

Economics

BOE Defies Bets on a Rate Hike as Bailey Echoes Fed's Jobs Focus

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November 4, 2021, 7:00 PM GMT+7

Updated on November 4, 2021, 11:05 PM GMT+7

- ▶ Policy makers voted 7-2 to hold benchmark rate at 0.1%
- ▶ But say tightening needed in coming months to curb inflation



**BREAKING
NEWS****BOE HOLDS CORPORATE BOND
PURCHASE TARGET AT 20 BLN PNDS**

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The [Bank of England](#) defied market expectations by keeping interest rates on hold, putting its credibility on the line as it chose to prioritize the risks to economic growth instead of inflation.

Highlighting major uncertainties in the U.K. labor market, officials led by Governor Andrew Bailey voted 7-2 to keep the benchmark rate at a record-low 0.1%.

The decision shocked traders, who slashed rate-hike bets, and sent the pound tumbling 1.3% against the dollar. U.K. government bonds advanced, with the yield on five-year debt set for the biggest decline since the Brexit vote.

While Bailey said the surge in inflation means borrowing costs will have to rise in the “coming months,” he pushed back against market expectations for aggressive tightening. Defending his decision, he focused on jobs, echoing similar concerns by the U.S. Federal Reserve. Chair Jerome Powell on Wednesday said he doesn’t favor raising rates until the labor market heals further.

The decision followed weeks of speculation that the BOE would become the first major central bank to raise borrowing costs since the start of the pandemic.

Liz Martins, senior economist at HSBC Holdings Plc, who predicted the outcome correctly, still expects the central bank to increase its benchmark rate by 15 basis points in February, followed by a quarter-point in August and a similar move early in 2023.

“There are risks to that, in all directions,” she said. “We do not get the sense that the BOE is in a hurry.

Reacting to market pricing that the BOE rate could rise to 1% next year, Bailey pointed out at a press conference that such moves would leave price growth below its 2% goal at the end of the

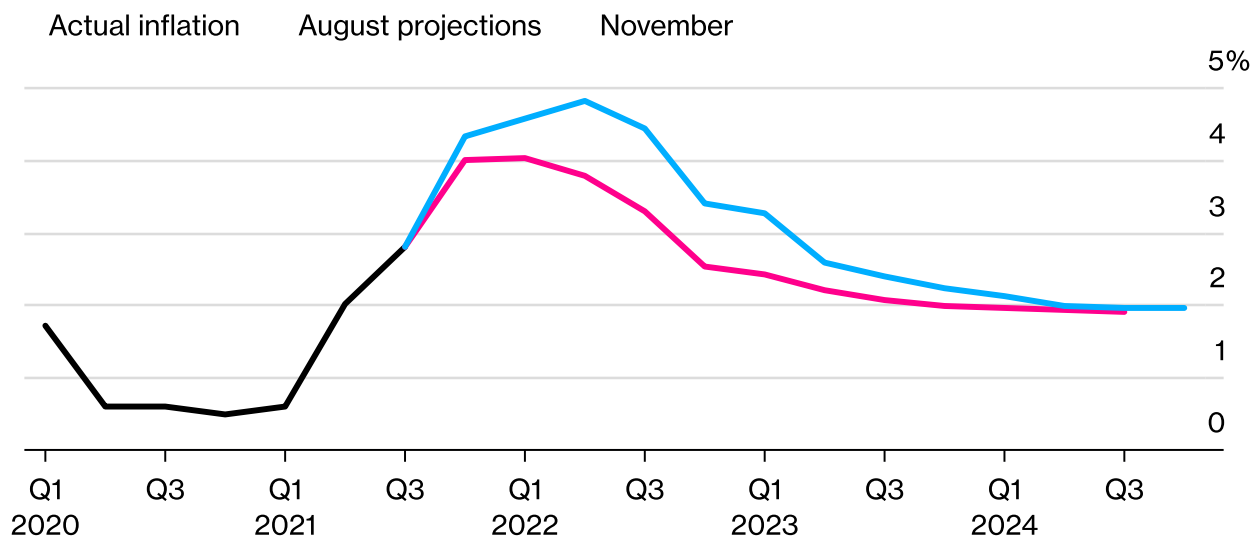
forecast period. He said he would “caution against” such views.

Rate pricing is in the “right direction, a bit overdone, if you want a candid view,” Bailey said in a Bloomberg Television interview later. He added he was “puzzled” by the market view.

Policy makers also warned inflation would drop further below target if energy prices fall back as sharply as markets are predicting from the middle of next year.

