

## **Appendix 1 - Treasury Management Update Mid-Year 2021/22**

### **1. Introduction**

- 1.1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.
- 1.2. The Authority's treasury management strategy for 2021/22 was approved at a full Council meeting on 1 March 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.
- 1.3. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 1 March 2021.

### **2. External Context (provided by the Council's treasury management advisor, Arlingclose)**

#### **Economic background**

- 2.1. The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.
- 2.2. The Bank of England (BoE) held Bank Rate at 0.10% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent.
- 2.3. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation.
- 2.4. Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021. The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture.
- 2.5. Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% over the quarter. Household consumption was the largest contributor.

- 2.6. The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon. The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

### **Financial Markets**

- 2.7. Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.
- 2.8. Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, led to higher prices.
- 2.9. The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%. The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

### **Credit Review**

- 2.10. Credit default swap spreads were flat over most of period and are broadly in line with their pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities continued to narrow, but Santander UK remained an outlier compared to the other ringfenced/retail banks.
- 2.11. Over the period Fitch and Moody's upwardly revised to stable the outlook on several UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.
- 2.12. The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.
- 2.13. At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

## **3. Local Context**

- 3.1. On 31<sup>st</sup> March 2021, the Authority had net borrowing of £555.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary**

Type of Liability	31.03.21 Actual** £m
General Fund CFR	505.5
HRA CFR	332.3
<b>Total CFR **</b>	<b>837.8</b>
Less: *Other debt liabilities	(28.2)
<b>Borrowing CFR – comprised of:</b>	<b>809.6</b>
- External borrowing	555.9
- Internal borrowing	253.7

\* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

\*\* subject to audit

- 3.2. Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority continued to pursue its long-standing strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.
- 3.3. The treasury management position on 30<sup>th</sup> September 2021 and the change over the quarter is shown in Table 2 on the following page.

**Table 2: Treasury Management Summary**

Type of Borrowing / Investment	31.03.21 Balance (£m)	Movement (£m)	30.09.21 Balance (£m)	30.09.21 Rate (%)
Long-term borrowing	496.9	11.3	508.2	3.22
Short-term borrowing	59.0	30.0	89.0	0.11
<b>Total borrowing</b>	<b>555.9</b>	<b>41.3</b>	<b>597.2</b>	<b>2.75</b>
Long-term investments	0.0	0.0	0.0	0.00
Short-term investments	5.0	(5.0)	0.0	0.00
Cash and cash equivalents	12.0	6.7	18.7	0.01
<b>Total investments</b>	<b>17.0</b>	<b>1.7</b>	<b>18.7</b>	<b>0.01</b>
<b>Net borrowing</b>	<b>538.9</b>	<b>39.6</b>	<b>578.5</b>	

#### 4. Borrowing Update

- 4.1. Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 4.2. Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return, even where the source of borrowing is not the PWLB.
- 4.3. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to fully access the PWLB.

#### **Changes to PWLB Terms and Conditions from 8<sup>th</sup> September 2021**

- 4.4. The settlement time for a PWLB loan has been extended from two working days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and interest charged on late repayments will be the higher of Bank of England Base Rate or 0.10%.

#### **Municipal Bonds Agency (MBA)**

- 4.5. The MBA is continuing to work to deliver a new short-term loan solution, available in the first instance to principal local authorities in England, allowing them access to short-dated, low rate, flexible debt. The minimum loan size is expected to be £25 million. Importantly, local authorities will borrow in their own name and will not cross guarantee any other authorities.
- 4.6. If the Authority were to consider future borrowing through the MBA, it would first ensure that it had thoroughly scrutinised the legal terms and conditions of the arrangement and taken proper advice on these.

#### **UK Infrastructure Bank**

- 4.7. £4bn has been earmarked for lending to local authorities by the UK Infrastructure Bank which is wholly owned and backed by HM Treasury. The availability of this lending to local authorities, for which there will be a bidding process, is yet to commence. Loans will be available for qualifying projects at gilt yields plus 0.60%, which is 0.20% lower than the PWLB certainty rate.

#### **Borrowing strategy during the period**

- 4.8. On 30<sup>th</sup> September 2021, the Authority held £597.2m of loans (an increase of £41.3m compared to 31<sup>st</sup> March 2021) as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 30<sup>th</sup> September 2021 are summarised in Table 3 below.

