BANK OF ENGLAND

Monetary Policy Report

February 2021

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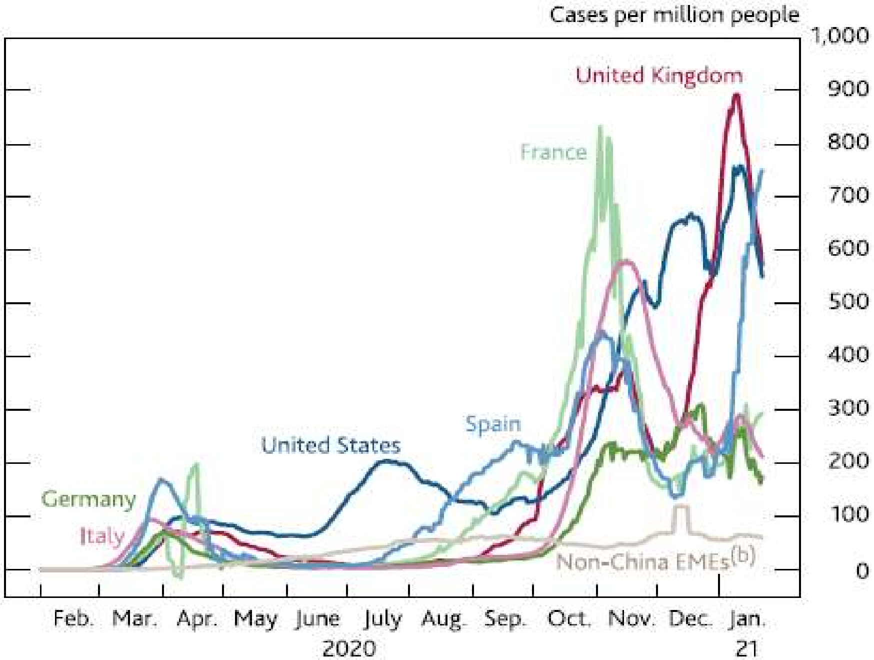
23rd February 2021

Covid cases and restrictions have increased since November

But vaccines are expected to boost activity further out in 2021

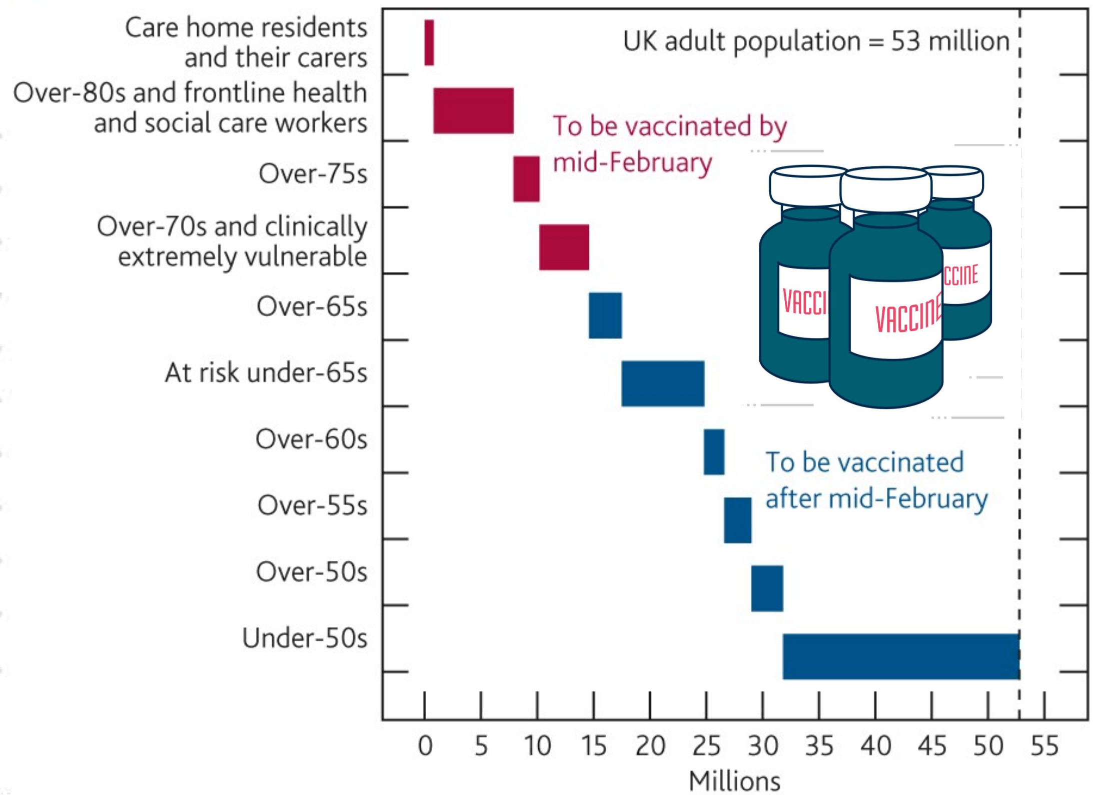
Chart 2.2: Confirmed Covid cases rose sharply in some countries over the past three months

Daily new confirmed Covid-19 cases in selected countries[a]



