Bank of England rate-setter urges more hikes to avoid ‘policy boogie’

A member of the Bank of England committee that sets Bank rate has urged her colleagues to stay the course in the battle against inflation, warning against the prospect of a “policy boogie” ahead.

Economist Catherine Mann, an external member of the nine-member monetary policy committee (MPC), used a speech in Hungary to make her case for further interest rate rises, arguing it would be more damaging to pause now.

She voted for the [0.5 percentage point increase] to 4% that was revealed last Thursday – the 10th consecutive rise imposed by the MPC in a bid to help keep a lid on inflationary pressures in the UK.

But at the same time, the committee signalled that Bank rate was nearing its peak – with two members even voting for no change.

Ms Mann told her audience in Budapest that the risk of under-tightening policy far outweighed the alternative.

“We need to stay the course, and in my view, the next step in Bank rate is still more likely to be another hike than a cut or hold.

“In my view, a tighten-stop-tighten-loosen policy boogie looks too much like fine-tuning to be good monetary policy.

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BoE governor explains interest rate rise

"It is both hard to communicate and to transmit through markets to the real economy," she added, saying that wage and price inflation were still too high.

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[Why the Bank believes interest rate is near its peak]

The so-called doves advocating no rate rises argue that over-tightening risks sending the economy into an unnecessarily severe downturn, with higher rates in the economy hurting demand for borrowing and imposing extra costs on those holding mortgages that track Bank rate.

The International Monetary Fund recently predicted that the UK would fare worse this year than any other developed economy because of stubbornly high energy costs and weaker government spending.

Economists – along with Bank of England staff – see inflation falling sharply this year but while the headline rate falls, it is likely to be the case that the hit to living standards witnessed during the cost of living crisis so far takes far longer to ease.