

## Monetary Policy Report and Financial Stability Report Press Conference

Thursday 6 August 2020

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**Dharshini David, BBC:** Thank you, Seb. Governor, thank you for that. Looking at your forecast and listening to your remarks, it's clear obviously that the bank sees the recovery taking longer now, the risks being to the downside, especially if we see, you know, more restrictions put into place. Also you talk, as you say, about the negative rates perhaps being less effective as a tool. So, are we basically steering the markets away from an expectation of negative rates, and does that mean that the burden will fall on the Chancellor by his fiscal policy? This will help leaders to alleviate the pressure on incomes in the short term.

**Andrew Bailey:** Thanks, Dharshini, I mean, a couple of points on that. First of all, I should say that in saying that a recovery will take longer and there are more downsides compared to May and June, I'll just make one point again. In May, uniquely, we used a scenario, and the reason for that was that we were obviously, you know, in the absolute midst of it at that point. We were so uncertain about the outlook that we felt it was appropriate not to, sort of, in a sense, attempt greater sort of precision of a forecast. I say that only because, you know, we are very cautious therefore about making comparisons between May and now in terms of, you know, how we've changed our view. On the question of negative rates, I mean, it's interesting. I suppose it's one of those things, you know, it depends from which end of the telescope you start looking down, because I would say that this is, I think, the first time the Bank of England has said definitively, as I've just said, you know, 'Yes, they're in the toolbox. We don't have a plan to use them at the moment but they are in the toolbox.' You know, I would make that point. You know, we've done quite a lot of work, a lot of work, in the last few months on it, and that is our conclusion. Now, let me say this about it. As I said, we draw on the work the other central banks have done and used them. There is good reason to believe that the effectiveness of a given moving rates at that point is highly attenuated. Two things seem to stand out in what we observe in other countries. (1) It does critically depend upon the structure of the banking system particularly. No country has really moved to having negative retail deposit rates, i.e. for retail customers. So, the larger the share of retail deposits in your banking system funding, obviously, it follows from that that the more attenuated the effect would be, and the UK does have a high share of retail deposits in its banking system as well as some reforms we've made since the crisis, ring-fencing and so on, that's been a deliberate direction of travel. The second conclusion we tentatively draw from other experiences is that negative rates and their effectiveness does depend upon what point in the cycle you use them at. You know, there's a bit of evidence, certainly if you look at what the ECB have done in their analysis, that probably they're more effective in an established upswing than they are in a sort of, you know, rather difficult downswing. Now, don't take from that any prediction from me as to when we're going to use them. I just offer that as an observation, which you can see, sort of, in a sense, covered in the box. No, so I'm pushing back on your suggestion that we're, sort of, you know, saying, 'Not for us, thank you.' I think this is probably the most extensive, in a sense, assessment we've done, and I just reiterate the conclusion. I think it's absolutely sensible for us to have them in the toolbox but we're not planning to use them at the moment.

**Francine Lacqua, Bloomberg:** Hello, Governor. What would it take, I mean, what would you do before negative rates?

**Andrew Bailey:** Well, we don't have a hierarchy of the things that we would sort of tick off before doing negative rates. You know, what I think, or I hope, you can draw from what we've said and done is that the toolbox has, you know, a few things in it, even though, obviously, you know, we are, inevitably, like most central banks, in a more constrained world at the moment, given where rates are. You know, just to summarise, I would say, you know, they do have the potential to lower rates, it's in the toolbox. Obviously, we could do more. We could do more quantitative easing, and as we've done today, we could do further forms of forward driving if we feel they're reflective. So, there are tools in the box. There isn't a hierarchy of tools because it's really completely state-contingent in terms of, you know, the MPC would have to, sort of, consider carefully the situation it found itself in and which tools in the box we might like to be more useful than others at that given point in time.

**Larry Elliott, The Guardian:** Following on from that, the bank presumably doesn't produce a four-page box on negative rates without giving some steer that they are going to be used at some point, and you were quite careful to say that they're not being considered at this time, which does leave open the possibility that they will be used at some point. I mean, I just wondered whether you could sketch out the circumstances in which you think it would be appropriate to use negative rates? Sketch out a scenario in which you think that the MPC might think, 'Well, now's the time,' to overcome some of the reasons for not using them, where the balance has changed?

