPC's previous meeting.

12. A large majority of respondents to the Bank's latest Market Participants Survey (MaPS) expected Bank Rate to be increased by 50 basis points at this MPC meeting, consistent with market-implied pricing. The median MaPS respondent expected Bank Rate to peak at 4¼% in the first half of next year and remain at that level throughout the remainder of 2023. The market-implied path for Bank Rate, which would also reflect any upside skew in Bank Rate expectations, rose to around 4¾% by around the middle of next year and remained close to that level throughout the remainder of 2023. While the market-implied path was a little higher than the MaPS median, the gap between these measures had narrowed since the previous MaPS survey, conducted in mid-October.

13. Further out, market-implied policy paths had fallen across major advanced economies since the MPC's November meeting. Expectations for policy rates three years ahead, had declined by around 50, 75 and 40 basis points in the United Kingdom, United States and euro area respectively. In the United Kingdom, this was in addition to the material reduction that had occurred in the immediate run-up to the MPC's November meeting, after the November Monetary Policy Report projections had been finalised. Nevertheless, expected rates at the three-year horizon had remained higher in the United Kingdom than in other major advanced economies.

14. Medium-term inflation compensation measures were little changed in the United States and euro area since the MPC's previous meeting. Interpreting the moves in UK medium-term inflation compensation measures remained challenging. Nevertheless, these measures had fallen since the MPC's previous meeting, following significant volatility in September and October, when there had been large distortions from the repricing in long-dated and index-linked UK government debt, and associated pressure on liability-driven investment (LDI)

funds. Looking further back, there had been a material reduction in UK medium-term inflation compensation measures since their peak in March, although they had remained above their average levels of the past decade. In the latest MaPS, the median respondent's expectation for CPI inflation at both the three and five-year horizons had been 2%, having fallen since the previous survey. Responses, however, had remained skewed to the upside.

15. The sterling effective exchange rate had appreciated by around 2¾% since the previous MPC meeting. In part, that had reflected a broad-based depreciation of the US dollar, consistent with the somewhat larger declines in US interest rate expectations relative to other advanced economies over the period and some improvement in global risk sentiment.

16. There had been some reduction in UK owner-occupied fixed-term mortgage rates since the Committee's previous meeting, but rates had remained materially higher than in the summer. Lending rates for new fixed-rate mortgages had fallen by around 40 to 80 basis points since the November MPC meeting, reflecting the reduction in risk-free market rates following their sharp rise in late September around the time of the announcement of the Government's Growth Plan. The number of mortgage products available had continued to recover from October lows, but had remained below the levels seen in the summer.

17. Over the past year, overall bank credit availability had reduced. According to supervisory intelligence that had, in large part, been related to an expected deterioration in borrowers' balance sheets.

18. There were some early signs that tighter lending conditions and a decline in credit demand were feeding through to lower lending volumes. In the mortgage market, approvals for house purchase had fallen below 60,000 in October, which, excluding the Covid lockdown period in the first half of 2020, had been the lowest level since 2013. In the corporate sector, net finance raised by businesses in October had declined to its lowest level since 2009.

19. There had been a net reduction in sterling broad money in October, although that had only partially offset the very large increase in September. Sterling net lending had also fallen in October following a sizeable increase in September. These flows were accounted for primarily by some firms in the financial sector and one contributory factor was likely to have been the significant market volatility towards the end of September, associated with developments at LDI funds.

20. The MPC had been informed that, on 29 November, the Bank had begun to unwind, in a timely but orderly way, the specific gilt purchases resulting from the financial stability operations conducted between 28 September and 14 October. As of 13 December, around 40% of the gilts purchased during those operations had been sold.

Demand and output

21. According to the ONS's first quarterly estimate, GDP had fallen by 0.2% in 2022 Q3, a smaller decline than the expectation in the November Monetary Policy Report of a 0.5% fall. Within the expenditure components, household consumption and business investment had both fallen by 0.5%, while government spending was estimated to have risen by 2.1%. Underlying output, defined as market sector output adjusted for the estimated effects of recent additional bank holidays, was estimated by Bank staff to have fallen by a similar amount as headline GDP.

