Bank of England

Quarterly Inflation Report Q&A
13th November 2013

Richard Edgar, ITV News: Governor, in the space of three months, the Bank's guidance on when rates may rise - because of the 7% unemployment threshold - has come forward by a year and a half if you use the same measure that you did last time. How do you expect borrowers to understand guidance that changes so radically in such a short time?

Mark Carney: Well, the first thing is that what matters, and what will matter, for the adjustment, the eventual adjustment of monetary policy is the conditions that persist in the economy at the point when the threshold is achieved.

And we have to see how much slack has been used up, how much slack still exists, how much momentum there is in the economy at that time, and what the outlook is for inflation and activity accordingly; then we will adjust policy accordingly.

There was always going to be movement in the timing of when potentially the unemployment threshold was reached. Relatively small changes in the outlook for demand, relatively small changes in the path of productivity, will mean that our outlook, in probability space, moves around.

But what's important is two things. One is what we learn between now and when that threshold is achieved - what we learn about the economy, what we learn about how much extra slack there is in the economy. And secondly, what the conditions are when it is achieved. And we're providing the confidence to businesses and households that we will not even begin to think about moving interest rates until that threshold is achieved, but secondly, when it is achieved it'll be a question of how much momentum the economy has, and its ability to withstand an adjustment in monetary policy.

Last point. I refer you back to the apples and apples comparison you just referred to, which is - let's look at our constant rate forecast from August and the constant rate forecast that we've just produced. If you look at the new constant rate forecast, you see quite an attractive trade-off between output, employment and inflation that is consistent with a prolonged period of rates where they are.

Scott Hamilton, Bloomberg News: Governor, doesn't an outlook for slower than forecast inflation and faster than expected decreases in unemployment leave you with two choices? Either you keep forward guidance the same as it is now, and that implies a faster rise in interest rates, or you can make a commitment to keeping interest rates lower for longer and reduce the threshold.

Is changing the employment threshold an option?

Mark Carney: Well, no, the MPC is very comfortable - I'll let my colleagues speak as well - we're very comfortable with the guidance we put in place. This is the right policy for a recovery, and the type of recovery we're experiencing right now.

We have one of the strongest recoveries at this moment in the advanced world. We have given clear guidance that we aren't even going to begin to think about tightening policy until we see that unemployment threshold achieved. And at that point, we will take stock.

So the time for a decision and perspective is not until that point, and we are going to use the period of time between now and when that threshold is achieved to learn more about the big question in this economy, which is - what's happened to productivity, and what will happen to productivity, and in effect - as a consequence - how much slack there is in the economy.

So this is the right framework for the right time to help secure this recovery.

Charlie Bean: There's not really a lot to add to that. The essence of the guidance is that we don't intend to start tightening policy until there's been a material reduction in slack in the economy. There's uncertainty about how much slack there is. We will learn something about that over the next year or two as the recovery proceeds – from how quickly unemployment falls, how quickly productivity recovers, and indeed what happens to inflation.

So by the time we get to 7%, we'll have a better view on how much further the recovery can be allowed to run before it generates inflationary pressures that we need to counteract. And it seems silly to try and prejudge now exactly - what view we're going to take in two or three years' time, when we might hit that threshold.

Ed Conway, Sky News: Governor, alongside the unemployment figures, the positive unemployment figures we heard this morning, we also learnt that average earnings are still well below the rate of inflation, the squeeze on families' incomes is continuing. And this has been a constant of the last few years; it doesn't seem to have alleviated that much and for many people that creates a real struggle.

The Bank of England surely is the one institution which could do something about that. Is there anything that the Bank would propose doing to try to alleviate the pain for families feeling that squeeze?

Mark Carney: Well, there's a lot in that question and it's an important issue. I mean, the first thing the Bank of England is doing, and the MPC is acutely focused on, is achieving our core mandate, which is to ensure that CPI inflation is at 2%. And we're seeing consumer price inflation move back to target.

