



BANK OF ENGLAND



Policy Panel

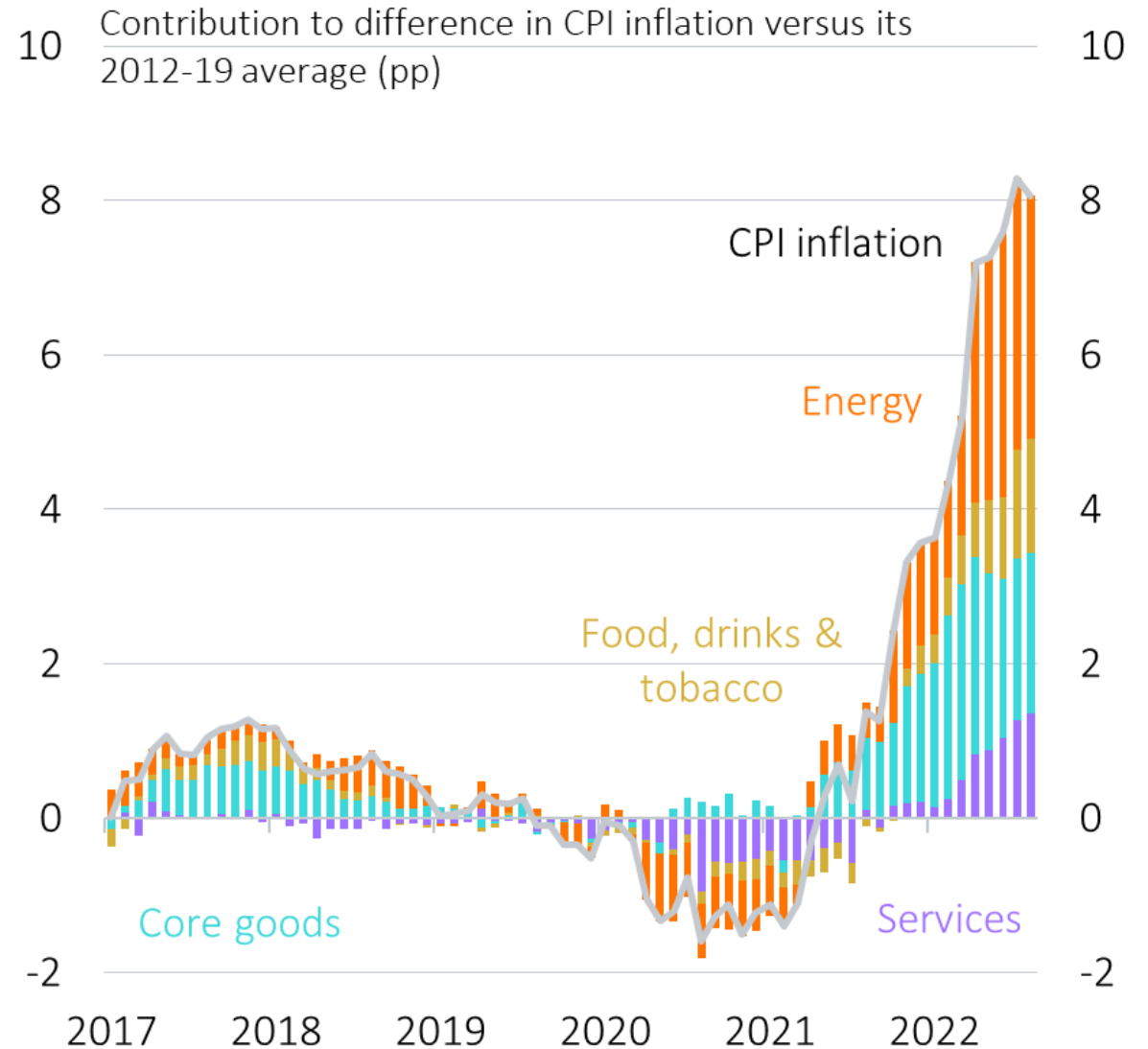
WE_ARE_IN Macroeconomics and Finance
Conference, Basel

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Why has inflation risen well above target in the UK?

- Sharp increase in global goods prices as strong goods demand – due to Covid-related rotation from services to goods and large US fiscal stimulus – met global supply chain disruption.
- More recently, sharp increase in energy and other commodity prices largely due to the Russian invasion of Ukraine.
- Domestic inflationary pressures smaller in UK, but have also picked up. Labour market tight, with unemployment at record lows.

