The background of the slide is a golden-yellow color with a dense, repeating pattern of various international currency symbols, including the dollar sign (\$), pound sterling (£), euro (€), and yen (¥). The symbols are rendered in a 3D, embossed style, creating a textured effect. The central text is white and stands out against this background.

What can the Monetary Policy Committee do to tackle the issues the UK economy is faced with currently?

S&P Global WEx project
By Ethan Fiore

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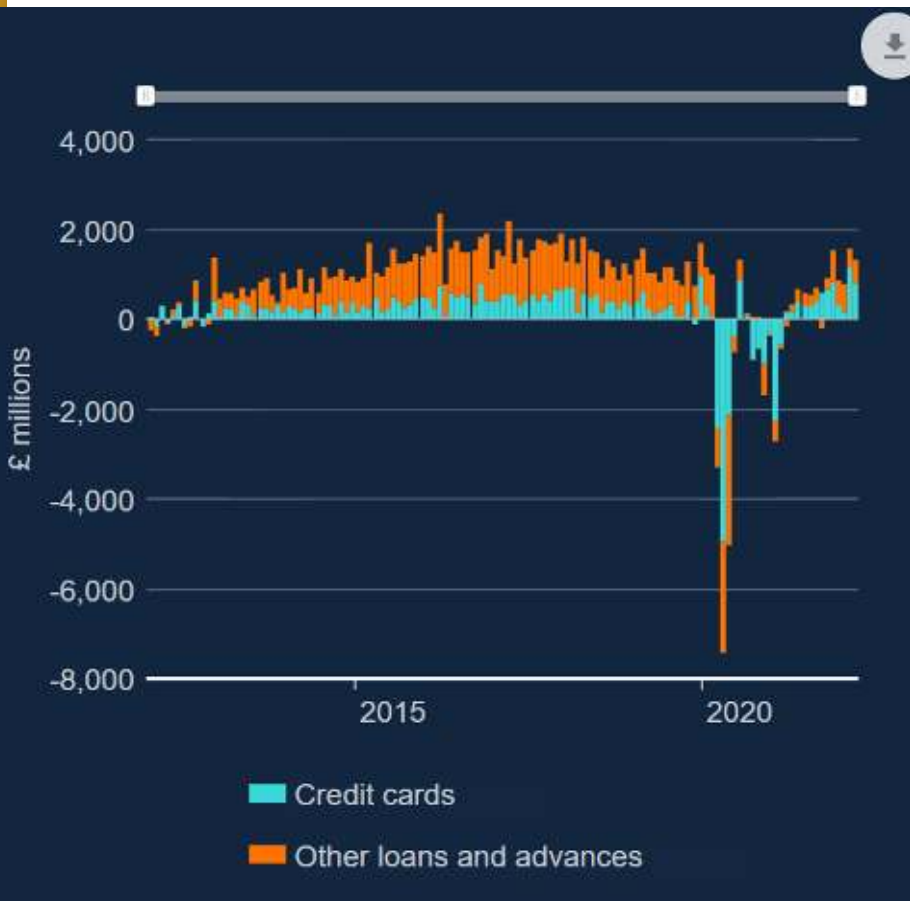
3 Sections:

- ❖ What is the situation?
- ❖ What can the MPC do?
- ❖ What would I do?

What is the situation?

❑ Cost of Living crisis and high inflation:

