**Monetary Policy Report Press Conference**

**Thursday 11 May 2023**

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**Ed Conway, Sky News:** In some senses, some people would say that, this is the biggest test of the Bank since becoming independent, this rise in inflation, the rise in interest rates. What would you say to those who say that it's, effectively, failing that test, failing to see the rise in inflation, failing to see how sticky it's become, now it's up at the top, failing to understand the nature of food price inflation, as well. Do you think that those failures matter, in your ability to maintain credibility?

**Andrew Bailey:** Well, I think you're right, Ed. The backdrop to this is that the shocks that have been hitting the UK economy, and of course, the global economy actually as well, we must look at it through that lens, as well, have been much larger. So, we've set these shocks out, and, of course, I referred to a lot of them in my opening remarks. The largest one of which is the impact of the terrible war in Ukraine, on both energy and food prices, no question about that. And, of course, the test of this regime is how we deal with them, and how we return inflation back to target. Now, I think you can look at that through two lenses, one is what is causing the shocks, the second is how are those shocks anticipated, and then, how do we deal with them, in terms of returning inflation to target? Because that is the objective of the regime, obviously, that we have sustainable inflation over the medium-term, for sustainably low at-target inflation. That is what we're doing, we have to adjust from meeting to meeting, as we see news. And I'll pick on one piece of news that you mentioned, I think the point on food prices, let me just come to that. There is a very big underlying shock in food prices, and I showed the chart which showed the same thing is going on in Europe, as a whole. Now, I think the news that we've had is not about persistence, in the sense of long-run persistence, it's the question of over what time this shock works its way through the system, if you like, and how quickly we expect that to dissipate. Now, what we're hearing, and as I said, I hear it round the country, which I've been doing a lot since we were last year, is an expectation that we will see a reduction in food inflation, indeed we're already seeing some of that beginning. But it is taking longer, and the reasons I hear that it is taking longer are sometimes to do with the impact of energy prices in food production, sometimes to do with hedging approaches that have been used at the commodity price level. So, although, as I said, commodity prices started to fall last year, it's taking longer to come through. Now, I'm happy to, sort of, in a sense, debate, 'Well how much of that is predictable, and how much of that is emerging?' But those are the things we have to deal with, and yes, we do revise our views, as we see new evidence, I think that's appropriate.

**Szu Chan, The Telegraph:** Just following up on that then, this is the biggest upgrade to your growth forecasts in the MPC's history, what would you say to people who said that, in the past, the Bank of England has been too gloomy? And just on those food prices, given the work you've done on price setting behaviour, and how it's changed, do you think supermarkets have been as quick to cut prices as they have been raising them?

**Andrew Bailey:** Well, on the upward revision, and Ben might want to come in on this as well. Let's take it back to when we were sitting here in November. There has been a very substantial fall in energy prices, the biggest news has been the very substantial fall in gas prices, and that does feed through, clearly, and that's fed through in a positive way. So, we take that on board. That was not anticipated, let's face it. When we were sitting here in early November, we were looking at a prospect of a very difficult winter, some probability that Europe was going to experience periods where gas supplies may be restricted. It all looked very bleak, and that was reflected in pricing, and that has turned out not to be as bad as expected, so that's one piece of news. The second piece of news, is that we've obviously, at this time, taken on board the measures that were introduced in the budget, which has happened since February, and that has a positive effect, certainly in the year or so ahead. Thirdly, global conditions have improved, so I can give you another example of that, you know, the impact of China's ending of its zero COVID policy, I think, has been much more muted than many people expected it to be. And the fourth factor is, and here, I think we do say, 'Yes, we understand this', that I think the economy has turned out to be more resilient to this than we expected it to be. So, all of those things come together, and it's appropriate that we revise. Can I make the point, I will slightly put a downer on it for a moment, if you don't mind, yes it's a very big upward revision, but the level of growth is still weak, let's be honest. I mean, we have to look at both change and level here, I think, to get the proper position. Just on supermarkets, I mean, I don't want to comment on sectors, because frankly, we don't have what I would call consistent data. I would say, in the aggregate data, and Ed rather helped me publish this chart this morning, which is one we have as well, which is the aggregate position for the UK, as a whole. And it's interesting to look at, because it doesn't tell the same story as, for instance, the somewhat similar chart that the ECB has published, for the Euro area. So, you don't see the same picture, in terms of the component contributions.