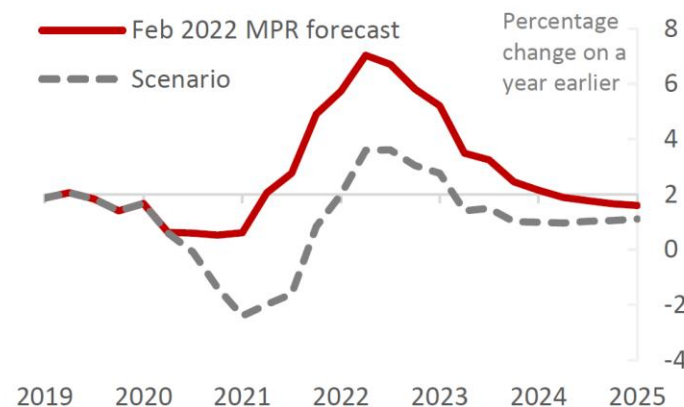


Could earlier monetary tightening have achieved a better outcome?

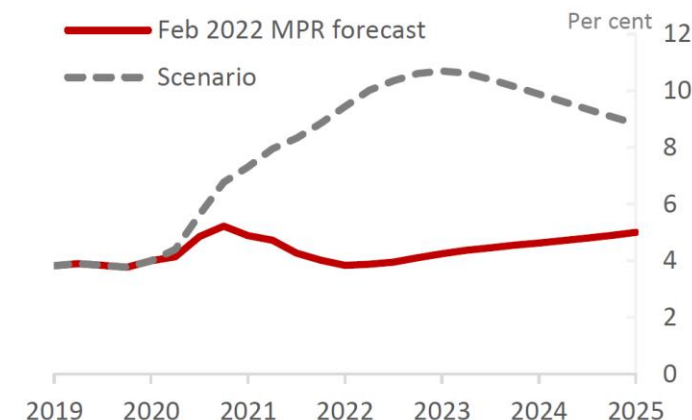
Hypothetical Policy Scenario: Inflation at target in 2022

- MPC's February 2022 forecast, contained smaller energy-price shock than transpired.
- Scenario would have required double-digit interest rates during the pandemic.

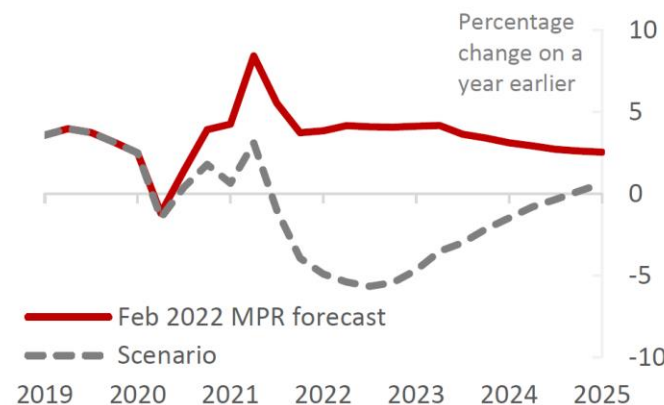
a) CPI inflation



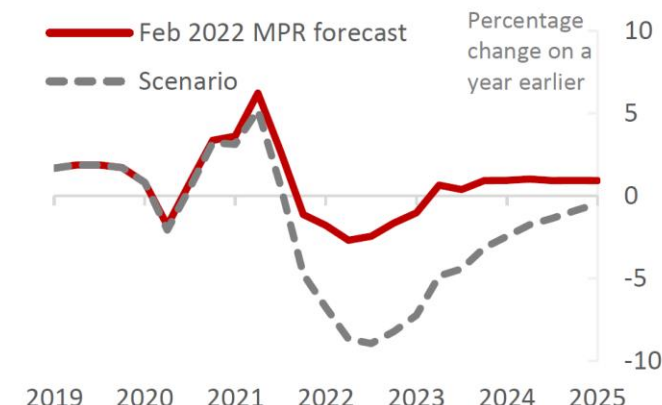
b) Unemployment rate



c) Nominal wage growth



d) Real wage growth



Sources: ONS and Bank calculations.

Notes: Nominal wage growth is the four-quarter growth rate of private sector AWE excluding bonuses and arrears. Real wage growth is the four-quarter growth of private sector AWE excluding bonuses and arrears, divided by CPI.