

Bank of England

Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 20 September 2023

21 September 2023

These are the minutes of the Monetary Policy Committee meeting ending on 20 September 2023.

They are available at <https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/september-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 1 November will be published on 2 November 2023.

Monetary Policy Summary, September 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 20 September 2023, the MPC voted by a majority of 5–4 to maintain Bank Rate at 5.25%. Four members preferred to increase Bank Rate by 0.25 percentage points, to 5.5%. The Committee also voted unanimously to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the next twelve months, to a total of £658 billion.

In the MPC's August most likely, or modal, Monetary Policy Report projections, conditioned on a market-implied path for Bank Rate that averaged just under 5½% over the three-year forecast period, CPI inflation was expected to return to the 2% target by 2025 Q2. It was then projected to fall below the target in the medium term, as an increasing degree of economic slack was expected to reduce domestic inflationary pressures, alongside declining external cost pressures. The Committee had continued to judge that the risks around the modal inflation forecast were skewed to the upside, albeit by less than in May, reflecting the possibility that the second-round effects of external cost shocks on inflation in wages and domestic prices take longer to unwind than they did to emerge. The mean projection for CPI inflation, which incorporated these risks, was 2.0% and 1.9% at the two and three-year horizons respectively.

Since the MPC's previous meeting, global growth has evolved broadly in line with the August Report projections, albeit with some differences across regions. Spot oil prices have risen significantly, while underlying inflationary pressures have remained elevated across advanced economies.

UK GDP is estimated to have declined by 0.5% in July and the S&P Global/CIPS composite output PMI fell in August, although other business survey indicators remain consistent with positive GDP growth. While some of this news could prove erratic, Bank staff now expect GDP to rise only slightly in 2023 Q3. Underlying growth in the second half of 2023 is also likely to be weaker than expected.

There have been some further signs of a loosening in the labour market, although it remains tight by historical standards. The vacancies-to-unemployment ratio has continued to decline, reflecting both a steady fall in the number of vacancies and rising unemployment. The Labour Force Survey unemployment rate rose to 4.3% in the three months to July, higher than expected in the August Report. Indicators of employment have generally softened against the backdrop of subdued activity.

Annual private sector regular Average Weekly Earnings (AWE) growth increased to 8.1% in the three months to July, 0.8 percentage points above the August Report projection. The recent path of the AWE is, however, difficult to reconcile with other indicators of pay growth. Most of these have tended to be more stable at rates of growth that are elevated but not quite as high as the AWE series.

Twelve-month CPI inflation fell from 7.9% in June to 6.7% in August, 0.4 percentage points below expectations at the time of the Committee's previous meeting, and triggering the exchange of open letters between the Governor and the Chancellor of the Exchequer that is being published alongside this monetary policy announcement. Core goods CPI inflation has fallen from 6.4% in June to 5.2% in August, much weaker than expected in the August Report. Services CPI inflation rose from 7.2% in June to 7.4% in July but declined to 6.8% in August, 0.3 percentage points lower than expected in the August Report. Some of those movements are linked to services such as airfares and accommodation that tend to be volatile over the summer holiday period. Excluding these travel-related components, services inflation has been more stable at continued high rates, albeit slightly weaker than expected.

CPI inflation is expected to fall significantly further in the near term, reflecting lower annual energy inflation, despite the renewed upward pressure from oil prices, and further declines in food and core goods price inflation. Services price inflation, however, is projected to remain elevated in the near term, with some potential month-to-month volatility.

The MPC's remit is clear that the inflation target applies at all times, reflecting the primacy of price stability in the UK monetary policy framework. The framework recognises that there will be occasions when inflation will depart from the target as a result of shocks and disturbances. Monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term.

Developments in key indicators of inflation persistence have been mixed, with the recent acceleration in the AWE not apparent in other measures of wages and with some downside news on services inflation. There are increasing signs of some impact of tighter monetary policy on the labour market and on momentum in the real economy more generally. Given the significant increase in Bank Rate since the start of this tightening cycle, the current monetary policy stance is restrictive. At this meeting, the Committee voted to maintain Bank Rate at 5.25%.

The MPC will continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including the tightness of labour market conditions and the behaviour of wage growth and services price inflation. Monetary policy will need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.