22. Monthly GDP had risen by 0.5% in October, following a 0.6% fall in September, and marginally stronger than had been expected by Bank staff immediately prior to the release. The rebound in the level of output had in large part reflected the unwind of the economic impact of the additional bank holiday for the Queen's state funeral. At a sectoral level, private sector services had risen in line with expectations, with upside news concentrated in manufacturing output and, to a lesser degree, the government and construction sectors.

23. Bank staff now expected GDP to decline by 0.1% in 2022 Q4, 0.2 percentage points stronger than had been expected in the November Report. This was consistent with a weakening in quarterly underlying growth to between -¼% and -½%, partially offset by the boost to headline output growth from the effect of the additional bank holiday unwinding in October and an assumption that government output would contribute positively to GDP during the quarter. The S&P Global/CIPS UK composite output PMI had remained below the 50 no-change mark for the fourth consecutive month in November. Intelligence from the Bank's Agents was consistent with only a modest further weakening in activity in the fourth quarter, centred in consumer-facing sectors.

24. For growth prospects further ahead, the composite future output PMI had recovered to close to its September levels, albeit remaining below its long-run average. In contrast, the CBI composite expectations balance had fallen sharply in November. An aggregate estimate of real growth from the latest Decision Maker Panel suggested that respondents expected sales volumes to stagnate over the next year. Taken together, the forward-looking survey evidence was broadly consistent with the projection in the November Report of a slight fall in GDP in 2023 Q1.

25. Indicators of household consumption had remained weak. Retail sales volumes had risen by 0.6% in October, in part reflecting the boost to growth from the effect of the additional bank holiday unwinding, but had remained 1.2% below their 2019 Q4 level. GfK consumer confidence had edged higher in November, but had remained very weak by historical standards. Household real incomes were expected to be broadly flat in the near term.

26. Most housing market indicators had continued to weaken in recent months, after several years of strength. Although the official UK House Price Index had increased strongly in October, house prices had fallen quite sharply in the Nationwide and Halifax indices in

October and November. The November RICS survey had shown further declines in price balances and continuing weakness in indicators of housing market activity. According to higher-frequency Zoopla data, the volume of offers made on properties by potential buyers had declined to below their normal seasonal levels.

27. Surveys of investment intentions had weakened further, and were consistent with small declines in business investment, following a period of greater strength in capital spending after the worst of the pandemic. Agency intelligence indicated that business confidence had remained weak, although mentions of uncertainty in the Agents' reports had fallen back somewhat in recent weeks.

28. The Autumn Statement had taken place on 17 November, accompanied by both an Economic and fiscal outlook from the Office for Budget Responsibility (OBR) and new fiscal rules as set out in an updated Charter for Budget Responsibility. Some additional fiscal support had been announced in the near term, including targeted cost-of-living support in addition to the extended Energy Price Guarantee scheme, cuts in business rates, and increased spending on health, social care and education. From fiscal year 2024-25, planned fiscal policy would tighten by progressively larger amounts, with net tax rises accounting for around half of this tightening and reductions in both departmental current and capital spending accounting for the other half. Overall, Bank staff estimated that the additional policy measures announced in the Autumn Statement could, relative to what had been assumed in the November Monetary Policy Report, increase the level of GDP by 0.4% in one year's time, leave it broadly unchanged at a two-year horizon, but reduce the level of GDP by 0.5% in three years' time.

29. The Committee discussed how the OBR's latest macroeconomic projections compared to those in the November Monetary Policy Report. The OBR's GDP projection was broadly similar to the MPC's over the first year of the forecast period. Thereafter, the forecast profiles diverged very significantly, with the OBR expecting GDP to be around 5% higher than in the November Report by 2025 Q4. This gap reflected the OBR's judgement that both demand and supply would be stronger than the MPC was expecting in the medium term. Productivity was expected to be around 1½% higher in the OBR's projection, with that difference in part reflecting a much stronger projected path for business investment and hence the capital stock.

Supply, costs and prices

30. The Labour Force Survey (LFS) unemployment rate had risen to 3.7% in the three months to October, slightly higher than the expectation of 3.5% at the time of the November Monetary Policy Report. LFS employment had grown by 0.1% in the three months to October, slightly weaker than the 0.3% expected at the time of the November Report. HMRC

employee payrolls had increased by 107,000 in November. LFS inactivity had fallen slightly, but had remained high by historical standards.

