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

Attendance: John Greenwood (online), Andrew Lilico (Chair), Kent Matthews (Secretary), Patrick Minford (online), Trevor Williams , Peter Warburton, Valentin Boboc (Economist – IEA, Observer)

Apologies: Juan Castaneda, Tim Congdon, Graeme Leach, Jamie Danhauser

Chairman's comments: Andrew Lilico said that Graeme Leach was unable to attend physically as he is recovering from an operation but will be joining the meeting online. The Committee wishes Graeme a speedy recovery. He welcomed members to the third meeting of the SMPC and invited Trevor Williams to make his presentation to the Committee.

Global Economic Backdrop

Rising uncertainty, flight to quality, fall in risk assets, rise in borrowing costs.

Trevor Williams said he would begin with the global economic and monetary backdrop, then move on to the UK. He said that geoeconomic and policy uncertainty is rising. This lengthens the monetary policy lag and dampens investment responsiveness to policy changes. Trevor Williams referred to a chart of uncertainty indicators and added that the measures showed an easing in February. But the resumption of hostilities in the Middle East is not shown in the charts. He said that the point of focusing on the measures of uncertainty is that they have real economic costs.

Turning to a chart of the geopolitical risk index, VIX, and the spot gold price that showed sharp upward movements in March, Trevor Williams said that a flight to quality means a fall in risk assets, higher borrowing costs, less investment, and weaker economic growth.

The good news is that US effective tariffs are lower than expected.

But there is some good news. Trevor Williams said effective US tariff rates are lower than predicted. There are a few reasons for this. Supply chains have re-routed faster than expected, especially via Mexico and ASEAN. Also, the US Supreme Court has struck down the President's authority to impose tariffs unilaterally.

Nevertheless, they are three times higher than they were. The average was 3%, but now they are closer to 9-10%. So, the cost of international trade has increased. Peter Warburton said that there are rebates of $100 billion flowing back to companies. Trevor Williams said the figure should be $290 billion, but the administration is reluctant to repay. However, while the repayment is a replacement for lost revenue, it would not compensate for the disruptive effects of the uncertainty.

Trade deals do not alter the fundamentals behind the US trade deficit.

Part of this story is that, at the global level, increased trade with China has offset the decline brought about by the US's increased tariffs. There has been a huge shift in the share of trade taken by China. The most recent figures for trade show it had a historically large quarterly surplus. He said it was worth noting that the US is a net borrower from the rest of the world, with large budget deficits funded by overseas borrowing. Interestingly, China is a huge saver and a net lender to the rest of the world, including the US. That means countries with external surpluses with the US, such as Japan and Germany, lend that back to the US. No fiddling around with trade deals will change the fundamental problem of its trade deficits until the US alters its net investment and saving behaviour.

World economy is remarkably resilient.

Trade in global AI products has surged. AI-enabled trade growth by the US leads the rise. Europe is lagging here and needs to build the infrastructure to become part of the world economy's next growth engine. The forecasts are assuming that normality returns in the medium term. Commodity and other prices are assumed to level off, official interest rates to return to long-term averages, and the Middle Eastern conflict to end over the next 18 months. The biggest risk to the forecast is that the conflict does not end in the assumed time frame. Forecasts from the IMF and the OECD project growth of about 2.8 per cent in 2026. In July, the IMF revised this up to 3%, accelerating to a pace above that level in 2027. India will lead global economic growth among large countries, followed by China and the US. The major G7 countries are forecasted to grow at around 2%. The big picture is that there is no collapse in world economic growth

Trevor Williams said that given the circumstances of global uncertainty and trade tariffs, the world economy is remarkably resilient. Patrick Minford questioned the veracity of the China growth figures. Trevor Williams said that they were credible, as growth had come down from a high of 10% to below 5%, in line with slower productivity gains. Although the birth rate has fallen and the population is ageing, China has a massive reserve army of labour that can be deployed in the formal economy, enabling its economic growth rate to stay above the industrial-country average for a while yet.

World population ageing and Iran conflict flares up.

