Monetary Policy Report Press Conference

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Joel Hills, ITV News: goodness, where to start? If Liz Truss becomes Prime Minister and implements a package of immediate tax cuts worth £30 billion, will it mean, Governor, that interest rates will have to rise faster and further than they otherwise would? Connected to that, Liz Truss has also been explicitly critical of the bank, accused the bank of failing to grip spiralling prices. Do you accept that criticism and would a different mandate have helped you keep prices stable?

Andrew Bailey: Well, can I be very clear, Joel, on two points? One is that, of course, it's not for the Bank of England to get involved in the leadership election that's taking place for the leader of the Conservative Party and the next Prime Minister. We're not going to comment on that. Secondly, as I said earlier, we condition on the fiscal policy that is announced. I look forward to working with whoever the next Prime Minister is, and I'm sure there will be a Budget and fiscal policy will be announced but at this stage, I'm not going to go any further than that in commenting on what might or might not happen.

Lucy White, Daily Mail: Going back to Joel's question, obviously, Liz Truss has spoken about wanting to alter the Bank of England's mandate. Do you think there is room for a change and would you welcome any suggestions? Also, obviously, we're looking at a pretty dire picture for households, income falling for the next two years, the largest amount on record, in plain speaking terms, how bad does this look for the UK? I mean, obviously, the OBR's projections for the public finances over the long term were pretty bad already. If the next Prime Minister does introduce, you know, further support packages for households, how bad is it going to get?

Andrew Bailey: Well, again, as I said to Joel, I'm not going to comment on anything that is being said by the candidates to be leader of the Conservative Party. I'll say two things, (1) just to remind what the mandate of the Bank of England is in respect of monetary policy, and that is that the objectives set out in statute, it was set out in 1997, is price stability, and that each year, the government, in the form of the Chancellor, informs us what price stability, and I'll use the language of the Act, is taken to be. In other words, the government sets the target, and it's important to make that point because that's a somewhat different structure to many other countries. Now, I'm not saying that in any judgemental sense, that's what it is. I think the great virtue of our system, it is very clear what the target is, but I also make the point that the structure was set up with a very clear mandate of price stability but there is scope, obviously, and the target has been changed once over the lifetime of the MPC, with a change of a definition of CPI. There have also been reviews from time to time. Now, on the second question, I'm not going to comment, again, on fiscal policy. All I would emphasise in terms of the situation, just to reinforce the remarks I made, that the consequences of the actions that have followed and emanate from Russia are obviously serious, as you can tell from the remarks I made on our decision and the MPR. David, do you want to come-,

Dave Ramsden: Just to give a bit more detail on that, you know, there has been a previous review of the monetary policy framework. It was carried out by the coalition government in 2013. The only other point that I'd mention is that, you know, it's just been 25 years since the MPC was established, so if you take the average CPI inflation rate, bearing in mind, as Andrew just said, that CPI became the target in 2003, but take the average inflation rate from May 1997 to April 2022, it's averaged almost exactly 2%, which is the inflation target.

Mehreen Khan, The Times: Governor, you've spoken for the last few months about the need to tread a narrow path between managing inflation and growth. Do these forecasts show that actually you will abandon that narrow path and you will have to tighten monetary policy in the face of a sharply shrinking economy? When was the last time the bank has really been put into that position? Thank you.

Andrew Bailey: Sorry, I didn't catch the last part of it, sorry.

Mehreen Khan, The Times: You know, what are the political pressures that come with having to tighten monetary policy in the face of a severely contracting economy?

Andrew Bailey: Well, I'll take this and I'm sure Ben will want to be come in actually on this, but can I say that, you know, one of the great strengths of being an independent central bank is that actually the political pressures have been very well-managed throughout the life of the MPC, in my view, and, obviously, we've had many governments throughout that life. You know, that is the best way to manage it, in my view, so no, I don't really want to put emphasis on political pressures because I think one of the great virtues of our system is that the Bank of England takes these decisions independently, respecting, of course, the importance of the remit. I'll bring Ben in, but I just want to say, on the narrow path, no I don't think the narrow path analogy has been abandoned at all. I think, if anything, this illustrates, and what we've seen happen since we were last sitting here in the beginning of May, when I know we also talked about the narrow path, I mean, I don't whether the analogy is right, to say it's got narrower, you know, the slopes on either side have got steeper, I'm not going to particularly speculate on what the right analogy is at this point. The general, in a sense, framework of analysis of the narrow path is, I think, as relevant today as it was then, and I would, by the way, add that, you know, I think it's an analogy that's not unique to us. It's used by a number of other central banks as well, who are facing somewhat similar situations. Ben, did you want-,