But the second thing is - the recovery in average earnings and ultimately the growth in real wages are going to be determined by recovery in productivity in this economy. And in order to get that recovery in productivity, first we had to have a recovery in demand; we had to have exactly what we've started to see in the last few quarters, which is demand picking up and momentum developing.

One of the questions is to what extent, alongside that pick-up in demand will productivity pick up? In other words, people are working at firms; they are not working as much as they'd like to do; they're not necessarily working in the jobs where they would be most productive; they're not working with all the tools they might want to have, the firms might want them to have; they're not learning as much in the process of working because not as much is being produced.

All of those factors will influence the extent to which productivity picks up within the economy, and the ability of firms to pay higher wages. So we need the recovery that has started, we need it to persist. We also need to see alongside that a pick-up in business investment, which is central to our forecast - we see that in the latter path of our forecast, this pick-up in business investment is very important.

And what the Bank of England is doing is providing the confidence that monetary policy will be set in a way that's consistent with achieving the inflation target, but also at the same time is being set in a way that will support that recovery.

I will finish there, but I will just note that there are a variety of other things that other parts of the Bank of England are doing to help ensure that businesses and households get the access to the credit that they need to sustain this recovery.

Ben Chu, The Independent: Governor, these latest forecasts imply that over the forecast period the economy will be growing more strongly under the constant rate scenario than under the market rate scenario.

Shouldn't the MPC be doing something to counteract that market rate scenario, or is the Bank of England happy with the pace of recovery under the market rate scenario?

Mark Carney: First off, you're absolutely right that there is that expectation under the constant rate scenario. But I'll add a couple of important caveats. One is that, as we note in the Report, inflation expectations need to remain well anchored in order for that dynamic to stay there. And secondly, it's the nature of forecasting - it's an imperfect science as a number of you often point out to us - but it's the nature of forecasting that part of your forecasting depends on the extent to which individuals and businesses fully anticipate the path of policy. So to have a constant rate, people have to internalise the fact that rates will be low for that period of time.

And so you have to take a bit of these types of forecasts - constant rate forecasts - with a bit of humility. That said, it would appear certainly possible - one could imagine scenarios - where the unemployment threshold is reached and that the best policy choice, policy option, for the MPC at that period of time is to keep rates at current levels, because the trade-off between output and inflation is attractive - we can keep inflation on target and we can grow the economy further.

That's a decision the MPC will take at that point and at subsequent meetings, and I think the value of the constant rate forecast that we include - which we always include as a matter of course - but the value of it, particularly in this Report, is to show in fairly sharp relief the potential advantages of, at least for a period of time beyond achieving the threshold, of following that path.

But we'll see. It's not a decision we need to take today, and we don't intend to.

Hugh Pym, BBC News: Governor, just picking up on that previous answer and an earlier one about the relatively benign scenario based on constant interest rates for unemployment, growth and inflation - is the message to households and businesses that an interest rate rise earlier than seemed likely in August is not what they should be thinking about?

Mark Carney: Well, the message that we gave in August, the message colleagues and I have been giving since then, the message we're giving today, is - it's about the conditions in the economy. That and the prospects for inflation and activity. That's what will determine changes in interest rates.

So the first thing for households and business is the very simple message that we're not going to even begin to consider raising interest rates until that 7% threshold is reached. That's the first element, so wait until that point. The second thing is - at that point, at that staging post - we're going to take an assessment, as the MPC, of the degree of slack in the economy, the degree of momentum in the economy, and what that means for achieving our inflation target and what it means for output and employment. And then we will take a decision.

Now we like to talk, we produce Inflation Reports every three months. We will give lots of commentary on what we're learning along the way, which will help inform people about how we might take those decisions at the time. But what would be foolish of us is at this point in time, is to try to anticipate exactly what we're going to learn between here and then.

Because, to go back to where I started, we're now at the time - for the first time in a long time - where the recovery is taking hold. And so this is the point where we really do start to learn about how much slack is in the economy and to what extent firms and individuals are going to respond to growth, to build productivity.