31. Regarding more forward-looking indicators, the KPMG/REC Report on Jobs for November had shown that hiring had remained below historical averages. The ONS vacancy survey had continued to decline in recent months, while remaining at a very high level. The vacancies–to-unemployment ratio had remained close to record highs, based on comparable series since 2001. Online indicators of vacancies had flattened off in recent months, but they had remained significantly above pre-Covid levels. Planned redundancies had remained low, although there had been a decrease in the S&P Global UK Household Financial Index and YouGov survey measures of perceptions of job security. Intelligence from contacts of the Bank's Agents was consistent with some early signs of the labour market loosening, albeit from a very tight starting point, as employment intentions were flat and recruitment difficulties had eased slightly.

32. The Committee discussed recent labour market developments. Overall, recent data suggested that the labour market was historically very tight but appeared to be past its peak tightness. Labour demand appeared to have weakened somewhat and the November Report was consistent with a further weakening, given the usual lags between GDP and the labour market. While the earlier strength in the labour market had partly reflected the recovery in demand following the pandemic, recent weakness in labour participation appeared to have somewhat exacerbated the tightness of the labour market. This weakness in participation in part reflected an ageing population, early retirement decisions for some workers and ill health. Given that these trends could continue for some time, a key uncertainty was the speed of the downward adjustment to labour demand as labour supply fell, and thus the extent to which any supply-demand imbalance exerted upward pressure on inflation. The MPC would have an opportunity to review these judgements as part of its annual supply stocktake, which would conclude alongside the February 2023 Monetary Policy Report.

33. Annual whole-economy total pay growth had picked up slightly to 6.2% in the three months to October. Private sector regular pay growth had also picked up further to 6.9%, 0.5 percentage points stronger than the expectation at the time of the November Report. On a three month on three month annualised basis, private sector regular pay growth had fallen back to 6.7%, a level more in line with the annual rate of increase than earlier in the year. Annual public sector pay growth had remained weaker, at 2.7% in the three months to October.

34. Annual private sector wage growth was expected to flatten off at around 7% in coming months, before declining later in 2023. There were risks on either side. Pay indicators in the November KPMG/REC survey, which tended to lead the official data, had weakened a little further. However, a number of contacts of the Bank's Agents expected further upward pressure on pay growth next year, in part as strength in CPI inflation could encourage

workers to continue to demand high pay settlements. Some contacts had nevertheless reported that weaker demand, affordability constraints for firms and an easing in recruitment difficulties could limit the extent of pay increases.

35. Twelve-month consumer price inflation had fallen to 10.7% in November, from 11.1% in October. The November figure had been slightly lower than expected in the November Report, with the downside news concentrated in food and core goods prices. 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. Core CPI inflation, excluding energy, food, beverages and tobacco, had eased slightly from 6.5% in October to 6.3% in November.

36. Considering non-energy inflationary pressures, core goods inflation had fallen back from recent peaks, in part due to weaker vehicle price inflation and was expected to ease further in the near term. This was consistent with an easing of supply chain bottlenecks and some cost pressures softening. However, food and non-alcoholic beverage price inflation had been 16.4% in November, its highest level in 45 years, and was expected to rise further. This had in large part reflected global factors including adverse climate conditions, supply constraints caused by the war in Ukraine and rising energy and fertiliser costs in food production. Core services inflation had risen to 6.3% in October and to 6.4% in November. Contacts of the Bank's Agents reported that consumer services prices continue to be pushed up by higher input prices, particularly pay, food and energy.

37. The largest component of the overshoot of the 2% inflation target had continued to be the contribution from energy prices. CPI inflation was expected to stay elevated in the near term, but to continue to fall gradually over the first quarter of 2023, in large part as earlier increases in energy and other goods prices dropped out of the annual comparison. These effects were expected to outweigh continuing strength from food and services price inflation.