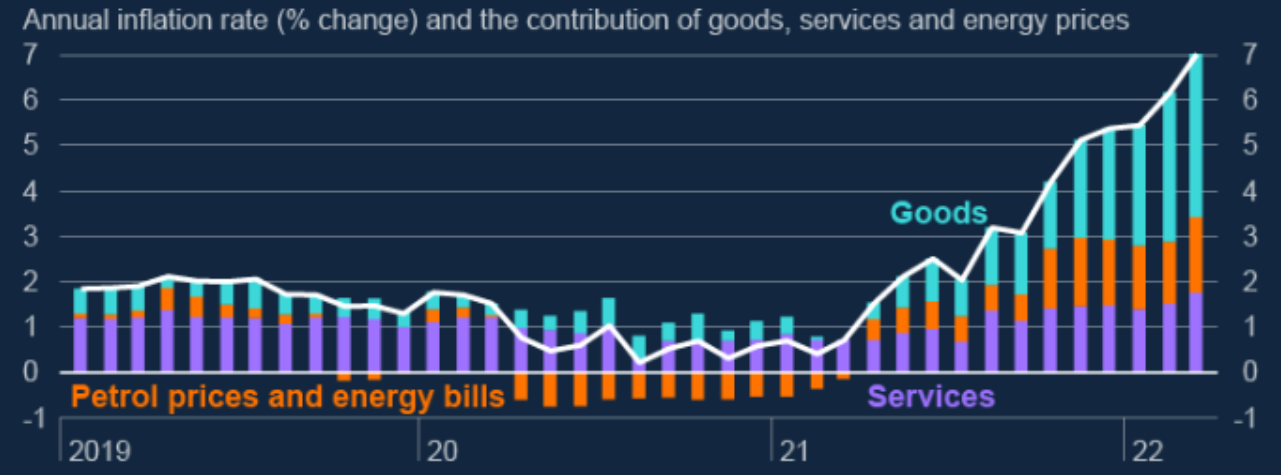
- LATENT DEMAND – Post-Lockdown there was lots of pent-up demand in the economy. Price mechanism causing a price rise to try and ration this demand. Yet, demand stayed high, and producers couldn't produce enough to satisfy quantity demanded. On top of this, there were higher prices on imported goods, but the necessity of the goods (tech, PPE etc.) meant people had to pay the higher prices.
- Oil/gas prices and energy bills – Rising higher than incomes. Oil and gas prices have risen which have pushed up petrol and energy bills. Russia provides 40% of Europe's gas and 27% of its oil. However, their invasion of Ukraine has meant governments are trying to move away from reliance on Russia. This creates demand for supplies elsewhere, often at higher prices.
- Mortgage/Credit Debt – 90% LTV mortgages have fallen since 2020, whilst 75% LTV mortgages have gone up since 2020. Consumer credit has risen too since lockdown.



We expect inflation to rise further and then fall back



Higher prices for goods, as well as higher petrol prices and energy bills, have pushed inflation to 7%



What is the situation?

□ Tight Labour Market

- Unemployment is very low (3.7%, lowest since 1973). 60,000 more economically inactive people than pre-COVID (not actively-seeking a job etc.).
- Excess demand for labour, causes real wage rise. Mix this with rising price level, can cause a wage-price spiral. Further inflation (both demand-pull and cost-push).

□ Supply chains disruption

- Chinese lockdowns and Russia's invasion of Ukraine, have caused supply chain disruptions. Leads to having to seek alternative suppliers (time and money) or running down existing stock.

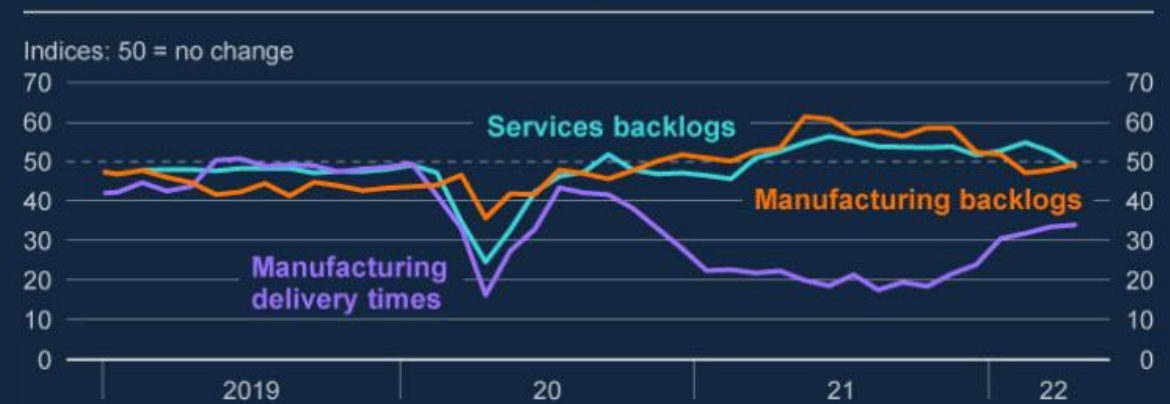
Chart 2.11: Inactivity remains markedly higher than before the pandemic

Changes in employment, unemployment and inactivity since 2019 Q4 (a)



Chart 2.10: Surveys suggested supply constraints were beginning to ease around the turn of the year

Surveys of supply constraints (a)



What can the MPC do?

