

# Monetary Policy Report – February 2022

Our quarterly Monetary Policy Report sets out the economic analysis and inflation projections that the Monetary Policy Committee uses to make its interest rate decisions.

Published on 03 February 2022

## In a nutshell



**The UK economy continues to recover**



**Higher energy and goods prices are pushing inflation above our 2% target**



**We expect inflation to rise to around 7% in the spring, but then fall back**



**We have increased interest rates to return inflation to our 2% target**

The UK economy continues to recover. In November last year, economic activity was back to where it was before the pandemic. Since then, the spread of Omicron meant people spent less. But as the number of new cases falls, we expect spending to go up again.

The number of people out of work is going down. The unemployment rate is only slightly higher than it was before the start of the pandemic.

**Inflation** (the pace of price rises) has risen above our 2% target. Prices rose by 5.4% last year.

Higher energy prices is one of the main reasons for this. Large increases in oil and gas prices have pushed up petrol prices and **utility bills**.

Higher prices for goods that we buy from abroad have also played a big role. As economies reopened around the world, people started to buy more goods. Some businesses struggled to meet this extra demand, held back by, for example, shortages of materials and workers. That pushed up their costs and led to higher prices for consumers.

These effects are likely to continue pushing inflation up in the coming months. We expect inflation to rise to around 7% in the spring.

We expect inflation to fall back from the middle of this year. We don't expect that energy prices will continue to rise as fast, and the shortages that are currently making it difficult for businesses to make their products should ease. We expect inflation to be close to our target in around two years' time.

We have raised the official **interest rate** we set, known as Bank Rate, to 0.5% to support inflation returning to our 2% target. We may need to raise interest rates somewhat further. Our job is to ensure that inflation returns to our target in a sustainable way.

Monetary Policy Report - February 2022

## The UK economy continues to recover

By November last year, our economy was back to the size it was before Covid hit.

The number of people out of work has fallen. The unemployment rate is only slightly higher now than it was before Covid.

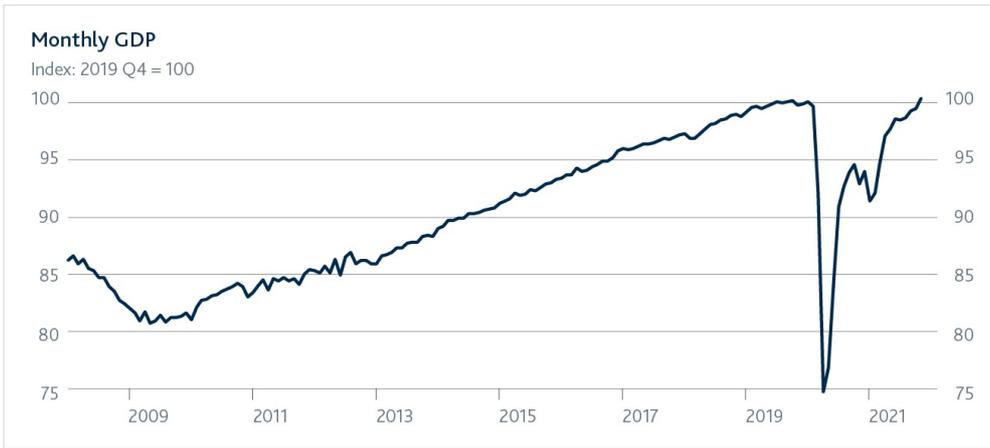
Since then, Omicron has slowed economic activity, but we don't expect that to last.

As the number of new cases go down, we expect people to start spending more.

People are facing a larger than usual increase in the cost of living. That includes higher petrol prices and utility bills. This means they will have less to spend on other things.

But we still expect the UK economy to grow over the next few years.

**View chart: See how the size of the UK economy has got back to where it was before Covid hit**



**View chart: See how the unemployment rate has fallen**



# Higher energy and goods prices are pushing inflation above our 2% target

The rate of inflation (the measure of how quickly prices go up) was 5.4% last year.

That is above our 2% target.

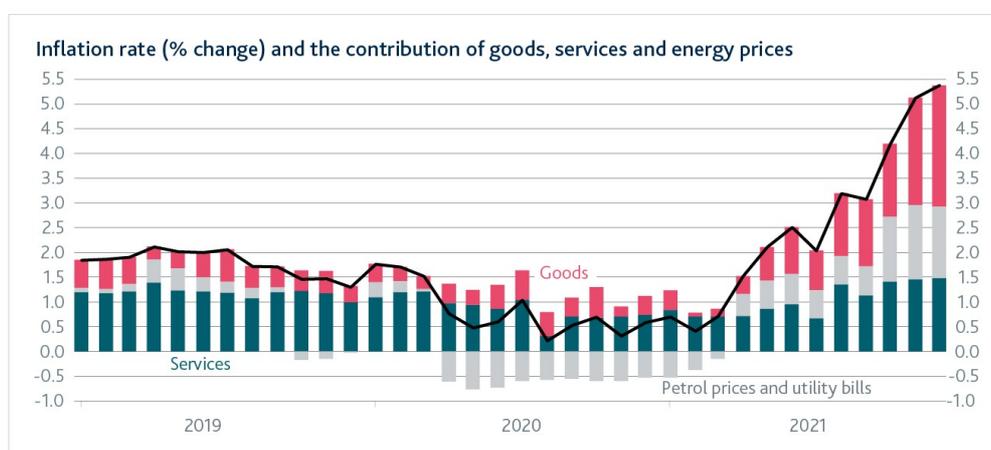
Some of the increase was caused by a very sharp rise in oil and gas prices. That put the cost of petrol and utility bills up.

