The formulation of monetary policy at the Bank of England

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This article describes the internal processes adopted by the Monetary Policy Committee and the Bank for the formulation of monetary policy. It covers the regular monthly policy round as well as the quarterly forecast round and the preparation of the accompanying Inflation Report.

Introduction

In May 1997, the Bank of England Monetary Policy Committee was created by the Government to set interest rates in the United Kingdom. The Committee was charged with the responsibility of maintaining price stability as a necessary foundation for the maintenance of sustainable economic growth with high levels of employment. The specific policy objective is reviewed annually by the Chancellor of the Exchequer. But to date, the Committee's goal has remained the pursuit of a target of $2^1/_2$% for the annual rate of change in the retail price index excluding mortgage interest payments (RPIX). This target applies at all times. Subject to the primacy of maintaining price stability, the Committee must support the Government's economic policy, including its objectives for growth and employment.

The Committee has nine members: five with executive responsibilities in the Bank (the Governor, the two Deputy Governors, the two Executive Directors with responsibility for monetary policy analysis and monetary policy operations respectively) and four other members appointed by the Chancellor of the Exchequer. Each member of the Committee is individually accountable for his or her monetary policy judgment. Decisions are taken by a simple majority.(1)

This article explains how the Committee currently discharges its main responsibilities, and describes the key internal processes it has adopted. These processes have evolved over time, and the Committee and the Court of Directors of the Bank review them regularly to ensure that they work efficiently and that they conform to best international standards.

The first section of the article provides a very brief summary of the transmission mechanism of monetary policy, which provides the context for the processes adopted by the Committee. The second section focuses on the monthly policy round. The third covers the production of the quarterly forecast and the publication of the *Inflation Report*. Subsequent occasional articles in the *Bulletin* will explore particular aspects of the processes in more detail.

The transmission of monetary policy

In the standard description of the transmission mechanism found in most economics textbooks, monetary policy affects inflation by first impacting on the level of aggregate demand, as households and businesses respond to (say) an increase in interest rates by increasing their savings and reducing their investment. This in turn reduces tightness in labour and product markets and consequently exerts downward pressure on wage and price inflation.

In practice, the transmission mechanism is considerably more complex than this.(2) Changes in official interest rates may be passed on incompletely into retail lending or saving rates, while the response of long-term interest rates, which may be more relevant for investment decisions, will depend on how the policy action affects market participants' expectations of future short-term rates and inflation. These changes in official and market rates are also likely to affect the value of equity and

(1) There is a quorum of six of whom two must hold office as Governor or Deputy Governor of the Bank. The chair shall be taken by the Governor, or in his absence by the Deputy Governor with executive responsibility for monetary policy. The Chairman has a casting vote in the event of a tie.
(2) See 'The transmission mechanism of monetary policy', *Bank of England Quarterly Bulletin*, May 1999.

housing wealth, which, in turn, will affect spending. An increase in the official interest rate may well also lead to changes in the exchange rate, which will have both a direct effect on retail goods price inflation via import costs, as well as an indirect effect via aggregate demand through the impact on net trade. Moreover, changes in interest rates are likely to affect consumer and business expectations of future inflation and this in turn will affect their spending and pricing decisions.

So the transmission mechanism from monetary policy to inflation is complex. Moreover, the strength of the different channels is likely to vary over time—for instance, high levels of indebtedness will tend to make consumers and businesses more sensitive to changes in interest rates. And a key difficulty in the formulation of monetary policy is the fact that changes in interest rates invariably have their full impact on the economy only after a considerable time lag. Typically, the bulk of the effect on aggregate demand can take a year or even longer to come through, while the full effect on inflation can take up to a further year to manifest itself. These 'long and variable' lags mean that monetary policy can do very little to affect the current inflation rate, but must instead look at prospective inflation developments a year or more ahead. Thus an evaluation of medium-term inflation prospects must inevitably play a central role in the monetary policy process. Likewise, the monthly news on economic trends and financial market developments must be interpreted in terms of its likely impact on future, rather than just current, economic prospects.

The monthly policy round

The Committee reviews the setting of monetary policy monthly to a pre-announced schedule.(1) Each monthly cycle contains three elements:

- Briefing in advance of the policy meeting.
- The two-day policy meeting culminating in the interest rate decision, which is implemented immediately.
- Production and publication of the Minutes.

The timetable for a typical round is shown in Table A. The three components of the process are described below in turn.