**Andrew Bailey:** Well, I'll give you a couple of bits of context, Larry, on that. I mean, I'm conscious that pre-COVID, which seems like a sort of, you know, prehistoric world almost, you know, Mark Carney and I both, at various points, you know, in the early part of this year we got asked about headroom, and gave commentary, the same commentary because it drew on bank work actually, about what we thought the headroom was in that sort of, you know, pre-COVID situation. You know, the world has moved on a lot. You know, frankly, we've innovated and done things in ways that, you know, we didn't envisage when Mark and I made those comments. I think, you know, that's an entirely appropriate response to the COVID shock. Now, that has opened up a lot of debate about, you know, 'What are the tools?' It's opened up the debate about negative interest rates in this country. Obviously, it's been done by other central banks. I think that's appropriate, to have that debate, and I think it's appropriate for us to respond to it. What we're not doing is saying, you know, 'Mechanically, in the following situation, we would send those rates negative.' We're not going to do-, we're not doing that. What we are saying is, you know, it doesn't, in our view, make sense to say, 'We would never do them.' It may in some other countries because of particular aspects of the financial system but it doesn't here, but there are particular issues with negative rates, what I just outlined a few minutes ago, so I won't repeat those. You know, if we get to a point where, you know, we have to consider further substantial easing, we will consider all the tools in the box, and I think we've given you a few sort of pointers as to how we would think about negative rates in that context, but we will think about them, yes.

**Ed Conway, Sky:** Hello, hi. Yes, I mean, obviously, negative interest rates, very interesting but I won't ask another question. I was struck by actually, kind of, how, in comparison with certain other projections, how positive the forecasts were. I mean, clearly, there's not much good news out here but it's a lower unemployment rate than the OBR scenario. I suppose I just wondered, first of all, what is the extent of scarring that you're foreseeing, and second, like, you know, how much dissent was there in the committee about this? I mean, are there very different views about the, kind of, outlook, given that it is a very wide fan-chart. I would assume there to be some big differences and opinion about how much scarring there's going

to be, and I just wonder if any of the other members, you know, Ben or David, want to talk about that? I'm sure that, you know, there might be some, subtle at least, differences.

**Andrew Bailey:** We should all do that. Can I just say, on unemployment, and Ben may, I'm sure, want to come in on this, can I just caution? One of the things to be a bit careful of is that we and the OBR are measuring somewhat different things. The OBR, as we understand it, their measure is actually a sort of amalgam of unemployment and changes in activity. Ours is unemployment. So, it's not surprising that there is a wedge between those two numbers, just a cautionary point there, that it's not quite what it seems. I mean, let me just say a little bit about views and then I'll hand over to Ben. Yes, I mean, look, the whole point about the MPC is that there is, you know, vigorous and open debate. You know, that's the process at its best. You know, as we've laid out very clearly in the report, we are in conditions of probably the most extreme uncertainty we've had in the life of the MPC, nearly a quarter of a century, so it's not surprising that there was some very good debates, in my view. I think the hard things are trying to assess the, sort of, what I might call the pass-through, well, first of all, trying to assess how COVID is going to evolve, secondly, how it's going to pass through into the economy. You know, these are very hard judgements. I think, looking at the economy more narrowly, sort of focussing more on the economy, we have had, you know, a strong recovery in the last few months, in the sense that-, and I'll give you an example. I'm cautioned about not drawing too many comparisons with May but I will draw this one comparison with May. Actually, the pace of recovery in the data that we've had since May puts the economy of where we thought it would be in May. Obviously, that opens up the question, 'Well, to what extent do you extrapolate that forwards?' Or, 'To what extent do you say, you know, "In the current conditions, you know, we don't think the recent past is necessarily a good guide to the immediate future. Yes, I mean, there was a lot of debate around that. There is a lot of debate around the question of supply and demand effects, and therefore how it affects the output gap. I think, you know, one final thing I'll say, I think the hardest things to assess in the outlook is to what extent, you know, there is a sort of output gap effect, and to what extent there's going to be structural change in the economy, which could, for instance, you know, raise the NIRU for instance. Obviously, in terms of thinking about inflation, that's important because the amount of slack in the economy, it's affected by those two things. So, I'll hand over to Ben, who I'm sure will have some reflections on this.