**Ben Broadbent:** So, the aggregate chart shows there's no increase in the profit share of national income, that's the comparison with Europe where it's slightly different. Just on the general nature of forecast, one has to remember, I've said it before, these are conditional forecasts, so when the conditions change, the forecasts change. There may be other reasons forecasts change, but that's certainly a big one. And you go back to say, last August, gas prices were close to 500 pence a therm, they're now 80. What that means is that, if you look forward, household energy bills are now over 4% of income lower, projected, than they were in the August forecast. Partly because we assumed that those prices would remain, and now they've come down. But, that is a huge change in the conditioning assumption, it gives a big boost to the economy, I think it's why you've seen growth improve significantly in Europe, and Continental Europe, as well. As it happens, the timing of that turn, here, and in the Europe area, was precisely when wholesale energy prices started to climb. Trough was September, October, in high frequency measures of growth, like the PMIs. And interestingly, you haven't seen the same increase in the US, because you never saw the same rise in energy prices in the United States. So, this is a really big reason for the change in growth, both in the data, and in the forecast. And, another conditioning assumption, incidentally, that's different in August and November, compared with now, is that the market path of interest rates is also lower now. So, these things, one should always remember, more generally, the conditional nature of the forecast we make.

**Dave Ramsden:** If I can just put some numbers to Andrew's point. As he said in his opening remarks, we're forecasting growth, now, of a quarter per cent annual average this year, three quarters of a per cent next year, that's in the table on page 28. That is up from February, where we had two negatives, so we have moved from, minus a half this year, minus a quarter next year, to two small positives. We've been consistently stressing that the economy is being hit by these negative shocks. What's happened to energy prices more recently, is a positive shock, for the global economy, for the UK economy. And we've also seen this very resilient labour market, we're now forecasting unemployment will stay below 4% this year. And we're beginning to see some improvement on inactivity, that was another negative shock we called out, it's more concentrated in students at the moment. But these are positive underlying developments, but they're against a backdrop of, still relatively weak growth, compared to historically. It's that kind of context which has enabled us to revise up our growth projections.

**Phil Aldrick, Bloomberg:** So, energy prices have fallen, but your inflation forecast is actually higher. You've repeatedly underestimated where inflation will be, and how far rates will need to go. The markets have been right, and you haven't. Is that a fair take away from this? And the other point being that, we're going to have rates at 5% at the end of this year, and 1% at the end of the two year forecast. Do we need to do more on rates, or less on rates? How do we read that?

**Andrew Bailey:** Can I take the second question first? Because I think it's a very important point. We've been very clear in the guidance, and we've repeated the language, this time, that we used in the committee in March, that we will be guided by the evidence. So, I want to be very clear on this, we are not giving what I would call a directional steer on rates today, as we didn't last time. We will be guided by the evidence, and that's very important. Now, we've repeated the point we've made before, which is, if we see further signs of greater persistence, then, of course, we'll have to act. But let's be very clear, and it goes back to what Ben was saying earlier, that's a conditional statement, it's not an unconditional statement, it's a conditional statement. So, in other words, it states the conditions under which we would have to act, but to be very clear, we've not giving any steer, we're evidence-driven on this occasion. Now, I'll make one point on your first question, I don't know, Ben or Dave might want to come in, as well. And it's this, the news that we've had on inflation, you're right, inflation it's just under 1% higher, at this point in time, than we expected it to be in February. Interestingly, as I said in my remarks, that difference is, actually, not really about the persistent element of inflation. So, if you look at services, if you look at wages and remuneration, they are actually, pretty much, on track with what we thought in February, the news is mainly on food and clothing. And certainly, yes, food inflation has been more persistent than we thought it would be, and I'll just repeat the points I made earlier. It appears to be taking longer for food prices pressures to work their way through the system this time, than we had expected. But, as we said before, these are very unusual times, I mean, the models have to be treated with caution here, because the transmission of these sorts of shocks is highly uncertain.

**Ben Broadbent:** Yes, I mean, I'm not sure on what basis you say the market's got it right. We have a market break-even rate for RPI inflation. That, certainly, a year or two ago, was not predicting 10%.

**Phil Alrdick, Bloomberg:** Where are the rates going to go? You're chasing the markets.

**Ben Broadbent:** No, I don't think that's true. You talked about inflation there, I thought you said, 'The market's got it right.' You were talking about inflation, I thought.