Jason Douglas, Dow Jones and The Wall Street Journal: Can we just go back to business investment? I think you mentioned in your speech recently at the FT that you had some plans around small business lending. I think you mentioned securitisation and other things. I wondered if there was anything further you could tell us about those plans today?

Mark Carney: Well, what I signalled in that speech is that we have a work programme to work on, if you will, the supply side of finance. So how do we broaden out the sources of credit for small, medium sized and including large sized businesses? Part of that relates to the medium term prospects for securitisation markets. We need to, as regulators, jointly with other regulators around the world, need to think about the cumulative impact of a variety of measures, actual and proposed, on good securitisation, real asset securitisation, if you will. And if we need to make adjustments, we will make adjustments to support that.

Relatedly, for small and medium sized enterprises, we need to think about how to improve information flow in credit markets. Whether there is value in things like credit registries and other structural changes to those markets, so that it's easier to switch across firms and get access. And there's a host of other things we're looking at.

There's not going to be one big bang proposal around this, but there will be a series of things that my colleagues, Jon Cunliffe, Andy Haldane, others at this table, will be talking about in coming quarters and years.

But I'll end with this, which is - we should not forget that the core of unlocking finance for small and medium sized enterprises is ensuring that all of our major financial institutions are healthy, and that they have adequate capital, and they're focused on the right markets. And that process, led by Lord King and Paul Tucker and others over the last few years, we're looking to finish that job of making sure that all - not just the core, but the periphery, if you will, of the UK banking system is adequately capitalised.

The progress that has been made is one of the reasons why this recovery has taken hold. But there's certainly more work to be done.

Chris Giles, Financial Times: Governor, there've been huge and welcome changes in your forecast compared with three months ago. Unemployment on a constant rate assumption now, end of 2014 50-50 chance of hitting the 7% threshold. And you're also saying, in the words you've used this morning, that actually when it hits that it's not really necessarily important - you'll just take another view.

Many people will be wondering what on earth the point of forward guidance is. Can you enlighten them?

Mark Carney: Thank you for the question Chris. Let's say we didn't have forward guidance today, or over the course of the past three months. We've had a very sharp recovery and an unexpectedly strong recovery, not just relative to the Bank's expectations - and remember in August the Bank's forecast was at the upper end of consensus and stayed at the upper end of consensus for a number of months. And I would say now, I believe with today's forecast for GDP we're again at the top end of consensus.

But let's say we didn't have forward guidance in August, and I'm going to pass to you again Charlie in a second, because you made this point in one of your speeches. Given not just actual demand, but given surveys of purchasing manager expectations and others, under historic relationships the discussion would have been why don't you - you know is the Bank going to raise rates today?

Nobody is asking that question today and rightly so, because that would be foolish - that would put us in a position of taking the recovery which is finally taking hold and basically pulling the rug out from under it. We need to sustain this recovery, and by providing guidance, we've shifted the discussion - we've shifted the discussion to a focal point around an unemployment threshold. And what we'd like to do is to continue to emphasise that it's about not just achieving that threshold, it's not a trigger it's a threshold, but it's about the conditions in the economy when we get there.

But Charlie, you may give a better perspective.

Charlie Bean: I mean a number of people have observed that in the past the MPC has been more inclined to raise Bank Rate when the PMIs, the Purchasing Managers' Indices which indicate growth rates are at elevated levels and conversely to cut when PMIs move in a downwards direction.

Now that was perfectly appropriate in the period before the financial crisis, the great moderation, when the economy was pretty close to potential most of the time, inflation close to target, because if growth had picked up above trend it would be reasonable for policy to be tightened. We're in a very different situation now, where there's a substantial degree of slack in the economy. We don't know exactly how much but we're reasonably confident there's a substantial amount there that needs to be absorbed.

