

ESSENTIALS OF MONETARY POLICY

Bank of England (BoE)

The Bank of England Surprises with a Rate Pause

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ACCORDING TO THE BOE

- ▶ The Bank of England (BoE) held its Bank Rate at 5.25% today.
- ▶ The decision of the Monetary Policy Committee (MPC) was split, with 5 members voting for a pause and 4 for a 25-basis-point increase.
- ▶ The MPC voted unanimously to trim the balance sheet by £100 billion over the next 12 months.
- ▶ Several other central banks also issued rate decisions today. The Swiss National Bank paused, while the central banks of Sweden and Norway both hiked by 25 basis points.

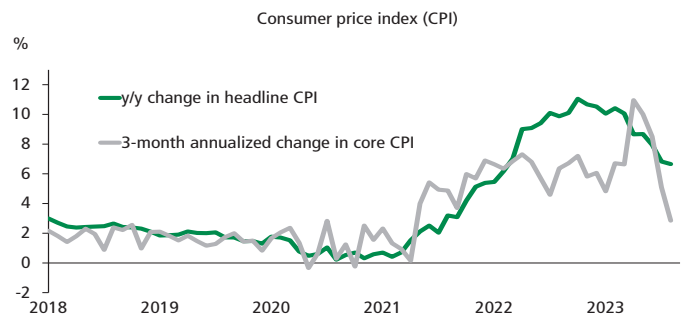
COMMENTS

Forecasters widely expected the BoE to continue raising its Bank Rate today. With this pause, it joins the Bank of Canada and the Federal Reserve on the sidelines. The Swiss National Bank also delivered a surprise pause this morning. That said, the BoE's decision was a close call. A single vote is all that separated a pause from another rate increase. But the move to reduce the size of the balance sheet by £100 billion over the next 12 months is its own form of monetary tightening, and the door remains wide open to further interest rate hikes.

A number of recent UK economic readings factored into today's narrow decision. A monthly measure of real GDP fell 0.5% in July, and the labour market is showing signs of cooling, with job vacancies on the decline. But the biggest surprise came from inflation itself. It fell faster than expected despite the spike in oil prices. Things look even better when you look at the three-month annualized change in prices excluding food and energy, which fell below 3%.

GRAPH

UK Core Inflation Has Fallen Sharply in Recent Months



Sources: Datastream and Desjardins Economic Studies

IMPLICATIONS

It's unclear whether the BoE will continue to hold at its upcoming meetings. Even though inflation has come down lately, strong wage growth isn't consistent with a sustainable return to target. The BoE will likely want more data in the coming months showing that the economy and employment have slowed convincingly. Today's move did hasten the pound's recent decline, but it could rebound quickly on positive economic or inflation news.

