

Bank of England

Inflation targeting in the United Kingdom over the post-pandemic period

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Global and supply factors as drivers of inflation



Monetary policy

focus had been on domestic and demand-driven price dynamics



Inflationary Dynamics

can differ when inflation is driven by global and supply side factors
Example, global prices transmitting through longer supply chains



Central Bank Toolkits

needed to assess the drivers of inflation in real time amid less developed global and supply side modelling and data

The UK experience since the pandemic



Global drivers of inflation interacted with domestic responses to the pandemic



Standard measures of underlying inflation confounded first and second round effects of the global drivers



Geopolitical developments make central bank reviews of analytical tools, particularly supply chains and granular trade interdependencies more urgent

The UK experience since the pandemic



Global drivers of inflation interacted with domestic responses to the pandemic

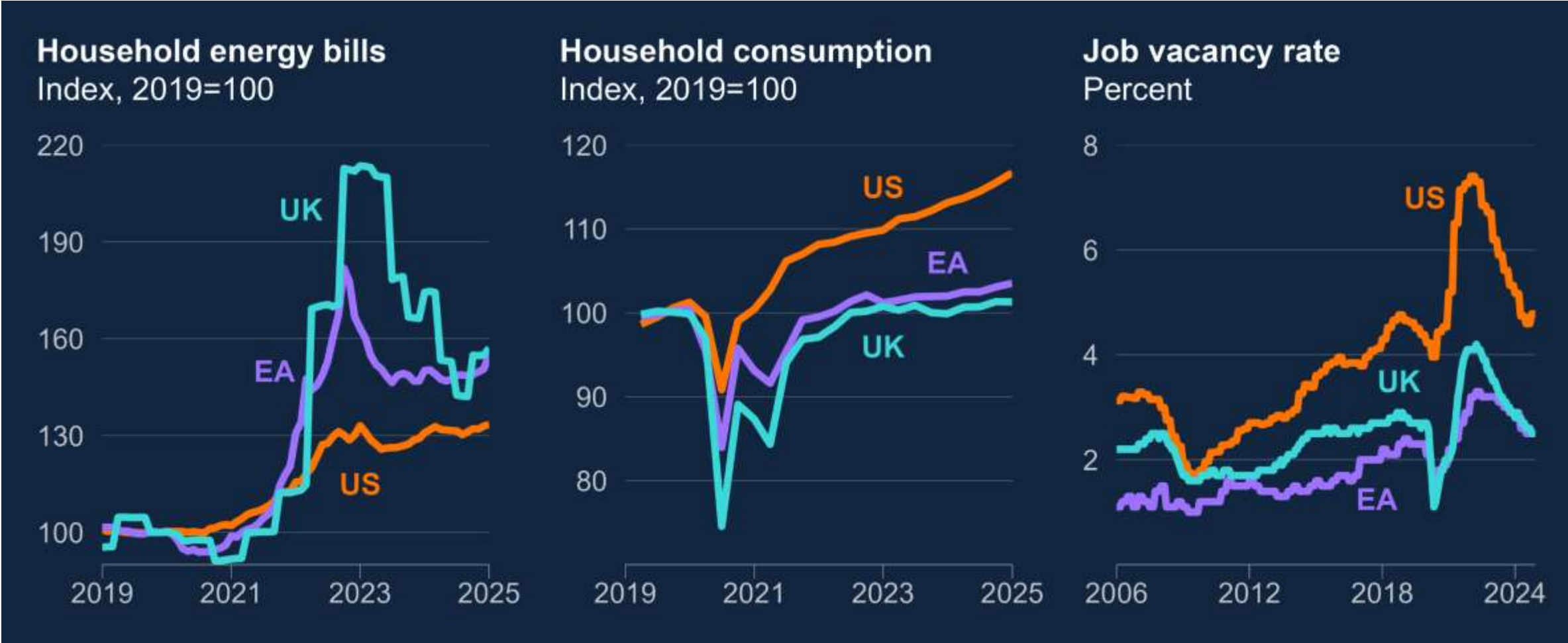


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Exposure to global drivers of inflation differed and interacted with domestic adjustments to the pandemic