**Ben Broadbent:** Thanks, Andrew. Yes, just quickly pick up on the point that Andrew made about the unemployment forecasts and their comparison. You may have been referring, Ed, to the OBR's numbers for unemployment at the end of this year. As Andrew says, the OBR's is really an amalgam, the change in unemployment is an amalgam of the change in unemployment and the change in inactivity. They've essentially, in a stylised way, assumed that every job lost, whether through redundancy or voluntary chosen to unemploy, sorry, there's a noise on the line, if you look at the typical downturn, some portion, less than half but some portion, say around a quarter of jobs lost actually tend to go into inactivity. People quit the labour market altogether. If you were to use that ratio, the OBR's forecast for unemployment consistent with their path of employment might be somewhat below the 10% figure they have, I think, for the end of this year, possibly below 9%. So, ours, at 7.5%, is really not that different, especially when you consider that we have a downside skew in the forecast, quite a marked one, for both output and employment. The difference, measured that way, is pretty small I think, relative to the degree of uncertainty involved. I make the same point about the width of the fan, not just at the end of this year but over the forecast as a whole, it really is materially higher, at some points more than twice as wide as the fan we normally have, which is based on average past forecast errors. That is not really a

representation directly of differences of view. It's a representation of, you know, how each of us, individually and also collectively, view the genuine uncertainties about the economy over the future. As Andrew suggested, trying to predict with any degree of precision how weaker output is split, as it were, between supply effects and output cap effects can't really be done, except with a great deal of uncertainty. As Andrew alluded to, there might be some negative supply things, you know. You might find that jobs available in the future don't perfectly match the characteristics of people who've lost their jobs. That could lead to higher structural unemployment. On the other hand, there are shifts on the retail side, for example, from physical retailers to online that might, as long as the online retailers have the capacity to meet that demand, improve productivity. So, there's a whole panoply of possible effects, and, as I say, the width of the fan is not really a representation of differences of views, but a genuine uncertainty about the future economy. Thanks.

**Bill Schomberg, Thomson Reuters:** Yes, thank you very much. Just changing the subject slightly to Brexit, how much of this weighing doesn't feature in your discussions at the moment? I know you have to take the government's stated policy of aiming to reach a deal by the end of the year as a starting point, but to what degree did you focus around the possibility of an additional shock for the UK economy on top of everything else, coming from a failure to reach a trade deal?

**Andrew Bailey:** Well, obviously we do consider that. So, as you say, the central case of the forecast is conditioned on the government's stated policy, which is a broad and deep CETA style trade agreement, but obviously, in the skew and the risks, we then look at alternative assumptions and essentially that was focussed on what the government has said, which is the alternative, which would obviously be the WTO style structure. What I would say, I mean, there are two things, I would say, obviously, is that COVID, I think, is actually obviously the bigger issue at the moment for the economy is COVID. I don't think there's any doubt about that. Secondly, one of the, you know, slightly complicated things, obviously, at the moment is looking at how COVID, which of course is also having effects on trade, negative effects on trade, interacts or, in a sense, takes over from any of the-, particularly when you're looking at the risks, that is, in the forecast, takes over from any of the possible effects of Brexit. So, it's a complicated position in that sense, but I would just point again to the skew that we've got in the forecast, which, you know, encompasses all those things but, you know, is predominantly COVID at the moment.

**Russell Lynch, The Telegraph:** Just, again, a slightly different subject. Obviously, just in terms of the stimulus that you've already put in, is the MPC concerned at all about the actual pass through of that stimulus given, let's say, rising mortgage rates on high LTV loans, etc. Do you have any concerns about the actual transmission of the stimulus you've done already?

**Andrew Bailey:** Well, it's something that we obviously follow very closely, as you would imagine. You know, I think we've said quite a lot in the past that it is of course true that when you get down to very low interest rates you will see some attenuation of the pass through. And, that, of course, is why we introduced in March the new term funding scheme, the TFSME. Which is having an effect, banks are using it, because that puts funding from us at bank rates and we think that's reinforcing it. Now, you're right to point to the fact that, laying over that, is risk judgements that lenders are taking, particularly as you rightly pointed to, high LTV mortgages. And, we saw obviously quite a pull back from high LTV mortgages initially. I don't think that's particularly surprising in the sense that people-, lenders take a very cautious view on the evolution of house prices, potentially. Actually, I mean, the

evidence so far-, and the only thing I would say here is the evidence, of course, is harder to collect at the moment than normal, is that there was an initial fall in house prices. Not a big one, but we've seen some-, obviously, some reversion in the last month or so reflecting, actually, quite a strong recovery of activity, and plus also I think the stamp duty effects, of course, are coming through as well. And, you know, I think we see some evidence, now, that lenders are beginning to look again at returning to higher, I think I'll say higher, not high, LTV mortgages. I don't know whether any of my colleagues want to come in on this point.

