

Minutes of the meeting of 14 April 2026 at the Institute of Economic Affairs (IEA) (hybrid meeting)

Attendance: Philip Booth, John Greenwood, Julian Jessop (online), Graeme Leach, Andrew Lilico, Kent Matthews (Secretary), Patrick Minford (online) Trevor Williams (Chair), Valentin Boboc (Economist – IEA, Observer)

Apologies: Juan Castaneda, Peter Warburton

Chairman's comments: As Andrew Lilico was not in situ at 17.00, Trevor Williams opened the meeting. He welcomed members to the second meeting of the SMPC and welcomed a guest Valentin Baboc recently appointed economist at the IEA as an observer. Trevor Williams invited John Greenwood to make his presentation to the Committee. Andrew Lilico joined the meeting at 17.06.

Inflation resilience from large energy price rises

Consensus view
...oil crisis is
going ignite
another inflation
burst

John Greenwood said that his presentation was in three parts beginning with the question 'how resilient to inflation can key economies be in the face of large energy price increases?'. He said that there is a view that the current middle East situation is going to see another round of inflation kicking off. He said that he was going to contrast this consensus view with the monetary view. Second, he said he will apply the monetary view to a whole range of economies. Third, he will look at the recent performance of the UK economy using a number of indicators and how we should look at them and how he thinks the Bank of England will look at them.

Has inflation in
much of the world
shifted higher
because of the
US-Israeli-Iran
war?

Starting with the question of resilience his first graphic showed inflation in the Emerging & Developing economies, the Advanced Economies, and China with the headline 'Inflation in much of the world has shifted higher'. He said the question underlying this headline is whether the US & Israeli war on Iran will have a sustained or permanent effect on inflation. He said the simple answer is no, as this is like a tariff, it is a one-off effect, but the thinking behind the consensus is the experience of the first and second oil crises of the 1970s.

Money growth
caused US and
UK inflation in the
1970s and 80s.

John Greenwood reiterated the monetary transmission mechanism that flows from monetary growth to asset prices to economic activity and finally to inflation. He shared with the committee his explanation of the previous oil crises from a monetary perspective. He showed charts of US money growth, inflation, and proxies for asset price growth during the first and second oil crises. He said that money growth caused US inflation in the 1970s and 80s, and not the oil crises. Similar charts for the UK showed that money growth caused the UK inflation of the 1970s and 1980s and not the oil crises. He said that while the relationship is not perfect on every occasion, it is pretty good and it shows that rapid money growth precedes surging asset price rises, followed by a rise in goods and services prices.

Avoidance of
inflation depends
on the prior rate
of growth of
broad money.

The real contrast is with Japan. Like the UK, money growth in Japan was rapid in the early 1970s resulting in a rise in inflation. Japan learned from this experience and announced a policy to control money growth. When the second oil crisis occurred, import prices and producer prices rose but consumer prices did not rise by anything like the 73-74 episode. The lesson is that inflation resilience comes not from having a low dependence on imported energy products, but from the monetary background. If there is a stable monetary background – as currently – there will not be the inflation experience of the US and UK in the 1970s and 80s and Japan in the first oil crisis.

Following the Russian invasion of Ukraine in February 2022, the Governor of the Bank of England, claimed that UK inflation was 80% due to the imported shocks from world energy markets, which the Bank could not control. He failed to mention that between January 2022 the Bank had presided over a 28% increase in broad money. This was the true source of the Covid inflation, which can be confirmed by

looking at the experience of China, Switzerland, India and even South Africa, that did not experience the same kind of rise in inflation after Covid.

MV=PY a Primer

Nominal GDP growth matches money growth

Turning to the second argument, John Greenwood said that he was going to describe the impact of rapid money growth on a number of major economies. He started with the Quantity Theory statement $MV=PY$. He said that if money growth accelerates, there is a lag in effect before it impacts on Y and P with a short decline in V . He said that this is exactly what was seen during the Covid period. Now that we are returning to a normal period, he said that he was going to look at money growth and nominal GDP growth over a number of economies. On his slides he showed broad money growth plotted against nominal GDP growth for US, UK, Eurozone, and Canada. All these economies experienced a surge in broad money growth during Covid. Subsequently money growth has been arrested and brought down sharply as in the USA, and stabilised at a much lower rate. The charts showing a 6-quarter MA shifted 18 months forward for money growth which generally had a close correspondence to nominal GDP growth.

China, India, Switzerland will not see a big rise in inflation.

