

Citi predicts UK inflation could hit 18 percent next year



London, September 5 (RHC)-- British consumer price inflation is set to peak at 18 percent in early 2023 – nine times the Bank of England's target, according to an economist at US bank Citi, raising his forecast once again in the light of the latest jump in energy prices.

"The question now is what policy may do to offset the impact on both inflation and the real economy," Benjamin Nabarro said in a note to clients.

Consumer price inflation was last above 18 percent in 1976. In July, UK inflation jumped to 10.1 percent, its highest since February 1982, according to official figures. The frontrunner to become Britain's next prime minister, Liz Truss, was likely to come up with measures to support households that would have a

limited offsetting impact on headline inflation, Nabarro said.

With inflation now set to peak substantially higher than the Bank of England's 13 percent forecast in August, its Monetary Policy Committee was likely to conclude that the risks of more persistent inflation have intensified, the note said.

"This means getting rates well into restrictive territory, and quickly," Nabarro said. "Should signs of more embedded inflation emerge, we think Bank Rate of 6-7 percent will be required to bring inflation dynamics under control. For now though, we continue to think evidence for such effects are limited with increases in unemployment still more likely to allow the MPC to pause around the turn of the year," he added.

The BoE announced a rare half percentage-point interest rate increase earlier this month and investors expected another big move when the MPC makes its next scheduled monetary policy announcement on September 15.

Nabarro said he expected Britain's retail price index – which is used to set the return on inflation-linked bonds – would peak at more than 20 percent.

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