Monetary Policy Report Press Conference

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Faisal Islam, BBC News: So, you're just about not predicting a recession but stagnation for a year, a year and a half. If there was a recession, would that change your view that rates should stay roughly where they are for an extended period of time?

Andrew Bailey: Well, thanks Faisal. I must be very clear, our objective is price stability and price stability are defined as the inflation target. So, that is our objective. We don't set out to project growth one way or the other. You're right in your description of it, it is subdued. We see the evidence that Monetary Policy and the rate rise that we have done are now having an effect, they are restrictive, and we think that is coming through in the profile of growth. And just to remind, we are still at 6.7% in terms of inflation. So, there is a considerable way to go. We are determined to take it all the way back to target. There must be no doubt about that. So, that is what conditions our view of growth but Ben, did you want to come in?

Ben Broadbent: I'm having to think, having this very rigid definition of what is a recession, what isn't is a bit odd. I mean, there's a continuum of outcomes. So, whether or not it happens to be fractionally negatively or fractionally positive, won't have a bearing on Monetary Policy. As Andrew said, our focus is inflation. The outcome for growth might have some impact on that but I think it's not as if zero is a crucial threshold for us.

Sam Fleming, Financial Times: You're obviously at pains to stress the continued willingness of the MPC to lift rates again but it does seem quite jarring when set against the increasingly down beat outlook for economic activity, softening labour market and increasing slack in the New Year. So, is it not much more likely that the next move will be down rather than up? And what conditions would you need to see, specifically, in order to merit a downward move in interest rates?

Andrew Bailey: Well, I'll say two things to start off, Sam, on that. We have actually, as we've set out in the report assessed that the risk to inflation remains in our view on the upside. So, in a sense that conditions our view of the path of rates, of course. I think there are a number of things that underlie that judgement on the risk. Although we actually take it at the top-down level, we don't build it up from below, but we do focus quite a lot obviously, on what stories underlie that. I would point to two. One of which is continuation which is, tightness of the labour market, the evidence we see on pay, the evidence as you saw in the chart on services inflation. These are the indicators that we've been pointing to for some time, and although I did point to what I would call some of the puzzles around the pay data, I would still say whichever number you take from that chart, it is still inconsistent with meeting the inflation target. We do think it's going to come down, but we've been surprised. The second thing I would say, and this is the new thing, I'm only going to say that I think the events in the Middle East are tragic in terms of the human cost. We have to view it through the economic lens, it does create uncertainty, it does I think create a risk of higher energy prices. So far, I would say that hasn't happened and that's obviously encouraging, but the risk remains there. So, I would point to those two things. In terms of your second part of your question on what does it take, I would really just point again to the message that I think I made a number of times but it's a very important one, which is, we have got to see inflation coming down to target, no question. We've made very good progress; I

don't want to deny that. As I pointed out, I think there is quite a bit more to come this year, but we've got to see it going back down to 2%.

Dave Ramsden: And can I just add one point to that, which, goes back to the first chart that Andrew put up, the contributions to inflation and you can see now that the major contribution to inflation now and in the coming months is from services inflation and that re-enforces our concerns around the persistence of inflation. We do think that that will start to come off next year, but that has been a very sticky element in inflation through this year, hence where our bias still lies in terms of where the next rate move might come from.

Mehreen Khan, The Times: Given the small discrepancy on the inflation path between what is the market rate and the constant rate. Is your message essentially to financial markets that you see no reason to cut interest rates in 2024 given the path to inflation?

Andrew Bailey: Well, the message is that we're going to have to maintain policy is a restrictive stance as it is in order to see it get all the way back down to target. I think it's helpful to use both the market rates path and the constant rate path to in a sense illustrate where we think they lead to in terms of inflation target. Now, in fact, they both lead, of course, back to target. Let's be clear on that. There are some slight differences in terms of timing but they both lead back to target. But I want to just re-emphasise this message that we are going to have to maintain restrictive policy in order to get back to target, to take us back there and we've got a distance to travel yet. That's the key message.