To summarise the consensus view, the July IMF forecast shows even greater optimism. Growth in the US is AI-driven and from energy security. The euro area is expected to lumber around the 1% mark because it is an energy importer and has modest tech integration. China has tech-related manufacturing, and 45% of global manufacturing is done there, which means it can better ride out the current crisis. Despite its strong trade relationship with the US being impacted by higher US tariffs, China has been able to increase its trade with other countries. India is expected to grow at 6-7%.

On a few big-picture points, Trevor Williams said that the world's population is ageing. The population aged 65+ is increasing, while the proportion of those paying in (16 to 64) relative to those drawing out (65 plus) is increasing, especially, though not solely, in advanced economies. The fiscal implications are clear: widening deficits, compounding structural issues. That will increase incentives to monetise debt, as governments instruct their central banks to buy the debt they issue. Indeed, the big picture is that global debt levels have nearly doubled since 2007-8. The 'big beautiful bill' in the US, if passed, will add a couple of trillion dollars to the US level, taking it well over 100% of GDP. UK debt is already at 100%. Moreover, much of the debt in many countries needs to be refinanced soon, adding to potential financial market stress.

The other big picture point is that the Iran conflict has led to higher energy prices, and the renewed conflict could see energy prices spike and hit growth. This could remove up to ½% off global growth depending on the level of energy dependence. Finally, the wild card is that a super 'El Niňo' is underway in the Pacific this year, which has the potential to take ¼% off global growth if previous experience of this type of weather disruption is anything to go by.

Nevertheless, the temptation to monetise public-sector debt is not yet materialising, so it is not showing up in the G5 monetary growth figures. Across the G5, monetary aggregates are stabilising, and inflation is converging toward 2-3%, suggesting policy rates are near or at their peak, aside from the Iran war. Looking at the headline numbers, perhaps coincidentally, monetary growth is consistent with the sum of the GDP growth rate of 2.3% plus inflation. There is only Japan, with low money growth and mild inflation, and China, with mild inflation and strong GDP growth, with money growth of 7-8% in the latter.

The UK Focus

UK productivity not recovered since the financial crisis.

The UK's March Budget forecasts may no longer be applicable if the conflict in Iran persists. But GDP growth is holding up, although Trevor Williams said he did not think the 1.5% forecast was likely. He said that 1-1¼% growth was the more likely outcome. Regarding the drivers of growth, Trevor Williams said that UK productivity has not recovered since the global financial crisis (GFC). Its performance is the worst of the G7. Manufacturing has taken the biggest hit, driven by weak investment, slow technology diffusion, and an unfavourable sectoral composition. He said that among the 28 countries in the International Energy Agency, the UK has the highest industrial energy prices. This has been partly due to a lack of storage and refining capacity and, of course, net-zero policies that link electricity prices to global gas prices. Other structural problems are related to housing, a mismatch in affordable housing in high-productivity areas, and a lack of NVQ qualifications and inadequate skills training.

Turning to consumer confidence, Trevor Williams said there has not been a collapse. The GfK consumer index is holding up – albeit still negative. Retail sales are stable. There has been a downward drift in the savings rate to 5-6%. Retail sales are holding up well under the circumstances. There has been an upward drift in the unemployment rate, but it remains below 5½%. A factor that may be influencing retail sales is that pay, adjusted for price inflation, has declined to the point where there is no increase in real wages. Vacancies have been falling – perhaps normalising from unsustainably high post-pandemic levels. So again, it is not a sign of an economy heading to a recession. New orders have not collapsed in the last quarter. But firms are expecting trading conditions to deteriorate. Bank of England data shows that firms are still borrowing rather than repaying debt.

Monetary condition consistent with trend growth rate.

In summary, CPI inflation has been stable at the 2½- 3% mark. M4x growth is in the 4-5% range. Inflation is not accelerating, and activity is stabilising. Monetary conditions are consistent with a trend growth rate of 1%. The main upside risk to inflation is the geopolitical shocks from the Iran conflict and energy prices. So, in my view the balance of risks suggests that the Bank rate should stay on hold.

Discussion

Andrew Lilico thanked Trevor Williams for his presentation and said he would start with some clarifying questions before inviting questions from the committee. He said that, over the past four years, net UK immigration was 700,000. Now, if not achieved this year, it may be next year, that net immigration is zero or even negative. Along with an increase in unemployment, this would reduce the labour force. What is the likely effect of that on GDP growth?

