
UK: BoE Sees Inflation Above Target For Longer?

by Andrew Wroblewski

Further Stimulus Unlikely and Possibly Unnecessary! The latest (February) BoE Inflation Report provided rationale for the MPC decision this month not to extend its asset purchases. *Indeed, unlike previous reports, inflation is seen remaining above target through the crucial two-year forecast horizon, with upside risks due to the resilience in administered prices and the recent fall in sterling.* However, the trend in inflation is seen as being downward, with risks becoming more balanced two years hence.

BoE Already Being Flexible. This outlook is very much the one that the MPC pointed to in its statement after the meeting last Thursday. Governor King used his press conference to underline that any attempt to bring inflation back to target sooner by removing the current policy stimulus quicker than currently anticipated by financial markets would risk derailing the recovery and undershoot the inflation target in the medium term. *This is justified because the MPC remit is to deliver price stability, but to do so in a way that avoids undesirable volatility in output.*

MPC More Split? The BoE therefore judged that its policy stance was fully consistent with that remit, also meaning that it stood ready to provide additional monetary stimulus if warranted by the outlook for growth and inflation. Admittedly, *not all the MPC may take this view: the minutes to the February meeting may show even more dissent than seen of late.* All of which very much underscores the flexible manner in which the BoE is already conducting policy, albeit not quite as openly as soon-to-be Governor Dr Carney seemingly prefers.

DE View: BoE on Hold. Even so, further stimulus is unlikely from the BoE for reasons over and beyond the inflation overshoot. Firstly, there are *differences within the MPC in terms of what any resumption of asset purchase might actually achieve* with some (possibly increasingly) seeing the Funding for Lending Scheme (and perhaps the recent fall back in the pound) as a substitute rather than a complement to asset purchases. Secondly, *the real economy may actually be seeing more of an underlying recovery than generally expected.*

Such an outlook is one that Governor King may have but is probably not (yet) being shared by all of the MPC.