Bank of England

The MPC committed in the minutes of its August 2022 meeting to review the reduction in the Asset Purchase Facility annually and, as part of that, to set an amount for the reduction in the stock of purchased UK government bonds over the subsequent 12-month period. At this meeting, the Committee voted to reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the period from October 2023 to September 2024, to a total of £658 billion.

Minutes of the Monetary Policy Committee meeting ending on 20 September 2023

1. Before turning to its immediate policy decisions, the Committee discussed: the international economy; monetary and financial conditions; demand and output; and supply, costs and prices.

The international economy

2. UK-weighted global GDP was estimated to have increased by 0.5% in 2023 Q2, broadly in line with the August Monetary Policy Report projection. Global GDP growth of 0.3% was expected for Q3, also in line with the August Report, but with some differences across regions.
3. Euro-area GDP had increased by 0.1% in 2023 Q2 but was expected to contract in Q3, weaker than expected in the August Report. Manufacturing and services output PMIs had both entered contractionary territory, with weakness in German manufacturing output particularly pronounced.
4. In the United States, GDP had increased by 0.5% in 2023 Q2, and growth was expected to increase further in Q3, stronger than projected in the August Report for both quarters. In contrast to developments in the euro area, the manufacturing output PMI had stopped contracting and the services output PMI had remained in expansionary territory.
5. The Committee discussed some possible factors behind the recent relative strength of US activity. Real incomes had increased more strongly in the United States, uplifted partly by significant fiscal policy actions during the pandemic and a smaller deterioration in the terms of trade, whereas government support in Europe had abated as energy prices had fallen back. US households had also appeared relatively more willing to spend any excess savings, possibly due to higher consumer confidence.
6. Growth appeared to have slowed in China, with the NBS manufacturing PMI having remained below the neutral 50 level since April. Consumption and industrial production growth were similarly weak, alongside softer investment and falling exports. There had been notable headwinds from the property sector, with property prices falling and a major developer narrowly avoiding technical default. Taken together, these indicators pointed to Chinese growth slowing further in 2023 Q3, weaker than had been expected in the August Report.

7. Energy prices had increased since the MPC's previous meeting. The Dutch Title Transfer Facility spot price, a measure of European wholesale gas prices, had risen by 26%, owing in part to strike action at Australian liquefied natural gas facilities, although the gas futures curve had been broadly unchanged. Brent spot oil prices had risen by 17%, to \$93 per barrel, following supply cuts by the OPEC+ group, as well as oil inventories falling globally.

8. Headline consumer price inflation in the United States and euro area had continued to follow a downward trend from the peak rates recorded in 2022, although the impact of volatile energy prices had affected recent data. Annual euro-area HICP inflation had decreased slightly to 5.2% in August. In the United States, headline CPI inflation had increased to 3.7% in August from 3.2% in July, largely accounted for by a reduced drag from annual energy price inflation.

9. Underlying inflationary pressures had remained elevated across advanced economies. US annual core CPI inflation had fallen to 4.3% in August from 4.7% in July. Annual core inflation in the euro area had fallen to 5.3% in August from 5.5% in July. Outturns in pay growth in these regions had continued to be strong. Labour markets had remained tight though had shown some signs of easing. The vacancies-to-unemployment ratio had decreased in the United States and had been broadly flat in the euro area.

Monetary and financial conditions

10. Market pricing suggested that policy rates in major advanced economies were expected to be nearing their peaks. At its meeting ending on 14 September, the ECB Governing Council had raised its key policy rates by 25 basis points, while market expectations were for the Federal Open Market Committee to leave the federal funds rate unchanged at its forthcoming meeting ending on 20 September. In the United Kingdom, Bank Rate expectations implied by market pricing had fallen in the immediate run-up to the MPC's meeting, following the August CPI release. That had left market expectations for the September Bank Rate decision finely balanced between a 25 basis point increase and no change.

11. There had also been a reduction in market expectations for the path of Bank Rate beyond the September MPC decision. Market pricing in the immediate run-up to the MPC's meeting suggested a peak in Bank Rate of around 5.5%, held for around three quarters. Since the MPC's previous meeting, the one-year overnight index swap (OIS) rate, one year forward had decreased by around 70 basis points. The market implied path for Bank Rate now averaged a little under 5% over the next three years.