38. Since the November Report, the Government had announced that the cap on household unit energy prices under the Energy Price Guarantee would rise, from April 2023 to March 2024, to a level consistent with a typical annual dual-fuel bill of £3,000, from £2,500. Over the early part of the MPC's forecast period, this implied a lower path for household energy bills than the working assumption made in the November Report of an indicative path for household utility bills that sat halfway between the previously announced £2,500 cap on the typical household bill and the level implied by futures prices under the Ofgem price cap framework. This downside news would lower the forecast for CPI inflation in 2023 Q2 by 0.8 percentage points, all else equal, and would boost household real incomes to a similar degree.

39. Most measures of households' and businesses' inflation expectations had fallen back in the latest data, but had remained at elevated levels. The one-year ahead Citi and Bank/Ipsos

household measures had both fallen in November. At longer horizons, the five- to ten-year ahead Citi measure had fallen, while the Bank/Ipsos measure had risen a little. Respondents to the Decision Maker Panel in November had indicated lower own-price and inflation expectations over the next year, and lower inflation expectations three years ahead, although all of these series had remained above 2%.

The immediate policy decision

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

41. In the MPC's November Monetary Policy Report projections, conditioned on the elevated path of market interest rates at that time, the UK economy had been expected to be in recession for a prolonged period and CPI inflation had been expected to remain very high in the near term. Inflation had been expected to fall sharply from mid-2023, to some way below the 2% target in years two and three of the projection. This had reflected a negative contribution from energy prices, as well as the emergence of an increasing degree of economic slack and a steadily rising unemployment rate. The risks around that declining path for inflation had been judged to be to the upside.

42. Domestic wage and price pressures were elevated. There had been limited news in other domestic and global economic data relative to the November Report projections. Bank staff now expected UK GDP to decline by 0.1% in 2022 Q4, 0.2 percentage points stronger than had been expected in the November Report. Most housing market indicators had continued to weaken. Vacancies had fallen back, but the vacancies-to-unemployment ratio had remained at a very elevated level. Annual growth of private sector regular pay had picked up further and had been 0.5 percentage points stronger than had been expected at the time of the November Report. A number of contacts of the Bank's Agents expected further upward pressure on pay growth next year, although pay indicators in the KPMG/REC survey, which tended to lead the official data, had weakened a little further. Twelve-month CPI inflation had fallen to 10.7% in November, slightly below expectations at the time of the November Report. Since the MPC's previous meeting, core goods price inflation had fallen back, while annual food and services price inflation had strengthened. Most measures of households' and businesses' inflation expectations had fallen back, but had remained at elevated levels.

43. The Autumn Statement had taken place on 17 November, accompanied by an Economic and fiscal outlook from the Office for Budget Responsibility and new fiscal rules as set out in an updated Charter for Budget Responsibility. The Chancellor of the Exchequer had also written to the Governor setting out the remit for the MPC, including some updates to the government's economic strategy. In this letter, the Chancellor had stated that, although the Bank of England Act required him to reaffirm the MPC's remit annually, to provide certainty he could confirm that this government would not change the definition of price stability.

44. The announcement in the Autumn Statement that the extension of the Energy Price Guarantee (EPG) would cap household unit energy prices at a level consistent with a typical household dual fuel bill of £3,000 per year from April 2023 to March 2024 implied a slightly lower near-term path for energy bills than the working assumption made in the November Report. All else equal, this would reduce the MPC's forecast for CPI inflation in 2023 Q2 by around ¾ of a percentage point.

45. Other additional near-term fiscal support had also been announced in the Autumn Statement, but fiscal policy was expected to tighten by progressively larger amounts from fiscal year 2024-25 onwards. Overall, Bank staff estimated that these measures, combined with the impact of the EPG, would increase the level of GDP by 0.4% at a one-year horizon, leave it broadly unchanged at a two-year horizon, but reduce the level of GDP by 0.5% in three years' time, relative to what had been assumed in the November Report. The overall impact on the CPI inflation projection at all of these horizons was estimated to be small.

46. The Committee would make a fuller assessment of this news, taken together with other developments since the November Report, as part of its forthcoming forecast discussions ahead of the February MPC meeting. The MPC would also have an opportunity to review its judgements on the supply side of the economy as part of its annual supply stocktake, which would conclude alongside the February Monetary Policy Report.