Table A
Timetable for a typical monthly round

Briefing	
Throughout the month	Circulation of briefing material and analysis of data releases and market developments by staff.
Friday before policy meeting	Half-day pre-MPC briefing meeting.
Monday/Tuesday	Staff undertake follow-up work requested by the Committee.
Policy meeting	
Wednesday	Policy meeting commences early afternoon. Committee identifies the key issues and debates their implications for inflation prospects.
Thursday	Policy meeting concludes. Committee members provide their assessment of the appropriate policy stance and vote on the level of interest rates. Policy announcement at noon. Decision implemented immediately in a round of open market operations at 12:15 pm.
Minutes	
Week following policy meeting	Draft of the Minutes circulated and comments from Committee members incorporated.
Monday (second week after policy meeting)	Committee meets and signs off the Minutes.
Wednesday (two weeks after policy meeting)	Publication of the Minutes at 9.30 am.

Briefing the Committee

Information on economic and financial developments and prospects in the United Kingdom and overseas is released throughout the month. On most days new information becomes available, either from the release of economic data or from the publication of surveys of business trends or consumer sentiment. Financial market participants react to this information as well as to news on the performance of individual companies and to any perceived changes in the outlook for economic policy. That reaction is in itself economic news, which is also relevant to the Committee's decision.

Committee members monitor this economic information carefully. For all major UK data releases and surveys, Bank staff circulate a short analytical 'indicator' on the day of publication that summarises the new data and identifies and analyses the key trends. Releases of data on the major overseas economies are also circulated, with analytical comments added by Bank economists; a weekly summary of international economic developments is also provided. Financial market movements are monitored on a continuous basis by Bank staff, and a weekly note interpreting the main developments is provided to the Committee.

Economic data releases and movements in financial markets often raise issues that warrant additional

(1) Additional meetings are permitted under the 1998 Bank of England Act. The Governor convened a special meeting on 18 September 2001—the first occasion that this facility has been used.

analysis. For example, do recent movements in import prices suggest a change in the pricing behaviour of foreign suppliers to UK markets? To what extent might compositional changes in employment explain the surprising strength of manufacturing earnings growth? How close is the link between movements in capital goods prices and the outlook for investment growth? Why have bond yields moved? Such questions are addressed in a series of analytical notes and research papers that are circulated to the Committee each month. Some pieces of analysis and research are commissioned directly by the Committee; others are provided on the initiative of Bank economists. Sometimes these pieces of analysis may also be developed into articles in the research section of the *Bulletin*.

The Bank's twelve regional Agents, who each provide a summary of the latest economic trends as perceived by their business contacts over the previous month, are an important additional source of intelligence. The Bank's Agents have around 7,000 business contacts across the whole country, whom they visit on a regular basis. The attraction of this information is that it is timely and focused on the Committee's needs, while official data are often published with a considerable lag. Moreover, Committee members themselves have substantial direct contact with business through their regular programme of regional visits.

Finally, and in addition to the analysis and interpretation provided by the Bank's staff, Committee members also receive a wide range of briefing material from external sources. These include the press, economic research institutes, financial market and academic economists, international organisations, employer and trade union groups, and public sector bodies.

The centrepiece for the monthly Committee briefing is the so-called 'pre-MPC' meeting, which is typically held on the Friday morning preceding the regular policy meeting. The aim of the full morning meeting is to draw out all of the key economic news over the past month and put it into context.(1) All Committee members attend, which ensures that all are briefed to a high level and enter the policy meeting on an equal footing. The meeting format provides an opportunity for Committee members to ask questions and to probe further on the analysis of recent economic trends.

The pre-MPC meeting takes the form of a series of set-piece presentations by senior Bank staff. Each presentation covers a different aspect of the economic landscape, building up a comprehensive picture of the key economic and financial developments over the previous month. There is a considerable emphasis on graphical interpretation throughout the presentations to emphasise key points. The broad parameters of each presentation are set by the objective of providing a thorough assessment of the latest economic news. But the nature and form of each presentation varies considerably from month to month as speakers tailor their material to draw out the salient features. Copies of the presentations are subsequently circulated to each Committee member to provide the opportunity for additional scrutiny prior to the policy meeting itself. To assist Committee members in monitoring trends in particular data series, each member receives an accompanying standardised briefing pack of around 500 charts and tables in advance of the pre-MPC meeting.(2)

The agenda for a typical pre-MPC meeting is shown in Table B, together with a brief summary of the main areas covered. Presentations vary somewhat in length according to current importance of the topic, and there is flexibility to rearrange the timetable to include short