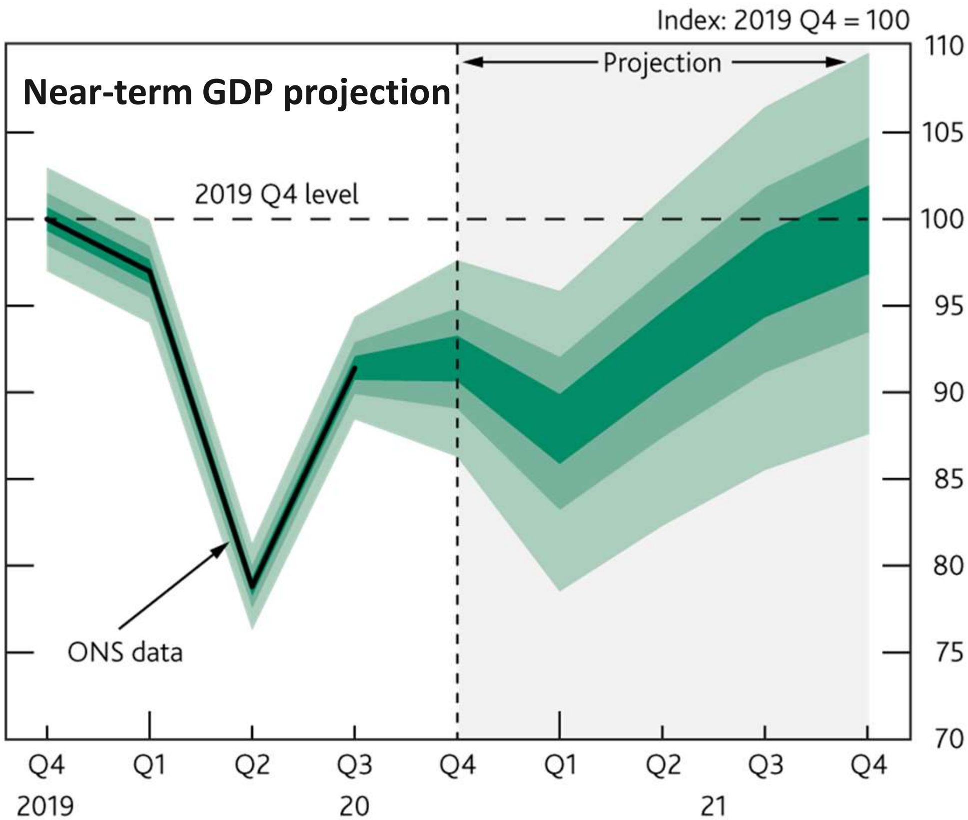
Sources: COVID-19 Data Repository by the Centre for Systems Science and Engineering (CSSE) at Johns Hopkins University, World Bank and Bank calculations.