12. Ten-year government bond yields in the United Kingdom were down a little relative to the MPC's August meeting, in contrast to global peers, for whom rates at this horizon had risen

somewhat. The Committee noted that the level of UK and US 10-year government bond yields had converged over the recent period.

13. There had continued to be evidence that interest rates in financial markets had been more sensitive to economic data outturns, particularly in the United Kingdom, than had been usual over the past decade. Nevertheless, these data outturns could be volatile from month to month. Overall, the sensitivity of UK interest rates to data releases relating to the nominal environment had remained greater than to releases relating to real activity, although there had been some reductions in market rates in response to both the August flash PMI and July GDP data releases.

14. As the MPC had previously communicated, it would vote at this meeting on the reduction in the stock of gilts held in the Bank's Asset Purchase Facility for monetary policy purposes over the 12-month period from October 2023 to September 2024. According to the Market Participants Survey (MaPS), the median market expectation for the MPC's pace of gilt stock reduction over the year ahead was £100 billion.

15. Medium-term inflation compensation measures in the United Kingdom were little changed relative to the MPC's previous meeting. Although interpreting the level of these measures continued to be challenging, they had remained lower than their peak in March 2022, but above their average levels of the previous decade. The median MaPS respondent's expectation for CPI inflation three years ahead was 2.0% in the latest survey, down slightly relative to the previous survey. The distribution of survey responses had, however, remained skewed to the upside.

16. Aggregate growth in sterling net lending by banks had continued to slow. Within that, new mortgage lending had continued to decline. While quoted mortgage rates had fallen somewhat since the MPC's August meeting, largely reflecting pass-through of reductions in risk-free reference rates, they had remained substantially higher than at the start of the Bank Rate tightening cycle. Over that period, corporate credit conditions had also tightened and, consistent with that, and with subdued demand for credit, corporate lending growth had been weak.

17. The annual growth rate in aggregate sterling broad money had slowed further to 0% in July. The pass-through of increases in Bank Rate to instant-access savings accounts, which had previously been much slower than pass-through to time deposit accounts, had increased since the Committee's previous meeting. The overall increase in such sight deposit rates had, however, remained substantially smaller than the increase in Bank Rate since the end of 2021.

Demand and output

18. According to the ONS's first quarterly estimate, real GDP had increased by 0.2% in 2023 Q2, marginally stronger than had been expected in the August Monetary Policy Report. Household consumption had risen by 0.6% and business investment by 3.4%, stronger than expected in the August Report. Housing investment had continued to fall, down by 2.3% on the quarter and by 7.7% on a year earlier.

19. Monthly GDP was estimated to have fallen by 0.5% in July, following a rise of 0.5% in June. The July outturn was weaker than had been expected in the August Report, particularly within the services sector. Measured government health services output had fallen sharply in part reflecting the impact of strikes, and poor weather had also appeared to have dampened activity in some sectors. Weakness in private services activity had otherwise been concentrated in transport and other business services sectors.

20. The S&P Global/CIPS UK composite output PMI had fallen in August, to 48.6, which was consistent with a fall in GDP based on past historical relationships. The future output PMI series had risen slightly, however, and remained close to its long-run average. Other business survey indicators of activity, including the Lloyds Business Barometer, had also remained consistent with positive GDP growth. The latest intelligence from the Bank's Agents suggested that activity had remained subdued and that there were growing concerns about the economic outlook, most notably from contacts in consumer-facing businesses but also from some in the business services sector.

21. Combining the signals from official data and business surveys, Bank staff now expected GDP to rise by only 0.1% in 2023 Q3, compared with the 0.4% increase incorporated in the August Report. Although some of this downside news could prove erratic, underlying growth was also likely to be weaker than the $\frac{1}{4}$ % per quarter built into the August projection for the second half of 2023.

22. The Committee discussed the factors behind a slowing in GDP growth, including the impact of the significant tightening in monetary policy since the end of 2021. The clearest signs of weakness continued to be in the housing sector, with housing investment and most measures of house prices falling somewhat, alongside a low level of property transactions. Recent consumer spending indicators had shown fewer signs of softening, with consumer confidence recovering in August and real labour incomes now rising. Corporate spending indicators had generally weakened over recent months, however, with an increasing number of firms responding to the ONS Business Insights and Conditions Survey noting concerns about interest rates. The manufacturing export orders PMI had also fallen quite sharply recently, in part reflecting global developments.