Price Risk

The BOE raised its near-term inflation forecasts, sees higher peak



Source: Bank of England Monetary Policy Report

The decision to hold rates raises questions about the bank’s communications, and especially Bailey, who refrained from pushing back against market bets, only to vote against a hike.

The surprise announcement on Thursday invoked comparisons with Bailey’s predecessor Mark Carney, who was branded the “unreliable boyfriend” by U.K. lawmakers.

Bailey disagreed with that assessment, saying he never made a pledge to act at any particular meeting.

What Bloomberg’s Economists Say...

“The central bank’s revised forecasts suggest more tightening is likely in 2022, but far less than financial markets currently expect. We see liftoff in December and a second hike in

May.”

--Read Dan Hanson's full REACT [here](#) .

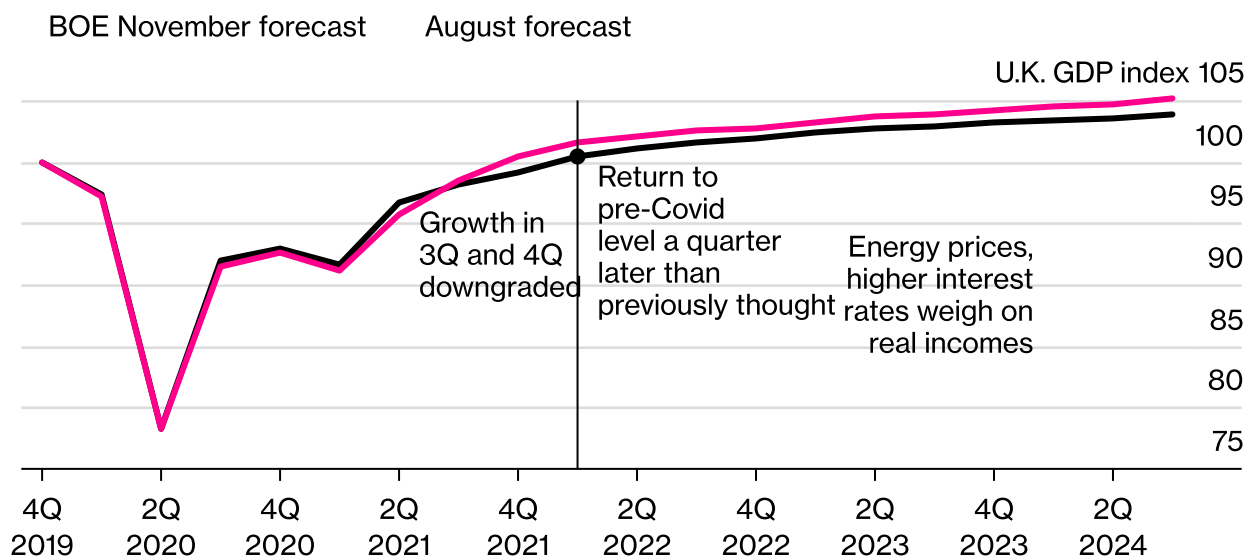
BOE officials indicated increasing concerns about the outlook for growth, noting signs that consumption is weakening because of supply-side bottlenecks and a surge in the cost of oil, natural gas and electricity.

The economy won't recovery to its pre-coronavirus size until the first three months of next year, later than previously expected. The BOE cut the forecast for 2022 growth to 5% from 6%, and predicts a significant slowdown to 1.5% in 2023 and 1% a year later.

But the near-term inflation outlook is worsening, with price growth now expected to hit 5% in April 2022, which would be the highest since 2011. It's forecast to slow after that, however.

Weaker Outlook

The BOE thinks the economy is over 1% smaller than it forecast in August



Source: Bloomberg analysis of Bank of England projections

Note: 4Q 2019 = 100; GDP in real terms

Just two officials, Dave Ramsden and Michael Saunders, voted for an immediate move, saying that inflation is likely to remain above target for the next few years unless rates rise.

Those two, along with Catherine Mann, also wanted to reduce the target for government bond purchases by 20 billion pounds to 855 billion pounds. Those purchases are due to finish by the end of the year.

The majority saw merit in waiting, saying there was a cost to acting immediately. The current stance of monetary policy allows more space to tighten than loosen, they said.

– With assistance by James Hirai, Francine Lacqua, Lizzy Burden, Philip Aldrick, Libby Cherry, Andrew Langley, Neil Callanan, Tiago Ramos Alfaro, Lucy Meakin, Zoe Schneeweiss, Alexander Weber, Carolynn Look, William Horobin, and Harumi Ichikura

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