Raise interest rates?

Have already begun to hike them.
Increased 4 times since December 2021 from 0.1%, now at 1%.

Positives

- Increases incentive for consumers/firms to save/not invest
- Paradox of thrift
- Pulls down inflation (demand-side)
- Easing prices of goods in near future

Negatives

- Households are expected to save less according to BoFE forecast due to cost of living rises
- Lots of cost-push inflation in economy due to oil/gas/energy prices
- Slows economic growth in UK economy
- Time Lag – fixed-rated mortgages
- Fixed-rate mortgages are more difficult to get
- (credit) debt increases



What can the MPC do?

Quantitative Tightening ?

Contractionary Monetary Policy –
Trying to reduce balance sheets.

Positives

- Pushes up bond yield
- BofE not buying bonds till 2023, forces Gov't to sell bonds to private investors – Low-risk and easily measured investment

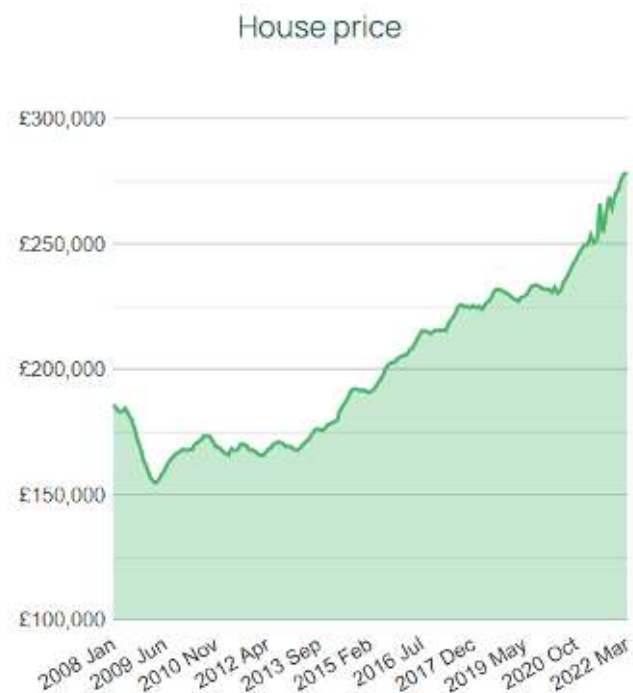
Negatives

- Less incentive for banks to lend to homeowners or businesses
- Doesn't directly affect household or companies' credit

What would I do?

- Housing market prices are rising and have been for years. Those on lower incomes and first-time buyers are most vulnerable to the situation.
- Therefore, I would increase the proportion of 90% LTV mortgages to lower the deposit rate.
- Also, I would lower the fixed-rate mortgages for the next instalment, but raise it for the instalment after that to counteract it. Help with payments in short term (2 year or 5 year) therefore, when hopefully inflation has fallen back down to more desirable levels and energy bills have fallen also the rise in rate is more affordable.

Average house prices - UK



What would I do?

- I would also raise interest rates to 1.5% and keep them there for at least 6 months (2 quarters) as there's a time lag on IR.
- Inflation expected to peak at end of 2022.
- Evaluate the effect of the rise after 6 months.
- Makes more predictable and stable for consumers and businesses.



Conclusion

Overall, There is only so much the Bank of England and more specifically the MPC can do to tackle all of the issues the UK economy is facing currently. Ultimately, I believe the brunt of it has to be sorted by Boris Johnson and his government. Although, the bank did add fuel to the fire before we saw the actual implications, by printing billions of pounds during lockdown. Yet, there are some tools the BofE can use to alter the economy and alleviate SOME of the problems. Interest rates are a fine line, especially at a time of high inflation but when a lot of that inflation is cost-push and the economy is already slowing down after a big boost post-pandemic, which is why I opted not to alter them massively. Mortgages are a large part of households monthly payments so by alleviating some of the weight that comes with it, consumers and companies will have lighter burdens in coming months/years.

Thank you very much for this opportunity and taking time out of your busy schedules to help me.