**Table 3: Borrowing Position**

	<b>31.03.21 Balance £m</b>	<b>Net Movement £m</b>	<b>30.09.21 Balance £m</b>	<b>30.09.21 Weighted Average Rate %</b>	<b>30.09.21 Weighted Average Maturity (years)</b>
Public Works Loan Board	371.9	11.3	383.2	2.73	26.65
Banks (LOBO)	125.0	0.0	125.0	4.72	38.69
Local authorities (short-term)	59.0	30.0	89.0	0.11	0.38
<b>Total borrowing</b>	<b>555.9</b>	<b>41.3</b>	<b>597.2</b>	<b>2.75</b>	<b>25.25</b>

- 4.9. The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
- 4.10. With short-term interest rates remaining much lower than long-term rates and with surplus of liquidity continuing to feature in the local authority to local authority market, the Authority considered it to be more cost effective in the near term to use short-term loans to satisfy liquidity requirements during the first half of the year. The net movement in temporary short-term loans is shown in Table 3 above.
- 4.11. Having considered the appropriate duration and structure of the Authority's borrowing in consultation with the Authority's treasury advisor Arlingclose, the Authority decided to take some advantage of the fall in external borrowing rates and borrowed £15m of medium-term Equal Instalments of Principal (EIP) loans from the PWLB, at an average of 1.40% which will provide longer-term certainty and stability to the debt portfolio.
- 4.12. The Authority has a significant capital programme which extends into the foreseeable future. A large proportion of this will be financed by borrowing, which the Authority will have to undertake in the current and coming years. In line with the approved Treasury Management Strategy, additional long-term borrowing is anticipated to be raised over the remaining course of the 2021/22 financial year.
- 4.13. Any borrowing which is taken prior to capital expenditure taking place, and reducing the extent of the Authority's internal borrowing, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing, creating an immediate cost for revenue budgets. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing is maintained.
- 4.14. Arlingclose undertakes a weekly 'cost of carry' analysis which informs the Authority on whether it is financially beneficial to undertake long-term borrowing now or delay this for set time periods based on PWLB interest rate forecasts.

### **LOBO Loans**

- 4.15. The Authority continues to hold £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the first half of the year.

## **5. Treasury Investment Activity**

- 5.1. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £14.7 and £50.1 million due to timing differences between income and expenditure. The investment position is shown in table 4 on the following page.

**Table 4: Treasury Investment Position**

Investments	31.03.21 Balance £m	Net Movement £m	30.09.21 Balance £m	30.09.21 Rate of Return %	30.09.21 Weighted Average Maturity (Days)
Money Market Funds	0.0	18.7	18.7	0.01	1
UK Government:					
- Local Authorities	5.0	(5.0)	0.0	0.00	0
- Debt Management Office	12.0	(12.0)	0.0	0.00	0
<b>Total investments</b>	<b>17.0</b>	<b>1.7</b>	<b>18.7</b>	<b>0.01</b>	<b>1</b>

- 5.2. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 5.3. Ultra-low short-dated cash rates which have been a feature since March 2020 when Bank Rate was cut to 0.10% have resulted in the return on sterling low volatility net asset value money market funds (LVNAV MMFs) being close to zero even after some managers have temporarily waived or lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should result in MMF net yields having a floor of zero, but the possibility cannot be ruled out.
- 5.4. Deposit rates with the Debt Management Account Deposit Facility (DMADF) are also largely around zero.
- 5.5. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

**Table 5: Investment Benchmarking – Treasury investments managed in-house**

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (Days)	Rate of Return
31.03.2021	3.91	AA-	0%	8	0.28%
30.09.2021	4.80	A+	100%	1	0.01%
Similar Local Authorities	4.83	A+	79%	26	0.09%
All Local Authorities	4.69	A+	69%	10	0.08%

Scoring: AAA = highest credit quality = 1; D = lowest credit quality = 26

Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

#### **Non-Treasury Investments**

- 5.6. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance

issued by the Department for Levelling Up, Housing and Communities (DLUHC) in which the definition of investments is further broadened to also include all such assets held partially for financial return.

### **Treasury Performance**

- 5.7. Treasury investments generated an average rate of return of 0.01% in the first half of the financial year. The Authority's treasury investment income for the year is likely to be less than the budget forecast due to a lower than anticipated average rate of return.
- 5.8. Borrowing costs for 2021/22 are forecast at £16.4m (£10.4m HRA, £6.0m General Fund) against a budget of £24.8m (£16.2m HRA, £8.6m General Fund). In prior years, these budgets have underspent due to a number of factors, including: the current lower interest rate environment reducing interest costs for the Council, and delays in the capital programme's delivery. Should slippage in the Council's capital programme occur, it will reduce the borrowing requirement, and reduce this forecast.

## **6. Compliance**

- 6.1. The Director of Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.
- 6.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 6 below.

**Table 6: Debt Limits**

	<b>30.09.21 Actual £m</b>	<b>2021/22 Operational Boundary £m</b>	<b>2021/22 Authorised Limit £m</b>	<b>Complied?</b>
Borrowing	597.2	1,157.4	1,207.4	Yes
PFI and Finance Leases	28.2	28.2	31.0	Yes
<b>Total debt</b>	<b>625.4</b>	<b>1,185.6</b>	<b>1,238.4</b>	<b>Yes</b>

- 6.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure, however, Haringey's debt remained well below this limit at all points during first half of the year.

### **Treasury Management Indicators**

- 6.4. The Authority measures and manages its exposures to treasury management risks using the following indicators.