Ben Broadbent: Yes, they certainly are. I think what is true of the current situation, regardless of that particular analogy, is that we are facing, and have for some time been facing, these ever-increasing trade-off inducing shocks, to use the slightly formal terminology of the MPC. They are intrinsically shocks which, in the near term, push up inflation but also weaken growth. That combination is unavoidable. It's one that you see throughout the world, certainly this year. We already had those shocks occurring last year as a result of the pandemic. So, in non-energy and core goods prices, it feels like a long time ago now, in 2021, we experienced very steep increases and most of those, we import, so qualitatively, they had a similar effect. They reduced real incomes, even as they pushed up near-term inflation. The scale of the shocks induced by the war and the restrictions of gas supplies have been even steeper, and to give you an idea quite how, you asked about history, quite how big they are, it's worth comparing the effects on households' utility bills during the current episode with the 1970s, which was another period in which energy prices went up steeply. So, over the worst two-year period of the '70s, which I think was between the first quarters of 1974 and '76, the share of income going on household utility bills rose by, I think, 0.7 percentage points. So, it absorbed that much of real income growth over that period. Between the first quarters of 2021 and 2023, we think that number will be pretty much 3.5 percentage points, so it's around five times as big.

So, that is the scale of just the energy price shock, and on top of that, you have what happened as a result of the pandemic last year and other effects of the war, for example, on wholesale traded food prices. Picking up slightly on what we've heard a moment ago about monetary policy, you know, it's our job, navigating that trade-off absolutely to ensure that these shocks, as enormous as they are, do not persist via more domestic inflationary pressure longer than they should. They will, regrettably, be with us for a while, looking at a path of energy prices but we will make sure that they are not there in the inflation rate in two, three years' time, and we'll do whatever necessary, whatever is necessary to ensure that's the case, and that'll be one big difference between this shock, much larger though it is, and what happened in historical episodes, in particular the '70s and '80s.

Paul Kelso, Sky News: Governor, you talk about a great deal of uncertainty in your models, particularly around energy prices, but are there any scenarios you've looked at that are not catastrophic for the least well-off in society, and pretty devastating even for average earners in the next couple of years?

Andrew Bailey: Well, you make a very important point, Paul, and, you know, we've talked about this in the past but it's important to re-emphasise it, that inflation that is concentrated amongst what we might call the essentials in consumption baskets, obviously, of which energy is a very important part, of course food is another important part of that, hits those who are least well-off and have the lowest incomes the hardest. You can see this by looking at the different consumption baskets across deciles of household income in the Household Survey. So, you know, we're very conscious of this, and I said in my opening remarks, this is a very uncomfortable situation to be in. We're very aware of the impact it has, therefore, on those who are least well-off. What I would emphasise or re-emphasise is a point I made in my opening remarks, and it's this. If we don't bring inflation back to target, bearing in mind this huge scale of the energy shock we're seeing, if we don't bring it back to target and if we get these so-called second-round effects entering in, it's going to get worse. It will get worse precisely, I'm afraid, for those who are least well-off in society. So, while I have huge sympathy and, you know, huge understanding for those who are struggling most with this and I know that they will feel, 'Well, you know, why have your raised interest rates today? Doesn't that make it worse from that perspective in terms of consumption?' I'm afraid may answer to that is it doesn't because I'm afraid the alternative is even worse in terms of persistent inflation.

August Graham, PA Media: Hello, so, in this latest forecast, inflation is set to peak at 13.3% in October, and that's based on a prediction that the price cap rises to about £3,450, but the latest price-cap predictions has the cap at nearly £3,950 by January. Do you feel there's a risk that inflation will peak above that October forecast at any point next year?

Andrew Bailey: Sorry, that inflation will peak-,

August Graham, PA Media: Above the 13.3% you've predicted in October at any point next year.

Andrew Bailey: Well, I mean, you know, our view on this, as we've said in the report, is that we think, on the basis of what Ofgem have told us, that the price-cap setting for October will be around £3,500. By the way, I mean, as you know, I'm sure you know that the methodology that Ofgem have adopted means that the window is not closed yet, whereas it would have been under the previous methodology, so there's an element of, sort of, still to be determined but it's obviously not a very large element but there is. I think, beyond that of course, it becomes less easy to predict because it depends on movements in future price, as we've seen from the charts, they move, you know, they're moving around a lot at the moment, so it will be harder to predict. I don't know whether my colleagues wants to come in.