23. Since the MPC's previous meeting, the ONS had published some estimates of the impact of Blue Book 2023. GDP had been revised nearly 2% higher by 2021 Q4, although almost all of this news had been accounted for by stronger public sector output, largely reversing the revisions in Blue Book 2022. The Committee would consider the implications of revisions for supply as well as demand in its November forecast round discussions, by which time the Blue Book dataset beyond 2021 would also be available.

Supply, costs and prices

24. There had been further signs of a loosening in the labour market, although it remained tight by historical standards. Contacts of the Bank's Agents had reported an easing in recruitment difficulties, but also persistent skills shortages in some sectors. The vacancies-to-unemployment ratio had continued to decline, reflecting both a steady fall in the number of vacancies and rising unemployment. The Labour Force Survey (LFS) unemployment rate had risen to 4.3% in the three months to July, higher than expected in the August Monetary Policy Report forecast. The latest quarterly data had shown an increase in flows from inactivity into unemployment, indicative of some of the increase in unemployment having been associated with individuals that were previously inactive beginning to look for work, as well as a gradual increase in flows from employment into unemployment.

25. Indicators of employment had generally softened against a backdrop of subdued activity. LFS employment had fallen by 0.6% in the three months to July, but that had been preceded by a 0.8% increase in the previous non-overlapping three months. This series often fluctuated from one period to another and sample sizes and response rates to the LFS had been declining. The Bank's Agents had reported that companies were expecting to keep staff numbers broadly stable, with few active plans to make redundancies. The KPMG/REC Report on Jobs was, however, pointing to a fall in companies hiring new staff. The S&P Global/CIPS composite employment PMI had also fallen in August, albeit only to around its historical average.

26. The Committee discussed what to infer from the latest developments in indicators of pay. Annual private sector regular Average Weekly Earnings (AWE) growth had been 8.1% in the three months to July, 0.8 percentage points above the August Report projection, with the news largely due to upward revisions to previous months' data. Three-month-on-three-month growth for the same AWE measure had increased in recent months, with that strength seen across a number of different sectors.

27. The latest path of the AWE was, however, difficult to reconcile with other pay indicators, including measures using HMRC payrolls, the LFS and the Decision Maker Panel (DMP), which had tended to be more stable at rates that were elevated but not quite as high as the AWE series. The Bank's Agents were continuing to report that average annual pay settlements were in the region of 6 to 6½%, with contacts expecting settlements to begin to

drift down and for there to be fewer additional payments provided to compensate for a higher cost of living. Only the measures within the KPMG/REC Report were signalling a clear decrease in pay growth but, puzzlingly, their relationship with the AWE data had been less strong over the recent past.

28. Twelve-month CPI inflation had fallen to 6.8% in July, before edging down to 6.7% in August, 0.4 percentage points below the August Report forecast. The latest CPI release had triggered the exchange of open letters between the Governor and the Chancellor of the Exchequer that was being published alongside these minutes.

29. While declines in CPI inflation had been largely driven by lower energy prices up to July, the fall in August had been driven by other components. A combination of past falls in petrol pump prices dropping out of the annual comparison and increases on the month had resulted in a higher rate of energy price inflation in August. In contrast, core CPI inflation, excluding energy, food, beverages and tobacco, had fallen to 6.2%, having been relatively stable at just under 7% in preceding months.

30. Lower core goods price inflation had accounted for just under two-thirds of the downside surprise in CPI inflation since the August Report. Some of the latest news had been confined to the more idiosyncratic used cars component. Downside news elsewhere in core goods, however, suggested that the recent easing in input cost pressures, evident in a flattening in non-petroleum producer prices, was feeding through to consumer goods prices more quickly than had been anticipated previously. There had been relatively modest and offsetting news in food and energy prices up to August. If sustained, recent significant increases in oil prices would, however, mean that the energy contribution to CPI inflation would be higher than assumed in the August Report forecast over coming months.