Further charts showed countries that did not see accelerating money growth during Covid, experienced subdued inflation. He gave the example of China that had virtually zero inflation and rapidly decelerating money growth for 18 months. China will not see a surge in inflation due to the oil price increase. Switzerland and India have a similar story and none of these countries will see a big rise in inflation.

Data from Australia, NZ, Israel and Sweden also confirm.

A few other countries like Australia, New Zealand, Israel, and Sweden are all economies that had big spikes in broad money growth in the Covid period that matched spikes in nominal GDP growth. These economies have returned to normal rates of growth of money. Assuming that excess money balances have been eliminated, nominal GDP growth should grow slightly lower than money growth. South Africa is another country that did not put its foot down hard on the monetary accelerator during Covid and as a result did not experience a sharp rise in inflation. In contrast, prior to the GFC South Africa experienced very rapid growth in money coinciding with rapid growth in nominal GDP. In all these economies, money growth has returned to normal levels. Looking around the world, there is no economy that can be said to currently have ill-disciplined money growth. As a result, there will be a significant shift in relative prices, but this should not translate into a rise in general prices.

The UK Experience

Consumer sector weak and labour market softening.

Turning to the UK situation, John Greenwood referred to the chart taken from the Bank of England Monetary Policy Committee Report May 2025, which shows the M4x-Nominal GDP ratio and the M4x to aggregate disposable income ratio. The chart shows that the two ratios are back to the pre-Covid trend, suggesting that the overhang of excess money has been eliminated. The slight upward trend in the M4/NGDP ratio which corresponds to the downward trend in velocity shows that the actual Money/GDP ratio is back to trend. This says that inflation will converge to the appropriate rate given the rate of growth of money. With money growth at roughly 4½% in the UK, GDP growth at roughly 1%, and increase in money holdings at slightly over 1%, there is not much space for inflation. The next chart shows M4x and nominal consumer expenditure. After the sharp drop in 2020, the level gap between the two series has been restored. John Greenwood said that he would expect the gap to persist because money growth will be slightly higher than the growth in personal consumer expenditure consistent with the trend decline in velocity. Real retail sales have been weaker, and he said that he expected the Bank to interpret these figures as justifying a bias to cut rates during

2026 (before the current oil crisis). This is also what the markets had expected before the current oil crisis.

UK consumer confidence is weak and something the Bank of England pays huge attention to, the next chart showed average weekly earnings which is slowing. Vacancies per unemployed person has fallen from mid-2022 to the post-GFC level. What that suggests is the labour market is soft. The number of new vacancies is minimal and the number of unemployed exceeds the number of vacancies.

Inflation expectations eased but remain elevated.

John Greenwood said that another indicator the Bank of England pays too much attention to is the measures of inflation expectations. As we know these measures are useless and during the Covid period were badly wrong. However, the Bank's reading of the measures of expectations by households and businesses is that while they have eased, they remain elevated - higher than what the Bank would like them to be. He said that the Bank would like them to be aligned with the 2% inflation target, but in his view, it isn't expectations that create inflation.

Turning to the real side of the economy, John Greenwood referred to a chart of hours worked and monthly real GDP growth. He said that the UK had good productivity growth of 2.1% before the GFC but since then it has been low and the recent GDP growth figures have been anaemic. Nominal spending is slowing in the latest quarter. Regarding the effect of tariffs, the Bank's view is that the world economy has been remarkably resilient to tariff increases and they have not needed to adjust monetary policy in response.

John Greenwood finished his presentation with a chart of the OECD forecasts for the G7 real GDP in 2026. He said that he would be surprised if the UK forecast of 1.7% would be achieved.

Discussion

Andrew Lilico thanked John Greenwood for his presentation and invited questions from the committee, starting with those attending online.

The Committee should use this opportunity to restate the importance of money

Julian Jessop said that he wanted to reinforce the points that were made about the money supply. He said he has a chart of M4x and inflation making a similar point that was made earlier. Graeme Leach said this is a good opportunity to reiterate the role of money and to differentiate relative price effects of oil prices from general price inflation. John Greenwood said that he would add that the Bank takes the view that the excess money balances was the product of an excess of saving during Covid and a change in consumer behaviour. This is challenged by Tim Congdon in his book *Money and Inflation in the Time of Covid*, where he says that it is a mistake to focus on the flow of savings. John Greenwood said that the correct analysis is money stock relative to spending or money stock relative to asset prices and not the savings flow.