Dave Ramsden: I mean, we set out, in quite a lot of detail, in the monetary policy report, you know, the risks around that inflation projection. We do have a skew on our inflation projection, and up-side skew in the first year, which relates directly to the calculation of CPI because that gets re-weighted every year to take account of the consumption basket. Then, more qualitatively, we flag the risks, as Andrew has said, you know, were inflation to be more persistent than we are now assuming, then that would give you further up-side risks but overall actually, we think the risks to inflation are balanced after year one. So, we don't have skew in our forecasts after year one. I think that's right.

Andrew Bailey: Yes but there is another downside, potential downside risk, which is dependent on how the ONS treats the already announced elements of the government's support package. So, there are risks both ways on energy, I would say.

Joumanna Bercetche, CNBC: I have a question about the term 'act forcefully'. You've kept it in the monetary policy statement today and it was in there in June and translated today to a 50 basis points hike. My question is about what new information you would need to see to opt for another 50 basis points hike in September?

Andrew Bailey: Well, let me be clear that, you know, we make policy meeting-by-meeting. We will see what information obviously comes in between now and the September meeting, and of course information will come in. It's very important, to my mind, that we move and have moved from what I would call a system of more, sort of, predictive forward guidance to a framework that is not predictive. It's designed to convey a sense as to, you know, the framework within which we make decisions. So, it's very important that, you know, the 'act forcefully' language is still there because the reason is that if we see evidence that we think justifies that, then I think it's important that people understand that's what we would do. If you ask me the question, which I think you were, sort of, moving to, which is, 'What are you particularly looking at at the moment?' Well, I think I would, as well as point, obviously, to what's going on in the external environment, I would go back to the points I made in the, sort of, latter parts of my remarks, which we pick up quite extensively, not only from the surveys but also, I would say, all three of us go around the country talking to businesses, and we do a lot of that. That notwithstanding the evidence there is slowing, a slowing demand going on in the economy and, of course, notwithstanding the forecasts that we have, businesses at the moment, as our agents tell us, still feel that, you know, they can set prices to recover the increase in costs and that they're not meeting a lot of resistance on that. So, that's an important part of, you know, the diagnosis and the evidence assessment that we do, and will continue to do. I mean, I emphasise it because, you know, it has a high profile at the moment and needs to have a high profile at the moment because, of course, it goes directly to this question of persistence.

Larry Elliott, The Guardian: A year ago, you were forecasting inflation would peak at 4%. Now you're predicting it will peak at 13.3%. You say some of that higher inflationary pressure is becoming embedded in the economy and that's why you're being forced to raise rates by 50 bases points rather than 25 basis points. Your critics say that having been asleep at the wheel, the bank is now slamming on the brakes at precisely the wrong time. They have a point, don't they?

Andrew Bailey: No, I don't think they do but it's a point that obviously that obviously needs to be responded to. So, as I said at The Mansion House recently, we've been hit, or the world economy has been hit by very big shocks, and for the UK, that means very big external shocks. Moreover, there have been no what I would call air-gaps between these shocks. So, if you think about, you know, the COVID supply chain shock, which we now begin to see evidence in terms of traded goods prices that are beginning to come off, that has been replaced by, you know, this huge shock that we're receiving in terms of energy prices, and obviously emanating from the actions that Russia is taking. You know, I think we have to be clear that the Bank of England cannot, you know, forecast those. I don't know anybody who reasonably can say they could have forecast a Ukrainian war a year ago. So, that is a very important rebuttal to the point, Larry. The second thing I would say is that the point on the Bank of England taking action sometimes then goes to the question of quantitative easing. You know, did we do much during the COVID crisis? My response to that is as follows. I think, you know, to sustain that argument, you really have to make the argument that domestic demand in the UK has risen, you know, substantially as we came out of COVID, and that is simply just not the case.

I mean, what we've had in the UK is a situation where GDP, you know, has just about got above its pre-COVID level but only just, and of course, if you take the forecast that we're presenting today, that is not going to be sustained. What has actually happened is that we've had a series of supply shocks, going back to my point about global shocks. So, you know, to sum up, I don't accept that argument, I'm afraid. Do you want to come in, Ben, yes?