Ben Broadbent: I don't think there's any particular message we're trying to send financial markets. As Andrew says, the differences in the forecast are not huge. The forecast conditioned on constant rates dipped slightly below the targets, so maybe you think, 'We won't have to hold this for three years, given everything else we have in the forecast.' Equally, when we condition on the market path, which has cuts appearing by the last part, I think, I can't remember exactly when it is, three or four months of next year, inflation is still marginally above that target. I don't think there's any particular message we're trying to send with that and indeed, checking my emails while we've been speaking and nothing much has happened to prices in financial markets since, we've published this forecast. I mean, the main message as Andrew says is a border one. Which is that we think policy has to remain restrictive for quite some time.

Andrew Bailey: If it helps just to illustrate it, we use a fifteen day window averaging for the market rate before market rates and if you take that window period that we used, and you calculate the average market rate over the next three years. So, through the forecast period and you compare it with the constant rate, it's about a quarter of percent difference. The constant rate is only about a quarter of percent higher.

Ed Conway, **Sky News**: Just looking at your forecast, it's basically flat. Flat in terms of economic growth, certainly very weak, maybe not a recession but basically flat lining, unemployment on the way up. Quite a lot of pain that's being felt out there by households around the country. Can you say how much of that pain is down to what the bank has done? So, down to interest rate policy and would you say that pain is a price worth paying to bring inflation down?

Andrew Bailey: Well, there's a long history to the price worth paying comment and I'm not going to join that history. So, I don't think that's the right language to use. I will go back to something I've said at a lot of these press conferences over the last few years and I'm going to say it again. If we don't get inflation down, then the pain is worse. And moreover, as I've said a lot of times and I will say it again, all inflation hurts the

least well of the hardest. When it's concentrated in energy and food, the essentials of life, it's even harder and it's critical that we bring inflation down. I think we're seeing, encouraging progress but we've got to see this through and that's what underlies. Now, let me say two things on the growth projection. Yes, as I said earlier, I do think that this projection reflects the fact that policy is restrictive. I mean it's one of the things that we've spent quite a lot of time as a committee discussing and we do see the evidence to support that. The second thing I'll say is that I think, coming back to inflation and coming back to price stability for a moment, you know, achieving price stability and maintaining it is the best platform, particularly for a sustained growth on the supplier side of the economy to encourage investment. And that is clearly what is important.

Ben Broadbent: Yes, agree with all that. One thing that comes across from these forecasts and particularly from the change since August is that we've taken a more pessimistic view of the supply side of the economy. And that's partly because of what we've seen on the nominal side. Through the year we've inferred, from actual productivity growth, from actual GDP growth, but still stubborn inflation that at least for the time being effective supply growth isn't that strong. And I think that those projections for actual growth next year should be seen in that context.

Joel Hills, **ITV News**: Governor, millions of our viewers have mortgage bills that they need to pay and when you say that interest rates are restrictive and are likely to be for quite some time to come, inevitably people are going to be worried about that. How restrictive are interest rates? Where's neutral? Put another way, when these temporary shocks are finally over, where are interest rates likely to settle? And if you want to give a range, that's fine.

Andrew Bailey: That's a version of the question you asked at the last press conference but we'll have a go. I'm going to say I'm sure Ben will be delighted to join in. Well, let me say a couple of things. First of all, as a committee, we actually don't spend time discussing what we think the equilibrium rate of interest is because it is really too uncertain a concept. It is true of course that it underpins the system but as a guide to policy setting, I don't think it's a helpful way to go about it. The second thing I would say, on mortgage rates, the rates on new mortgages have been falling a little bit gradually since about July I think I'm right in saying and that's because of course we've actually come off the peak of expected rates over the next few years has come down reflecting on the fact that of course we've had rates on hold since August. So, the path of expected interest rates has changed quite a bit and that has actually reduced the path of mortgage rates.