Sustained oil price rise above \$130 will add 1-2% to inflation

Andrew Lilico asked if there has been any research on the impact of this level of oil price increase if sustained on UK GDP and unemployment? Trevor Williams said that he had done some work on this and that oil prices would have to be sustained at \$130 a barrel and this would add 1-2% to inflation and weaken the economy. Andrew Lilico asked John Greenwood to clarify what he thinks the committee should recommend. John Greenwood said that we should recommend that broad money growth should be kept broadly on track at 4½%. The Bank should not attempt to soften monetary policy in response to a weakening economy or to do the opposite. Andrew Lilico said that if we thought that 4½-5% money growth was right in 2015 and the economy is growing at 0.4% less because of Covid, should we be advocating 4%-4½%. John Greenwood said that it is too early to say and it is difficult to be precise. He said there is also the possibility of a change in the desired holding of money. Something in the range of 3%-5% is what we can expect from the Bank of England. They don't control it directly. They control it indirectly.

Andrew Lilico thanked John for his recommendation and asked the Committee to move to a vote.

Votes are recorded in the order made

Comment by Patrick Minford

(Cardiff Business School, Cardiff University)

Vote: To HOLD Bank rate.

Bias: No Bias.

Patrick Minford said that he agreed with John Greenwood and that we should be cautious. The oil price effect is going to slow growth quite sharply, and money supply growth is quite moderate. He said that he would vote for a no change to Bank rate on the grounds that a rise in the interest rate will reduce the growth of money. He said he would not want to see a cut either because of the general situation of uncertainty.

Comment by Graeme Leach

(Macronomics)

Vote: To HOLD Bank rate.

Bias: No bias.

Graeme Leach said that as there has not been a prior surge in money growth and provided there is not an expectation of a monetary accommodation that sees M4x growth above 5%, interest rates should remain where they are. He said that the oil price rise will have a relative price effect and we must wait for the effect of this to play through. Another argument for a HOLD is a geopolitical one. He said that he did not think the oil price rise will be sustained as the US mid-term elections looms, the talk of forever wars will be a constraint.

Comment by Julian Jessop

(Independent Economist)

Vote: to HOLD Bank rate.

Bias: No bias

Julian Jessop said that there are good arguments for raising rates, cutting them, or leaving them on hold. He said that he would argue for a HOLD. The only reason for a rise in rates is to curb second-round effects on inflation expectations and wages. But the fragility of demand, the lack of pricing power, and the weakness of the labour market should do all those things anyway. He said that the oil shock should be allowed to work through the system, and he expected consumer spending to hold up better than what people anticipate precisely because of the high level of savings. So, he said that he does not support the argument for a cut. The deciding reason for a hold is that interest rates are at a reasonable level, and money growth is steady at a low level.

Comment by Philip Booth

(St Marys University)

Vote: To HOLD Bank rate.

Bias: No bias.

Philip Booth said that he has three points. First, he said that it was depressing and predictable that the Bank of England suggested at some point that a weakening labour market would be a reason for an interest rate cut, implying that a monetary response to the real shocks of National Insurance increases, more regulation and rising employer costs is an appropriate one. It is also predictable that the Bank has suggested that they could respond to the oil price shock which is also a real shock with a monetary response by keeping rates higher. As Graham Leach has said this committee should stand out from the Bank of England MPC who should start to take money seriously. The second point is that the oil shock would have an effect on growth, which could see a temporary rise in inflation for a given monetary stance. But the Bank should be targeting inflation over the cycle and not try to hit the target every month. The target should be hit in the medium term. Finally, in a situation of such uncertainty and the money supply is in the right place, then the best thing is to do nothing and keep rates on hold.

Comment by Trevor Williams

TW consultancy, AFX Connect, University of Derby

Vote: to HOLD Bank rate

Bias: Bias to cut.

Trevor Williams agreed with much of the discussion but stressed that broad money growth of around 5% remains consistent with long-term real growth of 1.25% and the 2% inflation target, implying nominal growth just above 3% and an equilibrium Bank Rate closer to 2.75–3%. At 3.75%, however, Bank Rate is already restrictive, sitting above the economy-wide rate of return and raising the hurdle for investment once commercial lending premia are added. He added that the current energy-driven supply shock is pushing real growth below 1%, making the MPC's policy stance even tighter in real terms. While this shock will lift inflation temporarily, he argued that the correct response is to hold rates steady; absent the shock, Bank Rate should be cut. If there is a policy response, he said, it should be a positive fiscal one—small, targeted and temporary. He therefore voted to keep rates on hold but maintained that rates remain too high.

Comment by Andrew Lilico

(Europe Economics)

Vote: to HOLD Bank rate.