So it shouldn't be the case that as soon as growth picks up we should be tightening policy, because that slack needs to be eroded first. So that I see the key thing, the key message that forward guidance is designed to send out, is that policy is not going to be related to growth rates, but to the elimination of slack.

Now the speech I gave recently contained a chart, unfortunately it's not in the Inflation Report, but you can look it up in the speech, which plotted the composite PMIs and Bank Rate. And indeed what you see over the recent past is that the relationship between those two has moved apart, that we seem to have had some success in getting the message across. And in case you think I'm being partial about plugging my own speech there's a Goldman Sachs piece that came out recently, I think by Kevin Daly, which develops that idea and provides, I think, even more convincing evidence of this.

Mark Carney: But yours is the seminal work Charlie …

All talking together

Charlie Bean: But I should say I stole the chart from others in the City, so there are few genuinely original ideas in economics.

Larry Elliott, The Guardian: Can I just pursue Chris' point? The Bank failed to spot the recession coming in 2008, it failed to spot the flat lining of the economy in 2011 and 2012, it's now underestimating the strength of recovery. Why should financial markets, households, or businesses have any faith in your ability to forecast the economy and get your forward guidance right?

Mark Carney: Well I think there's a couple of things and Spencer can maybe speak about our past forecasting record, I'll give you that pleasure Spencer, so you can look forward to that.

I think the important thing is to get the big things right. And what I think the Bank got right in the recent past is it did forecast a stronger recovery than the market had expected at the time that the forecast was made. It turns out the recovery, the pick-up has been even stronger than that, but directionally we were top end of consensus and got the direction right and also forecast softer inflation than the market had expected at the time - not everyone in the market, but most of the market. And again it's turned out that inflation has been soft - unexpectedly soft relative to the Bank's expectation. But certainly on a point in time basis, market versus Bank, much more so than the consensus that was out there.

So we think we've got the direction right. The big call we have to make when the threshold - the unemployment threshold - is achieved is exactly what Charlie was highlighting which is that we have - we will have to take a judgement on the degree of slack in the economy, the prospects for productivity to continue to pick up and what that means for continuing to achieve - or achieving our inflation target. So look there and look for the directions. That's what I would suggest.

The last thing - just to tee up Spencer - is that we're trying to improve the transparency of our forecast process, and part of that transparency is to look back where we made key assumptions, where we got wrong, and to provide you with the key assumptions, so if you or market participants or businesses or others have a different view than the Bank, they can see what's driving our forecast and change accordingly. Spencer.

Spencer Dale: Thank you, just bridging across - I mean the value of forward guidance, Larry, I think does not come because we think we have some monopoly over forecasting. That was exactly the Governor's response to Ben's question earlier. The value of forward guidance is helping people to understand how we are likely to behave as the economy changes. And as Charlie was saying in his previous question, it's people understanding that which I think has caused and affected people's reactions to the good news that we've seen today and the Governor was talking about earlier. This is the good news in terms of the economy starting to grow, the economy taking hold and inflation falling.

In terms of our forecast errors, which is what I get to do at this end of the table, in Page 47 to 49 there's a box detailing our latest analysis of our forecast errors. This is a box - it's a prelude to a more detailed quarterly bulletin article that will come out next month. I won't take you through the whole of this box now; it takes a little bit more time.

But as the Governor was saying, what we've tried to do this time is not just say where did we get it wrong in terms of endogenous variables like expenditure, you know, exports or investment. But to say what, in terms of our underlying world view in sort of August 2010, which is when this forecast we're now analysing - our world view then - what has turned out to be different than we expected? And so relating it to those key judgements you see in Section 5.

And so the headlines from this box says - if you look at the particular expenditure components, the weakness in demand that's particularly pronounced in exports and in business investment. If you then take that back and say - well what went wrong relative to what we expected? On exports, around half of that weakness in exports appears to be that the world grew less quickly than we expected, particularly in the euro area. But around half of the weakness reflects the fact that our ability to gain from the depreciation of sterling and so increase our share of world trade failed to materialise. So it's a combination of weak world demand and also our inability to sort of gain a greater share of it.