**Phil Adlrick, Bloomberg:** And your reaction to it.

**Ben Broadbent:** No, well, let's deal with the inflation stuff. And, we don't predict interest rates, so I'm not sure where that comes from. But inflation, yes, the markets were certainly not expecting, no one was expecting, 10% inflation a couple of years ago, at this point. I want to mention something in the context of Ed's question, as well, and the big picture thing. So, the scale of these rises in import prices we had in 21, 22, particularly last year, are enormous by historical standards. Roughly speaking, it depends a bit how you measure it. They cost the UK, collectively, about 5% of income, over 5, is my guess. I had a talk a few months ago, where I tried to quantify it, I think it was about 5.5%, the number, in the year to the third quarter of last year. Which I think is, roughly speaking, twice, or even more than twice, as big as the hit from the rises in oil prices in the mid-1970s. Now, at that time, when headline inflation went up, and this is the point I wanted to come back to, in terms of Ed's question, the result was a huge rise in inflation expectations more generally, in the medium-term. That hasn't happened now, we did see these break-even rates, expected medium-term inflation rates, go up quite a bit, but they actually peaked over a year ago. They're still too high for our liking, but they are nothing like the response in the '70s, and that is the value of this regime. And you're absolutely right, it's critical that we maintain that value, and maintain that credibility. And the task, as Andrew said, is not, somehow, to predict that the war was going to happen, or even its consequences for the supplies of energy and food, because I'm not sure that's possible. It is to respond, and to respond in a way that maintains this credibility, and ensures that inflation gets sustainably back to 2%, and that's what we'll do.

**Andrew Bailey:** Can I just come in with one point? Page 89 of the report has a chart that we always have at the back of our report, which is comparing our forecast to the average of forecasters' projections. What you see there is that for Q2 next year, our modal projection for inflation is actually noticeably above the average of outside forecasters. Now, interestingly, for the following two years, we're below, but I made the point about the way in which the committee had put in a mean projection, as well, which has the inflation skew in it. If you were to compare our mean projection with the outside of the average forecasters, and by the way, we don't know to what extent these outside forecasters use means and modes, I can't tell you the answer to that question, actually, our mean forecast is, pretty much, the same as those things. So yes, I just would push back slightly on where we are, relative to the outside world. Dave, sorry I cut across you.

**Dave Ramsden:** I was just going to focus on the very short-term forecast, and, obviously, recognising that the conditioning assumptions for those short-term forecasts can also change. We are having to deal with the whole range of shocks as they play out, both negative, and now, more recently, positively. But, just to highlight, we put these numbers, now, in table 1.C, on page 25. We expect inflation to fall to 8.2% in Q2, so that's, actually, slightly below what we had in the February forecast. Now, that's because energy prices, and the extension of the energy price guarantee, are supporting things there. Moving in the other direction though, is this recognition that food price inflation has been higher than we, and I think others, thought. So you've got those two offsetting factors, and we're trying to be transparent about the path of inflation. Clearly, it's too high at present, as Andrew stressed, but we do see it starting to come down sharply from Q2, and then falling through the rest of the year, and being below target within two years' time. So, in a sense, those based on the current conditioning assumptions, and our forecasting judgements, that is the way to frame the way we're approaching this. As Ben says though, if you look at those market-based measures, for example, the break-evens, you get no sense that there is a challenge to the credibility of the framework. We're not seeing that de-anchoring of medium-term inflation expectations in markets, which would be something that would more go to Ed's emphasis on credibility, we're confident about that.

**Mehreen Khan, The Times:** Just to go back to the food prices, I'm interested in how the bank seems to have been a bit blind-sided by this story, given that you have a network of agents. Is it that your agents are not asking the right questions, or even that the businesses are not really replying honestly about their pricing behaviour? And given that we, sort of, failed to foresee what was going to happen with food prices, and to some extent, goods, why are you so confident that, even though they will come down, as you said, a bit slowly, that actually, maybe, companies, are they replying honestly about their future behaviour?

**Andrew Bailey:** It's a very good question. I think the issue is the degree of persistence in food inflation that we've seen. As I say, you can go back to the underlying shocks, but that is a question of how you read the impact, particularly, of what's going on in Ukraine, I'm afraid. I mean, you may remember, about a year ago, I said something which was interpreted quite dramatically. It wasn't really meant in that sense, but more to make the point that food is a big issue in the shock that we're seeing. Now, the question then, was how long was this transmission going to go on for? Well, as it's turned out, it seems to have gone on for longer than, certainly, sort of, past experience would illustrate. And I'll pick out two things, I mentioned them a few minutes ago, but I'll just quickly review them. I think there is an element of the impact, particularly, of energy costs in food production, which I think, yes, probably didn't come through as much as it should have done, so I think that's true. I think the harder thing to judge, as we mentioned earlier, is, and by the way, I should say, one of the things our agents find, I find, when I'm going round the country, of course, is that we talk about the energy question a lot for households, but it's important also to talk about it for businesses. And the energy question with businesses is very complicated, because businesses have contracts that run for periods of time, and get reset, depending on when they get reset, there's no fixed time at which business energy contracts get fixed. And so, you know, business are having very different experiences. I mean, I talk to a lot of businesses, their experiences are very different, because it depends just on when you reset your contract, as to, what your experience is. So that can come through in very different ways, in terms of impact on pricing. But I think the other thing I'd mention, is this question about hedging, how much hedging was done, and for what period of time? And how hedging behaviour responded to the severity of the shock. I think, yes, there I think there's a lot of uncertainty and there are things we learn from this. So, you know, that, I think is true.