Ben Broadbent: Yes, I'll supplement with a couple of numbers, you mentioned the forecast peak a year ago and what it is today, and in his opening remarks, the Governor pointed out (a) that between those two times, the wholesale price of gas, the forward price for the end of this year, had gone up seven-fold and that just the direct effects of that increase in energy prices would be 6.5 percentage points on inflation. Chuck in the direct effects, and you're getting to the vast majority of the increase in the forecast. Earlier, even that 4%, a lot of it was due to external shocks of the kind I was describing earlier, that happened to be non-energy, due to the pandemic. It's a marginal thing now, relative to what we've seen in energy prices but it is actually the case, as we thought it would be a year ago, that some of those increases in core goods prices are now beginning to stabilise or even to reverse, and there's a bit of that in the report. That's why, at that time, and, indeed, throughout the last year, we were not responding directly to these external shocks, enormous as they have been, because what we're interested in is more, 'Will they persist? Will they be there by the time a policy decision taken now has a significant bearing on inflation?' That's the relevant thing, and that's what we've been responding to, the signs of more domestically-driven inflation, and they're much smaller. They're far smaller than those headline rates but that's what we're responding to because that's what we want to ensure doesn't remain inflation in a year, two years' time.

In order to have kept inflation-, let's suppose that we'd had this extraordinary foresight, to see the continuing pandemic restrictions on supply in Asia throughout last year, more importantly, the foresee Russia's invasion of Ukraine. Then ask, 'What would have been necessary to have done, possessed of that foresight?' Let's say we'd seen everything, all of this, at the tail-end of 2020, which is, given the lags, what we'd needed to have had in order to have hit the inflation target right now and offset all the effects of that on inflation right now. Interest rates, in order to offset that, would certainly have been, I mean, miles into double-digit territory and we would have had a far bigger recession even than the one we're forecasting now, and nominal income growth would have had to been steeply negative. So, that's what would have been required. Now, after the event, you can say, 'Well, you should have done X, Y and Z.' I'm merely saying, and I agree with the Governor, that foreseeing a lot of these events, I mean, no-one did, and we are focused now, as we should be, on, you know, the potential spillovers on domestic inflation and making sure these things don't persist but I don't think it would have been possible, without enormous foresight, to have responded to them in time to have any effect on inflation contemporaneously, and further more, to have done so would surely have involved a bigger downturn even than the one we're forecasting.

Faisal Islam, BBC: In the past, your predecessors have, when we're faced with a, kind of, market shock, maybe sterling falling, have chosen to look through some of that inflation coming up, knowing that it will wash out of the figures eventually. I just wondered if any consideration had been given to the fact that this is just not just a, sort of, market shock, it's kind of like a conscious geopolitical tactic, arguably, from the Kremlin, to push up prices of energy and food, and whether, you know, a normal market response is the right response in those circumstances? And a related question would be just explain simply to somebody at home who's facing £300 a month energy bills why their mortgage costs have to go up.

Andrew Bailey: Yes, so I think the first question, Faisal, really picks up what Ben was saying a moment or two ago in that, as he said, there is an established monetary policy response that, you know, you do look through the so-called first round of facts, whereas Ben was saying you can see that they are not going to go beyond the horizon of the reaction of monetary policy. And nothing has changed in that respect. I mean, the word transient has become I know something of a, sort of, damaged phrase but the underlying concept has not changed. So the challenge we have is that this is a very large shock and we've had to spend a lot of time, going back to what I was saying a few moments ago, assessing what are the likely second round of facts of that. That's where we have to, sort of, concentrate. What are the risks that it will give way to, you know, price setting, domestic price setting, domestic wage setting which will then cause persistent inflation? Now, you know, the evidence of that, there's a lot of things that we've looked at, and by the way that evidence does emerge with a lag, there are natural lags in the system. But we've seen things particularly as I've set out in my opening remarks in terms of what we're seeing in terms of price setting, and of course what that implies for the ability to pass on costs of all sorts, which do concern us frankly, do concern us. You know, there's two views of the world here, there's a view that you can see from our forecast which is, as we've been discussing, it's not a good story. There is an economy at the moment which is still going forward strongly and, by the way, particularly in the labour market, I would emphasise the labour market here. When I talk to firms, I think when we all talk to firms their concern is still how do we hire enough people?

And that they are not hitting the, sort of, price pressures and price resistance that I'm afraid I think they will hit eventually but it's not coming yet, and that's the risk of persistence and that's why we have to act. On the second part of your question, which again is very important, and I'd really go back to the question I answered earlier on this and say if we don't act now-, and I realise how difficult this is, I realise as we were saying particularly for those on lower incomes, particularly those with higher borrowing costs, but if we don't act inflation will become more embedded, it will get worse and we will have to raise interest rates by more and, you know, we have to act to stop that.

Szu Chan, The Telegraph: Governor, we've had six rate rises in a row now. In your opinion, are high street banks passing on those rate rises to savers as much as they have been to borrowers, and if not does that make your job harder?