31. The remainder of the downside surprise in CPI inflation since August had been in services prices. Services CPI inflation had unexpectedly risen back to a 31-year high of 7.4% in July before falling more sharply than had been expected to 6.8% in August. Some of the increase in July and the subsequent unwind, along with the corresponding news, was linked to services such as airfares and accommodation that tended to be volatile over the summer holiday period. Excluding travel-related components such as these, services inflation had been more stable at continued high rates. Nevertheless, there had also been some downside news across this wider part of the consumer basket for services.

32. An underlying measure of services inflation produced by Bank staff, which was determined by the co-movement of price changes across services components, had begun to decline. The S&P Global/CIPS UK services input and output price PMIs had continued to fall towards their past averages, while Agents' contacts were reporting that, although pay pressures had remained intense for consumer-facing services companies, other cost pressures were easing.

33. Abstracting from these underlying trends, the path of services inflation was likely to be volatile in coming months, in part reflecting potential noise in the prices of travel-related services. A temporary sharp upward spike was also anticipated in January 2024, as large and unusual falls in a number of services prices at the beginning of 2023 were not expected to be repeated, resulting in a positive base effect early next year.

34. Inflation expectations for the year ahead had remained at elevated levels. Businesses responding to the DMP were expecting their own prices to increase by around 5% over the next twelve months. Measures of household inflation expectations were broadly unchanged in both the Bank/Ipsos and Citi/YouGov surveys, within which the medium-term measures were closer to their historical averages.

The immediate policy decisions

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

36. In the MPC's August most likely, or modal, Monetary Policy Report projections, conditioned on a market-implied path for Bank Rate that had averaged just under 5½% over the three-year forecast period, CPI inflation had been expected to return to the 2% target by 2025 Q2. It had then been projected to fall below the target in the medium term, as an increasing degree of economic slack had been expected to reduce domestic inflationary pressures, alongside declining external cost pressures. The Committee had continued to judge that the risks around the modal inflation forecast were skewed to the upside, albeit by less than in May, reflecting the possibility that the second-round effects of external cost shocks on inflation in wages and domestic prices took longer to unwind than they did to emerge. The mean projection for CPI inflation, which incorporated these risks, had been 2.0% and 1.9% at the two and three-year horizons respectively.

37. The Committee discussed the news in recent UK economic data outturns. Past increases in Bank Rate were expected to weigh increasingly on the economy, with the impact of tighter monetary policy likely to be apparent earlier for indicators of demand and labour market tightness than for indicators of domestically generated inflation, such as wage growth and services CPI inflation, which were at a later stage in the monetary transmission mechanism.

38. While some of the weakening in recent activity data could prove erratic, Bank staff now expected GDP to rise only slightly in 2023 Q3. Underlying growth in the second half of 2023 was also likely to be weaker than had been expected. Ahead of its final meeting, the Committee was made aware of the flash S&P Global/CIPS UK composite PMI for September that would be released publically on Friday 22 September.

39. There had been some further signs of a loosening in the labour market, although it had remained tight by historical standards. The vacancies-to-unemployment ratio had continued to decline, reflecting both a steady fall in the number of vacancies and a greater than expected rise in unemployment.

40. Annual private sector regular Average Weekly Earnings (AWE) growth had increased to 8.1% in the three months to July, 0.8 percentage points above the August Report projection. Most other indicators of pay had tended to be more stable at rates of growth that were elevated but not quite as high as the AWE series.

41. Twelve-month CPI inflation had fallen to 6.7% in August, 0.4 percentage points below expectations at the time of the Committee's previous meeting. Services CPI inflation had declined to 6.8% in August, 0.3 percentage points lower than had been expected in the August Report. Some of those movements were linked to services such as airfares and accommodation that tended to be volatile over the summer holiday period. Excluding these travel-related components, services inflation had been more stable at continued high rates, albeit slightly weaker than had been expected.