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

48. Six members of the Committee judged that a 0.5 percentage point increase in Bank Rate, to 3.5%, was warranted at this meeting. The labour market remained tight and there had been evidence of inflationary pressures in domestic prices and wages that could indicate greater persistence and thus justified a further forceful monetary policy response. Both services price inflation and private sector regular wage growth had increased significantly over the second half of the year, with the latter continuing to surprise on the upside since the November Report. There remained a risk that, following a protracted period of high inflation, inflation expectations could be slow to adjust downwards to target-consistent levels once external cost pressures had passed. Although activity in the economy was clearly weakening, there were some signs that it was more resilient than had been expected and it was therefore uncertain how quickly the labour market would loosen. Other economic forecasters had also continued to predict a stronger outlook for demand than in the MPC's November Report projections. A 0.5 percentage point increase in Bank Rate at this meeting would help to bring

inflation back to the 2% target sustainably in the medium term, and to reduce the risks of a more extended and costly tightening later.

49. Two members preferred to leave Bank Rate unchanged at 3% at this meeting. The real economy remained weak, as a result of falling real incomes and tighter financial conditions. There were increasing signs that the downturn was starting to affect the labour market. But 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 was more than sufficient to bring inflation back to target, before falling below target in the medium term. As the policy setting had become increasingly restrictive, there was no longer a strong case for further tightening on risk management grounds.

50. One member preferred a 0.75 percentage point increase in Bank Rate, to 3.75%, at this meeting. Although there was some evidence of an inflection point in CPI inflation, there was greater evidence that price and wage pressures would stay strong for longer than had been projected in the November Report. Another more forceful monetary tightening now would reinforce the tightening cycle, importantly leaning against an inflation psychology that was embedding in wage settlements and inflation expectations, and was pushing up core services and other underlying inflation measures. Pulling forward monetary action now would reduce the risk that Bank Rate would need to rise well into next year even as the economy slowed further.

51. The majority of the Committee judged that, should the economy evolve broadly in line with the November Monetary Policy Report projections, further increases in Bank Rate might be required for a sustainable return of inflation to target.

52. There were considerable uncertainties around the outlook. The Committee continued to judge that, if the outlook suggested more persistent inflationary pressures, it would respond forcefully, as necessary.

53. The MPC would take the actions necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. The Committee would, as always, consider and decide the appropriate level of Bank Rate at each meeting.

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

> Bank Rate should be increased by 0.5 percentage points, to 3.5%.

55. Six members (Andrew Bailey, Ben Broadbent, Jon Cunliffe, Jonathan Haskel, Huw Pill and Dave Ramsden) voted in favour of the proposition. Three members voted against the proposition. Two members (Swati Dhingra and Silvana Tenreyro) preferred to maintain Bank Rate at 3%. Catherine L Mann preferred to increase Bank Rate by 0.75 percentage points, to 3.75%.

Operational considerations

56. On 14 December 2022, the total stock of assets held for monetary policy purposes was £844 billion, comprising £831 billion of UK government bond purchases and £13.6 billion of sterling non-financial investment-grade corporate bond purchases.

57. At its September 2022 meeting, the MPC had voted to begin sales of UK government bonds held for monetary policy purposes. In 2022 Q4, the Bank had completed a total of £6 billion of sales of these bonds via eight auctions. Taken together with maturing bonds, this had led to a reduction in the outstanding stock of £7 billion in 2022 Q4 and £44 billion over 2022 as a whole. The MPC had been briefed on progress on these gilt sales and on the operational arrangements for 2023 Q1, which would be published in a Market Notice on 16 December at 6pm.

58. In February 2022, the MPC had voted to unwind fully the stock of sterling non-financial investment-grade corporate bond purchases no earlier than towards the end of 2023. The stock of corporate bonds had since been reduced by a total of £6.4 billion, including £4.2 billion via sales through the Bank's auctions since September. The Committee was content with the current rate of reduction in the stock, which, if sustained, would permit an earlier unwind of the portfolio than initially anticipated. The Committee would keep the pace of sales, and the implications for the completion date, under review.

59. 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.

60. As permitted under the Bank of England Act 1998, as amended by the Bank of England and Financial Services Act 2016, David Roberts was also present on 7 and 9 December, as an observer for the purpose of exercising oversight functions in his role as a member of the Bank's Court of Directors.