Andrew Bailey: So I think the evidence suggests that the pass through has been faster to borrowers than it has been to savers so far. And you'll have seen, by the way, we publish of course monetary statistics which allow you to look at that. I am conscious that when rates fell to very low levels and, I mean, obviously we're going back now, sort of, 14, 13, 14 years, there were some issues about the relationship between the official rate and saving rates which got out of line with some of the previous practices. We may see some reversal of that going on but what I would say and I think this is very important, that it is of course important that savers receive, you know, the returns that they should receive. Now, one of the reasons that we have worked and are working and will continue to work to introduce and to ensure competition in the banking system is exactly so that that, sort of, thing happens. So it is something that we watch very carefully, it's something other authorities watch very carefully because there are a lot of responsibilities there too.

Dave Ramsden: If I can just add, we always focus on this in the monetary policy report, we have set out in detail in box D of the report the extent of pass through. And it is clear that at the moment, as table one there shows, I mean, the pass through after the pretty unusual period we were in, as Andrew was saying, pass through onto borrowing rates has been material and in line with the relevant reference rates. Whereas pass through onto saving rates has not been so far, they have started to move up if you look at, you know, instant access deposit accounts which are the most common, but those have only risen by 30 basis points since November 2021, you know, just before we started raising bank rate. Whereas over that period the relevant reference rate had risen by 115 basis points, but one would expect over time some, you know, closing I would imagine of that.

Szu Chan, The Telegraph: Would you expect it to be faster than-?

Dave Ramsden: Well, no, I think from where we are now, you know, we can understand where it's at now but it's something that we will continue to monitor and it's also something that, just as you're raising I imagine, will continue to be in the public debate because it is obviously important that savers and savings products are seen to be representative.

David Robinson, Market News: You said you take fiscal policy as given, for very understandable reasons. The concern of some city economists is, okay, but the market curve assumes further fiscal stimulus. We know the risks of more stimulus are very high, risk of less stimulus near zero, so that makes it a bias forecast. Market curve is conditioned on more stimulus. How do you stop the problem of this all becoming a little incoherent?

Andrew Bailey: Well, I mean, I'll start, Ben and Dave may both want to come in. I think it's a form of an issue that we face always. We condition our forecasts on the market curve. Now, there are good reasons for doing that but we always, as you rightly say, have to recognise and accept that the market curve will embody of course all, sort of, expectations, some of which are in line with the way in which we construct our forecast and some of which are not. The market may have views on future fiscal policy and may embody those. We condition the rest of our forecast on what the government has announced it's going to do until such time as the government announces it's going to do something else. And what I would say is that is another reason why, you know, the forecast or forecasts and projections as we have today are important inputs to the policy making process but we spend time, I think consistent with your line of diagnosis, saying, 'Well, you know, what do we read into this? Where should we aim off a bit because we imagine there maybe something going on?' And of course the market curve therefore of course is not, I should stress, our view of what's going to happen in the future. We don't actually create our own curve but we're not saying, you know, the market curve is the view of the future, it's a view of the future which we use. There is a second one of course which is again another one you can take which is the one we now publish in our map survey, but again, you know, that will also have all sorts of assumptions embedded in it as well. Do you want to-,

Ben Broadbent: Yes, I mean, you know, it's not the only view of the future as Andrew says and when we survey market participants their predictions are not in line with the market curve either. Presumably they too will have thought about all sorts of possible futures, including different fiscal policy. There had been occasions when, I can think of one in particular, when we were able to identify very clearly something that was affecting market prices but was not in our forecast and that was on the eve of the EU referendum when, by assumption, by conditioning assumption we said there was zero chance of a leave vote. The market was putting some weight on that possibility and we said, 'Well, here's what the world would look like if the exchange rate were actually in line with our conditioning assumption at zero,' and we did a forecast on that basis. So there are occasions when we try and make adjustments. As Andrew says, I think when we're thinking about actual policy we don't necessarily think rigidly about the central forecast and, as illustrated by the range of scenarios or lots of different forecasts, we think about all sorts of possible futures and it's the responsibility of each member of the MPC to think how he or she would weight those in coming to a policy decision. But we face this in various forms all the time. I don't think there's a better way of doing a forecast but it does have this potential inconsistency within it.

Dave Ramsden: And, look, I think the key thing here is that we're transparent about the assumptions so you can see what the moving parts are, the markets can see what's going on. And as Andrew was emphasising in his opening remarks, you know, we always publish a constant path scenario and this time we've gone further in line with those other possible futures around energy price assumptions or persistence with more alternative projections.