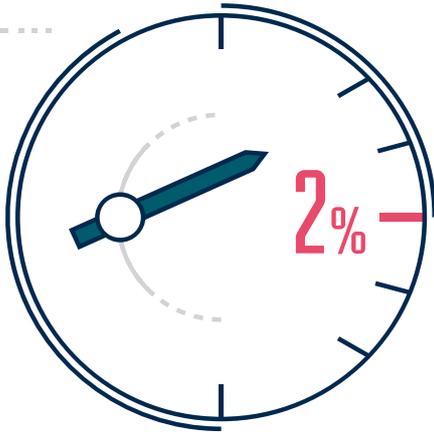
Higher prices for goods that we buy from abroad have also played a big role.

As Covid restrictions have eased in many countries, people started to buy more goods.

Many businesses producing those goods have struggled to meet this extra demand, held back by, for example, shortages of materials and workers. That pushed up their costs and led to higher prices for consumers.

## View chart: See how higher prices for goods, as well as higher petrol prices and utility bills, have pushed inflation above our target





## We expect inflation to rise to around 7% in the spring, and then fall back

We expect inflation to rise further to around 7% in the spring.

After that, we expect inflation to fall.

One reason for that is that we think the impact of higher oil and gas prices will fade.

We also don't think that the demand for goods will continue to rise as fast.

And we expect that some of the production difficulties businesses are facing will ease.

We expect inflation will be close to our target in around two years' time.

**View chart: See how we expect inflation to rise and then fall back**



## We have increased interest rates to return inflation to target

When the Covid pandemic struck, we needed to take immediate and substantial action to meet our inflation target.

That action included a cut in interest rates to 0.1% in March 2020.

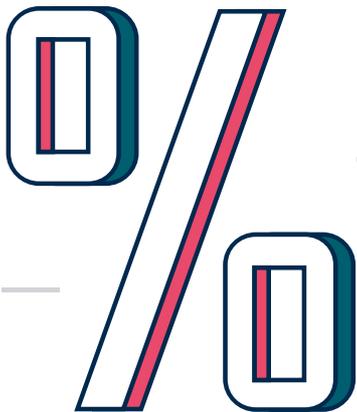
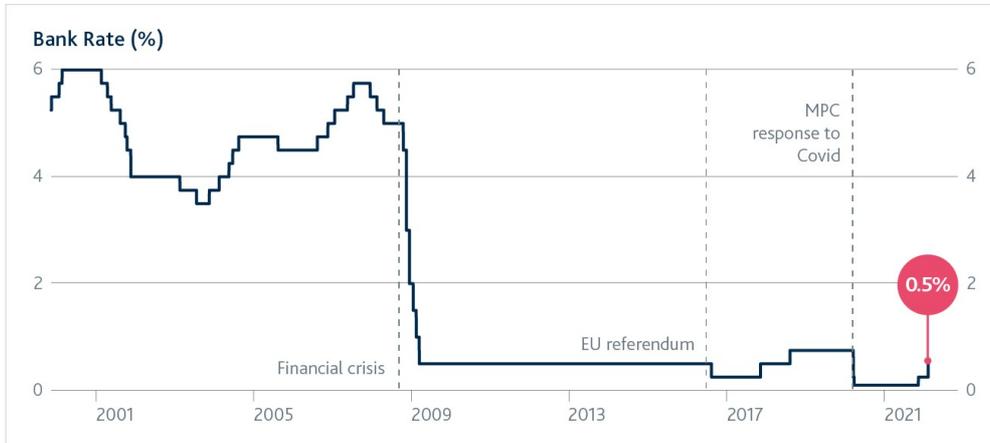
The outlook has now changed.

The UK economy is recovering, and we expect inflation to rise further to around 7% in the spring.

In response, we have increased interest rates to 0.5% to support inflation returning to our 2% target. We may need to raise interest rates somewhat further.

Making sure inflation returns to target will support people's jobs and incomes.

## View chart: See how we cut interest rates in response to Covid, and raised them recently



## Press conference

## Related documents

[Monetary Policy Report - February 2022 \(PDF 4.8MB\)](#)

[Monetary Policy Report chart slides and data - February 2022 \(ZIP 12.3MB\)](#)

 [Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 2 February 2022 \(PDF 0.4MB\)](#)

 [Monetary Policy Report Press Conference: Opening remarks by Andrew Bailey, Governor \(PDF 0.5MB\)](#)

 [Monetary Policy Report Press Conference transcript \(PDF 0.1MB\)](#)