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We write to express our concern about the rapid growth of the quantity of money in the UK. We believe that above-target inflation is to be expected in 2022 and perhaps 2023. In our view, the Bank of England will be to blame for this setback, as it took the measures that have pushed money growth to its current excessive level.

Bank of England researchers deserve praise for preparing a money aggregate (the so-called “M4x”) which measures money held by genuine non-banks and cuts out the often-distorting influence of quasi-banks (or “intermediate other financial corporations”). However, the Monetary Policy Committee's key decision-makers appear to pay insufficient attention to their excellent data. In the year to February, M4x increased by 15.2 per cent, much the highest figure since the start of the M4x series in 1998.

Other money series have been prepared on a consistent basis since 1963. One such series shows that companies' increase in money balances in the year to February was no less than 29.2 per cent. Numbers as high as this have been previously recorded in the inflationary 1970s and 1980s. Indeed, the last time an annual growth rate of company money reached 30 per cent was in late 1986, ahead of the boom years of 1987 and 1988.

We fear that inflation above 5 per cent is likely at some point in the next few years. We judge that the MPC’s decision in November 2020 to embark on another round of “quantitative easing”, to the tune of £150 billion, has proved particularly responsible for the current excessive money growth. The November decision was misguided and unnecessary and should be reconsidered. The Bank should now end its asset purchases at the earliest opportunity.

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