Bias: no bias

Andrew Lilico said that he was unclear what the Bank of England policy objective is. He said that he did not think it was inflation targeting as he knew it. If the Bank was targeting inflation, then there is a reasonable argument for raising rates. However, that is not what they are doing, and, in this situation, we make up our own objective. A reasonable objective is to keep a stable money growth, and we have a pleasantly stable monetary growth. So, there is no reason to change bank rate.

Comment by Kent Matthews

(Cardiff Business School, Cardiff University)

Vote: To HOLD Bank rate.

Bias: no bias.

Kent Matthews said that he votes for a hold on bank rate, largely for the arguments already made by others. However he said that there is a stronger argument for a

rise in rates than for a cut. With broad money growth at 4½% and a post Covid underlying rate of growth of less than 1%, even allowing for a trend decline in velocity, and it is not obvious that velocity should be on a negative trend as it should be a stable function of the rate of interest and inflation expectations, as proposed by Alfred Marshall and Milton Friedman, and both these are relatively low and stable, the underlying rate of inflation is about 3%. He said this may be one reason why inflation has been sticky around the 3% mark. But as John Greenwood made the point it hard to be precise about this. He said he was happy to vote to keep bank rate on hold and has no bias.

Comment by John Greenwood

(International Monetary Monitor)

Vote: to HOLD Bank rate

Bias: no bias.

John Greenwood said that his view is to hold bank rate as money supply growth is broadly where it should be for a 2% inflation target. He said that one thing that worries him is something that we have not discussed is that the Bank of England is currently on the path to reduce its balance sheet through QT. That is a contractionary action. If commercial bank lending is weak, then the Bank's QT action will cause money growth to slow more than otherwise. The Bank will need to take into account the growth of bank credit and therefore money in the banking system when following a QE/QT type policy. They will not do that and will continue to mechanically cut the Bank's balance sheet. If commercial banks become more risk averse and bank lending does not pick up, the Bank of England may undershoot the appropriate rate of growth of money going forward.

Comment by Peter Warburton (in absentia)

(Economic Perspectives Ltd)

Vote: To raise Bank rate by 25bps.

Bias: No bias.

The UK is confronted, yet again by a negative supply shock, and the government's response is, yet again, to attempt to stimulate demand and artificially restrain energy prices. While the reaction of most central bankers is to "look through" the short-term impact of soaring oil and natural gas prices, and refrain from lifting interest rates, I beg to differ. The UK is suffering from chronic supply-side issues, that have been aggravated by the fiscal policies of the Labour government. My vote is to increase Bank Rate by 25 basis points in anticipation of the lingering and broadening inflationary impact of the conflict in Iran and the standoff over the Strait of Hormuz. A period of contracting UK consumer demand, augmented by greater government spending discipline, would help to rebalance the economy and dilute inflationary expectations.

Any other business

There was no other business, and the Chairman called the meeting to a close.

Policy response

1. There was a majority agreement that Bank rate should be kept on hold.

2. Eight members voted to hold Bank rate at 3.75 per cent.
3. One member voted to raise Bank rate by 25 bps.
4. Eight members expressed no bias for further movements in Bank rate stating uncertainty as reason for a wait and see policy.
5. One member felt that the current Bank rate was still too high and expressed a bias to cut.

Date of next meeting

14 July 2026

Note to Editors.

What is the SMPC?

The Shadow Monetary Policy Committee (SMPC) is a group of independent economists drawn from academia, the City and elsewhere, which meets physically for two hours once a quarter at the Institute for Economic Affairs (IEA) in Westminster, to discuss the state of the international and British economies, monitor the Bank of England's interest rate decisions, and to make rate recommendations of its own. The inaugural meeting of the SMPC was held in July 1997, and the Committee has met regularly since then. The present note summarises the results of the latest quarterly meeting held by the SMPC.

Current SMPC membership

The Secretary of the SMPC is Kent Matthews of Cardiff Business School, Cardiff University, and its Rotating Chairman is Andrew Lilico (Europe Economics) and Trevor Williams (TW Consultancy, University of Derby). Other members of the Committee include: Philip Booth (St Mary's University, Twickenham), Roger Bootle (Capital Economics Ltd), Tim Congdon (Institute of International Monetary Research), Jamie Dannhauser (Ruffer LLP), John Greenwood (International Monetary Monitor), Julian Jessop (Independent Economist), Graeme Leach (Macronomics), Patrick Minford (Cardiff Business School, Cardiff University), Peter Warburton (Economic Perspectives Ltd), Juan Castaneda (Vinson Centre, University of Buckingham).