**Delphine Strauss, Financial Times:** Hello, excellent. So, coming back to unemployment, we have a forecast for it to be less severe than initially feared over the coming months but then to recover very slowly indeed. Perhaps because of the sectoral nature of the downturn. Could you expand a bit more on the sort of functions there about structural change in the economy and what the long-term effects could be?

**Andrew Bailey:** Yes. Ben, do you want to come in on that one?

**Ben Broadbent:** Sure, thanks Andrew. When I talked a moment ago about the forecast of unemployment, I just want to follow that up with-, to explain how we've reached that near-term forecast and then I'll say something about the medium term. The near term forecast we've constructed by looking at the pattern of output and as you allude to, Delphine, in particular the sectoral pattern. And, we've asked the question, given that path of output, at a sectoral level, how might employment evolve. And, one of the things that contributes to that rise is precisely that this downturn has been so skewed and, as it happens, skewed positively, if that's the right word, to sectors that are labour intensive. So, even that seven-and-a-half allows for a slightly bigger fall in employment given the decline in aggregate output, than you might normally expect to see. As you say, thereafter it also falls more slowly, relatively slowly, it takes the full forecast period, three years, to get back to that four percent number. And that reflects the caution we think that some employers will have about new hires given the prevailing, if declining, general level of economic uncertainty that drives quite a bit of the forecast. I don't think it's much different, I have to say, that pace of decline, than you see in the-, a normal upturn. But, you're right to say it's-, it's relatively gradual. And, as I say, in the background what you've got as well are some effects from so-called matching difficulties on the NAIRU if you like, on the structural, short term rate of unemployment, which is also slightly higher through the forecast. So, both of those things contribute the general level of caution, the allowance we make for some mis-match, contribute to a relatively gradual decline, even if, as I say, it's not actually any more gradual than in broadly speaking a normal economic upswing. Thanks.

**Joel Hills, ITV:** Can I just go back to negative interest rates. I mean, this has been looked at before in 2008/2009, the bank-, and Andrew Bailey you would have been involved in those discussions because I think you were on the secretariat at the time. And you decided-, or the bank decided then, the collective view was that it was counterproductive and, in fact, in some cases it was risky, it could drive banks to the wall. Why has your thinking changed on this? I mean, it's a question to you, Andrew Bailey, if you wouldn't mind?

**Andrew Bailey:** I'm tempted to hopelessly murder a quote from Harold Wilson and say ten years is a long time in monetary policy. That was a different crisis. No, you're right Joel, I mean the point is that I think we have to-, you know, we have to always be looking at the toolbox and more so than ever in a context like the one we're in at the moment. I mean, I would say this, I think it remains the case, in my view, that in a situation where you're

judging negative rates, then you have to look even more closely at the structure of the financial system and the effects it will have, and therefore the effects it will have on financial stability and on lending capacity. That is, sort of, in a sense, the same as a decade in there. What we have seen, though, since then, of course, is as I mentioned earlier is that other central banks have implemented negative rates in response to, you know, obviously situations they find themselves in. So, again, I think it makes sense to us to, you know, to take the learning from that and, you know, see what we make of it. I think the other thing to say is that if you look back at, I think, the Bank of England commentary-, because we have also changed, over time, the assessment of the effect of lower-bounds. You know, it came down during Mark's time, in a sense, with further analysis, the committee did and further evolution, if you like, of the economy. So, I-, you know, I would push back against the idea that we rejected it, maybe ten or twelve years ago, therefore nothing changes. But I would also just come back to the point I made earlier, and I think it is sensible to have it in the toolbox, but please don't think we're about to use it, because that's not our path.

**James Salmon, Daily Mail:** Hi there, just a question for Andrew Bailey, how important do you think it is for the economic recovery and the jobs market for workers to stop working from home and return to the office and how do you look at trends on working from home and firms plans to get people back into the office, in your economic forecasts?