### **Security**

- 6.5. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic

average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	<b>30.09.21 Actual</b>	<b>2021/22 Target</b>	<b>Complied?</b>
Portfolio average credit score	4.80 (A+)	7.0 (A-)	Yes

### **Liquidity**

- 6.6. The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	<b>30.09.21 Actual</b>	<b>2021/22 Target</b>	<b>Complied?</b>
Total cash available within 3 months	18.7	10.0	Yes

### **Interest Rate Exposures**

- 6.7. This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

<b>Interest rate risk indicator</b>	<b>30.09.21 Actual</b>	<b>2021/22 Target</b>	<b>Complied?</b>
Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates	£0.20m	£2m	Yes
Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates	£0.20m	£2m	Yes

- 6.8. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

### **Maturity Structure of Borrowing**

- 6.9. This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	<b>30.09.21 Actual</b>	<b>Upper Limit</b>	<b>Lower Limit</b>	<b>Complied?</b>
Under 12 months	17.04%	50%	0%	Yes
12 months and within 24 months	2.34%	40%	0%	Yes
24 months and within 5 years	5.92%	40%	0%	Yes
5 years and within 10 years	4.52%	40%	0%	Yes
10 years and within 20 years	14.67%	40%	0%	Yes
20 years and within 30 years	7.54%	40%	0%	Yes
30 years and with 40 years	24.53%	50%	0%	Yes
40 years and within 50 years	23.44%	50%	0%	Yes
50 years and above	0.00%	40%	0%	Yes

- 6.10. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.



- 6.11. The Authority has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to lower interest rates, and corresponding revenue savings. Short term borrowing exposes the Authority to refinancing risk: the risk that rates rise quickly over a short period of time and are at significantly higher rates when loans mature, and new borrowing has to be raised. With this in mind, the Authority has set a limit on the total amount of short-term local authority borrowing, as a proportion of all borrowing.

<b>Short term borrowing</b>	<b>Limit</b>	<b>30.09.21</b>	<b>Complied?</b>
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	30%	15%	Yes

### **Principal Sums Invested for Periods Longer than a year**

- 6.12. The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	<b>2021/22</b>	<b>2022/23</b>	<b>2023/24</b>
Actual principal invested beyond year end	Nil	Nil	Nil
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	Yes	Yes	Yes

## **7. Revisions to CIPFA Codes**

- 7.1. In February 2021 CIPFA launched two consultations on changes to its Prudential Code and Treasury Management Code of Practice. These followed the Public Accounts Committee's recommendation that the prudential framework should be further tightened following continued borrowing by some authorities for investment purposes. In June, CIPFA provided feedback from this consultation.
- 7.2. In September CIPFA issued the revised Codes and Guidance Notes in draft form and opened the latest consultation process on their proposed changes. The changes include:
- Clarification that (a) local authorities must not borrow to invest primarily for financial return (b) it is not prudent for authorities to make any investment or spending decision that will increase the Capital Financing Requirement, unless directly and primarily related to the functions of the authority.
  - Categorising investments as those (a) for treasury management purposes, (b) for service purposes and (c) for commercial purposes.
  - Defining acceptable reasons to borrow money: (i) financing capital expenditure primarily related to delivering a local authority's functions, (ii) temporary management of cash flow within the context of a balanced budget, (iii) securing affordability by removing exposure to future interest rate rises and (iv) refinancing current borrowing, including replacing internal borrowing.
  - For service and commercial investments, in addition to assessments of affordability and prudence, an assessment of proportionality in respect of the authority's overall

financial capacity (i.e., whether plausible losses could be absorbed in budgets or reserves without unmanageable detriment to local services).

- Incorporating Environmental, Social and Governance (ESG) issues as a consideration within Treasury Management Practice (TMP) 1 Risk Management.
- Additional focus on the knowledge and skills of officers and elected members involved in decision making

### Prudential Indicators

- New indicator for net income from commercial and service investments to the budgeted net revenue stream.
- Inclusion of the liability benchmark as a mandatory treasury management prudential indicator. CIPFA recommends this is presented as a chart of four balances – existing loan debt outstanding; loans CFR, net loans requirement, liability benchmark – over at least 10 years and ideally cover the authority's full debt maturity profile.
- Excluding investment income from the definition of financing costs

## 8. Outlook for the remainder of 2021/22 (provided by the Council's treasury management advisor, Arlingclose)

8.1. The table below shows the latest interest rate forecast produced by Arlingclose.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

- 8.2. Arlingclose expects Bank Rate to rise in Q2 2022. This expectation is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure. Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.
- 8.3. The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.
- 8.4. While Q2 UK GDP expanded more quickly than initially thought, the recent supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises.
- 8.5. Inflation rose to 3.2% in August. A combination of factors is likely to drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that

these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.

- 8.6. The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.
- 8.7. Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.
- 8.8. The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.