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

Bank Rate decision

43. The Committee turned to its immediate decision on Bank Rate. Developments in key indicators of inflation persistence had been mixed, with the recent acceleration in the AWE not apparent in other measures of wages and with some downside news on services inflation. There were increasing signs of some impact of tighter monetary policy on the labour market and on momentum in the real economy more generally. Given the significant increase in Bank Rate since the start of this tightening cycle, the current monetary policy stance was restrictive. This meant that the decision on whether to increase or to maintain Bank Rate at this meeting had become more finely balanced between the risks of not tightening policy enough when underlying inflationary pressures could still prove persistent, and not placing sufficient weight on the impact of the previous tightening that was still to come through on activity and inflation.

44. Five members judged that maintaining Bank Rate at 5.25% was warranted at this meeting. There were signs that the labour market was loosening. The recent acceleration in the AWE was noteworthy but was not apparent in other measures of wages. Although it was

important not to put too much weight on a single data point, headline and services CPI inflation had fallen back and were lower than had been expected. Regarding activity, contacts of the Bank's Agents had become more downbeat, and the output PMI in August was now consistent with falling GDP. For most members within this group, the latest developments meant that the judgement to keep Bank Rate unchanged at this meeting rather than increase it was finely balanced. Conditions were likely to warrant a restrictive policy stance being maintained until material progress had been made in returning inflation to the 2% target sustainably. For one member, however, the risks of overtightening policy had continued to build, increasing the likelihood of output losses and volatility that would require sharper reversals of policy. Lags in the effects of monetary policy meant that sizeable impacts from past rate increases were still to come through.

45. Four members judged that a 0.25 percentage point increase in Bank Rate, to 5.5%, was warranted at this meeting. Although there were now some signs of weakening economic activity, consumer sentiment appeared to be holding up, real household incomes had started to rise, and forward-looking indicators of output had remained positive. The labour market was still relatively tight, consistent with a possible rise in the medium-term equilibrium rate of unemployment, and the pace of loosening had been slow. Measures of wage growth and services inflation had remained at rates above those consistent with meeting the 2% target sustainably in the medium term. While services CPI inflation had fallen by more than had been expected in the latest data release, this appeared to have been driven mainly by volatile components and had followed recent upside surprises. These members judged that overall there was evidence of more persistent inflationary pressures. Although the monetary stance was weighing increasingly on economic activity, a 0.25 percentage point increase in Bank Rate at this meeting was necessary to address the risks of more deeply embedded inflation persistence and bring inflation back to the 2% target sustainably in the medium term.

46. The MPC would continue to monitor closely indications of persistent inflationary pressures and resilience in the economy as a whole, including the tightness of labour market conditions and the behaviour of wage growth and services price inflation. Monetary policy would need to be sufficiently restrictive for sufficiently long to return inflation to the 2% target sustainably in the medium term, in line with the Committee's remit. Further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures.

Decision on the annual pace of reduction in the stock of UK government bond purchases held for monetary policy purposes

47. As set out in the minutes of its August 2022 meeting, the MPC had committed to review the reduction in the Asset Purchase Facility (APF) annually and, as part of that, to set an amount for the reduction in the stock of purchased UK government bonds (gilts) over the

subsequent 12-month period. Box A of the August 2023 Monetary Policy Report had set out an assessment of the process of quantitative tightening over the previous year.

48. The Committee judged that reducing the size of the APF had the important benefit of reducing the risk of a ratchet upwards in the size of the central bank balance sheet over time if successive policy cycles encountered the effective lower bound on interest rates. That in turn should increase the headroom and flexibility for the central bank to be able to use its balance sheet in the future should that be needed.

49. The appropriate pace of gilt stock reduction would continue to be guided by a set of key principles, which the MPC had first outlined in the August 2021 Monetary Policy Report. First, the Committee intended to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. Second, sales would be conducted so as not to disrupt the functioning of financial markets. Third, to help achieve that, sales would be conducted in a gradual and predictable manner over a period of time.

50. As set out in the Box in the August 2023 Report, the Committee judged that quantitative tightening was going smoothly. There was no evidence of a negative impact of gilt sales on market functioning across a range of financial market measures. APF reduction was likely to have had some tightening effect on yields, which, while difficult to measure precisely, was judged to have been modest. That was in line with the MPC's prior expectations, but the Committee would continue to learn from monitoring developments as the process progressed.