**Andrew Bailey:** What we do-, I mean obviously, it's a massive thing that we need to consider in the context of productivity. First of all, I mean, obviously this is not a point that's within the Bank of England's range of, you know, tools. So, you know, that's obviously firmly not in our-, in our scope. We're looking at it from the point of view of the effects that it has on the economy. And I would say-, I would say a few things about that that are relevant. First of all, I actually think that-, you know, many institutions of course have adapted well to the very sudden shock that came upon them in terms of having to reorganise their working practices. So, I think from the point of view of productive efficiency, you know, it has actually been a successful adaptation. I'm not saying-, don't take me saying that therefore it can go on indefinitely, that's not the point. I think the second thing, slightly tangential I know, but I'm going to make the point is that there is a point we make in the report very carefully, clearly, is of course, you know, I said in my introductory remarks-, while we've seen an aggregate recovery in the economy, it is very unevenly distributed and, of course, one of the big points that lies behind that is that the effect of COVID has been felt most severely on those sectors of the economy that rely most on labour supply and particularly labour supply and services which require sort of in a sense close human contact. And, I just would emphasise the fact that it's-, you know, let's be clear, because this is a really important point, there is a high concentration of the less well paid jobs in those sectors and that matters a lot.

**James Salmon, Daily Mail:** You've had WH Smiths and other retailers announcing huge job losses, and that's driven largely by, you know, lack of footfall on the high street and, you know, lack of office workers coming to, you know, going to Pret for example to buy their sandwiches. I just wondered if you could talk a bit about the wider impact on the economy of people working from home? I know you talked about the productivity but there's a wider impact isn't there?

**Andrew Bailey:** Well, there is an impact. There clearly is an impact. But, I also think obviously, and this is where we take the lead of the government, I think the government is actively working on policies that attempt to use, you know, series of what I might call sort of smart measures to, in a sense, take care of-, you know, to address the reappearance of

COVID. And, I think from the point of view of the economy, I think that is a right thing to do. I'm a very strong supporter of that. I thought what the Prime Minister announced last week. Trying to, in a sense, use targeted measures is the right thing. I think speaking from the point of view of the economy. But, we will obviously have to judge how those measures influence, obviously COVID, we're not experts on that, we take the advice of others on that. And that of course is going to have a big effect James on the question of people's working patterns and I think it must be the case.

**Ben Chu, Independent:** So a question on the big picture really. In these forecasts, the peak to trough fall in activity is lower than it was in the May forecast and one might have expected that to result in less damage to the economy, supply capacity. But, instead it seems that we've got more damage than previously expected, in this forecast. I wonder if you could just talk about what explains that difference and does it reflect merely a deficiency of the original forecast or is there-, does it say something about the deficiencies of the policy response, as well, perhaps.

**Andrew Bailey:** Well, just to make sure colleagues come in, Dave, Ben, do you want to come in on that one?

**Ben Broadbent:** Sure. Very quickly, thanks Andrew. It's Ben here. I don't think the-, the implicit numbers for longer term scaring are very different as it happens. To be clear, what we did in May was not a forecast. It was based on very particular assumptions about the evolution of the pandemic and it was a scenario. And, more generally, forecasts change not because of deficiencies but because of news. So, as it happens, the difference in the longer term supply side developments, implicit within these-, both the scenario in May and the central forecast here, are not that different. We have now a path of unemployment that declines more gradually. That is driven by a-, you know, largely by a cautious view on consumer spending itself, a result of a more gradual decline in perceived uncertainties, both as to the health outcomes and in respect of the wider economy. So, well, I go back to what I said at the beginning. I don't think the difference is, as it happens, that big and I would also emphasise that, in this, the first proper forecast we've done since the pandemic happened, we have material uncertainty. We made a point of referring to those both in words and in the shape of the fan charts, overall and that's why, as I say, if you look simply at the fans then you're on average close to twice as wide as we normally have them, reflecting precisely the uncertainties over these judgements. Thanks.