**Ben Broadbent:** Just a couple of things. There are a good couple of charts. Well, all the charts are good, but particularly good is in the middle of the report, page 57 and 58, a couple of things on food prices. Actually, the one on 58 Andrew already showed you in the introduction. The fact that food price inflation is so high is not just because of, quote, pricing strategies of firms. I mean, as Andrew indicated, their costs have gone up enormously. Minimum wage went up, energy prices are much higher. There's a lot of energy used in food production, and we don't just rely on what food retailers tell us about what they're going to do, because we know that what they do will be driven by these other things to some degree. So if we look at this, this is for goods X energy on the left, so that's more than just food on the left hand side of chart 2.18. We can see here there's quite strong evidence for the producer pricing side that we think the price of retail goods inflation, the price of retail goods will decelerate, that their inflation rate will fall. We can see how tight that correlation is. For food, output price inflation hasn't come down as much, but it does seem to have peaked. You see the same in other countries. If you look at the input prices for food producers, that rate of inflation has been falling for several months. So we do not simply listen to what the retailers tell us. We construct the forecast a little more carefully. I should emphasise that, although we have definitely put up the food price inflation for a while, by the time you get to the meaningful part of the forecast for us, what we call a policy horizon, the point of which current changes and monetary policy would really have an impact on inflation, so in eighteen months, two years, and beyond, it's not having an impact. We still think, based partly on this, partly on what we're seeing in underlying commodity prices, that food price inflation will come down significantly. It will just take a little longer than we thought three months ago.

**Andrew Bailey:** Could I just add something, getting very specific now, if you don't mind me saying. So, the level of milk prices has come down actually. That's the level, just to be clear, in recent months. I mean, I don't live my life in bakeries, but I've been to a number of bakeries around the country recently. I know you may think I do from looking at me. What they've said is quite interesting. Their response in terms of buying, commodities forward to hedge themselves, changed somewhat in response to seeing the nature of the shock. There's a war going on in one of the largest grain producing countries in the world. So, they factor that in and I think we have to learn about those judgements as we go along.

**Joumanna Bercetche, CNBC:** Noted your comments on domestic inflationary pressures. Private sector wage growth is running north of seven percentage points. In order to bring that in line with your price stability mandate, many economists state it needs to be closer to three percentage points. How are you going to bring that down without bringing about a recession or massive uptake in the unemployment rates?

**Ben Broadbent:** That's a very good question. We already think it is coming down a little. Andrew showed you a graph with some of the indicators. What is highly unusual about this is it's not just economic slack or the rate unemployment that has driven wage growth. It is very much the second round effects of this huge rises in import prices. I gave you a number earlier for this enormous cost of living squeeze we've had, for the country as a whole. So everyone has experienced this. The result of that big hit to real incomes, we think, is that, for quite understandable reasons, firms and households try and protect those real incomes by pushing up their nominal prices and wages respectively. Now collectively, unfortunately, that doesn't really solve the problem, because it's just a problem posed on us collectively from the outside, but this is the predominant reason why wages have accelerated and domestic prices have accelerated, for example in services. What we've seen now is, Dave emphasised, and Andrew emphasised earlier, a lot of those global prices are declining. There's a breakdown somewhere of our wage forecast, and we expect, for that reason, predominantly. So, independently of the rate of unemployment, that that will bring down wage growth. Now we're actually relatively cautious about that. Andrew discussed the skew. That represents a judgement that this under-winding of the second round effect which actually take longer than the models are telling us it will. The models are saying, Yes, it will all unwind quite quickly, and you'll get quite a lot of fall in wage growth and domestic price setting without the need for higher unemployment but we've been more cautious than that. Indeed, unemployment does go up in the forecast, less than in February, but it does go up, but I think you have to understand that these are highly unusual circumstances and what has driven up these rates of growth to begin with. It's partly the tight labour market, but mostly it's other stuff, and that other stuff is unwinding.

**Larry Elliott, The Guardian:** Interest rates have now gone up 12 times in a row. Inflation, as you say, is still too high, above 10%. By any stretch of the imagination, that seems, to me, to be a policy failure somewhere along the line. Now, rather than blame Vladimir Putin for this, or wage bargainers trying to negotiate pay rises for their workers, isn't it time for the bank to own up to its part in this policy failure and say sorry to the householders who are paying more for their mortgages, sorry to the small businesses who are facing much higher overdrafts. Isn't it time for the bank to say, 'Sorry, we messed up,'?

