

# Fast Comment UK

## Rates up by 25bp as expected

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- Growth outlook revised upwards
- We project that we are at peak rates for this cycle

### Rates up by 25bp

As expected, the Bank of England (BoE) raised rates by 25bp up to 4.5% on a vote of seven to two. This follows both the Federal Reserve and the European Central Bank hiking rates by 25bp at their latest respective meetings. The majority of Monetary Policy Committee members backed a rate hike on the basis that it helps address the risk of more persistent strength in domestic price and wage setting. For some weeks now, markets and economists have been expecting a rate hike in May following hotter than expected inflation and earnings data.

### Improved growth outlook

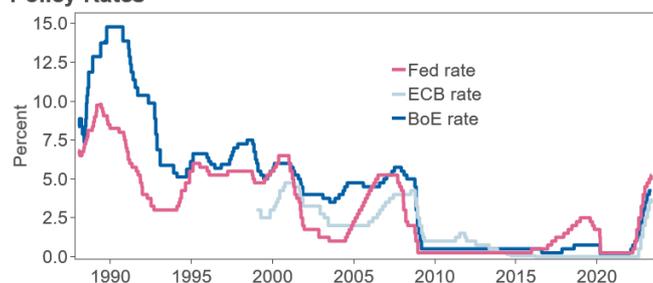
The BoE paints a much more sanguine picture for UK economic growth, dramatically improving its growth forecast for the UK compared to projections it set out in its February report. This reflects stronger than expected global growth, lower energy prices and fiscal support provided at the Spring Budget. The May report also argues that the impact of tightening credit conditions related to recent developments in the global bank sector will likely only have a small impact on GDP. Inflation, however, is expected to remain higher for longer compared to February's projections. Expectations are for CPI inflation to end the year at just over 5% (versus projections of around 4% in February), with inflation only falling below 2% by 2025.

### What next?

The speed and magnitude of monetary policy tightening since 2022 by Western Central Banks has been the highest observed for the past three decades. It is important to stress that previous rate hikes by the BoE will continue to transmit into the economy for some time to come: indeed, rate increases can take around six quarters to fully pass through. As monetary policy continues to transmit into the UK economy, we continue to expect growth effectively to flat line across 2023. The BoE has stated that if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required. At this stage, we do not anticipate any further hikes in this cycle - especially as Quantitative Tightening will continue to gradually tighten monetary policy in the background - although we do continue to expect rates to remain at 4.5% for the remainder of 2023 given our expectation that services inflation is likely to be stubborn.

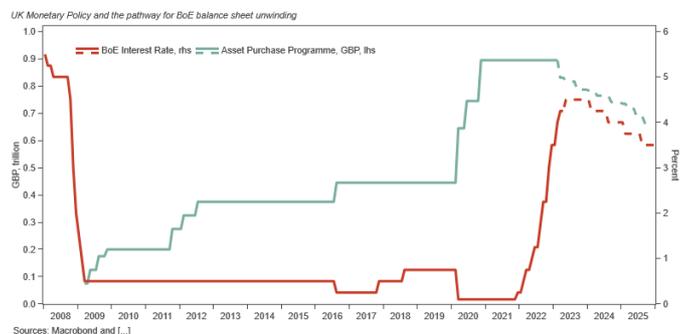
### Central Bank Interest Rates

#### Policy Rates



Sources: Macrobond

### UK Monetary Policy (Past and Projected)



Sources: Macrobond

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