The UK experience since the pandemic



Global drivers of inflation interacted with domestic responses to the pandemic

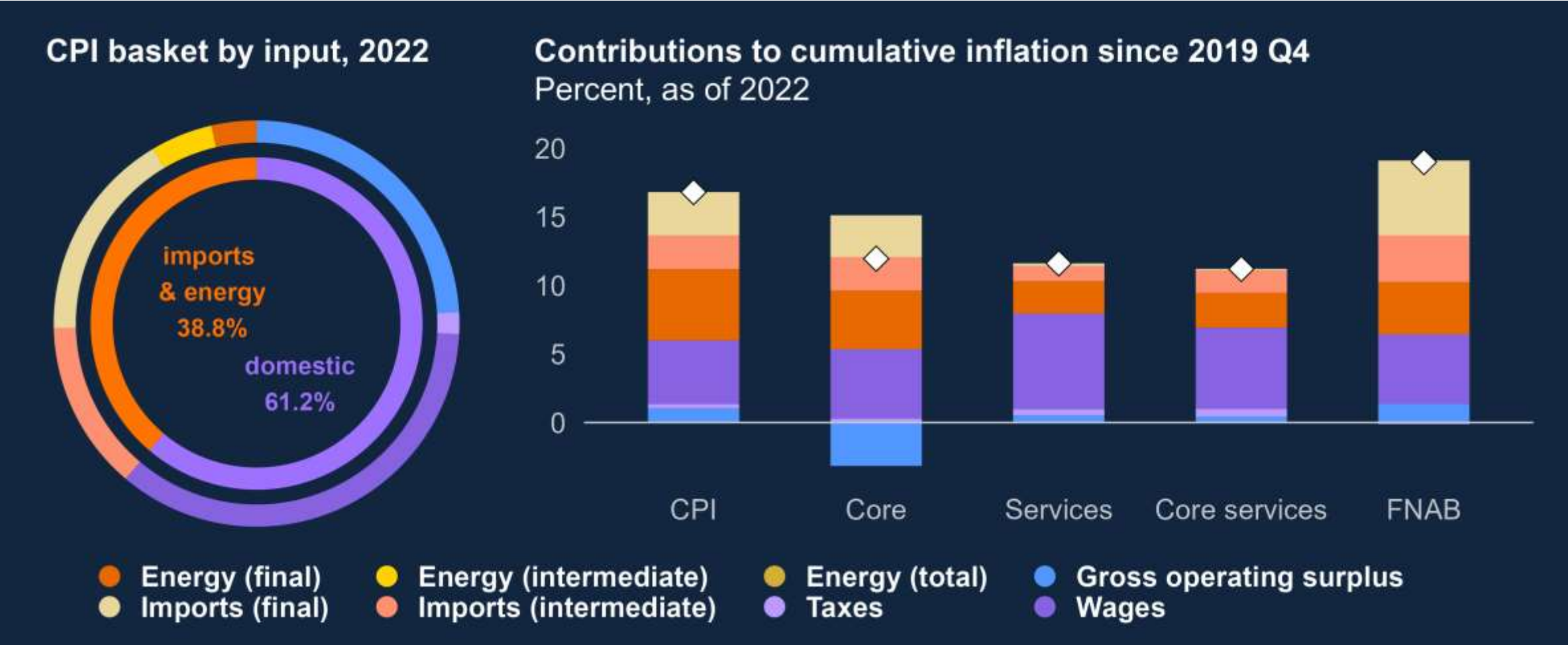


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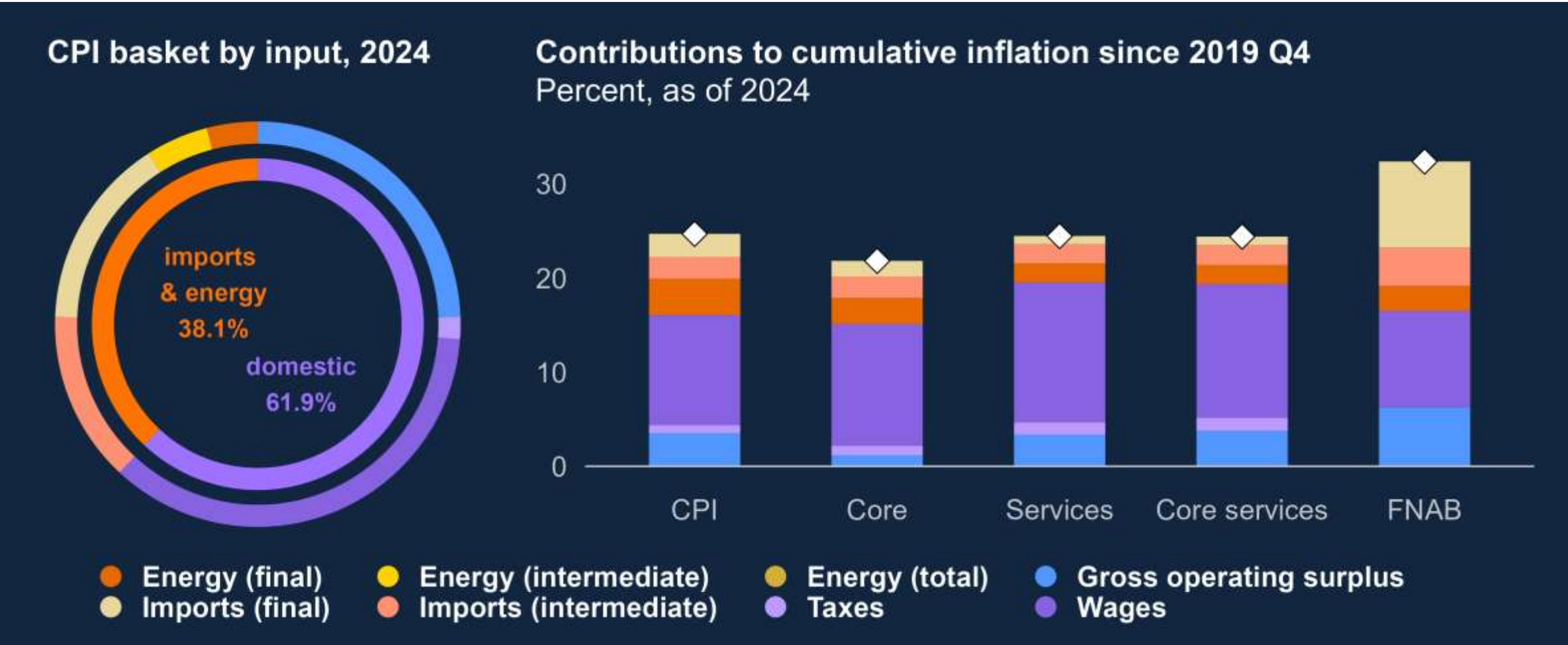