Table B
Agenda for a typical pre-MPC meeting

International environment	World output and trade, global oil and commodity price trends; economic and financial market developments in the United States, the euro area and Japan; monetary and interest rate developments overseas; emerging markets.
Monetary and financial conditions	UK money and credit aggregates and sectoral financing trends; retail and mortgage interest rates; interest rate expectations; equity prices; corporate bond spreads; exchange rates.
Demand and output	UK GDP; demand components (consumption, investment, public spending, inventories, trade); housing market; sectoral output trends; profits and labour income; business and household surveys.
Agents' special topic	Response to a short survey commissioned by the MPC at the previous policy meeting on a topic of particular interest.
Labour market	Employment, hours worked, unemployment and inactivity; vacancies; skill shortages; earnings and settlements; productivity and unit labour costs.
Prices	UK energy, petrol, and other commodity prices; producer prices (manufacturing and services); retail prices (recent trends and near-term outlook); price deflators.
Agents' overview	Business contacts' perspective on latest economic trends, drawing on some 600–700 discussions with contacts over the previous month. Key regional and sectoral differences are highlighted.
Financial market intelligence	Market participants' views on recent and prospective movements in exchange rates and interest rates.

(1) The briefing meeting used to take the best part of a full working day in the early years of the Committee. Following internal discussion and the external review of MPC procedures by Don Kohn of the Federal Reserve (see 'The Kohn Report on MPC procedures', *Quarterly Bulletin*, Spring 2001), the Committee agreed to concentrate the meeting into a half-day.
(2) The chartpack is updated before the policy meeting, with new data and survey information highlighted.

special presentations on particularly topical issues. For example, there is typically a presentation on fiscal trends in the meeting following the Budget and the Pre-Budget Report.(1) Moreover, once a quarter there is a short session synthesising the main news from the latest external forecasts of the UK economy.

The Agents' special topic is a key part of the pre-MPC meetings. At the end of the policy meeting each month, the Committee identifies an issue on which a sample of the Bank's regional Agents' business contacts can provide up-to-date insights and information that cannot be readily obtained from an alternative source. Examples of recent special topics include: the economic impact of the terrorist attacks in the United States; service sector prospects; export trends; and stock levels. In each case, 150–200 firms selected by the Agents provide responses to a short, focused, questionnaire, with the replies collated for the following pre-MPC meeting.

Prior to the policy meeting, the Committee receives written answers to questions raised at pre-MPC that could not be resolved in the meeting, as well as any new economic data or business or consumer surveys.(2)

The monthly MPC meeting

The timetable for the regular MPC meetings is announced well in advance to provide certainty to markets on the timing of potential interest rate changes.(3) Monthly meetings are prescribed in the Bank of England Act: the Committee generally meets on the Wednesday and Thursday following the first Monday of the month.(4) Meetings typically start at 3 pm on the Wednesday, concluding with a published policy announcement at noon on Thursday.

The first afternoon is devoted to a thorough review of the major economic news over the previous month and of the implications for the outlook. Following a short summary of key developments since pre-MPC by the Bank's Chief Economist, the discussion is commonly organised around selected issues under each of the major headings covered by the pre-MPC presentations. So a typical afternoon might begin with developments in the world economy, followed by issues arising from, in turn: monetary and financial data; UK demand and output trends; labour market developments; and cost and price pressures. To conclude the discussion, the Committee also examines whether there are any tactical issues that are relevant to the immediate policy decision.

The discussion on each broad area is led by the Deputy Governor responsible for monetary policy, but is free-flowing in format. Committee members participate actively, debating and weighing the economic news and analytical evidence.

The Treasury sends a representative to the policy meeting, to date either the Head of the Macroeconomic Policy and Prospects Directorate or the Permanent Secretary to the Treasury. This representative does not participate in the general discussion, but does from time to time brief the Committee on fiscal trends and on particular public policy issues, such as the impact of the foot-and-mouth epidemic or public sector pay developments, in order to facilitate effective policy coordination. There are also five Bank staff members present: a three-person Secretariat, which has the responsibility for taking the minutes of the meeting, and the Deputy Directors responsible for Monetary Analysis and Statistics and for Market Operations respectively. They do not take any part in the discussion, apart from providing occasional factual clarification, if requested by a Committee member.

Committee members reflect on the discussion overnight. On the Thursday morning, the Governor summarises the key points and invites Committee members to comment on or amend this resumé. The Governor then invites each member in turn to give their assessment of recent economic developments, and their view on the appropriate stance of monetary policy. The Deputy Governor responsible for monetary policy usually speaks first, while the Governor usually concludes. Other Committee members are called in random order.