**Andrew Bailey:** Well, Larry, we don't use the language of blame, I really must be clear on this. I do read, articles which are cast in those terms, and I don't use the language of blame. What I do think we have to do is set up the underlying shocks that are going on in the world economy and the UK economy that, in a sense, can cause this situation. We do push back. Ben made a speech on it a couple of weeks ago, on some of the arguments which says the underlying cause is not to do with these other things, it's to do with the way in which monetary policy has been set in the past. I want to distinguish two things here, so that's the first point I'll make. I think it's important to set out the causes, but not in the language of blame. We're not using the language of blame. If you want to argue that the war in Ukraine has not caused inflation, I think we'd be happy to have that debate with you, but we don't agree with you, I'm afraid. Now, the second approach to this question is, in some ways, I think, more important, which is, okay yes, let's take those causes and then say, 'Did you, as the Bank of England, respond either quickly enough or forcefully enough to those causes? Could you have anticipated those causes and therefore offset the experience?' Now, I think that's a debate that we've had for some time and I'm happy to have it again, as it were. I would make the point as I've made many times before, that there is a level of, if you don't mind me saying so, hindsight, in many of these judgements. The other thing I would say is, and I think Ben has set out, and certainly Silvana Tenreyro has set out in speeches they've made in the past, that if you take Ukraine as, a good case, you have to make two assumptions. One is that we could have foreseen the war far enough in advance to have actually taken action to offset it. I don't get beyond that point, but I'll set the second one out just for the sake of argument, if you don't mind. Then you would have taken massively offsetting action in the Covid recession to offset it. Now, we could debate that second point but actually I'm afraid I don't even get to that point, because the idea that we could have foreseen the Ukraine war eighteen months or two years before it happened, I'm afraid that is a stretch beyond to which I wouldn't go. That's not the language of blame, Larry. I don't want to use that language. I think we should have a debate about how does policy respond, but I think it is important that we set out the underlying causes here.

**Chris Giles, Financial Times**: I'm not going to use the language of blame, nor the language of hindsight, just the evaluation. The MPC says there's pretty much a 50/50 chance that inflation will be above its target all the way to 2026. That would be five years of above target inflation, a 50/50 chance. Is that good performance? How would you evaluate the performance? Is that something you would be proud of?

**Andrew Bailey:** Well, as you can see from the way we've set the presentation out, we always present the fan chart so you can always do that. Both on the mean case, so let's stick with the mean case for the moment which is the one where we've put more persistence in than the model would suggest. That really goes to what Ben was just saying about asymmetry. It brings inflation back to target, sort of, towards the next year. Now, of course there's a debate about how quickly we should bring inflation back to target and how appropriate are various different settings, and we have to balance that out because we've also got language in our objectives about trade-offs. We will go on considering very carefully as we meet, what is the right path to bring inflation down on, but I think this path that we've got is not unreasonable given the scale of the shock that we've had. We have to bear in mind the very large scale of the shock that we've had and I think we have to consider, yes, you could consider paths that would be faster because after all, bearing in mind, you've quoted one side of the fan chart, you can quote the other side as well. I think what we have is an appropriate path, and I'll just go back to the point I made to Phil's question, which is we will obviously be driven by the evidence at each meeting and consider appropriately, but there is no bias at the moment in our setting of rates looking forwards. Dave?

**Dave Ramsden:** Just to use the framing you use Chris around, I think any evaluation would have to take account of the fact that we and the global economies been hit by two once in a century shocks in quick succession. Again, not using the language of blame, just recognising the world that we and other central banks find ourselves in, so we have a major pandemic, certainly once in a century, first major war in Europe since the second world war, and these have had very significant impacts on prices and on price setting. If you look back at the track record we started putting up rates in December 2021 when we were still trying to make sense of the Omicron variant, when I see we, I mean the country collectively. I remember there was quite a lot of surprise at that time, that we had put up rates against that health backdrop, and then as I've described, the shocks we've had from the terrible war in Ukraine since then, which are still playing out and they're playing out in different ways for different sectors. So we've discussed a lot today, rightly, what's happened to food prices, but also, and that originates with the war in Ukraine in terms of the shocks from that. Also there are other shocks that have hit food prices and we as monetary policy makers have to deal with that world and I think an evaluation of us and of other central banks, it is the case that we started to tighten policy before other central banks, particularly before the Fed and the ECB, has to take account of the situation that we've found ourselves in over this period. Which has just been an extraordinary period for the world economy, for the UK economy and for monetary policy.

