

# ESSENTIALS OF MONETARY POLICY

## Bank of England (BoE)

### United Kingdom: A 50 Bps Rate Hike to Wrestle down High Inflation

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#### ACCORDING TO THE BOE

- ▶ The BoE raised its Bank Rate by 50 basis points today, bringing it to 5.00%.
- ▶ Seven members of the Monetary Policy Committee (MPC) voted in favour of the increase, while two voted to hold.
- ▶ The MPC acknowledged that the second-round effects in domestic price and wage developments generated by external cost shocks are likely to take longer to unwind than they did to emerge.

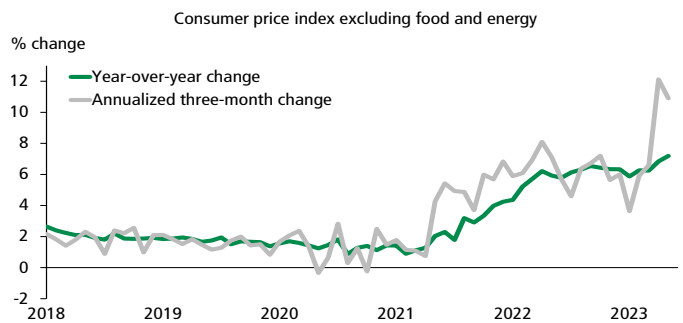
#### COMMENTS

Today's decision surprised the markets, but when you look at it objectively, the BoE had good reason to take the bull by the horns. While the UK economy has slowed, it's not in a recession, and the labour market remains robust, with upward pressure on wages. Bottom line? Inflation is still out of control, and the BoE thinks it will take longer to get it back to its 2% target. According to the most recent data released earlier this week, headline inflation was unchanged in May at 8.7%—the highest of any G7 member. Even more concerning is core inflation, which strips out food and energy. It jumped from 6.8% to 7.1% in May and is close to 11% if we just look at the annualized change over the past three months.

The BoE was the first to begin tightening monetary policy, starting a year and a half ago in late 2021. It then took a more gradual approach than other major central banks. This strategy appears to have had more mixed results on inflation. Historically, the BoE has often had to lift its key interest rate higher than other major central banks have. History could be repeating itself.

#### GRAPH

##### UK Core Inflation Is Still Out of Control



Sources: Datastream and Desjardins Economic Studies

#### IMPLICATIONS

Our latest forecast called for a 5.50% terminal rate in the United Kingdom. It's likely to go higher than that if we don't see more progress on inflation soon. The pound could benefit from higher interest rates, but higher, stickier inflation in the UK is lowering the equilibrium exchange rate suggested by purchasing power parity. A sharper economic slowdown in the coming quarters could also hurt the pound.

# 2023 Schedule of Central Bank Meetings

Date	Central bank	Decision	Rate	Date	Central bank	Decision	Rate
<b>January</b>				<b>July</b>			
12	Bank of Korea	+25 b.p.	3,50	4	Reserve Bank of Australia		
17	Bank of Japan	unchanged	-0,10	11	Reserve Bank of New Zealand		
19	Bank of Norway	unchanged	2,75	12	Bank of Korea		
25	Bank of Canada*	+25 b.p.	4,50	12	Bank of Canada*		
<b>February</b>				26	Federal Reserve		
1	Bank of Brazil	unchanged	13,75	27	European Central Bank		
1	Federal Reserve	+25 b.p.	4,75	27	Bank of Japan		
2	European Central Bank	+50 b.p.	3,00	<b>August</b>			
2	Bank of England	+50 b.p.	4,00	1	Reserve Bank of Australia		
6	Reserve Bank of Australia	+25 b.p.	3,35	2	Bank of Brazil		
9	Bank of Sweden	+50 b.p.	3,00	3	Bank of England		
9	Bank of Mexico	+50 b.p.	11,00	10	Bank of Mexico		
21	Reserve Bank of New Zealand	+50 b.p.	4,75	15	Reserve Bank of New Zealand		
22	Bank of Korea	unchanged	3,50	17	Bank of Norway		
<b>March</b>				23	Bank of Korea		
6	Reserve Bank of Australia	+25 b.p.	3,60	<b>September</b>			
8	Bank of Canada	unchanged	4,50	5	Reserve Bank of Australia		
9	Bank of Japan	unchanged	-0,10	6	Bank of Canada		
16	European Central Bank	+50 b.p.	3,50	14	European Central Bank		
22	Bank of Brazil	unchanged	13,75	20	Bank of Brazil		
22	Federal Reserve	+25 b.p.	5,00	20	Federal Reserve		
23	Bank of England	+25 b.p.	4,25	21	Bank of England		
23	Bank of Norway	+25 b.p.	3,00	21	Bank of Norway		
23	Swiss National Bank	+50 b.p.	1,50	21	Bank of Sweden		
30	Bank of Mexico	+25 b.p.	11,25	21	Bank of Japan		
<b>April</b>				21	Swiss National Bank		
4	Reserve Bank of Australia	unchanged	3,60	28	Bank of Mexico		
4	Reserve Bank of New Zealand	+50 b.p.	5,25	<b>October</b>			
10	Bank of Korea	unchanged	3,50	2	Reserve Bank of Australia		
12	Bank of Canada*	unchanged	4,50	3	Reserve Bank of New Zealand		
26	Bank of Sweden	+50 b.p.	3,50	18	Bank of Korea		
28	Bank of Japan	unchanged	-0,10	25	Bank of Canada*		
<b>May</b>				26	European Central Bank		
2	Reserve Bank of Australia	+25 b.p.	3,85	30	Bank of Japan		
3	Bank of Brazil	unchanged	13,75	<b>November</b>			
3	Federal Reserve	+25 b.p.	5,25	1	Bank of Brazil		
4	European Central Bank	+25 b.p.	3,75	1	Federal Reserve		
4	Bank of Norway	+25 b.p.	3,25	2	Bank of England		
11	Bank of England	+25 b.p.	4,50	2	Bank of Norway		
18	Bank of Mexico	unchanged	11,25	6	Reserve Bank of Australia		
23	Reserve Bank of New Zealand	+25 b.p.	5,50	9	Bank of Mexico		
24	Bank of Korea	unchanged	3,50	23	Bank of Sweden		
<b>June</b>				28	Reserve Bank of New Zealand		
6	Reserve Bank of Australia	+25 b.p.	4,10	29	Bank of Korea		
7	Bank of Canada	+25 b.p.	4,75	<b>December</b>			
14	Federal Reserve	unchanged	5,25	4	Reserve Bank of Australia		
15	European Central Bank	+25 b.p.	4,00	6	Bank of Canada		
15	Bank of Japan	unchanged	-0,10	13	Bank of Brazil		
21	Bank of Brazil	unchanged	13,75	13	Federal Reserve		
22	Bank of England	+50 b.p.	5,00	14	European Central Bank		
22	Bank of Norway	+50 b.p.	3,75	14	Bank of England		
22	Swiss National Bank	+25 b.p.	1,75	14	Bank of Norway		
22	Bank of Mexico			14	Bank of Mexico		
29	Bank of Sweden			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.