Ashley Armstrong, The Sun: A few months ago you used the word, 'apocalyptic,' to describe the rising food prices. Now it's getting to 13.1% inflation, what word would you use? And then secondly, you asked for people to show restraint when asking for wage increases. Given that most or the majority of that inflation is actually coming from Russia's invasion of Ukraine, do you regret telling people that they should be restrained in asking for pay rises?

Andrew Bailey: Well, the food situation, yes, was very serious and of course remains very serious. You know, I go to many international meetings, G7, G20 and there's no question that when you enter those meetings there were very great concerns about the situation and world food supply. I mean, the good news is, I think there's several pieces of good news, actually food commodity prices have, on balance, come down over the last few months and unfortunately the gas prices of course have more than overwhelmed it going the other way. But food prices have come down and I think that reflects a number of things. It reflects the fact that actually, and there's been some quite good news on potential crop yields in other parts of the world, which will somewhat compensate for the Ukrainian problem and of course we're all hoping that the ship that left Odessa this week will be the first of many. And that too will of course provide much needed relief. We have to watch it very clearly, I mean, food is another element of the inflation story here. We've put a lot of emphasis on energy because it's the big one but food is another element. On your point about wages, let me make it clear, what I said was that, you know, if people pursue very high wage increases then we will have these second round of facts and we'll get persistent inflation. Let me also say, I mean, the question I was asked didn't include it but as you'll see from what I said in the opening remarks that of course that also includes price increases as well, because you can't obviously take these two apart. And we remain concerned about, as we said earlier, about this question of persistence and the question of the role of domestic price setting and how that could play a part in it.

But I want to emphasise this point about high wage increases, it wasn't any wage increases, it was high wage increases and I would note that quite a few other people seem to have, you know, made that remark also in the intervening period. I want to finish by just going back to a point I've made quite a few times since then and I'll make it again because it goes back to an earlier question. Another reason why we have to be concerned about this is precisely the point that rightly has been made by a number of other questions that it is the least well off who get hit hardest by this and it's the least well off who have the least labour bargaining power typically. I would just emphasise that point.

William Schomberg, Thomson Reuters: Hopefully this should be a short question, short answer. You say that the MPC is now ready to crack on with gilt sales after the September meeting but that's going to be subject to economic and market conditions being judged appropriate. Has there been any point this year when those market conditions were not appropriate? Are they appropriate now for example? When was the last time they were inappropriate and what are you looking at to judge the appropriateness of the market conditions for selling gilts?

Andrew Bailey: Well, I'll get Dave to answer it. I mean, I'll give you an easy answer to one part of your question, is that on 15th March 2020 they were inappropriate. Dave.

Dave Ramsden: Yes, so what you've drawn attention to is one of the, you know, three key principles that we've set out in the minutes that will frame our strategy for asset sales and the second of those principles is that sales would be conducted so as not to disrupt the functioning of financial markets. And clearly back in March 2020 financial markets were in such a position that we would not have gone ahead with sales. I mean we track what is going on in core financial markets, particularly in the gilt market very carefully, as you would expect us to, and we will continue to do that, but what I think is really important that we do is not get into some kind of running commentary on, you know, where the market has got to. We did though say in the minutes, and I think, you know, this comes back to the example that Andrew gave, that there would be a high bar for amending the planned reduction in the stock of purchase gilts, I mean we use the language in the minutes that say, 'That markets would need to be judged to be very stressed before we considered halting the programme.' But we also emphasise the FPC, which we're all also a member of, would have a role in looking at those kind of issues because after all it's responsible for the assessment of financial stability, and the FPC was front and centre back in March 2020 when we had very difficult market conditions.

William Schomberg, Thomson Reuters: So, since March 2020?

Dave Ramsden: No I didn't say that, I didn't say that, I just gave you that example but we track market conditions very carefully.

Phillip Inman, The Observer: I'm still confused Ben and Andrew, after everything you've said about domestically driven inflation and the effect of interest rates on it, it still seems to be a very small proportion of the inflation that we're going to see, and an awful lot of what comes down over the next two years is because those factors start to wane, nothing to do with domestic inflation. Could you explain what the proportion of domestic inflation is in your rise and therefore why it's not the case that you're using a sledgehammer to crack a nut?