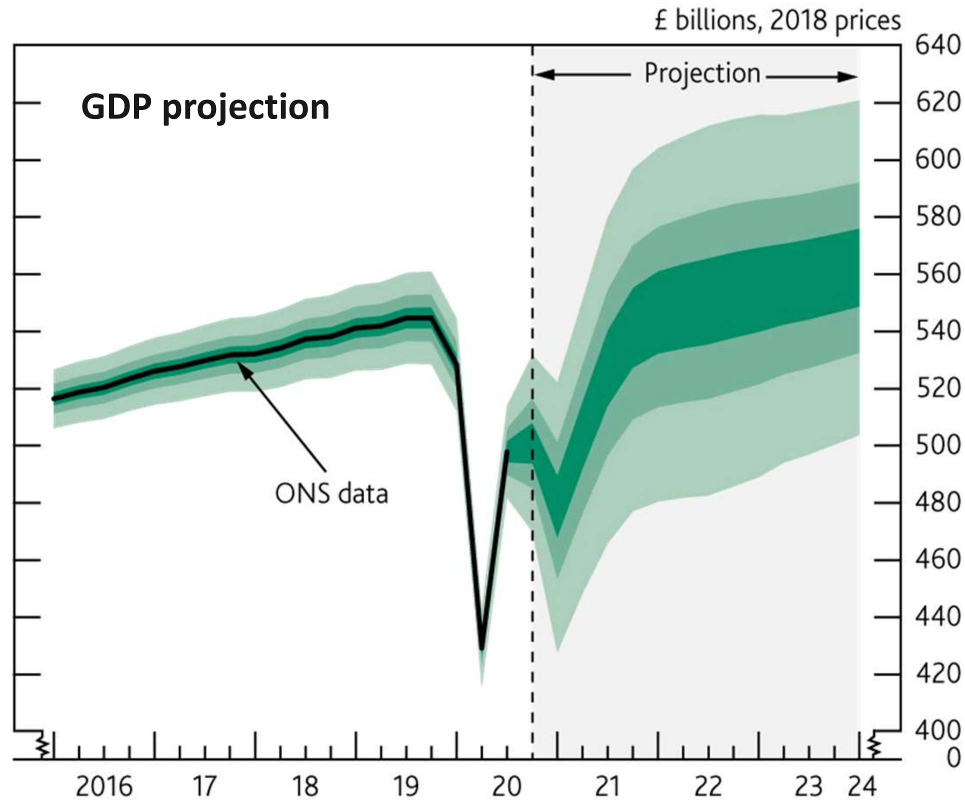
No. of People in Vaccination Groups



GDP falls in Q1, GDP picks up strongly during 2021…

Consumer spend rising materially; business investment picks up but slowly

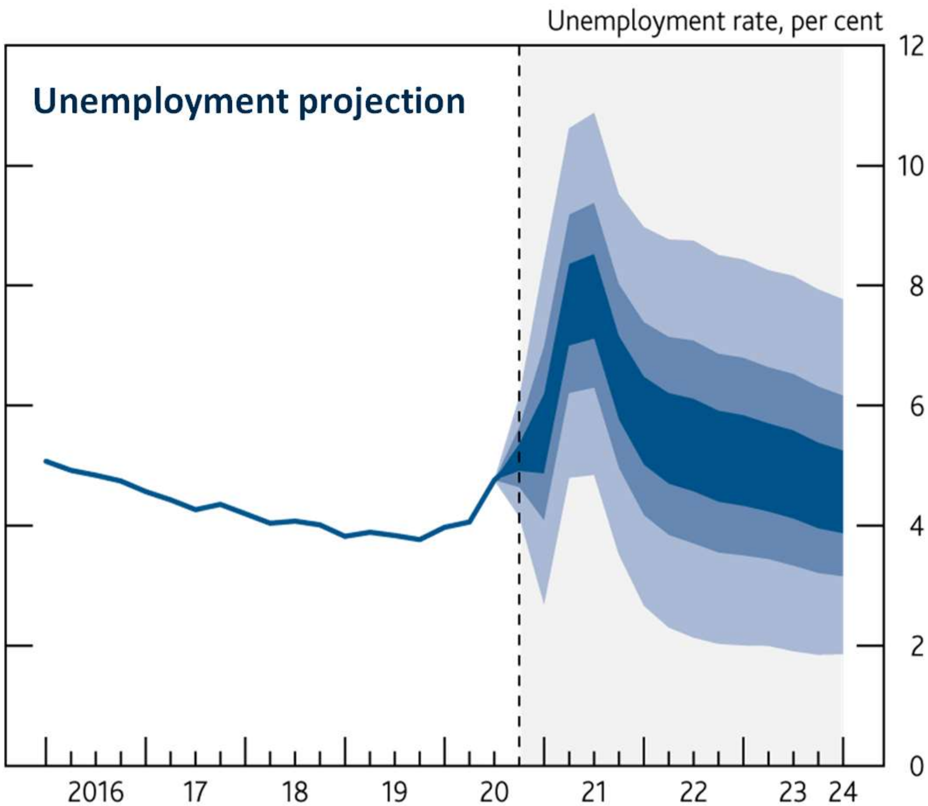


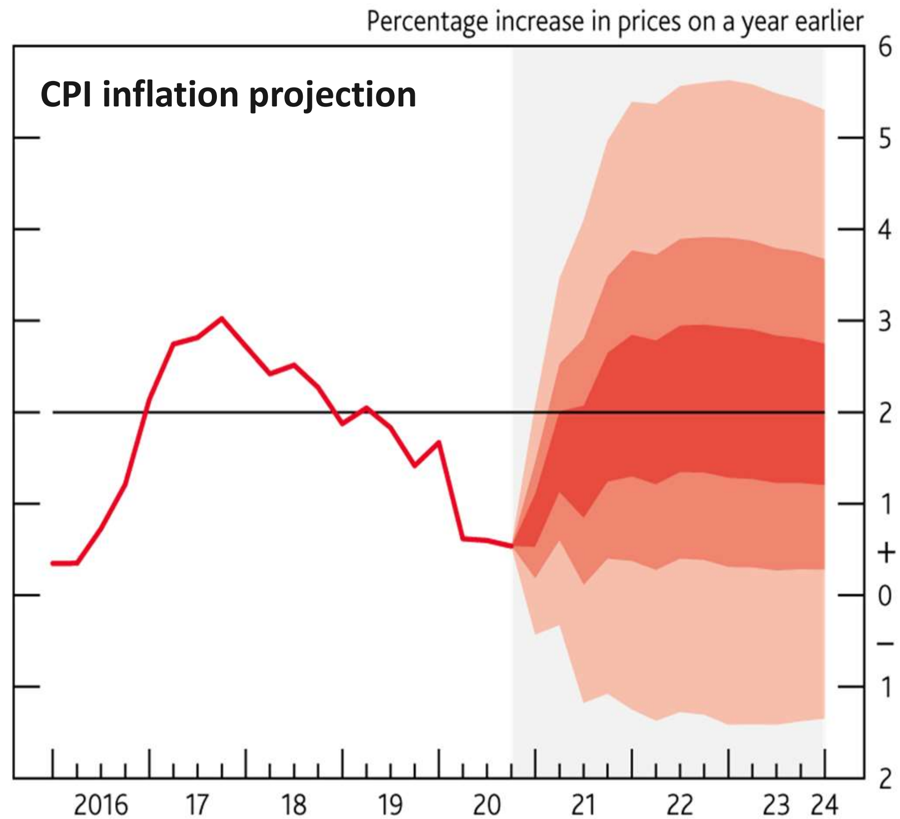


based on market interest rate expectations, other policy measures as announced