In terms of business investment, we think again much of that stems from - either directly or indirectly - from what was happening in the rest of the world, both in terms of the impact on credit conditions which didn't improve to the extent we thought they would, and also in terms of just the general impact of uncertainty which there's much evidence to suggest that was reflecting - impacting upon firms' willingness to invest.

So what we're trying to do here, and we will do even more so in the bulletin article, is trying to relate back to those key judgements about what went wrong. And I think then that's what the whole point of the greater transparency in the Inflation Report from now on is, in the sense that we lay out the key judgements which underlie today's forecast; we underline in the monitoring table what we think all is likely to relate to in the individual indicators and variables over the next six months. And you and us together can then monitor those key judgements as we go forward. And I'm sure those key judgements won't be right, but the point is we will update them in a transparent way, so we can all learn as we go along.

Richard Barley, Wall Street Journal: Governor as you say there's a welcome recovery underway, but you say we're a long way from normality. Can you offer some commentary on what normal is in the new world? Because I guess the concern is that so far we've seen perhaps some worrying signs of returning to the old normal and greater lending, reliance on house prices. Are we waiting for the new normal to arrive or is it the same as the old normal?

Mark Carney: Well I think there's two parts to that question, let me start on the supply side, if you will. One of the things that if you look in the labour market that has not yet returned to normality, unemployment is still elevated, even though it's been coming down. Secondly the number of people in part time work that want to be working full time. Now there's a couple of different measures of that, but it's running roughly at twice pre-crisis levels, whether it's the Bell Blanchflower or the more traditional measure of that.

And those are the types of things we are tracking to get a sense of overall slack in the labour market, but they're also quite relevant to - a sense of normality returning to that labour market. I should add as well that from the labour market perspective, whereas historically pre-crisis one would have seen a natural rate of unemployment somewhere in the fives in the UK, the extent of longer term unemployment in the UK has meant that that has moved up - we provided analysis in our last Inflation Report on that - that ultimately as the labour market heals that should - the two numbers should come closer together, because actually the UK labour market remains quite flexible, and if anything it's become slightly more flexible recently. So that's an element on the supply side.

The other part of normality that we are less clear about is - in terms of overall productivity and therefore the rate of growth of potential, which is part of what we're going to learn on this journey. So that's part of your question.

I think the other part of your question is specifically around the components of demand. And we have a recovery, which is centred on household spending right now. You know more than three quarters of the growth in the next several quarters is either consumption growth or housing activity, housing investment.

That's not that unusual in terms of the phases of recovery and in fact the levels of activity or the rate of growth in consumption is quite modest compared to previous recoveries. It is not debt-fuelled consumption; it is consumption out of income. In effect what's happened in the last several months has been that the degree of precautionary savings of households has dropped, from quite elevated levels to levels that are still quite high relative to where households were saving pre-crisis. But you have the drop and that has given a boost to consumption.

In order for that to be sustained ultimately there needs to be the prospect of real wage growth down the road, which goes back to Hugh's question I believe.

And the second thing, and what I'll say about housing, we're - as I said in my opening comments - the Bank, through the Financial Policy Committee, has been very vigilant about potential risks there. But we need to put the pick-up in housing activity in perspective. Activities levels, while they've picked up are still running at between two thirds, or three quarters of historic averages in terms of whether it's transactions, or approvals, home building. And so there is some room for that to further pick up and that's the initial phase of this recovery.

Guy Faulconbridge, Reuters: Just a follow on on the housing, I see you have a section on property. Do you see any signs of a bubble in any regions of the British housing market, because overall it's fine to say that perhaps prices are still below the 2007 peak, but in London dinner parties the prices that you pay for prime real estate in London is kind of the main topic of discussion. I just wonder if you see any signs and should the FPC lean against this problem? Thank you.

Mark Carney: Well, the first thing is just to be absolutely clear we don't make policy at the Bank of England for inside the Circle Line, we make policy for the entire United Kingdom, and we react accordingly.

