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Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

UK: MPC DECEMBER MINUTES: BOE IN NEUTRAL

Berenberg Macro Flash

With the economy currently expanding at around its trend rate, the labour market solid and inflation remaining low – for now – there wasn't much for the Bank of England's Monetary Policy Committee to really grip onto at the December meeting.

In August, by cutting the bank rate and expanding its asset purchases the BoE helped avoid a crisis immediately after the Brexit vote. The good news is that the work is over for now. The UK economy requires no further support from monetary policy. The economy has outperformed expectations since the referendum. And while growth is set to slow next year the risk of recession looks low. The BoE's GDP growth outlook of 1.4% in 2017 and 1.5% in 2018 is broadly in line with our own call of 1.5% growth in each year. The final minutes of the year indicate that the MPC is in a neutral gear for now. The committee continues to pay close attention to the Brexit-related downside risks to growth, especially the squeeze on real incomes coming from the anticipated rise in inflation from the sharp sterling depreciation.

Policy outlook

The minutes kept the vanilla forward guidance - presumably intended to keep expectations essentially to zero – issued in November, 'Monetary policy could respond, in either direction, to changes to the economic outlook as they unfolded to ensure a sustainable return of inflation to the 2% target.'

Given ours' and the BoE's outlook for GDP growth and inflation we do not expect the BoE to further ease monetary policy again over the medium-term. However, if growth continues to beat expectations, and with inflation expectations for the year ahead rising to 2.8% according to the BoE's own survey, the MPC could shift from its current neutral stance to a more hawkish stance. There is a notable chance the BoE begins a tightening cycle in 2017 or 2018 if the economy outperforms expectations.

Policy summary from the December MPC meeting

The nine member MPC voted unanimously in favour of maintaining the bank's current monetary policy stance:

- To keep the bank rate at 0.25%;
- To continue with the programme of sterling non-financial investment-grade corporate bond purchases totalling up to £10 billion, financed by the issuance of central bank reserves;
- To continue with the programme of £60 billion of UK government bond purchases to take the total stock of these purchases to £435 billion, financed by the issuance of central bank reserves.

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Joh. Berenberg, Gossler & Co.
KG
60 Threadneedle Street
London EC2R 8HP
Phone +44 20 3207 7878
www.berenberg.com
Kallum.pickering@berenberg.com