Trevor Williams said that Andrew raised a great point and that he had thought about it. He had examined the effect of net immigration on growth, and the evidence suggests that if net immigration were zero over a decade, GDP growth would be cut by ½%, resulting in £155 billion in lost output over 10 years.

Is monetary growth of 4-5% consistent with a 2% inflation target?

Andrew Lilico said that a few meetings ago he raised the point that the economy is in a monetarist near perfect stability in terms of steady money growth. But inflation has remained stubbornly near 3%. He asked whether a money growth of 4-5% is consistent with an inflation target of 2%. Andrew Lilico asked how net migration of zero will affect it. He asked, should we accept that 3% inflation is ok or should we advocate a lower money growth rate?

Trevor Williams said that monetary policy should not be used to deal with structural problems. So, for example, if net migration is zero and GDP growth falls and monetary policy is loosened to deal with it, then we can see a monetary effect that will be inflationary. Andrew Lilico said that he was thinking of the reverse case, that if inflation is higher than 2%, should we advocate a monetary growth rate of 4% rather than 5% or just accept inflation stability because fiddling about with the monetary target rate may cause a volatility that is undesirable. He asked whether we should be fiddling about with the monetary growth rate or leave it as it is, because other things could happen in the economy like AI boosting growth etc.

Trevor Williams said that he was against fiddling around because of the unintended consequences that arise. If monetary growth is above target yet inflation is within the target, then stay with the monetary outcome. If inflation deviates because the real economy has changed, address the structural issues — not the monetary rule.

China money growth is too low.

John Greenwood commented on the data on money growth for Japan and China. He said that the M3 figure for Japan is suspect and that it is better to use M2. He said that Japan's inflation rate reflects the rapid money growth experienced during Covid. Because Japan has had 30-35 years of very low inflation, the lags in effect of monetary growth are much longer. It has taken a long time for the excess money during Covid to show up in inflation. He said that it is unlikely that the BoJ will raise the growth rate of money, and so Japan is returning to a pre-Covid, low money growth, low interest rate, near-deflation environment. John Greenwood said that, in his opinion, the BoJ will be forced, sooner or later, to cut interest rates rather than continue its current trajectory of raising rates. Trevor agreed, saying that Japan has an ageing population and deflation and weak growth and inflation is here to stay. On China, John said that given that money balances are accumulated at the rate of 3% p.a. by households, and GDP growth is 4-5%, a 7-8% money growth is consistent with zero inflation. Recently, China had experienced deflation. So current money growth is too low. He said that, in his opinion, money growth needs to be near 10%.

Peter Warburton said that he had a comment on the unstable dynamics of public sector finances, which is a feature of the large countries at present. He said that, according to the US Congressional Budget Office, this is an unstable system. The numbers he has seen for the cost of the Iran conflict range from $300 billion to $1 trillion. His concern related to the lack of a debt constraint on public finances. Given that there is no appetite in the democratic process for fiscal conservatism, there could be market-led credit tightening from public-sector bond markets. Then we are in a potential monetisation scenario.

Ageing will create an excess saving that could create a deflationary environment.

Patrick Minford said that he did not think that we are in an inflationary environment at all. He said that people are saving because of the ageing process. Saving has increased even more in Japan and China. While we worry about the debt ratios here, we will see a big rise in saving in the UK as people live longer. Add to this that AI is rolling along, and there will be a massive overspend, resulting in a crisis much like the one the railways faced in history. The result could be significant deflation, which would change the approach to public debt, allowing monetary policy to be relaxed and rates to come down.

John Greenwood said that regarding the debt ratios, a lot depends on the overall leverage in the economy. He said that it is not just public-sector debt but also private-sector debt. The GFC was a crisis driven by excess leverage in the financial and household sectors, prompting a public-sector response. When there is a private-sector debt build-up, a credit crunch follows, and the public sector steps in to ease the strain while the private sector repairs its balance sheet. In the case of the USA and the UK, there has been considerable deleveraging in the private sector, while the public sector has been leveraging up. So, we need to consider both.

Andrew Lilico thanked Trevor Williams for his presentation and recommendation and asked the Committee to move to a vote.