Secondly, in terms of housing valuation, there are - clearly there are areas in the country where valuations are very elevated and are further increasing. In fact, what we're seeing across the UK is that most of the - the greatest price momentum is for houses that are towards the upper end of the valuation spectrum in the respective region. That's where you're seeing the most price momentum. Part of that may be credit constraints for people who would buy houses at lower valuations.

We have, as I said in my opening remarks, we have a good line of sight to dynamics in the housing market. And when we look at it from a financial stability perspective, we do look at measures of momentum. We look very importantly at measures of leverage, leverage of individuals, certainly cohorts of individuals - are people becoming over-extended?

That's informed in real time by what's happening to underwriting standards, so how much are people being allowed to borrow relative to income. What are loan to value levels? Are they being given affordability tests that are consistent with best practices? And through the PRA we monitor that as a matter of course and that will help inform any decisions of the FPC.

So I would generalise it in two respects, first with respect to the FPC, we are being vigilant, we're spending a lot of time analysing the housing market, analysing potential risks - potential risks - to financial stability. And the FPC either directly, or through other agencies, has access to a broad range of tools that if necessary would be used in a proportionate and graduated fashion.

To bring it back to today, to the MPC, housing is initially an important part of the recovery. We've laid out how housing - the direct and indirect effects of housing affects the outlook for activity and inflation, and I think we're - I would hope - we're pretty clear about that dynamic.

And the last thing I would say from an overall Bank perspective is that the MPC and the FPC and the analytic supports of both of those Committees are working quite closely to share information, share perspectives, share analysis and ensure that each of the Committees are focused on their core mandates?

Tim Wallace, City AM: Governor, another one on housing. Firstly, do you see any hope on the supply of housing since that's obviously one factor that's driving up prices? And then also is there a point at which, rather than giving consumers more of a wealth effect, that high prices start draining consumers' ability to spend because their housing costs are high because they're saving for high deposits and so on?

Mark Carney: Two things. We do not have - we have a pick-up in activity, but towards historic levels of supply, so we're not positing a big boost in supply. And obviously we as the Bank don't have influence - direct influence on the supply side and it is a challenge obviously in this market.

I'd just amend something you said in the second part of your question, which is you talked about the wealth effect, and actually in the work, in the Report - and there's a lot of work behind this which colleagues can speak to - we draw the distinction about the channels and actually on a national basis, I mean I'd summarise it as this: On a national basis there aren't wealth effects, and the question become whether there are wealth effects between individuals who sell out of the market if you will, who are more likely to consume than those who come in. And we don't actually see a lot of evidence for that. That said, there's different views but we've done quite rigorous analysis on that.

What we do see of course is there is a collateral channel - if houses are worth more than people are able to borrow more against that, that has a traditional financial accelerator effect. And of course there's just the more basic effect on the economy which is, as housing activity picks up - whether it's new builds, whether it's home improvements, or just actual transaction costs of buying and selling homes - those do add directly to growth. So I would put less emphasis on the wealth effect element.

I'm sorry to prolong the answer, but I'll just make this point, which is the way we look at this is that there are common factors - what drives consumption in housing and where do you see them moving together - and you could potentially misinterpret that as a wealth effect, because house prices are picking up and consumption is picking up in tandem - it's actually the expectations of future earnings that are improving that helps people consume and also helps house prices, then people stretch a bit more to pay for houses.

And that's consistent with a recovery. And to bring it all the way back to where we started, what we need for those expectations to be validated is that the recovery is sustained, that productivity picks up and then real wages pick up as a consequence.

Faisal Islam, Channel 4 News: Governor, do you attribute any of the turnaround in the forecast to your own - modestly - to your own policy innovations? And if the recovery is so strong, what's the requirement for some of those innovations and some of the innovations of the government like Help to Buy?