Ben Broadbent: You're right that it's a minority of the current inflation, and certainly a minority of the peak overshoot, the vast majority of these global prices, in particular the ones that are being sensitive to the war, but they're not the whole of it, and nor would I describe what we're doing as sledgehammer. It's true that rates have gone up, you know, every meeting, they've now gone up over an eight month period since we started by more than any similar eight month horizon the MPC has faced. But I think it would be surprising, it would have been surprising and we've started to discuss the potential for these second round effects I have to say a year ago when we were looking even then at what was smaller energy price increases, if there had been none. If it was not the case in the face of what amounts to an enormous hit, external hit, to the real incomes of, you know, the whole economy as a whole, certainly the non North Sea economy. I think it was to be expected that to some degree, households would want to protect their real incomes by asking for more pay, and firms would want to protect their real profits by seeking compensatory rises in their own prices. Now we've seen far less of that, I would argue, because of the monetary regime we have than we did in earlier decades despite what was a much bigger shock, but we have some seen some. So the Governor mentioned some results from our decision maker panel survey, what we're picking up from the agents, it's been true for some time I think that you can detect in rates of wage growth, a part of the increase in wages that is due not just to the tight labour market but the fact of these second round effects. And quite understandably people seeking some compensation because these external hits have been so vast.

I wouldn't describe what we've done as a sledgehammer, I would describe it as an appropriate response to what we're seeing in that respect, to the signs of more domestic inflation, and I would only emphasise what the Governor said right at the start, you know, it is critical, it is our job to make sure these things don't persist because we know that high and variable inflation over years, over the medium to longer term, are not good for the economy. And that is why we're having to act, so it is the right thing to do.

The last thing I'd say is just to emphasise in a way the point you started with Phillip, which is the relative scale of these things and the huge scale of the energy price hit, we've given various forecasts, in particular what we normally do, we give them one based on the market profile for interest rates and another based on assuming they stay at what is now today's level. Even had they been at one and a quarter percent, even had they stayed at yesterday's level throughout, my guess is the forecast would still have had a recession in it. So it is in the nature of the shock, it is in the nature of the scale of the shock, unfortunately that it pushes up inflation enormously for a period, and that it depresses activity and incomes, that is unavoidable and our job is to make sure that we absolutely don't allow this persistence even though these second round effects are, to a degree, entirely understandable, we have to act to ensure they don't persist.

Andrew Bailey: If you don't mind me saying Phillip, I'm just going to observe putting your question and Larry's question together that of course it's in the nature that we have to make forward looking judgements, and, you know, you're saying, 'Well aren't you taking a sledgehammer to crack something that today looks like a nut?' And we're saying, 'Well it might not be a nut in the future and we're worried about it,' and Larry is saying, 'Well you were asleep at the wheel in the past.' I mean this is the nature of the judgements we have to make.

Eshe Nelson, New York Times: Away from energy prices, which obviously you've said many times in the past, you can't do anything about, you've noted that there are some aspects of inflation that looked to be easing, so global commodity prices aren't going up anymore, the medium term inflation expectations are lowering, and obviously you have this huge recession forecast. Was there any pressure to move at 50 to act forcefully so that you didn't feel out of step with your international peers where they're moving 50, 75, 1 percentage point to avoid, you know, an impact on the exchange rate, to avoid questions about ill credibility, and to have this stronger, more forceful even though most of this is the short term energy price increase?

Andrew Bailey: Yes that's a good question, so thanks. I mean I've said before of course that, you know, we don't target the exchange rate, we obviously factor in the impact of the exchange rate into our judgements on future inflation and that's exactly what we've done this time. I think the point I'd make about comparing, you know, across central banks is that each of us is facing a different configuration of shocks, I've said before that if you look at the Bank of England, the Federal Reserve, and the ECB, we've got elements in common and we've got very different elements to it. And so the fact that we're thinking, 'The Federal Reserve is actually, you know, raising by larger amounts,' I think you can explain that, or I can certainly rationalise that in terms of the different shocks that we're facing, I think there is more of a domestic demand story in the US than there is here. And so, you know, I think that's how I rationalise the different approaches, I think each of us, because we're independent, we're responding to the economies that we serve, are taking these decisions. And, you know, it's natural that those decisions will have elements of commonality, but they will also be different. So, you know, I think it's important, when people say, 'Well you should be doing what this other central bank is doing, or that other central bank is doing.' Always my response to that is we look very carefully at the shocks that we're facing, but we also of course look very carefully at the shocks that other central banks are facing, (a) to understand how they're responding, but (b) of course in many cases because we're an open economy, they're affecting our situation as well, but, you know, it's domestic inflation we are targeting.