Ben Broadbent: Well, as we discussed three months ago, Joel, it's very difficult to assess these things, sort of, in real-time and I generally think one finds out only after the event really what the neutral rate is. In saying it's restrictive and saying that policy is restrictive, we think we are above that rate but we've inferred that from what we've seen is happening to the real economy and the stuff that determines inflation over the medium term. Just to follow-up, shortly after that press conference three months ago there was a blog published, which I can send you if you want, on the I think New York Fed website and it had in it a graph with two different estimates from two different models of trying to get at what the long run neutral real rate of interest is. They happen to track each other in broad terms reasonably closely over 50 or 60 years. You get to the last three years and one does that and one does that, and that for me illustrates the uncertainty that we're talking about. So we are confident enough to say we think we are above this rate, but I think it would be misleading given the imprecision of these estimates certainly in real-time to give you some number where we think we're definitely going back to in three or four years. I just don't think it would help and, we're

following policy in response to data and then we might look back over time and say, 'Such and such a thing has happened to the neutral rate of interest.'

Joel Hills, ITV News: I just think that if people can understand that there's huge amounts of uncertainty and that you cannot give unconditional answers but if you are saying interest rates are restricted, you must have an idea of where neutral sits vaguely.

Ben Broadbent: No, I don't think that's true. You can be confident that we're above it without having a very precise idea of where it is and that's where I'd describe we are. And, you know, we certainly need to have it in restrictive territory because as the governor said earlier, actually what is most important for households in the long run is that we have inflation stable around the target. That's the most important thing.

Dave Ramsden: And if I can just come back to the context of your question, Joel, and just to reiterate Andrew's point and we put this in chart 2.6 of the Monetary Policy Report. But mortgage rates on the most popular mortgage products have come off in the last few months, reflecting the fact that reference rates in markets have fallen back somewhat. But you're also seeing on the other side of the ledger with saving rates, longer-term deposit rates have continued to track those reference rates. But also, as we flag in chart 2.6, you're beginning to see instant access deposits, the rates that you get on your instant access account rising. So that's the other part of the transmission mechanism as it were where the story has changed somewhat since we were last here and that may be linked also to the FCA's action plan on cash savings which means that the pass-through particularly on those instant access deposits seems to be picking up.

Joumanna Bercetche, CNBC: So, I've noticed a new line in the statement, I'm just going to read it out. The MPC's latest projections indicate that monetary policies are likely to need to be restrictive for an extended period of time. Can I just ask you why you felt the need to include that statement? Especially given that markets are only pricing in the first rate cut for August of next year, August 2024? Are you trying to push back against that pricing?

Andrew Bailey: We're not trying to move the curve around, that's not our role at all and it's not what we're trying to do. We're really just trying to emphasise this point that, we are not talking about cutting interest rates. There has been no discussion on the committee about cutting interest rates. We think that interest rates will have to remain where they are for an extended period of time to get inflation back to target. That's simply the judgement, it's not a question of calling into question where the market is setting the curve.

Dave Ramsden: And in that sentence that you read out and you're right, it is a new sentence, it is framed by our latest projections so it's not in any sense a promise, it's conditional on the forecast. But given the forecast, that we've put together this time around, we thought it important to stress that extended period of rates staying in restrictive territory.

Andrew Bailey: And I would emphasise this point again that we were talking about just a few minutes ago that when you look at the two different paths of rates, you look at the market path and you look at the constant path, they deliver pretty similar actually inflation projections. Now, and a good part of that it's worth looking at, the path because as a you get a little bit further out in the forecast, actually inflation is pretty flat around the target for a period of time. It dips down below the target but it's actually pretty flat, just around the target for some time so that, again, helps to explain these different paths of rates are delivering pretty similar projections actually.

