

## Caution grows at Bank of England as Brexit risks linger

The Bank of England's language looks increasingly cautious, emphasising that the prospect of fresh tightening looks more distant. That said, the fact that policymakers are still flagging the faint possibility of rate hikes hints that the BoE will remain reluctant to follow the Fed and ECB towards easing in the near future



Source: iStockphoto

The Bank of England has unanimously voted to keep rates on hold but as has been the case for the past couple of meetings, there is an increasing air of caution creeping into the narrative.

The thing that really stands out to us in this latest statement is that the Bank appears to be getting more wary about the outlook for wage growth. Don't forget that this has been a key pillar of the Bank's hawkish rationale over the past couple of years, and came amid increased skills shortages in the jobs market.

But while policymakers continue to emphasise that pay growth has strengthened, they note that the labour market "does not appear to be tightening further". Importantly, policymakers note that "political events" could lead to another prolonged period of "entrenched" uncertainty – and this, in

turn, could hurt prospects for inflation.

At the very least, this just signals that Brexit will likely continue to dash any thoughts of policy tightening over coming months.

Admittedly, the perceived risk of 'no deal' appears to have decreased over the past couple of weeks following Parliament's legislative efforts to force a further delay to the Brexit process. However, the path for the UK's EU exit remains considerably uncertain. In our opinion, the chances of a deal being agreed, then approved by the UK Parliament during October, remain relatively low.

An election, coupled with an Article 50 extension, still looks likely. This means that the risk of 'no deal' could easily come back to the fore again, depending on who is in government after voters go to the polls.

In short, while the Bank still notes that rates may need to rise if Brexit goes smoothly, the risks surrounding Brexit, as well as global growth, mean this tightening is increasingly unlikely to materialise.

Having said that, the fact that the BoE is maintaining a tightening bias at all, does hint that policymakers are – and will likely remain – reluctant to follow the Federal Reserve and European Central Bank in the direction of policy easing in the near future.

## Author

### James Smith

Developed Markets Economist, UK

[james.smith@ing.com](mailto:james.smith@ing.com)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and

which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.