

Thursday August 2<sup>nd</sup> 2018 – 11:30am

United Kingdom

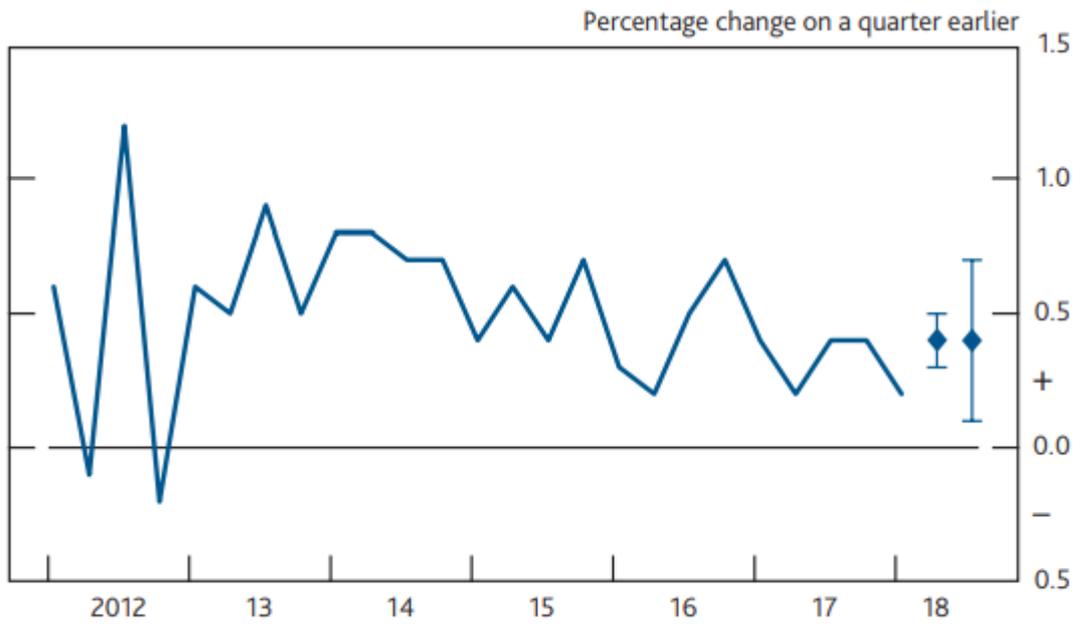
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## Bank of England increases interest rate to the highest level since 2009

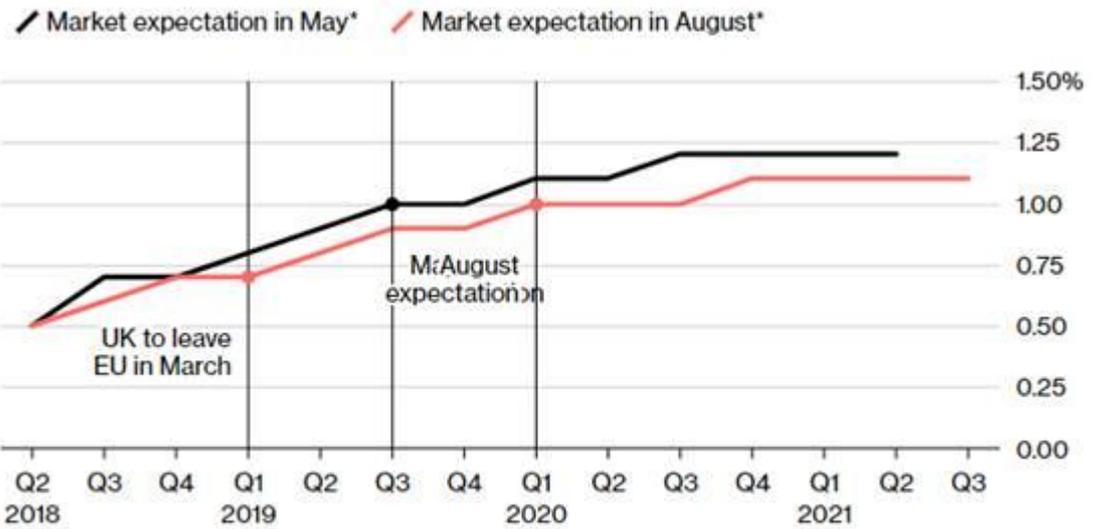
- In order to maintain the Bank of England's target inflation rate, the interest rate was raised by 25 basis points to 0.75%, the highest level since 2009. Tightening of the labour market and wage growth were further reasons set forth to warrant the increase in the rate.
- The target inflation rate of the Bank of England's Monetary Policy Committee (MPC) was set at 2% for 2020. Pressures such as deterioration of the pound sterling and higher energy prices weighed on inflation and pushed it past the target range of 2% up to 2.4% in the month of June.
- The MPC agreed to maintain the stock of sterling non-financial investment-grade corporate bond purchases and UK government bond purchases at £10 billion and £435 billion respectively in keeping with its quantitative easing asset purchase programme.
- According to the MPC's forecast, gross domestic product (GDP) is expected to grow by 1.75% per year over the forecast period. Growth in the Euro-area was at 0.3% for Q2 2018 down from 0.4% for Q1 2018, which represented a weaker than expected growth rate for the quarter put forward in the May 2018 Inflation Report. GDP growth is projected at 0.4% for Q3.
- Consumer spending continues to be subdued as household real income growth continues to be minimal, which is further depressed due to rising import prices owing to a depreciating sterling.
- It is expected that the housing market will contribute to GDP growth as UK house price inflation is projected to further increase to more than 3% by mid-2019. Net trade will continue to support GDP growth as the current account deficit narrows throughout the year.
- The unemployment rate stood at 4.2% keeping in line with the MPC's equilibrium rate, however a reduction will generate higher wage pressures.
- At the end of the meeting it was noted that future rate hikes are possible due to ongoing negotiations of Brexit and its effects on households, businesses and financial markets.
- The next scheduled meeting for the MPC is 13<sup>th</sup> September 2018.

### GDP Growth and near-term Bank of England projection



Sources: ONS and Bank calculations.

### Market expectations for BOE rate to hit 1 percent



Source: Bank of England Inflation Report

Note: \*Conditioning path for rate implied by forward market interest rates



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