Larry Elliott, The Guardian: You've painted quite a grim picture of the economy, inflation still high and the economy weakening and monetary policy working. Given that the bank thinks it takes up to eighteen months for the full impact of previous interest rate increases to have an effect and only 50% of that impact has so far been felt, isn't there a danger of monetary policy becoming too reactive rather than predictive and of policy falling at the MPC falling behind the curve here?

Andrew Bailey: Well, what we do, Larry, and we've included a lot more in the Monetary Policy Report this time about what we think is the transmission of interest rates and of the rate rises that we've done to date and our staff have done a very large amount of work over recent months to assist the committee in its thinking on that. And the point I'd really make is of course all of that is factored into the forecast, you're right to make those points that, there's quite a lot of uncertainty around it I should say but according to the work done by the staff maybe we're approaching half way in terms of the impact of the transmission of what's been done so far. I think another point that was made is that within that we may be at about the peak point in terms of the path of that impact. Those two statements are quite consistent by the way. It is uncertain but we do factor all of that into our view so the projection that you've got factors all that in.

Ben Broadbent: Can I just make a slightly more general point which is that we often talk here in this audience about the central forecast and that being the determinant of, the appropriate policy as judged by the MPC, whereas, in fact, often one feels that you're trying to balance risks either side and you're trying to get to a point where roughly you've got a 50% chance of being wrong on this side and wrong on the other side. And, there is a case where these nominal variables, wage growth and services prices remain more persistent than we've allowed for even in this forecast. But what you've described very coherently is the opposite case that in responding to these things which traditionally at least in more normal times if you can call them those would have been seen as late-cycle indicators, there's a risk that we've over-tightened or will do so. And clearly that exists but there are risks on both sides and when we come to the view of the appropriate policy we're trying to balance those. It would be wrong to pretend that they didn't exist is my point.

Szu Chan, The Telegraph: How would you describe the growth outlook, not just this year but for the next few years? You've got a GDP growth of less than 1%, you're looking at post-tax incomes for households also less than 1% even as inflation starts to fall. How will that feel for households and businesses given that in the recent past, we've been used to growth rates of 2%, even closer to 3%? And also, if I may, could you just explain why you expect unemployment to be slightly higher in the medium term?

Andrew Bailey: Well, I would describe the growth projection as certainly subdued and I would pick out elements both on the demand side and the supply side. Now, on the demand side, I'd reiterate something that we've said at these press conferences before. Actually, of course, the economy has been resilient and it's been more resilient that we expected over recent times. But just to come back to the critical point, we are now seeing the effect of this restrictive policy coming through so, we've actually revised down our view of that demand resilience in this forecast relative to where we were in August. And then I think the second thing is going to the supply side of the economy and we have taken a view on that as well. We've revised up the medium-term equilibrium unemployment rate somewhat. Now, I would point to two things there, one is the fact that whichever indicator that you look at on that rather, sort of, busy chart, well, there are quite a few busy charts actually but that busy chart I showed, even if earnings are a bit below where the AWE, the average weekly earnings says they are, you only get to seven from eight, I mean, that's still too high. So we are seeing more resilient earnings than we would have expected and that has prompted us to look at the question of labour supply. The second thing I would quote on labour supply is that we've also seen from

work we've done quite continuously now for about a year or so that what we call, the matching efficiency in the labour market. In other words, you know, the efficiency with which people are matched to jobs seems to have gone down and that too is causing a restriction on the supply side. So those two things, I mean, there's both demand effects and the supply effects.

Dave Ramsden: I mean, by flagging, relatively subdued real household income growth as well you're getting to the core of the issue which if you want sustained rises in living standards that comes through high productivity growth. That's the key driver on the supply side. As Andrew says, what we were saying earlier, what we can do in terms of getting inflation back to target is a, kind of, necessary condition for sustained growth but it's not sufficient, you need that productivity growth. That's been very weak in the recent period in the UK. That's a real focus rightly for this government's policy has been for previous government's policies but that's the key underpinning full sustained non-inflationary rises in growth.