**Andrew Bailey:** Dave, did you want to come in.

**Dave Ramsden:** Yes, just really-, I mean, you know, I think this is a central set of judgements in the forecast and, as we highlight in the MPR, you know, we have allowed for some long lasting scaring due to persistent weakness in productivity but also the kind of factors that Ben has been talking about in the labour market. But, with downside risks on demand that we've also highlighted, you know, there is the potential for more persistence. This is the first forecast we've put together. We're-, at the moment, we're still in the early days of the recovery, and we think the recovery is going to be rather more drawn out before we get to whatever that new normal looks like. And, what we're trying to do in the MPR is flag the considerations that will determine, you know, how-, you know, how long the recovery phase takes and then what that implies. At the moment, we have, in our judgements, allowed for some long term scaring even though we're, at the moment, only a few months into this-, into this extraordinary period. But, it's something we can return to this judgement

and other judgements in successive forecasts as we learn more about how these-, how the economy is adapting, how the structural changes that Delphine was talking about are unfolding. Thanks.

**Gurpreet Narwan, The Times:** Morning everyone. So, my question is about the data that you're looking at. There's been some thought that economists might be placing too much emphasis on these newer, faster indicators. What are your thoughts on that and what degree of caution are you exercising?

**Andrew Bailey:** Sorry, I caught nearly all of it. Just to be clear, the question is what sort of caution do we have in terms of interpreting the faster indicators?

**Gurpreet Narwan, The Times:** Yes, that's right yes.

**Andrew Bailey:** Yes. Well, interesting. So, obviously there's been-, I mean, good news, a huge increase in the availability of data in the last, you know, year, two years, three years. What I would say, and I think this is sort of implicit in it, almost, and it goes exactly to your question. I think, you know, we have to do a lot of work not just to take raw data and turn them into something, you know, meaningful in terms of, you know, the context we would use them in and monetary policy. But also, your point, to essentially test and establish their, you know, their meaning, as it were, and how reliable they are. And, bear in mind, I mean, the point that, you know, actually Ben always makes to me, quite rightly, all of these faster data are of course very partial. I mean, you know, the point about an official measure, I mean, obviously take GDP as the classic premise. You know, it is a measure of the whole economy which weights the whole economy, is a very sophisticated and complex animal in that sense. You just have to be really careful when you're looking at fast data which is just looking at a very, sort of, limited piece of that picture not to over-interpret it. I'm sure Ben wants to come in at this point because it's a subject dear to all our hearts.

**Ben Broadbent:** Thanks, Andrew. Yes, as Andrew says, you have to be very clear what these faster indicators are measuring and what they're not. I would just say a couple of things. First of all allowing for that they have been pretty good. They've given us a pretty good steer, for example, as to the behaviour of consumer spending. They're high frequency, you can measure them at monthly and sometimes weekly intervals and recognising that they measure particular things only I think they've been very helpful. A separate point entirely is whether or not you use the faster indicators or the more traditional official measures of activity or spending, it doesn't resolve the big question we've been spending some time talking about, which is what about the medium term? Those indicators have helped us in the near term predictions, activity in Q3, for example. Even the central prediction for unemployment in Q4. Even those have wider fans around them and as for the medium term it's driven more by the kind of judgements that Andrew, Dave and I have been talking about. Those have very little to do with the near term indicators, whether they're the old or new kind. Thanks.

**Jason Douglas, Wall Street Journal:** Good morning. Could you explain a little bit more please about why the UK has suffered a larger falling out within the second quarter than comparable economies? You mention a couple of things in the statement I think around timing of the lockdown and perhaps also the mix of spending and relatedly is it possible to say at this stage whether you think the recovery in the UK is going to be any faster or slower than that of its peers? Thank you.



**Andrew Bailey:** Thanks, well, if you don't mind me saying so I think you've almost answered the question. I think two things I'd point to is (1) obviously it is very dependent on the sort of pattern of COVID timing wise and obviously severity wise, and also the pattern of the restrictions that were put in place. It's also as you said as well, it is also the case that the UK has a larger share of its economy devoted to, going back to what I was saying a few minutes ago, those sectors of the economy, particularly service sectors that require people to mix and to do their jobs in what I might call sort of tight social interaction. The UK has got a bigger share of services sectors that do that. Those are the ones that have been obviously most effected by the necessary restrictions, social distancing and so on and we do think that is part of the story then about why we've seen some different effects in the UK. Ben, do you want to come in again?