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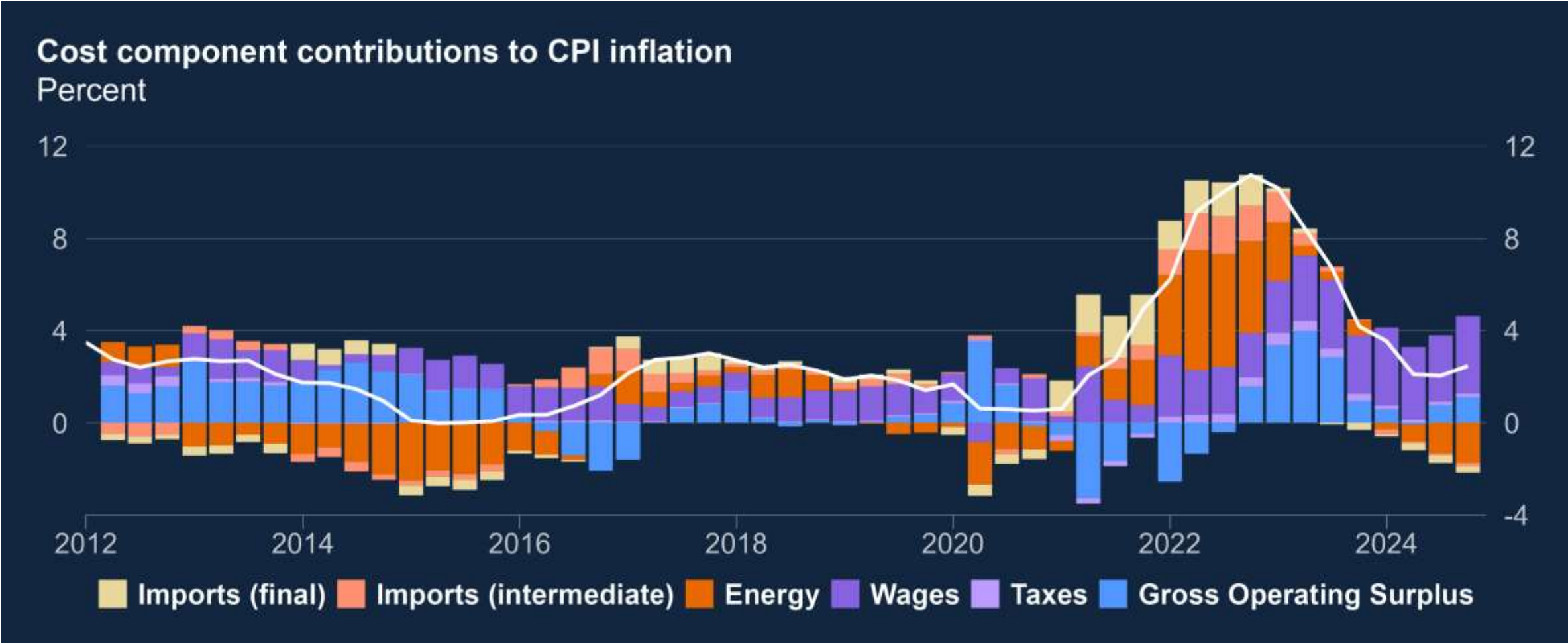
Inflation decomposition into input costs and margins, 2022



Inflation decomposition into input costs and margins, 2024



Energy and imports are key contributors to inflationary dynamics



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Trade fragmentation and monetary policy in the UK

- **Prices:** expect negative adjustment overall, except in the near term
 - + 10% of UK imports **directly** from the US (oil in top 5); 35% of UK imports **invoiced** in dollar
 - - 8 to 18% drop in **global prices** during 2018 tariffs
- **Activity:** expect negative sectoral effects (transport equipment, pharma)
 - + UK's **direct exports** to the US performed relatively better during 2018 tariffs
 - - Drag from **uncertainty** and **global growth**, amplified from financial channels
- **Monetary policy:** account for one-off adjustments to global reorganisation
 - Sectoral shocks and critical inputs become first-order under (extreme) disorderly fragmentation
 - Expect orderly fragmentation with some reduction in international diversification
 - Calibrating monetary policy to geopolitical reorganisation requires evaluation of the nature of fragmentation shocks, their sectoral impacts and the time horizon over which they would be expected to unwind ([Attinasi et al., 2024](#))

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