Ben Broadbent: When you say people were used to two or over two, actually we haven't had that for quite a while, we had two before the financial crisis. (A) productivity growth was stronger, (B) we had big improvements in the terms of trade and import prices were falling and so forth. Those days, sadly we haven't had them since the crisis. So real household income growth was I think a little over 1%, maybe 1.25 or something for the decade after that crisis. I mean, there's no doubt its weaker during this period of slightly below-trend growth but underlying this, our, sort of, long-run supply-side assumptions are actually not terribly different from those we experienced in the decade after the financial crisis.

Lucy White, Bloomberg: Governor, we've seen something of a disaster at the Office for National Statistics over the last month in the delay of the labour market data. Given the emphasis that you have placed on aspects like pay growth and employment growth, what effect has this had on your forecast? And do you think essentially you are flying blind a little bit? And if we do see the Office for National Statistics improve its data collection as it's hoping to by December, what change is this going to have? Are you going to be able to place more emphasis on that data? What change will it have to your approach?

Andrew Bailey: Well, I'll start. I mean, Ben's been very close to what's been going on. I should say, you may have seen that the ONS has put out an action plan this morning so I would obviously encourage you to look at that. I was slightly at pains in my introductory remarks to make the point that we look at what you might call, a suite of data that in a sense give us I think together a pretty good read on the state of the labour market in terms of employment and unemployment. And that's because we've seen for some time that the response rate in the labour force markets survey has been coming down. And just to reiterate that of course, the ONS had to switch from an in-person style of interviewing to obviously telephone interviewing during COVID and it appears that the response rate to the telephone interviewing has come down further and the ONS have called it out and said, 'This is no longer representative necessarily.' But on your flying blind point, I would say that's why I was quite at pains to point out that for some time we've been looking at a suite of indicators because we think it gives us a better read. And I would just emphasise, the second of those two charts that I showed, what you see in there is that the official measure has been quite volatile in the short-term. I think it was the orange line if I remember rightly but if it was the other line, I apologise. And, the one that we generate from our suite actually is a smoother but not inconsistent line. They're not telling particularly different stories actually and that's relevant as well because obviously the volatility, is not something that we would want to just copy across into our view of the economy.

Ben Broadbent: Yes, just a couple of things. First of all, the UK is not alone in having this difficulty with falling response rates for household surveys in particular. They've probably fallen most deeply here in the last couple of years and we welcome the action plan the ONS has to reinstitute the LFS and publish it again hopefully in December. And, of course, we have a wholly new survey to look forward to sometime next spring, I'm not sure exactly when which has been in preparation for quite some time. As Andrew said, certainly on the employment side, I don't think that the committee will be missing that much frankly in the intervening two or three months, well, we've only got one month now but two or three months worth of data. We've always run these models of what's actually going on with employment from surveys. We have quite a lot of them. We have a pretty good read from those and I think we can come to a reasonably good view of employment growth from those sorts of statistical models. The split of the rest, the split of non-employment between inactivity and unemployment is somewhat harder and we have fewer sources of information but we do have the claimant count and so long as the requirements needed to claim benefit don't change over short periods of time that does give you some information. So, I wouldn't say that we have none. I think we have a reasonable handle on the interim, but obviously we look forward to the improvements and the restarting of the LFS hopefully at the end of this year and then to the replacement survey, for which response rates are a good deal higher, sometime next year.

Ashley Armstrong, the Sun: I just wanted to ask staying on jobs, the recent insolvency figures were showing that, you know, access to lending and difficulty to raise lending is one of the biggest rises for companies going bust. So, I just wondered how that fed into the unemployment figures as well as a result of companies going bust. And then secondly, on the energy costs coming down in your forecast, it's nice to see that we don't have such extraordinary energy costs, but given how volatile and how unpredictable it is and with the conflict going on in Israel and Gaza, I mean how confident can you be in putting that estimation that energy costs aren't going to be such a big driver of inflation in the year to come?