Mark Carney: The sting was in the tail there, Faisal. I think that our view is that guidance is helpful to sustain the recovery; that's why we did it. It's principally a policy for recovery and it only really shows its worth in conversations like today and conversations that we all have around the country with businesses and individuals to get that sense that we need to see the sustained momentum in the recovery and the slack picked up before we would tighten policy.

Funding for Lending continues to support the recovery. The repair of bank balance sheets we're seeing the benefit of that in supporting the recovery. The Bank's extraordinary liquidity measures and the backstop element that's provided from that actually on the margin is helping to support the recovery, so all these things are moving in the direction.

In terms of the broader set of government policy, individually or collectively, our job, whether it’s the Monetary Policy Committee or the Financial Policy Committee, is to take those as given and then adjust the policies over which we have control accordingly. And that’s the way we look at Help to Buy through to any tax measure or fiscal measure of the government.

Jeremy Warner, Daily Telegraph: I wanted to ask an earlier question in a slightly different way, which is at what point does monetary policy have to become cognisant of this very unbalanced type of growth we’ve got going on at the moment? Or is it just the case that provided inflation remains relatively obedient, it doesn’t much matter what sort of growth we’ve got?

And of course, I guess the obvious extension of that question is - are you concerned about what’s going on in the eurozone with deflationary conditions fast approaching, and the possibility that we are going to have to carry on supporting undue levels of internal demand in the UK economy to kind of sustain the surplus in the eurozone?

Mark Carney: In terms of what monetary policy takes into account, I mean we have to stay centred on our mandate, our remit, which is to achieve the 2% inflation target. Now we need to do that in a way that takes into account - or tries to minimise - undue variants or shortfalls in employment and output, which is what we have done, what the MPC has done before I arrived and I believe is doing with guidance.

But we need to remain focused on that. And in a context where - you're portraying a potential scenario that doesn't exist today, but let's say it did develop - where there were vulnerabilities building up in the economy because of the nature of growth, certain pockets of excessive borrowing, for example whether it's household or other, that's the responsibility of the Financial Policy Committee, and it is the first and second line of defence there. And there's a broad range of tools that it can influence, whether it's underwriting standards to affordability tests around mortgages to potentially capital add-ons for certain sectors. All of those are potential tools that can be used to help minimise or reduce, mitigate both those types of risk.

The last bit of your question on the eurozone is important. We don't have, as part of our forecast, a sharp recovery in net exports, despite the improvements in competitiveness over the last few years. And that reflects quite modest demand growth in our major trading partners, so that is there.

We do expect, however, that the removal - or the substantial reduction of the pall of uncertainty that hung over businesses around very bad outcomes in the eurozone - the removal of that uncertainty or reduction of that uncertainty, coupled with improvement in credit conditions here and with real consumer demand in the UK, is going to bring an increase in business investment, an improvement in productivity, further improvements in competitiveness which ultimately will bring greater balance to this recovery. But that is what we need to see and we're not relying on any sort of recovery in Europe, meaningful recovery in Europe, to drive this forward.

Final point. That's in part why the recovery while welcome and strong relative to other advanced economies at present, is quite modest compared to past recoveries in the sort of 2.5% type growth in the latter part.

Kathryn Hopkins, The Times: Despite record low interest rates in government schemes, lending to small and medium sized businesses has remained depressed. What would you say to people who believe that the Funding for Lending scheme is mainly boosting lending to households and not SMEs?

And secondly, the ECB has recently announced gender targets in an attempt to double the number of senior women in its ranks. Would you consider doing something similar at the Bank of England?

Mark Carney: Well I'll answer the second part, and then actually I'll ask Paul Fisher to talk about Funding for Lending and business. You know, it is an objective of this institution to increase the diversity of our senior ranks, of our junior ranks and senior ranks. Ultimately the senior most ranks, those decisions are made by others, but what we can do is to improve diversity in all senses. And we are in the process of conducting a strategic planning exercise, and part of that process will be to update and further improve our talent management and recruitment efforts.