Each member generally takes around ten minutes to present his or her assessment. At the end of each assessment there is an opportunity for other Committee

(1) Treasury staff provide briefing on the Budget and the pre-Budget Report in a separate meeting. The Committee has also received briefing from the Low Pay Commission on the introduction and subsequent uprating of the National Minimum Wage.
(2) There is generally limited UK economic data, as the pre-MPC and MPC meetings are deliberately scheduled in a relatively fallow period in the monthly and quarterly data rounds. However, additional information on business trends and on house price developments is typically published in this gap as well as data on the major overseas economies.
(3) Typically meetings are announced in the early autumn for the subsequent calendar year.
(4) During 2001, two of the scheduled meetings were held instead on Tuesday and Wednesday in order to allow the Governor to attend the General Council of the European Central Bank.

members to ask questions. Usually, members conclude by giving an indication of their preference for the decision on the level of interest rates, but sometimes individuals reserve their position until they have heard the arguments put forward by all Committee members. At the end of the discussion, members initially reserving their position signal their recommendation.

Once all Committee members have given their views, the Governor puts a motion that he expects will command a majority and calls for a vote. Members in a minority are then asked to confirm their preferred level of interest rates.

Finally, the Committee drafts the press statement to be published at 12 noon. On some occasions, typically when interest rates are changed or when the policy decision clearly differs from expectations held by financial market participants, the Committee issues a statement explaining the main reasons behind its action. On others, for example when the Committee has voted to maintain the previous level of interest rates and such a decision is widely expected, the press statement simply reports the interest rate decision.

Minutes

The Minutes are published at 9.30 am on the Wednesday two weeks after the start of the policy meeting. A first draft is circulated by the Secretariat early in the week following the policy meeting. After a round of written comments, the Minutes are agreed by the Committee at a meeting on the Monday prior to publication.

Comments in the Minutes are deliberately unattributed. The main reason for this is to promote a vigorous discussion and debate of the key economic issues at the meeting, encouraging members to promote, test, challenge, and reject arguments. If all comments were attributed in the Minutes, there is a risk that this would encourage members to prepare set-piece statements in advance of the meeting, and that there would be less interaction and intellectual engagement in the discussion.

The quarterly forecast

Given that monetary policy decisions depend crucially on a forward-looking view of inflation prospects, the MPC undertakes an inflation-forecasting exercise on a regular quarterly basis with the assistance of Bank staff. To aid it in this task, the Committee employs a 'suite' of quantitative models of the UK economy.(1) A central tool in the production of these forecasts is a relatively standard macroeconometric model (MM). Two general types of model supplement the MM. First, there are quantitative theoretical models designed to illuminate particular issues that are not captured in the MM. Examples include the consequences of technical progress concentrated in a particular sub-sector of the economy, and the role the banking sector may play in amplifying shocks at particular points in the economic cycle.(2) Second, there are purely data-based models which are used to provide alternative forecasts as a cross-check on the projections produced with the MM. The projections are also systematically compared with those produced by independent forecasters.

The suite of econometric models is an essential tool, but the quarterly projections are not simply the result of running either the MM, or the suite, mechanically. All economic models are highly imperfect reflections of the complex reality that is the UK economy and at best they represent an aid to thinking about the forces affecting economic activity and inflation. The MPC is acutely aware of these limitations. Moreover, a considerable amount of judgment is required to generate the projections. In making those judgments, the MPC draws on a range of additional sources of information about economic developments. The published projections thus represent the Committee's best collective judgment about economic prospects in the light of all the information available to it, not the mechanical output of a particular econometric model.

The Committee thus draws on a whole range of information in preparing its projections, just as it does during the regular monthly MPC round. However, the quarterly forecast round provides the opportunity for more in-depth discussion of key issues in an explicitly quantitative framework. This provides an opportunity to stand back and look afresh at economic news over a run of months and review whether the level of interest rates remains appropriate. So the forecast process can result in the Committee modifying its view of economic prospects, and thus of the appropriate setting of interest rates, even though there may have been little news about the economy since the previous monthly policy meeting.

(1) See *Economic models at the Bank of England (1999)*, and *Economic models at the Bank of England: September 2000 update*.
(2) See Hall, S, 'Credit channel effects in the monetary transmission mechanism', on pages 442–48.