CPI inflation projected to remain low in the near term …

…Unemployment rate projected to peak at 7¾% in mid 2021



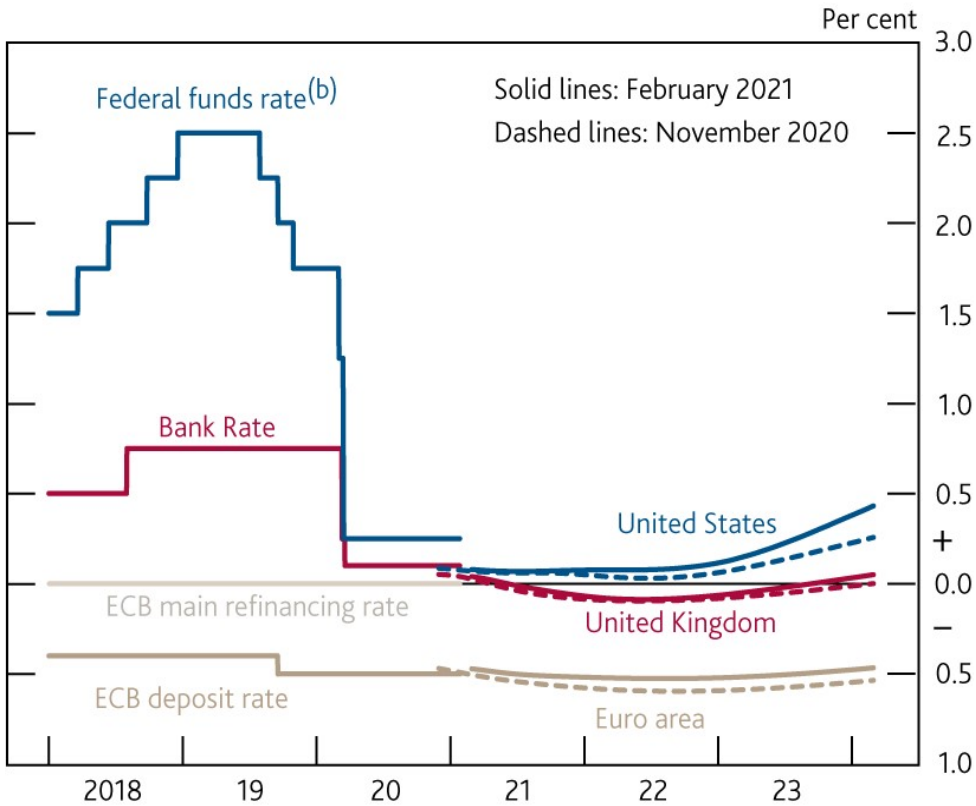


CPI inflation projection based on market interest rate expectations, other policy measures as announced

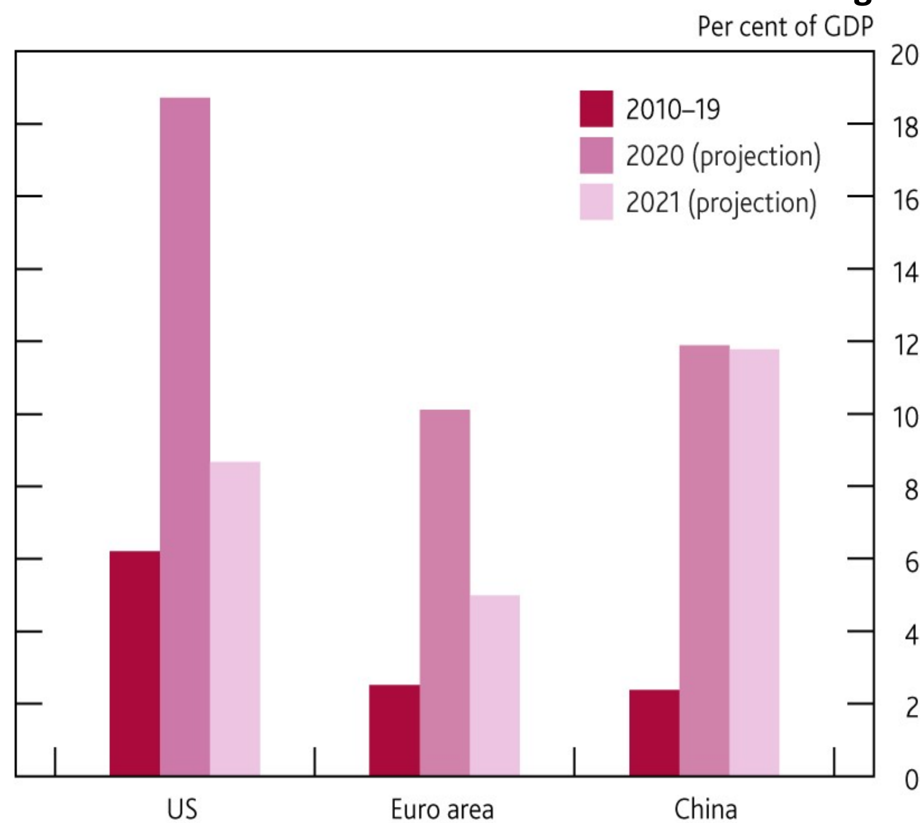
Monetary policy remains accommodative in advanced economies

