Bank of England rate-setter: 'it is likely that we are overestimating' inflation

A
Bank of England Monetary Policy Committee member has said that "further tightening is a bigger risk" than not raising interest rates enough, and that key aspects of inflation may be overestimated.

In a speech for think tank the Resolution Foundation, Swati Dhingra – one of the nine economists who set UK interest rates – said she believed the Bank should keep interest rates at 4%, arguing that the effects of recent rate hikes have not been fully passed through the economy yet.

"Overtightening poses a more material risk at this point, through potential negative impacts from increased borrowing costs and reduced supply capacity going forwards," she said. "It risks unnecessarily denting output at a time when the economy is weak and deepening the pain for households when budgets are already squeezed through energy and housing costs.

"Recent research indicates the persistent scarring effects of deep contractions associated with monetary policy tightening and energy market disruptions, indicating the harmful consequences of overtightening.

"Such an approach would increase the downside risks of missing the inflation target in the medium term."

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Dhingra, who is also an economist at the London School of Economics, added that “it is likely that we are overestimating domestically generated inflation”, which she said makes up the bulk of the overall CPI inflation figure, because of how imports are factored in.

“Overall, the magnitude of domestically generated inflation is if anything likely to be smaller than we estimate,” she said.

Her comments follow more hawkish remarks from fellow Monetary Policy Committee member Catherine L Mann before the same think tank last month. Mann said she believed high inflation could persist into 2024, and that the longer it lasts, the higher interest rates must rise to tackle it, meaning the Bank should raise rates now to avoid larger hikes later.