An example of such a re-evaluation occurred during the August 2001 round. Although the news between the July and August MPC meetings did not obviously point to a change in policy, taking fresh stock of the domestic, and particularly global, economic trends over the year thus far led the Committee towards a slightly more pessimistic view of economic prospects. As a result the Committee opted to cut the official interest rate by a further 25 basis points at the August policy meeting. The fact that the quarterly forecast round may lead to such a re-evaluation means that the probability of the level of official interest rates being changed is slightly higher during *Inflation Report* months. Since the Bank was given operational independence in June 1997, there have been 18 MPC meetings associated with a quarterly forecast round and rates were changed at 10 of those meetings (56%). By contrast there were 37 MPC meetings outside a quarterly forecast round and rates were changed just 13 times (35%).

The forecast round

The structure of a typical forecast round is shown in Table C.(1) It would usually start as early as eight weeks before the date of the associated *Inflation Report* with the model review meeting. At this meeting between the Committee and the staff, the latter report back on any research work commissioned by the Committee at the conclusion of the previous forecast round. The Committee then agrees how the outcome of this research is to be taken on board in the economic models to be used in preparing the subsequent projections, as well as on any other factors that need to be resolved before the staff can begin preparing the projections.

Table C
Timetable for a typical quarterly forecast round

	Date relative to MPC meeting	Content
Model review meeting	Seven weeks before	Staff report on research commissioned at conclusion of previous forecast round. Committee agrees on how the results are to be taken on board during the forecast round.
Benchmark forecast meeting	Three weeks before	Staff provide updated projections incorporating latest data and identify key issues for subsequent discussion by the Committee.
Three key issues meetings	Two to three weeks before	Discussion of major issues requiring the Committee's judgment. Staff provide detailed background notes on each issue.
Two draft forecast meetings	One week before	Staff provide revised projections incorporating judgments made at the Key issues meeting. Committee takes a 'top down' view of the plausibility of the projections and the attendant risks.
Inflation Report published	One week after	Contains final projections, incorporating any policy changes made at the most recent policy meeting.

During the following four weeks, the members of the Bank's Conjunctural Analysis and Projections Division, in conjunction with other members of the staff of Monetary Analysis and other parts of the Bank, prepare a so-called 'benchmark forecast' with the aid of the MM. This benchmark forecast is an update of the projections from the previous round incorporating the latest data and any model changes and associated adjustments already agreed by the Committee. At the same time, staff in the International Economic Assessment Division prepare an updated forecast for the world economy, which is an essential input into the forecast for the domestic economy. The international forecast is prepared primarily with the aid of the National Institute of Economic and Social Research's global economic model (NiGEM), but also draws on other tools such as the IMF's MULTIMOD, as well as internal research.

While these benchmark forecasts are being prepared, Bank staff prepare a number of background papers analysing key issues on which they think the Committee will need to form a judgment in making its agreed projections. Recent examples of such key issues include: the possible impact on the economy of the terrorist attacks in the United States; the durability of the consumer boom; and past and future supply-side developments. The papers discuss the various possible views that the Committee might take, and bring together evidence that might help the Committee to form its judgment about the issue in question. Sometimes these background papers will draw on one or more of the other models in the suite.

About four weeks before the publication of the *Inflation Report*, and therefore three weeks before the associated MPC policy meeting, the staff present the benchmark forecasts for both the world and UK economies to the Committee. The staff also provide an analysis of the factors behind any change from the projections contained in the previous *Inflation Report*. On the basis of the material provided by the staff, the Committee agrees the key issues it wishes to discuss in more detail. These may be those key issues already identified by the staff, but may also include others identified by individual MPC members.

The Committee focuses its discussions on issues that satisfy two conditions. First, it must be one about which there might reasonably be a variety of views on the

(1) The forecast process has been modified over the past year in the light of internal discussion and the external review of MPC procedures by Don Kohn of the Federal Reserve (see 'The Kohn Report on MPC Procedures', *op cit*).

Committee. If an issue is a straightforward one about which there is likely to be little debate, then the Committee will not spend much time discussing it. Second, it must be an issue that is quantitatively important for the projections. The restriction to issues that are quantitatively significant helps to focus the Committee's discussion and was recommended in the report into MPC procedures carried out by Don Kohn of the US Federal Reserve.(1) Prior to that report, the Committee spent time discussing more peripheral issues, decisions on which are now delegated to the staff. A by-product of this change in procedure is that the projection is not necessarily 'fine-tuned' in all respects by the Committee.