**Ben Broadbent:** We've got these ribbon charts which show these probabilities. The probability of being below…

**Chris Giles, Financial Times:** Its really close to late 26

**Ben Broadbent:** It's not, it's not late 26 Chris, it's I think someone told me the first and second quarter of 25, just to be clear, and it's below 2% throughout afterwards.

**Chris Giles, Financial Times:** So four years above inflation inflation is fine?

**Ben Broadbent:** No of course not, that's not what I said. I just want to be accurate about the premise of the question.

**Andrew Bailey:** The point Chris, I think we're all making is, and the debate we're very happy to have is, what is the best way to go back to price stability given the shocks we've had. Dave made the point very well, these are two huge events in history.

**David Milliken, Reuters:** I know in the Monetary Policy Report it talks a little bit about the lagged effect of past tightening and obviously this is difficult to judge, things have changed quite a lot since Bank of England's last tightening cycle. I was wondering, how confident can you be that you're not in the process of over tightening, because obviously you've got two members of the Monetary Policy Committee who, for a number of months, have voted against rate rises. So how sure can you be that you're not overshooting here?

**Andrew Bailey:** Well, it's a very good question because during this round we have I think appropriately, a lot of time on what we call the transmission mechanism and how it's changed. Now, I showed the chart of the mortgage market very deliberately, because that is probably the most interesting area of the transmission mechanism for the reason that it has changed so much over time. We now have in the UK a predominantly fixed rate mortgage market. Not fixed rate in the way the US has obviously but it's still a fixed rate over a period of time. I think, around about 85% of the stock in mortgages in this country is now fixed rate, whereas if you go back, I deliberately showed the long run version of that chart to take it back to a point when that was not the case. As that chart showed, we've still got quite a lot of pass through to come in that world, more so than we would have had in the past at this point in time. So yes, two things, that is a very lively subject of debate in the committee. However, we factor in what we think is the pass through now, so it's all factored into our assessment, but yes, of course because we haven't seen this sort of thing happen before, we haven't had a tightening cycle, with this mortgage market. There is a lot of debate around that and I'm sure, you know, there has to be quite a lot of judgement in that debate.

**Dearbail Jordan**, **BBC:** I'm just wondering, what do you say to people who are struggling to make ends meet? Do people, as Huw Pill suggested, need to accept that they're poorer?

**Andrew Bailey:** I am very, very, and we are very conscious that, all inflation is difficult and particularly for those least well off. This inflation is particularly difficult for those least well off because it is concentrated, as we've discussed today, in what I call the essentials of life. Food and energy, and people on lower incomes the larger proportion of their consumption is the essentials of life, food and energy being obviously the largest elements. Very, very conscious of that point. We face the difficult situation that, as Ben has said, there has been a very substantial hit to national income caused by these external shocks, take the national real income, which takes the form of higher inflation that is passing through. We have to deal with that. Now, you mentioned what Huw said, let me be very clear on this, the economics of the hit to national income are clear, but I want it to be very clear, that we are very sensitive to the position of people, all people, but particularly people on lower incomes. I don't think Huw's choice of words was the right one in that sense, I have to be honest and I think he would agree with me. What I'm afraid we can't duck is this very big hit to national income which we have to deal with, and we have to deal with it, and of course, as we've said a lot, we have to deal with the risk that that leads to second round domestic inflation effects.

**Ben Broadbent:** I just wanted to say in that respect, something that is I think, important to emphasize, which is that because as I said earlier, some of these global prices, many of them, have stopped rising and indeed some, those related to the pandemic shortages for example but most obviously energy prices, have actually been falling. There is some relief here and you can see it in this forecast. I don't want to over emphasize this because the levels of these prices are still much higher than they were before and will remain so in this forecast, but in terms of the growth rate, there is a little relief. So if you look at real labour income, for example, in this forecast, in the year to the fourth quarter of this year, so through the course of 2023, that is now projected to grow and to grow quite a bit, by over 2.5%. Which would actually be the best annual growth rate we've had for about five years. Now, in the long run, that growth rate depends on, improvements and productivity and so forth and it's not the case these prices will fall forever, but that fall is beginning to provide a little relief and we are beginning to see real income growth through the course of this year.

**Liam Halligan, GB News:** We see now that inflation in the US is 4.9% in April, 7% in the Eurozone in April. Just putting this in international context, why do you think it is that UK inflation 10.1% still in March as you now well know, has not only been higher than across much of the advanced industrialised world but also far from transitory. Has actually been particularly stubborn.