Delphine Strauss, Financial Times: One more question on the potential for a new Prime Minister to revisit the banks remit, Liz Truss team has been speaking of examining the banks exclusionary independence over interest rates, which sounds like something a bit more fundamental than a change to the target or the mandate. How worrying would that be, if it's a question of independence?

Andrew Bailey: Thank you Delphine, I mean I'm going to go back to what I said earlier on, it is very important of course that as an independent central bank we do not intervene in an election for the leader of the Conservative Party and the future Prime Minister. So, you know, we're going to stick very rigidly to that. I look forward to working with whoever the new Prime Minister and the new Government is, and we will work obviously very constructively, we've got a lot of, you know, issues to tackle, as you can tell. So I look forward to that and I think it's important that certainly from our point of view, I'm not going to pre-judge anything, any conversations we might have. I think Dave set out very well earlier on the history of the reviews of the regime, I mentioned earlier, you know, it's important to understand how the regime is constructed because it was constructed very carefully in 1997 when it was put together, a number of us were involved in that at the time. And as Dave said, it has served very well, I mean that average inflation figure is one again that, you know, is not the case for all central banks, certainly I'll say that, but I look forward to working constructively with whoever the new Prime Minister is, I'm really not going to go beyond that.

Francine Lacqua, Bloomberg: Thank you so much. Governor, can I ask you about the banks estimate actually on QT, so how much will the QT be in terms of monetary tightening? So let's say you have 80 billion in QT, how much is that in basis points terms?

Dave Ramsden: Well this goes back to some important points that we initially set out last August actually, and then have subsequently updated, and as I responded to an earlier question, the way we think about QT is rather different in policy terms than the way we thought about QE. As we were saying earlier, we would only be doing-, and it also worth bearing in mind, we're already doing QT because we're not reinvesting maturities, and what we've announced today, which adds up to the 80 billion you quoted, was what we might do in terms of gilt sales on top of not reinvesting. But we're very clear that, you know, if you think about some of the episodes when we've done QE, they've clearly been at times for example when markets have not been functioning at all well, such as in March 2020, and so one of the channels where clearly QE was operating, QT wouldn't operate in terms of that channel.

Equally, often QE was seen as giving a signal about future bank rate-, sorry QE gave that signal, with QT, with quantitative tightening, we've emphasised again today that our first principle is that bank rate is the active policy tool, and QT is happening if you like in the background. So that should make clear that overall we think that QE had very state contingent impacts, you can't, sort of, conclude that there's somehow some multiplier that you can apply at all times that says what is going to be the effective QT, and therefore you can't I'm afraid do your calculation of some kind of ready reckoner between bank rate and QT. But very much this is going to be happening, remember we are confirming whether we're going to go ahead with this in September, so we've just announced our plan today, and if we vote to do it in September, we'll start soon after but I'm afraid you just can't give an answer to that question, but I hope that gives you some context as to why we can't answer that question.

Arthi Nachiappan, The Times: You said in your report that the vast majority of your inflation projections are due to external factors, mainly energy prices, but also supply chain disruptions. I'm wondering, do you expect these to get worse, supply chain disruptions? And you've also mentioned Brexit, what's the impact of that on these disruptions and on your inflation forecast?

Andrew Bailey: Well I think we mentioned a few moments ago that there's some evidence emerging that the supply chain story is easing, and the evidence I would draw on for that is the fact that core goods inflation has actually been lower in recent months that we thought it would be, it's actually, you know, lower than we projected in May, certainly I think in February too. And we attribute that to evidence that there is some easing of the supply chain disruption story. Now of course there are risks around that, we know that, so obviously it's a story that has been susceptible to the question of the incidence of Covid for instance, and Covid particularly in China's situation in that respect. Now, you know, one hopes that's now receding and will stay receded as it were, but as we know that has come and gone as it were. So there are obviously risks around that story, but, you know, we are beginning to see that and we have seen in the last certainly couple of months something of a shift in the makeup of inflation from core into these so-called non-core elements, which is predominately energy and to some degree food. So that's the evidence that I would use to support that, but I think we do have to watch this very carefully,

Ben Broadbent: I'm agreeing with what the Governor has said. We're seeing it in some prices, some easing, and some wholesale commodity markets, like metals for example, the prices have come off quite a lot, some measures of shipping costs, which was a big part of the story last year, have also come down. And there's actually a chat, I've just found, 2.6, page 44, which has slightly more direct indicators of the supply chain disruption. But as the Governor said, I mean that's true and funnily enough it was, you know, sort of in line with what we were expecting a year ago, but all this has since been overwhelmed by the consequences of the war unfortunately, as far as our inflation rate is concerned, at least for the time being.