The discussion of the key issues is spread across three separate meetings with the staff over a week or so, with each meeting typically lasting about three hours. On each issue, there may be a consensus across the Committee members about what judgment to take, but unresolved issues may sometimes be carried forward for further assessment. The risks around each individual judgment are also discussed, though sometimes the interconnection of judgments on different, but related, issues leads to the discussion of risks being postponed until later in the forecast round.

By the end of this sequence of key issues meetings, the Committee needs to have taken a collective view on each of the major judgments. In every case the Committee, under the guidance of the Governor, tries to reach a view that represents a position that most, if not all, of the Committee can subscribe to. But in the event of a significant disagreement on a particular issue, a vote may be taken with the majority viewpoint subsequently being embodied in the projections.

The staff then produce revised projections embodying the Committee's judgment on the key issues, as well as updating them for any new data that have been published since the benchmark forecast was prepared. The new projections, referred to as the draft forecast, are then presented to the Committee a few days before the associated MPC policy meeting. Up to this point, the forecasts have been built up on an issue-by-issue basis, that is to say primarily from the 'bottom up'. When the staff present the new draft forecast, they also provide systematic comparisons with forecasts produced using other models in the Bank's suite and with the forecasts of outside bodies. These comparisons help the Committee to take a 'top-down' perspective, and assess whether the overall shape of the forecast and the attendant risks is plausible. Sometimes, as a result of this process, the Committee asks for further adjustments to the projections, and the timetable makes provision for a further meeting if necessary.

At the final stage the Committee again tries to reach a broadly common position on the overall shape of the forecast, but if this is not possible then the majority judgment again prevails. The outcome of this process constitutes the 'best collective judgment' of the Committee. Of course, sometimes individual members may feel that the Committee's collective view is sufficiently far from their own to wish to note that explicitly when the projections are published. Table 6.B in Section 6 of the *Inflation Report* provides illustrative calibrations of the possible impact of taking alternative judgments on certain key assumptions that might be preferred by minority Committee members. And the range of differences among the Committee on the central projections for growth and inflation, and for the balance of risks, is summarised in Section 6 and the Overview.

For the associated MPC policy meeting, the staff provide near-final projections, based on the prevailing level of official interest rates. They also typically provide alternative projections based on other possible settings for official rates to help the Committee in its deliberations. It is important to emphasise, however, that there is no mechanical link between the central projection for inflation at the two-year horizon and monetary policy. The box on page 67 of the November 2000 *Inflation Report* explains why this is so. The discussion at the policy meeting may lead the Committee to wish to modify its projections further, and if so the timetable offers scope for some last-minute amendments before the *Inflation Report* goes to press.

The *Inflation Report*

The Bank is required by the 1998 Bank of England Act to publish a quarterly report on inflation prospects. The *Inflation Report* provides description and analysis of the current state of the economy, as well as describing the Committee's assessment of economic prospects as embodied in the projections. Together with the Minutes of the monthly policy meeting, the *Inflation Report* provides a vehicle for explaining the Committee's

(1) See 'The Kohn Report on MPC Procedures', *op cit*.

thinking and thus enhances the transparency of the monetary policy process.

The timetable for preparing the *Inflation Report* runs parallel to the quarterly forecast round described above with the drafting carried out by a small dedicated team. The typical *Inflation Report* starts with a short Overview, which is followed by four sections on: money and asset prices; demand and output; the labour market; and costs and prices. The focus of these sections is on reporting and interpreting recent and current developments. A fifth section briefly summarises monetary policy decisions during the past quarter, drawing on the already published Minutes. The final section describes the Committee's assessment of the economic outlook and the projections for growth and inflation.

Publication of the *Inflation Report* takes place one week after the corresponding policy meeting. While the Act only requires that it be published 'with the approval' of the Committee, in practice the texts of the Overview and Section 6 are agreed formally by the Committee at a special meeting, just as with the Minutes of the regular monthly policy meetings. Invariably there is also an associated press conference led by the Deputy Governor responsible for Monetary Policy, accompanied by the Chief Economist and the Director for Financial Market Operations. The full text of the *Report* is available on the Bank's web site at www.bankofengland.co.uk/inflationrep/index.html

Conclusions

This article has described the current processes underlying the monthly MPC meetings and the quarterly forecast round leading up to the publication of the *Inflation Report*. These processes have evolved considerably since the MPC was created and the Bank first started publishing an *Inflation Report* in 1993, and more particularly since the Bank was given operational independence over monetary policy in 1997. The processes will no doubt continue to evolve in the future as the Bank strives to find better ways of operating. However, we hope that this snapshot of present procedures provides a flavour of how the Bank and the MPC go about formulating monetary policy.