51. The tightening impact of the reduction in the APF on activity and inflation also appeared to have been, and was expected to be, modest. While it was hard to measure precisely the marginal effect of quantitative tightening, the MPC's economic forecasts were conditioned on asset prices that incorporated announced and expected APF reduction alongside other factors. The MPC would therefore take this effect into account when setting the desired monetary policy stance using Bank Rate. Any tightening effect from the reduction in the APF would lead to a slightly lower path for Bank Rate, all else equal. Given that the impact of APF reduction was judged to have been modest, this was unlikely to have made a material difference to the appropriate path for Bank Rate over the past year.

52. Drawing on the experience of the first year of quantitative tightening, the Committee considered a number of factors which supported a modest increase in the pace of gilt stock reduction from £80 billion over the previous year to £100 billion over the 12 months ahead. First, an assessment of market conditions, and of market capacity to absorb the pace of gilt sales implied by a £100 billion gilt stock reduction, suggested that this pace was unlikely to disrupt the functioning of financial markets. Second, the Committee noted that a £100 billion gilt stock reduction over the year ahead would leave the pace of gilt sales broadly unchanged relative to the previous year, given some increase in APF gilt maturities. As set out in the

August 2023 Report, the focus of the MPC was on total gilt stock reduction, comprising both maturing gilts and sales, such that variation in the profile of redemptions might also lead to variation in the pace of sales over time. Notwithstanding that, the Committee placed some weight on continuity in the pace of sales. Third, the Committee noted that over the previous year the £80 billion reduction in APF gilt holdings had been accompanied by the near-complete unwind of the £20 billion corporate bond portfolio, such that the overall reduction in the size of the APF over the past year had also been around £100 billion. Taken together, these factors supported a small increase in the pace of reduction in the stock of gilts relative to the previous year.

53. In the immediate run-up to this meeting, Bank staff had briefed the MPC on the current state of economic and market conditions. Current conditions were judged appropriate for the Committee to proceed with its preferred pace of gilt stock reduction. The Financial Policy Committee (FPC) had also been briefed.

54. All members of the MPC agreed at this meeting that the Bank of England should reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the 12-month period from October 2023 to September 2024, comprising both maturing gilts and sales.

55. The MPC also reaffirmed that there would be a high bar for amending the planned reduction in the stock of purchased gilts outside a scheduled annual review. That was in order to remain consistent with the principles that Bank Rate should be the active policy tool when adjusting the stance of monetary policy, and that APF reduction should be predictable. In judging whether that bar was met, the FPC would also have a role through its assessment of financial stability.

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

Bank Rate should be maintained at 5.25%;

The Bank of England should reduce the stock of UK government bond purchases held for monetary policy purposes, and financed by the issuance of central bank reserves, by £100 billion over the next twelve months, to a total of £658 billion.

57. Five members (Andrew Bailey, Ben Broadbent, Swati Dhingra, Huw Pill and Dave Ramsden) voted in favour of the first proposition. Four members (Jon Cunliffe, Megan Greene, Jonathan Haskel and Catherine L Mann) voted against the proposition, preferring to increase Bank Rate by 0.25 percentage points, to 5.5%.

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

Operational considerations

59. On 20 September 2023, the total stock of assets held for monetary policy purposes was £759 billion, comprising £759 billion of UK government bond purchases and £0.6 billion of sterling non-financial investment-grade corporate bond purchases.

60. At its September 2022 meeting, the MPC had voted to reduce the stock of UK government bond purchases by £80 billion over the 12-month period from October 2022 to September 2023. The Bank of England had set out in a Market Notice on 1 September how the 2023 Q3 gilt sales programme would be adjusted in order to meet the MPC's target.

61. At this meeting, the MPC had voted to reduce the stock of UK government bond purchases held for monetary policy purposes by £100 billion over the 12-month period from October 2023 to September 2024. The details of the first quarter of the associated gilt sales programme, covering 2023 Q4, were set out in a Market Notice accompanying these minutes. The Bank would continue to set auction sizes each quarter, to meet the MPC's annual target as closely as practicable.

62. The following members of the Committee were present:

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

James Bowler was present as the Treasury representative.

Sarah Breeden was present as an observer.

63. On behalf of the Committee, the Chair expressed his appreciation to Jon Cunliffe for his contributions to the work of the MPC since becoming a member in 2013 and for his role in establishing the monetary policy framework.