….. with fiscal policy also providing significant support to global activity

International forward interest rates

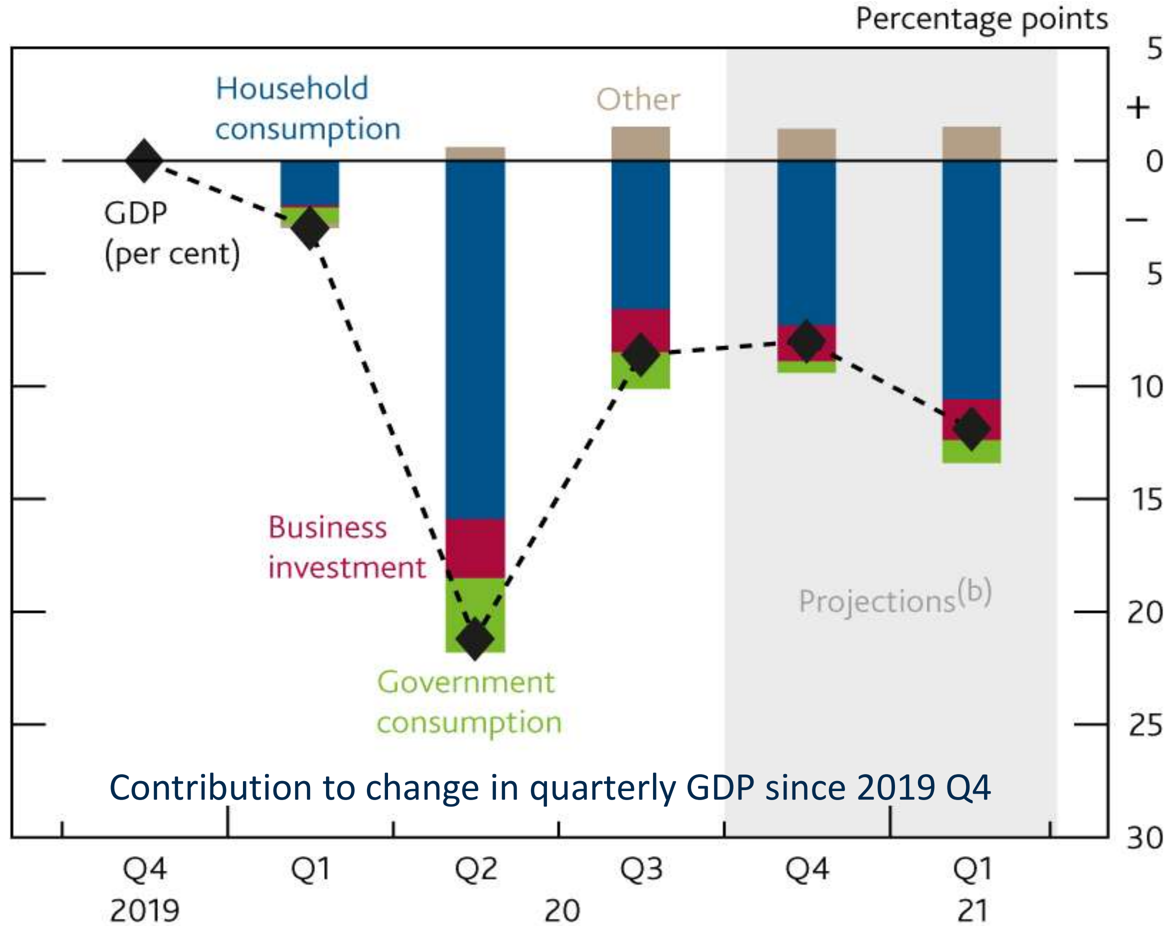


General Government net borrowing



GDP in Q1-21 expected to fall, leaving it 12% below Q4-19 level

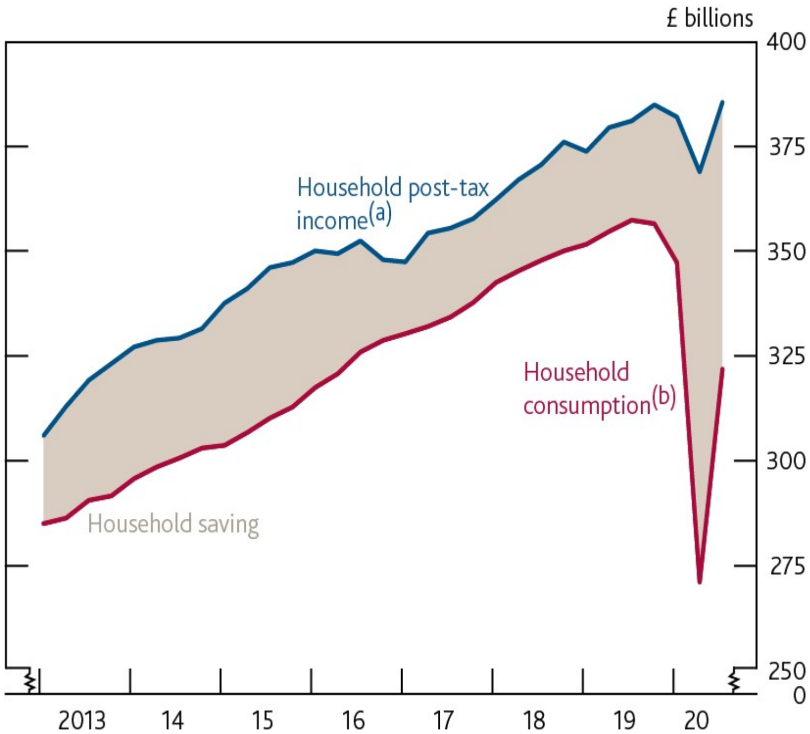
With much of the recovery in Q3 and Q4 2020 driven by consumer spending



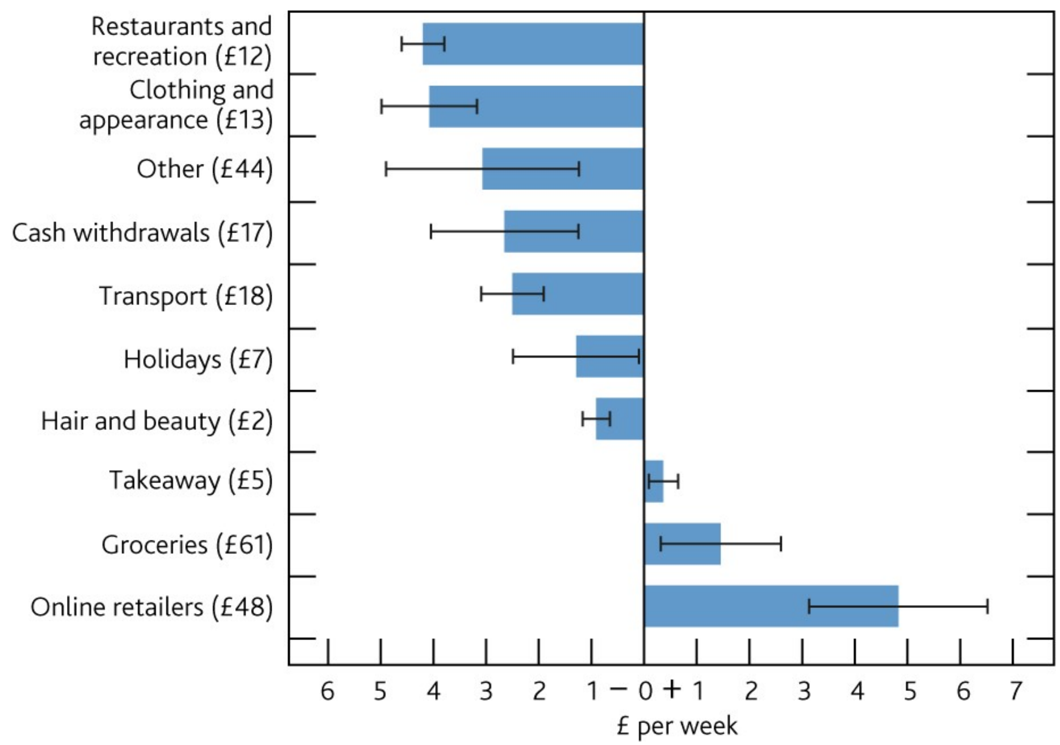
Household incomes have been stable, consumer spend much less so