Votes are recorded in the order made

Comment by Trevor Williams

(TW consultancy, University of Derby)
Vote: to HOLD Base rate
Bias: No Bias.

In my presentation, I highlighted that CPI inflation has been remarkably stable in the 2½–3% range while M4x growth has held steady at around 4–5%. That combination indicates that inflation is not accelerating and that economic activity is stabilising. On current trends, monetary conditions are consistent with a trend GDP growth rate of roughly 1%. The main upside risks to inflation come from geopolitical shocks — particularly the Iran conflict and its potential impact on energy prices — rather than from domestic monetary dynamics. Taken together, the balance of risks suggests that Bank Rate should remain on hold. I have no bias.

Comment by Patrick Minford

(Cardiff Business School, Cardiff University)
Vote: To HOLD Base Rate.
Bias: No Bias.

Patrick Minford said that he expected interest rates to fall naturally. It will follow the pressure from falling inflation. For the present he voted to HOLD.

Comment by John Greenwood

(International Monetary Monitor)
Vote: to HOLD Base rate
Bias: No bias.

John Greenwood said that M4x growth is normalised at 4-5%. Inflation is on a downward trend even though there is a lot of noise every month. The two recent votes to raise rates at the MPC were a mistake as those MPC members were responding to the risk of higher energy prices. Inflation is in the 2-4% range. He said that he would like to see inflation down to the 1-3% range before he advocates a cut in rates.

Comment by Peter Warburton

(Economic Perspectives Ltd)
Vote: To HOLD Base rate.
Bias: No bias.

Peter Warburton said that he was concerned that the dynamics are tipping over. He said that credit and money growth is likely to fall rather than rise. He was also concerned about the extent to which the government has been propping up the economy. A new leadership could see public spending rise even faster. The overwhelming need is for fiscal tightening rather than laxity. But monetary tightening in the face of fiscal laxity is not the answer either. At some point the economy will be forced to slow down and contract government spending.

Comment by Kent Matthews

(Cardiff Business School, Cardiff University)
Vote: To HOLD Base rate.
Bias: No bias.

Kent Matthews said that he votes for a hold on base rate. He said that some work he had done on money growth and nominal income growth showed that the 18 month lag held for a good period of time but in the most recent decade the lags have truly become long and variable. The growth rate of money of 4-5% and inflation of above 2% might suggest that money growth had to fall but the lags have yet to work through and therefore no change in the rate of interest and money growth is appropriate.

Comment by Andrew Lilico

(Europe Economics)
Vote: to HOLD Base rate.
Bias: No bias

Andrew Lilico said that inflation is a bit high because GDP growth has been suppressed by consistently bad economic policy. He said that there is an underlying tendency for GDP growth to rise. GDP growth should be rising because of AI effects on productivity. But there are short term downside risks of capital flight which could be inflationary through loss of value of sterling. He said that his inclination is to HOLD rates and not fiddle about. At some point GDP growth will rise and inflation will fall as long as monetary growth remains stable.

Votes in Absentia

Comment by Juan Castaneda

(Vinson Centre, University of Buckingham)
Vote: To HOLD Base Rate.
Bias: No bias.

Juan Castaneda said Monetary growth in the UK, as measured by M4x, has picked up over the last few months and has stayed in the range of 4% - 4.5%

annual growth rate. Despite short term energy price hikes, because of the US-Iran conflict and tension in the Middle East, latest figures on broad monetary growth show that it is compatible with a 2% inflation target over the medium term. He said that he would recommend keeping on (continuing to monitor? monitoring monetary growth and make sure it stays within a growth range compatible with moderate inflation at around 2%. Vote: to keep the Bank rate steady.

Comment by Tim Congdon

(Institute of International Monetary Research, University of Buckingham)
Vote: To HOLD Base rate.
Bias: No Bias.

Tim Congdon said his position was the same as Juan Casteneda.

Comment by Graeme Leach

(Macronomics)
Vote: To HOLD Base Rate.
Bias: No bias.

Graeme Leach said that M4x growth was consistent with the inflation target.

Any other business

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

Policy response

1. The committee voted unanimously that the Base rate should remain on hold.
2. There was a unanimous sentiment that the Base rate should remain at 3.75% with no bias to fall or rise in the immediate future.

Date of next meeting

13 October 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).