**Ben Broadbent:** Yes, just very quickly. I think in terms of numbers, Andrew is absolutely right and we give some numbers in the report as to the slightly different sizes of these, in particular the sectors that deliver so-called 'social consumption', bars, restaurants, hotels, entertainment and so forth. Collectively those sectors are somewhat bigger in the UK than in the US and Europe. The numbers are roughly something like thirteen-or-so, eleven-or-so and nine, those sorts of things. I think the larger impact in Q2 specifically was both the timing and the duration of the lockdown which because it was later and slightly longer in the UK covered more of that second quarter than in other comparable advanced economies. That's why it's also true that in the very near term our forecasts for Q3 are stronger in the UK than in Continental Europe and the United States. If you look at growth, predicted growth, over the first three quarters of this year the gaps are much smaller than if you look at either Q2 or Q3 on its own. The size of those sectors has some bearing, definitely. I think, you know, when you look at single quarters the timing and duration of the lockdown are probably numerically more important. Thanks.

**Harry Robertson, City AM:** So, in the Financial Stability Report you say that companies are going to face a cash flow deficit of about £200 billion but you say the banks so far have lent about £70 billion to cash strapped firms. Does that mean that banks are going to have to do a lot more lending for the rest of the year and into 2021? Secondly, just a small question, what percentage of staff are actually back at the Bank of England at the moment? Thanks.

**Andrew Bailey:** Right, well I'll let Jon Cunliffe come in on the first question because Jon obviously leads the financial stability work. It is obviously, as you say, a forward-looking assessment of potential need. By the way, and I made this point very deliberately on the introductory remarks I made, some of that will be debt financing, some of it will be market debt financing, some of it will be banks, some of it will be equity financing. I wouldn't expect it all to be bank lending. Let me cover off your points about the Bank of England. We keep the situation under constant review. Actually, we've had some this week actually, some more staff actually have returned to work in the Bank of England. I can't give you an exact number but it's up to a few hundred now and we'll keep it under constant review. That's our position. I'm very keen that obviously, you know, all of us ultimately get back to normality as soon as we safely can. We all want to do that. I've got to say this, if you don't mind, just to illustrate one or two points that I made earlier. I should say to you that this is the second time that we've produced these two reports together, it's not something the bank have ever done before. By the way, not something we're planning to make a habit of I think there's a reason for not doing them together and they've been done by bank staff in the current working environment and I think done extremely successfully. I would say that, you know, as I said earlier, these arrangements, you know, can work. I don't think it was something that any of us would see

as, you know, the sustainable future of work. I think work might be a bit different in the future but it won't be this. Let me hand over to Jon.

**Jon Cunliffe:** Yes, thanks very much, Andrew. So, look, the short answer to the question is it is important that banks continue to lend and support the economy and it's also important that firms are able to access financial markets both for debt and for equity. We repeat the message in this Financial Stability Report that we have in the last one that banks have the resilience, even under a more extreme scenario than the MPC central case, they have the resilience to be able to continue to support the economy and to lend. Once more, it's in their own interest to do so because that way we get a better outcome for the economy as a whole and the impairments they suffer on their loans are smaller. Just on the numbers, that £200 billion is a gross figure and even in a normal year I think this report makes clear you would expect to see a cash flow deficit of about £100 billion among companies. Not all of that deficit is due to COVID and, as you say, I think probably about small firms and large firms together have raised about £70 billion in finance so far. That's gone to meeting some of those needs during the year. A lot of that has been supported by government schemes but the financial sector needs to continue to support the economy and it has the resilience to do it. Thank you.

**Hanna Ziady, CNN:** Yes, hi. Good morning. Thank you. Governor, just a question if I may on stimulus. You say that the bank's stance is really to provide for the stimulus if needed. Can you give us a sense on under what conditions you would do that and what the size of that might be? If I may, just another quick question on Brexit and the degree to which even if the UK does secure a comprehensive trade deal with the EU it's going to add a lot of extra costs to UK businesses in terms of just doing business with the EU. To what extent does that factor into forecasts? Thank you.