**Andrew Bailey**: Can I make one point? I think Ben wants to come in with another point. Can I make one point, it's a rather mechanical point but I think it's important to make at this point, because you're right to point out Liam, why has inflation not come down faster in this country? There is a particular point about energy prices and the energy price setting mechanism in this country. Actually it has quite a lot to do with the fact that we go back a year now actually, before the arrangements were changed, the Ofgem price setting mechanism was set only every six months, that's important. The reason I say that is because that's why we have a very big base effect coming in for the April number that's going to be released in two months, and why actually those base effects have come through rather faster in continental Europe, for some, I mean it's a bit of a mixture obviously, but I just want to emphasize, that's an important point in the current comparison. There was a bit of flip side to that actually a year or so ago, but that's a very important point in the current point of comparison.

**Ban Broadbent**: I think that is actually, the vast majority of that difference with Europe is that. So if you look at core inflation rates in March, we are higher than Europe, 6.2 versus 5.7, but the vast bulk of that, what is actually overall a 3.2 percentage point gap, is this point about energy. So coupled with, if you include petrol prices, their overall energy, domestic energy and petrol, it's still 40% higher in the UK, was, in March, 40% higher than the year earlier. In Europe the number is negative. In the United States it's minus 10% that inflation rate for energy and a lot of that has to do with the way that the Ofgem cap is set. It's much more lagged therefore, the effect. So the effect of these rises is still here for us, I mean, it will come down, and it will come down quite predictably because we can see exactly what's going to happen to the cap. We know what happened a year earlier, but it will take a little longer. So this is probably, probably the maximum gap, but that is the vast bulk of the difference, is this difference in energy prices. In the US by the way, the difference is not just timing, but as you know, they never saw the same rise in wholesale gas prices to begin with.

**Jack Barnett, CityAM**: I just want to go back to the transmission mechanism that you touched on there and there's obviously a bit in the report toady saying that, it's kind of been blunted, the way it transmits through the mortgage market, because we've now got a new shape of mortgage market. If you coincide that with the inflation forecast, you're saying quite a lot of the drop is being driven by supply side measures, so energy prices falling, food prices falling as well. Is there a question amongst the MPC now that the actual effectiveness of monetary policy in taming inflation, how effective is it and has it been blunted as a result of a change in some of the economic structure in the UK?

**Andrew Bailey:** I wouldn't use the word blunted, I think we have to adapt our view of the transmission mechanism to the markets that we have around us as it were, and the mortgage market has changed, and therefore we have to adapt our view of the transmission of monetary policy. Of course that then feeds back into our decision. So rather than blunted, I would say in a sense we have to adapt to what the transmission mechanism is.

**Dave Ramsden:** Yes, this cash flow effect that is driven by the nature of the mortgage market and the structure, I'd say it's slowed rather than blunted relative, it's going to take time to come through, but as the chart Andrew showed, we think on the stock only about 70 basis points has come through. Out of a total if you look at quoted rates on the most popular products, you're up at 300 basis points. So there's a long way to go, but that will build up. This is not, although we've put all these charts in the box today, this is not news to us. We knew that the mortgage market had changed and we've been factoring it into our forecasts for some times. Overall, we're continuing to work on this but overall we don't think that the overall impact of the transmission mechanism is any less than in the, we think it's broadly the same. Those impacts on demand are coming through, they will come through more marked, you'll see that as, if you look at the summary table in the forecast, it shows that we go from a position of currently excess demand as slack builds up, and other factors take effect, we will move into an opening up of spare capacity. We do expect some rise, regrettably in unemployment, but we think that that is necessary, it's a rise now to 4.5%, so less than the more than five, end point in unemployment we had before. So those features are still playing a part, but you're right as well to emphasize the role that the supply side and supply shocks have played throughout this period. Which we consistently talk about because we think they are relevant to the inflation that we're experiencing and how price setting is developing, but the demand effects from what we're doing and what we have to do in terms of monetary policy, we're still confident are going to come through.

**John-Paul Ford Rojas, Daily Mail:** Just following up partly on a previous question. You said that Huw Pill's language wasn't the right language, perhaps you agree that it was insensitive as some people think. At the same time the head of the London Stock Exchange is saying that executives need to be paid more to attract them to London, which seems quite starkly different from what you're saying, and you've also said in the Monetary Policy Report that the pass through of higher rates to savers is unusually weak. So, I just wondered whether you think that people in your position, people in the city, people at banks, ought to be setting examples. So should you, should Huw Pill, should others in the Bank of England, be refusing pay rises?