...*public health restrictions reduced spending on most goods and services*

Household income and nominal consumption



Change in spending per person as a result of closing hospitality and non-essential retail businesses[a]

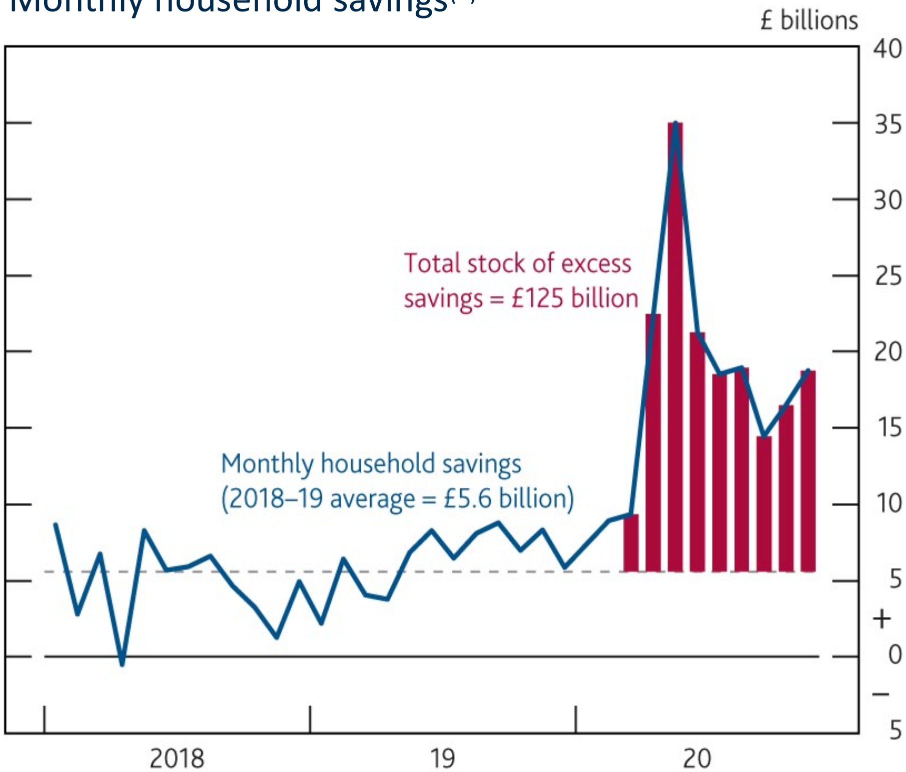


Source: IFS. Estimated impact on weekly spending, June to November 2020.

Households have accumulated savings since March 2020

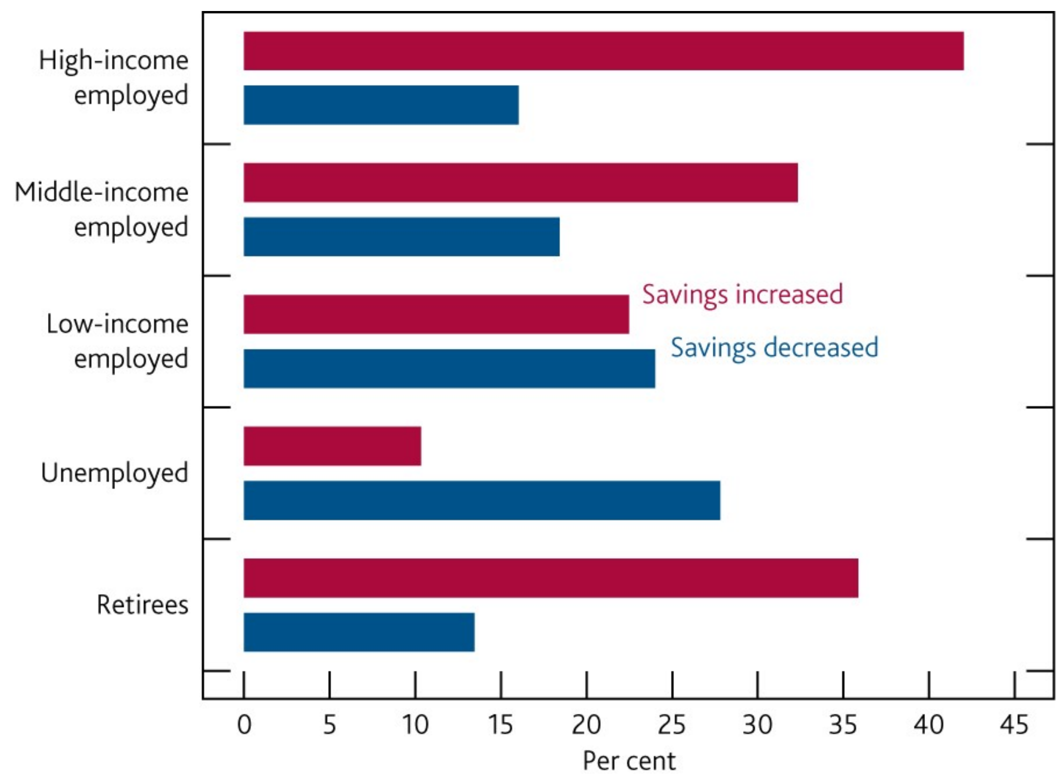
But mainly in high income and retired households

Monthly household savings[a]



Sources: Bank of England, The Investment Association and Bank calculations. (a) Calculated as the sum of flows into household deposits with banks, National Savings and Investment accounts, and retail funds. Latest data point is for November 2020.