Andrew Bailey: So, just on insolvencies, I mean again it's another piece of evidence that we can, in a sense take into account. You're right, obviously none of us are seeking to have insolvencies, let me be clear, but it's another piece of evidence that supports the, sort of, assessment of how policy is operating. And it tends to, underline this judgement on the restrictiveness of policy. On energy costs, you're right obviously about the short-term profile of energy costs. Just to reiterate, we expect quite a sharp drop in the next reading of inflation, which is actually for October, published in a couple of weeks time because of the way in which the Ofgem methodology adjusts. And, of course, it adjusts basically quarterly. So, we do get these quite discrete movements. As I said in my remarks, obviously from a human level, these are tragic events that we're seeing around us. I'll just reiterate two points I made. First of all, actually we have not seen large movements in energy prices in the period since these tragic events started. However, you're right that the risk is obviously there, and it is one of the things that we factored in when we were thinking about the risks to inflation. So, although it's not in the path of energy prices and we do use market futures paths to shape those paths. When we come to think about the risks, we take a much broader view. And so that risk, yes, I would say that risk has increased over the period since we last did the forecast.

John-Paul Ford Rojas, Daily Mail: I just want to clarify something that was said a little bit earlier about the risk of GDP growth falling to at or around zero and the idea that you're not necessarily that worried about whether it's slightly above or slightly below zero. It sounds like from that that the bank is prepared to tolerate a mild recession even if it is a technical or very small one around that zero level. Can you clarify whether that's the case. And does that mean that we're in for a sort of bumpy landing, I suppose, given the protections that are quite weak. If I may just ask one further question as well about your predecessor Mr

Mark Carney, who often is backing to Rachel Reeves. Did he tell you about that? Is that appropriate? And would you personally ever consider notionally in the future ever doing anything like that yourself?

Andrew Bailey: Well, let me start with that question. And Ben might come in on the GDP question. The Bank is independent and apolitical. And that is absolutely at the core of this institution. So let me be clear on that. Obviously former Governors can make their own decisions. They're not part of the institution any longer and Mark did not tell me in advance and of course there's no reason why he should. He has no obligation to tell me that, so I did not know in advance. And really that's the key thing. I'm not, I have to tell you, at the stage of contemplating life thereafter, but I just want to absolutely emphasize that it is at the core of this institution, and I will tell you honestly it's the core of me personally as well. I am apolitical and we are independent in respect of the functions we perform and that is absolutely central to us. Sorry for the sermon, but it's an important question and it's very clear.

Ben Broadbent: What I was saying earlier is that there's no threshold at which suddenly weaker growth below that is very important and stronger growth above it equally so. What matters is, what it does to the prospects for inflation. So, all else equal, if growth weakens and then there's more slack in the economy, that puts downward pressure on growth of wages and prices. It would have implications for policy. So, one should not pretend it's irrelevant. It's just that there's no threshold effect where suddenly, growth below that is crucial. It's a continuum. So, if you look at the things that we've stressed as being important for the stance of policy, they are things that follow maybe from demand growth. The degree of slack in the labour market and the growth in domestic inflationary things like wages and services prices.

Eshe Nelson, New York Times: Can I just ask you to go back to your point about the extended period of time that interest rates need to be at restrictive levels. Market pricing isn't suggesting a cut until the second half of next year. Is it that market pricing you're pushing against? Or is it a message for some other actors in the economy? And then secondly, you focused on the impact of energy prices from the conflict in the Middle East and that potential. Are there other ways in which you think the UK economy is vulnerable to that conflict or that conflict spreading further? And also do you think that if energy prices were to jump higher, the response would be different or the same? You know, who would the economy inflation respond to a sharp increase in energy prices? Do you feel that actually it could be transitory like the belief was last time? Or given the experience of the last couple of years, you would lean much more heavily on higher interest rates much more quickly?