2023 Schedule of Central Bank Meetings

	Central bank	Decision	Rate
January			
12	Bank of Korea	+25 b.p.	3.50
17	Bank of Japan	unchanged	-0.10
19	Bank of Norway	unchanged	2.75
25	Bank of Canada*	+25 b.p.	4.50
February			
1	Bank of Brazil	unchanged	13.75
1	Federal Reserve	+25 b.p.	4.75
2	European Central Bank	+50 b.p.	3.00
2	Bank of England	+50 b.p.	4.00
6	Reserve Bank of Australia	+25 b.p.	3.35
9	Bank of Sweden	+50 b.p.	3.00
9	Bank of Mexico	+50 b.p.	11.00
21	Reserve Bank of New Zealand	+50 b.p.	4.75
22	Bank of Korea	unchanged	3.50
March			
6	Reserve Bank of Australia	+25 b.p.	3.60
8	Bank of Canada	unchanged	4.50
9	Bank of Japan	unchanged	-0.10
16	European Central Bank	+50 b.p.	3.50
22	Bank of Brazil	unchanged	13.75
22	Federal Reserve	+25 b.p.	5.00
23	Bank of England	+25 b.p.	4.25
23	Bank of Norway	+25 b.p.	3.00
23	Swiss National Bank	+50 b.p.	1.50
30	Bank of Mexico	+25 b.p.	11.25
April			
4	Reserve Bank of Australia	unchanged	3.60
4	Reserve Bank of New Zealand	+50 b.p.	5.25
10	Bank of Korea	unchanged	3.50
12	Bank of Canada*	unchanged	4.50
26	Bank of Sweden	+50 b.p.	3.50
28	Bank of Japan	unchanged	-0.10
May			
2	Reserve Bank of Australia	+25 b.p.	3.85
3	Bank of Brazil	unchanged	13.75
3	Federal Reserve	+25 b.p.	5.25
4	European Central Bank	+25 b.p.	3.75
4	Bank of Norway	+25 b.p.	3.25
11	Bank of England	+25 b.p.	4.50
18	Bank of Mexico	unchanged	11.25
23	Reserve Bank of New Zealand	+25 b.p.	5.50
24	Bank of Korea	unchanged	3.50
June			
6	Reserve Bank of Australia	+25 b.p.	4.10
7	Bank of Canada	+25 b.p.	4.75
14	Federal Reserve	unchanged	5.25
15	European Central Bank	+25 b.p.	4.00
15	Bank of Japan	unchanged	-0.10
21	Bank of Brazil	unchanged	13.75
22	Bank of England	+50 b.p.	5.00
22	Bank of Norway	+50 b.p.	3.75
22	Bank of Mexico	unchanged	11.25
22	Swiss National Bank	+25 b.p.	1.75
29	Bank of Sweden	+25 b.p.	3.75

	Central bank	Decision	Rate
July			
4	Reserve Bank of Australia	unchanged	4.10
11	Reserve Bank of New Zealand	unchanged	5.50
12	Bank of Korea	unchanged	3.50
12	Bank of Canada*	+25 b.p.	5.00
26	Federal Reserve	+25 b.p.	5.50
27	European Central Bank	+25 b.p.	4.25
27	Bank of Japan	unchanged	-0.10
August			
1	Reserve Bank of Australia	unchanged	4.10
2	Bank of Brazil	-50 b.p.	13.25
3	Bank of England	+25 b.p.	5.25
10	Bank of Mexico	unchanged	11.25
15	Reserve Bank of New Zealand	unchanged	5.50
17	Bank of Norway	+25 b.p.	4.00
23	Bank of Korea	unchanged	3.50
September			
5	Reserve Bank of Australia	unchanged	4.10
6	Bank of Canada	unchanged	5.00
14	European Central Bank	+25 b.p.	4.50
20	Bank of Brazil	-50 b.p.	12.75
20	Federal Reserve	unchanged	5.50
21	Bank of England	unchanged	5.25
21	Bank of Norway	+25 b.p.	4.25
21	Bank of Sweden	+25 b.p.	4.00
21	Bank of Japan		
21	Swiss National Bank	unchanged	1.75
28	Bank of Mexico		
October			
2	Reserve Bank of Australia		
3	Reserve Bank of New Zealand		
18	Bank of Korea		
25	Bank of Canada*		
26	European Central Bank		
30	Bank of Japan		
November			
1	Bank of Brazil		
1	Federal Reserve		
2	Bank of England		
2	Bank of Norway		
6	Reserve Bank of Australia		
9	Bank of Mexico		
23	Bank of Sweden		
28	Reserve Bank of New Zealand		
29	Bank of Korea		
December			
4	Reserve Bank of Australia		
6	Bank of Canada		
13	Bank of Brazil		
13	Federal Reserve		
14	European Central Bank		
14	Bank of England		
14	Bank of Norway		
14	Bank of Mexico		
14	Swiss National Bank		
18	Bank of Japan		

NOTE: Central banks may decide to change rates between the scheduled meetings. The abbreviation b.p. stands for basis points. * Monetary Policy Report published; ** To be determined.