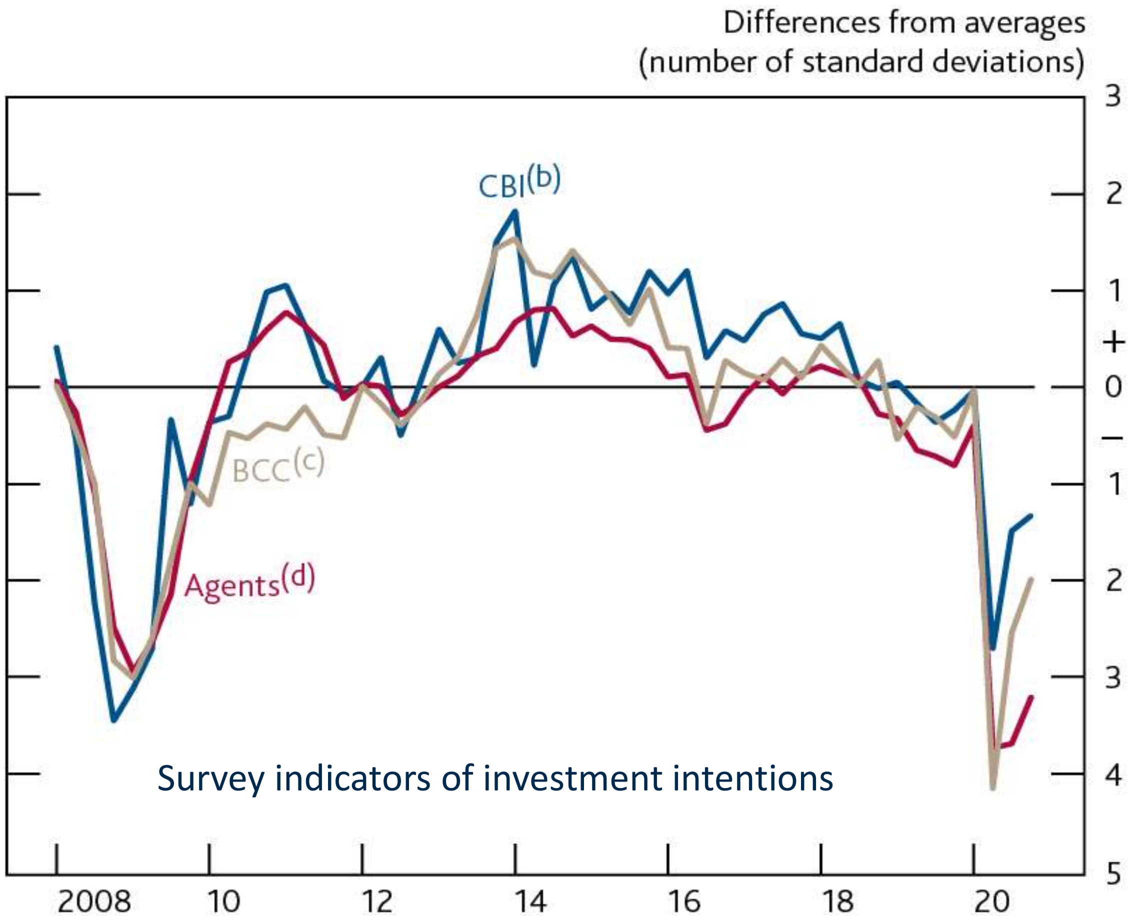
Percentage of households reporting changes in savings[a]



Sources: NMG Consulting and Bank calculations.

Investment sentiment is improving

But investment is expected to remain low in the near term

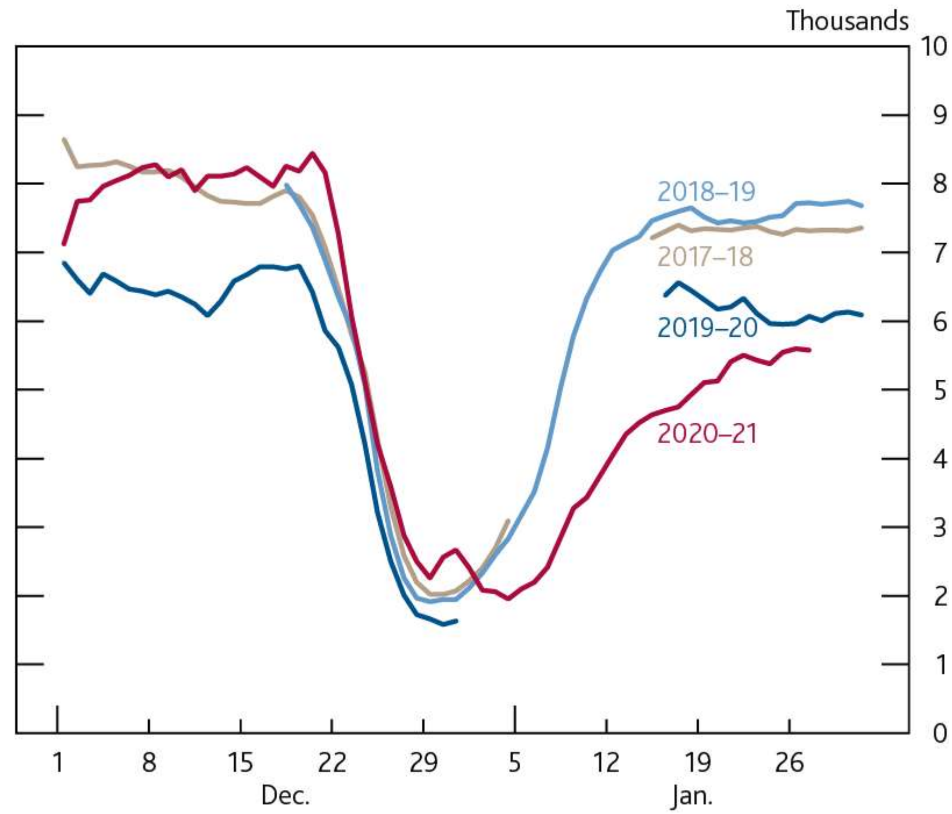


Cross-border EU trade lower than normal in January

Adjustment to new arrangements weighing on activity in Q1

- Trade deal agreed in December very similar to assumptions in November (and previously)
- No noticeable impact on forecast
- Near-term adjustment frictions assumed to reduce trade and GDP (by 1%) in Q1
- Intelligence suggests reduced trade volumes, but too early to tell extent or length of disruption