Andrew Bailey: Well, just going back to the first question, I think I've re-emphasized what I said to an earlier question, which is we are not trying to lean against the curve in any sense. I mean we don't do that. So, we've used that language and it is very deliberate. As Dave said earlier, it's very deliberate language, obviously. But it's not deliberate to lean against the curve. It's really deliberate to just make the points that although, encouragingly inflation is coming down and we expect it to come down further, there is still a very, very considerable way to go and we're going to be there to take it down to 2%. That's the message. It's not a message about the curve in that sense. And just to reiterate the points, these forecasts as we presented the variant in the forecast with the constant rate curve, they don't actually make that much difference. So, we're not making a point about the curve in that sense because the differences are pretty small. Our energy prices, Ben might want to come in, I think in this conflict it is obviously natural to look at energy prices because obviously if there is a region element to this conflict, then that is the thing you would naturally look at. It's a bit different from that in that respect than Ukraine, where obviously there was a very big impact in food prices as well for instance. Look, we would have to judge the thing. You used the word transient,

which obviously is an interesting word for central banks these days. Of course, the origin of that phrase is simply this, that a single supply shock of that nature, you have to judge both the impact and the expected duration. And, if the duration isn't expected to be longer than the transmission of monetary policy, then there is a case for accommodating it and then reacting if you see second round effects or you suspect or fear second round effects. The problem we've had in recent years, in my view, is not that that's wrong, it's that we've had a succession of very big supply shocks with no gaps between them. And, of course, that just undermines this basis of transience. I readily recognise that. So, we would have to make that assessment. I think you always also have to make the assessment of what it goes back to what we've been talking about for much of this discussion, the impact on inflation and the impact on demand and activity in the economy, because those two things are both irrelevant. And we would have to make that judgment.

Ben Broadbent: I mean it is, as Andrew says, the last three years have been extraordinary with both the scale and the nature of the shocks. But in many ways, that simple orthodox response that any monetary policy maker would have to a change in energy prices, namely you may react less for any given impact on inflation pending a second round effects, quote. That's precisely what we've been doing. I mean the shocks have been huge and they've multiplied each other, but that's essentially the message. So, I don't think one can say, I would imagine we'd have the same approach to be honest. And we've learnt, certainly I've learnt, that even given the huge scale of the shocks, the second round effects on domestic wage and price inflation have been stronger than I thought they would be. And that would therefore be slightly more uncertain judgment as to what they would be were this to reoccur. But in broad terms, the nature of the judgement is exactly as Andrew described it.

Geoffrey Smith, Politico: And apologies for this. I know this is a monetary policy press conference, but I wanted to change the subject very briefly. With the latest amendment to the financial services and markets bill, you now have the right to change your funding model. And I wanted to ask you why you would want to do that? And what you would aim to achieve by so doing? And I think specifically I'd like you to specify what you would expect the concrete impact are on the risk of, or possibility of net transfers from the Treasury to be?

Andrew Bailey: Sure. Well, the Bank's funding is quite complex because we have a number of different sorts of activities. Some of our activities are funded today by a levy that all the PRA regulation is funded that way. Some of them are funded because people pay us for the services we provide and payments world. In the case of bank notes, we deduct the cost of issuing them and then pay the so-called seigniorage over to the Treasury. And then you get back to the core of what we call the policy functions, of which by the way monetary policy is obviously part, but I mean not the only part. Historically, they've been paid for by what's called cash ratio deposits, which means that the banks maintain a certain level of non-interest bearing deposits with us. Now, by the way this is really a) it's not big in the grand scheme of things and it's nothing to do with monetary policy. So, this is not about monetary policy. And the yield on those deposits that we earn pays for the policy functions. The problem is that I would say if you're running any sort of organisation, obviously the yield that we earn on those deposits obviously varies with interest rates. It's not that predictable from year to year. And from the point of view of running an organisation, it's not the best way to frankly fund your activities. Some years you may over fund and some years you under fund. And so what the legislation which you rightly point to envisages is that we will move to a levy based system, where we can essentially set a budget and raise a levy essentially from the organisations we regulate to do that. I should say, we're in the process of going through all the practicalities of how to do that and we'll be saying

more about that, so I'm not going to prejudge that. But, it's really about having frankly a predicable and what I would call more sensible in the modern world budgeting system. Ability to fund your budget. It's not more than that really.