**Andrew Bailey:** Okay, thanks. Well, look, I'll take the stimulus parts. I might hand over to Jon actually for the Brexit parts. I think the conditions under which we would do further stimulus, let me say two things about that. First of all, as you see from the forecast, we have an unusually large downside skew on the forecast which reflects the risks as we see them and obviously I think in a sense that answers the question in that, you know, were obviously the risks to come to fruition in whatever form such that, you know, part of that or some parts of that downside skew came to fruition then obviously we would be looking at how we would respond. That's why I make this point, the second point I'll make and it goes back to I think my introductory remarks. Let me put into context, you'll have seen the language and guidance we've included today and I'll give you a reflection on that. We've got a forecast in the central case and it's often a property with forecasts that it looks beguilingly in a way, sort of, straight forward that the economy gradually recovers but some serious issues along the road. None of us should underestimate the severity of 7.5% unemployment. That is a thoroughly bad story obviously for people in this country, I want to emphasise that. The forecast central case, obviously in a way it looks quite beguilingly simple with over time that gets resolved, over time the output gap closes, over time inflation returns to target. You know, you could draw a conclusion from that in terms of policy as to where we were headed and, yes, we've got huge uncertainty and we've got a very big downside risk. That's the point of the guidance, you know, in terms to say, 'Look, there are some very hard yards,' to borrow a rugby phrase, 'To come.' Frankly we are ready to act should that be needed and this is a particular point of the guidance, there is a lot of uncertainty around our central case. We're not going to in a sense be following it, well, we never follow it blindly but we're certainly not going to be following it in any sense mechanically. We need to see a lot more evidence given the uncertainty but

the economy is evolving as that central case would suggest. To in a sense base ourselves closely upon it. Let me give the floor to Jon for the Brexit question.

**Jon Cunliffe:** Yes, thanks. Look, as you say, leaving the EU and moving to I think you said a comprehensive trade deal will still involve extra frictions, extra costs for businesses and in the short-term and certainly within the term of the MPC's horizon and that has an economic impact. That is in the MPC's central case, a trade deal along the lines of a Canadian CETA trade deal and actually it's been in the MPC forecasts for quite a while now, I think certainly since November of last year. There's also the possibility that despite the government's objective a comprehensive trade deal can't be reached and the government has been clear that in that case its policy will be to leave on WTO terms. I think we said earlier that possibility is in the MPC's fan chart and leaving on WTO terms would increase some of the cost that you mentioned but an orderly transition to WTO is in the fan chart as well. Yes, there would be economic effects relative to current EU membership from these higher costs and trade frictions but they're in the central case forecast and they're in the fan chart and then, of course, the Financial Policy Committee, which doesn't look at a central case but actually it looks at the worst case because that's its job, has then looked at the extreme scenario a number of times around a more disorderly Brexit. I think that is thinning because you can see it is encompassed within the reverse stress test and the capital the banks have left after the impact of the reverse stress test. Thanks.

**Dave Robinson, Market News International:** Hi there. Just a quick one on the second wave. We don't have any explicit modelling of it. For people that are wondering what would be the impact of higher infection rates on the BOE projections, is there anything in there? Is there any guidance you can give us to how this would impact? Do we do a partial reversal of the lockdown or the easing of lockdown?

**Andrew Bailey:** No, that's a good question. So, in a sense I think what the forecast including the fan chart embrace is a whole series of potential sort of actions and reactions in terms of localised reappearances, as we're seeing sadly, of course, localised reappearances of COVID and the actions that need to be taken and in my view very sensibly are being taken to tackle that. Our forecast, you know, very much embraces that. The second thing I would say a forecast embraces, and we've made this point I think very explicitly in the report, is that it also embraces what I would call the natural caution that people will have in terms of their going out and interacting with the economy in terms of their response to the perceptions of the state of COVID and the health situation. Actually, sorry, I'll abuse my brevity. My third point, we don't assume, by the way, any explicit vaccine or treatment at any point in time. We do assume that the uncertainty gradually attenuates as there is progress in tackling COVID but we make no explicit assumptions about what that progress is and when it happens.

**Eshe Nelson, New York Times:** Hi, good morning. Just on that last point to follow up, in terms of how the pass of coronavirus and the health outcomes that it could have, are you assuming quite a linear trajectory of that waning or do you put in place expectations around certain times of year that it gets worse and it gets better? I mean, how much fluctuation do you allow for?

**Andrew Bailey:** No, good question. We don't make any explicit assumption on that. What I would say quite simply is that if you look at the width of the fan in our chart you can get a lot of things in there. It's robust I think to a lot of different paths of a particular development of

COVID and that seems to me to be entirely sensible. I don't think any of us are in a position to go beyond that in terms of trying to predict or forecast how it will pan out.