Number of heavy goods vehicles on roads around Dover

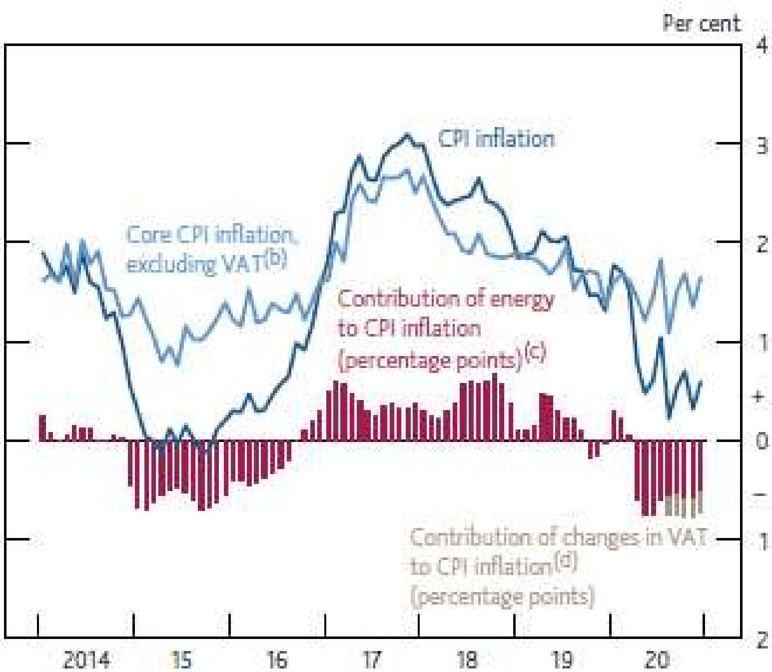


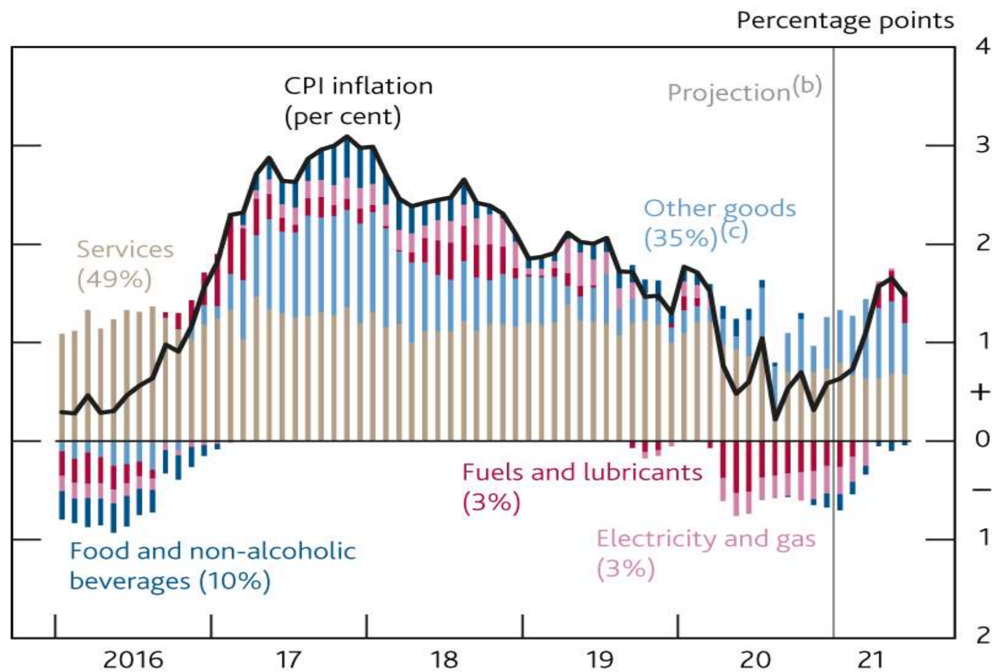
CPI inflation subdued but expected to pick up sharply over H1

….as the drag from past falls in energy prices disappears

Chart 4.2: The fall in CPI inflation since February 2020 is mainly due to temporary Covid-related factors

CPI inflation, core CPI inflation and the contributions of energy prices and changes in VAT[a]





MPC considers stance of policy currently appropriate

Guidance around future policy unchanged …

Policy Guidance

- The MPC would continue to monitor the situation closely. If the outlook for inflation weakened, the Committee stood ready to take whatever additional action was necessary to achieve its remit.
- The Committee did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably."

Policy

- Inflation expected to return to target, and output gap expected to close
- Risks to outlook are more balanced - vaccines
- MPC considers stance of policy currently appropriate:
  - BR 0.1%
  - Programme of +£150bn of gilt purchases underway
  - QE will reach £895bn by the end of the year

- **Policy toolkit :** *PRA to engage with regulated firms to ensure they are able to implement a negative Bank Rate at any point after six months, should that be required in the future*

Any questions?

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