Dave Ramsden: I mean all I would add to what Andrew said is, and you probably sense this, that the previous system was pretty opaque. You know, this new system will be more transparent and I think that that's a good thing in terms of being clear what we're spending money on and the policy function, how it's being funded. There is an interaction with the Treasury on that, but from our perspective, you know, the way that this is being framed through the parliamentary process, this won't have any impact on what we want to do in terms of that policy function.

Andrew Bailey: It's not designed to have any impact on the Treasury. It's not in any sense a sort of backdoor tax or anything like that. I mean it is simply a way in which we cover part of the costs of this institution.

Bill Schomberg, Reuters: Changing the subject again a little bit. You mentioned earlier that there had been quite a lot of going on in the gilts market and the bond market. There's been some speculation that the move, especially at the long end of the market and the longer duration gilts, might lead to a slight re-jigging of the operational system that you use for QT. It seems that there's particularly sharp price falls for longer end gilts. Is this something that you're considering. I know that in the past you've said you're open to looking at these things, but I think you've also said the bar's pretty high for any major changes. Have the moves in the market led to new discussions and new thinking we should be expecting anything along those lines anytime soon?

Andrew Bailey: Dave's the expert on this one.

Dave Ramsden: We're very open in the minutes about drawing attention to these moves at the long end. They've obviously been from, not just for us but for other monetary policy makers. They're very relevant context in the sense that the rise in 10 year yields, 30 year yields particularly in the US has been a real feature between the September meeting and this one. In terms of thinking it through, do they change the context for our quantitative tightening operations. Not at all. We're very keen, as we've stressed, both the MPC has stressed and the Bank has stressed in terms of the operation, that we want those operations to be as predictable as possible. And that our approach to them, the principles that underline them are based on that predictability. So, these moves in yield curves don't change that at all. We've set out our schedule of auctions for the rest of this year. What sort of gilts we'll be selling and we'll be sticking absolutely to that. But back to the bigger picture point, the fact that long-term yields are going up and the drivers behind that, as we say in the minutes, it's clear that higher for longer is a message that has, from not just us but other policy makers, has been received by markets. There is also some speculation in markets, and particularly when you think about the US, but also potentially relevant to other countries, that r-star, this equilibrium rate may have gone up. But I mean that's an open debate. But also that term premier have been driving some of the increases. Term premier could be linked to greater uncertainly in the world; it could be linked to greater supply of debt in various jurisdictions. I do want to just stress though that we don't think that quantitative tightening is contributing significantly to those increases in term premier. I set the detail of that out in a speech back in July. So, I hope that gives you some further background.

Richard Partington, the Guardian: I'm just going to ask, you know, if I'm viewing this correctly there's a trade off the bank has to manage here between the risks of recession and ensuring inflation falls back to

target to give the economy a more stable platform for the future. So, if no policy loosening from the Central Bank for an extended period, what about perhaps the fiscal stance? Perhaps tax cuts? I know that's not in your gift, but what would be the impact of tax cuts, fiscal loosening be for the economy in the forecast?

Andrew Bailey: Well, in a sense you've answered it in a good part yourself. I mean that's obviously a matter for the government, not for the Bank of England. Obviously we condition all our forecasts on announced fiscal policy. So, this forecast is conditioned on the policy that has been announced up to now. It obviously doesn't take the Autumn statement into account, because that's not happened yet. And whatever were to be announced would be factored into our next forecast. I don't really think I can add much more than that.