**Andrew Bailey:** Can I just say, that's what I've done. So just as a matter of fact.

**John-Paul Ford Rojas, Daily Mail:** Okay. Should people in the city stop talking about higher pay for executives, and should banks be doing more to pass through rate hikes to savers?

**Andrew Bailey:** Well, just to reiterate certainly, and I want to speak for myself. I have not taken a pay rise, just to emphasize that point. On the level of pay rise for executives, it's obviously, these things are set by firms, not by us. I've been very clear in my past and in my present as a regulator of banks, that we have quite extensive regulation which seeks to create the right incentives for a senior executive remuneration, but it's not about the level, so I'm very clear on this point, it's for forms to set that. On your point about deposits, I think, we get into this quite a bit in the report actually. So it is true that the rate of pass through to site deposits has been muted, I think we use that work actually, muted. The rate of pass through of our interest rate rises to term deposits and fixed rate deposits, has actually been much faster and is not very dissimilar to the actual increases that have gone through into the official rates. Now, I'm not surprised in one sense by that because, let me again put my bank regulator hat on and financial stability hat on, since the global financial crisis the liquidity regime has been changed so that we greatly incentivise banks holding term deposits. Not got time now, but if you go back to the recent experience of Silicon Valley Bank and so on, you'd probably understand why that's as sensible thing to do. Now what we have seen is, interestingly but not surprisingly, I think this is sensible, is that there's been some flow out of site deposits into term deposits it appears, and that's exactly what you'd expect given the pricing differential. The point I would make is that I think it's important that people shop around and that we have competition in the banking system those pricing mechanisms should take effect in that sense.

**Helia Ebrahimi, Channel 4 News:** Governor, you talked about the mortgage market changing, but are you worried about those people who are rolling off their fixed term mortgages? There's millions of them, and for them the impact of these twelve rate rises is astonishing and very difficult.

**Andrew Bailey:** Well, let me say again what I've said before because it's very important that we are very, very aware of the effect that this inflation is having and the consequences this inflation is having on households. So, please do not think that we're not in any sense, we are. Now, I think it's important that we obviously are very aware of what these effects are and as Dave was saying, that we take those into account, that's important. The other thing I would say is and something we've done, again I'll draw on the financial stability side of the bank for a moment, that again, for the last not far off a decade now, we have had policies in place to limit the proportion of mortgages which are the more extreme end of the loan to income ratio. Now that, just to be clear, that was done as a matter of financial stability, it wasn't a social policy intervention because that's not for us, but I would say that one thing that I think will help is that that does obviously limit some of the more extreme impacts that we've had in the past. We also, again this is not to do with the Bank of England, we've got much stronger protections in place now which mean that people do not have their houses repossessed in the ways that they used to be repossessed. Again, my old crew at the FCA have been very active in that field and I think that's appropriate, but let me come back to the first points I made, you're right, of course these things have serious impacts. We're very sensitive to this, but if we don't tackle inflation it will be worse for people. That's the bottom line I'm afraid.

**Lucy Hager, Market News:** Just wanted to ask, given the recent volatility in the projections, can financial markets still rely on the Bank of England's longer-term projections as a reliable communication tool?

**Andrew Bailey:** Well, we spend a lot of time, we have a lot of staff who spend a lot of time assessing volatility and financial markets to help us to read through that. You're right, it is interesting, now it's interesting in the period before, since the MPC last met. We've had obviously quite a lot of volatility in financial markets because obviously we've had some very, very high-profile events going on in the world financial system. Curiously we've done, in the UK it's been a little bit of a round trip, and we've ended up, not far odd where we've started. So that made the MPC's task a bit easier in this case sometimes, but no, we have to spend a lot of time interpreting this because of understanding the underlying reasons and the likely follow through of these things and how persistent they will be.

**Ben Broadbent**: I was going to come in, sort of, couple of points about the nature of our forecast. First, I don't think they're intended to communicate something, say about future policy. Historically they were intended more to explain the current decision, because of these long lags in policy, we have to make forecasts, sometimes I wish we didn’t, but we have to make forecasts. We use them to explain the current decision rather than to say, 'Here's what we're going to do for the next two or three years.' The second thing I'll say is from the beginning, this was always viewed as very important and is still very important, they are fan charts. They are probability distributions. They're not point estimates, and they're not point forecasts and that should be understood. Then the third thing is, something we said earlier, is they're conditional and people on the outside may have different conditions, and that's fine. There are loads of people who make forecasts, I don't think people think, 'Okay well I'm going to rely only on the Bank of England who makes a particular kind of forecast, indeed a whole range of numbers within the fan.' So, I'm not sure we view it as a, kind of, communication device about what will happen in the future, still less what will happen to interest rates in the future.