So it's - I'm not sure, I don't want to prejudge the outcome of that, but it would be about processes and effort and focus to improve diversity. I'm not sure it will be target-based quite frankly, but I'm sure others will judge us on outcomes as they should. And we'll look to those actual outcomes. But to switch to the first part of your question on Funding for Lending and households.

Paul Fisher: Well we launched the Funding for Lending scheme last year with the express aim of supporting the economy rather than any particular sector or to support the banks. And I think it's been working to do that. We said we expected the effects to come through gradually over time, and that they should be strengthening through the second half this year which I think they are.

Now within that you're quite right, it's clear that household borrowing has reacted a bit faster than SME borrowing. But it is true that credit conditions for SMEs have been gradually improving since we launched the scheme in terms of the interest rates on offer, in terms of the deals that are available, in terms of the general credit constraints. But there are clearly some difficult issues here which remain.

I mean you'll have seen the large report on RBS's lending to businesses, so you get some appreciation of the reasons behind that weakness in there. And RBS were the biggest lender to SMEs in the UK. A number of the other banks have actually been using the Funding for Lending scheme to expand that lending to SMEs. So I think the FLS is helping, but there are some deep-rooted structural issues here which still need addressing and sorting out.

Helia Ebrahimi, CNBC: Governor, you talked about forecasting not being an exact science, and if I can take you back to the housing market. Last time round the Bank of England said that mortgage approvals would hit 60,000 by the end of the year. Last month we were already 10% higher than that. Can you tell me a little bit about how the Bank has changed its opinion on the risks from the last Inflation Report?

And secondly, can you rule out that you would lower the unemployment threshold to 6.5% for example, in line with the US, if unemployment fell faster?

Mark Carney: I'm not sure why I would rule anything out. And I'm certain it's not in my ability to make any decisions like that, nor is there any need to on my own. I think we talked about what the importance of learning along the way to this threshold, and then we would take decisions as appropriate at a later stage.

You're absolutely right in terms of mortgage approvals, and that's part of the value of making our key judgements clear. We thought 60,000 by Q4, I think there were 67,000 most recently, and we've upped the core to - ?

Spencer Dale: 70,000 for the end of 2013 and 90,000 by the middle of next year.

Mark Carney: Yeah. So we're moving back towards that 120,000 or so long term average. In terms of our views on housing, I mean the housing market and the level of housing investment is stronger. A lot of that actually is a bounce back in new homes, even though there are some supply constraints there. So we've seen that initially, and we'll see the broader transaction volume we expect over time.

So yes, housing, it's an important contributor at the moment and for the next several quarters, but that balances out, in our view, over the balance of the forecast to us and where it's - you know the housing sector is a big swing, but it's only about 5% of GDP, and so we're seeing one of those jump backs at the moment. We don't expect, in terms of activity, to see constant acceleration in terms of housing over the next three years.

Heather Stewart, The Observer: It's another question about housing, I'm afraid. In response to Faisal's point you suggested that Help to Buy is an element of government policy, and that's something the MPC or the FPC has to take as a given. But there's been some ambiguity. I know that the Chair of the Treasury Select Committee has written to you to ask you to clarify the Bank's role in the Help to Buy scheme since the Chancellor suggested that you'd be allowed to look at it or examine it after a year. Are you suggesting that you don't have in any sense a veto over the scheme? You couldn't bring it to an end after a year, next September, if you wanted to? Because some ministers have seemed to suggest that that power is in your hands.

Mark Carney: Well a couple of things. First, Mr Tyrie, who is the Chair as you know of the Treasury Select Committee, has written I think a helpful letter to us as the FPC, which will allow us, and we will respond to this after our FPC meeting as you would expect at the end of the month, but I think will allow us to make absolutely clear how we act in accordance with our statutory objectives.

Now a statutory objective of the FPC first and foremost is to enhance the resilience or maintain the resilience of the UK financial system and guard against risks to financial stability. And it would be from that perspective that we would provide any advice or recommendations for any policy that was - if changes in that policy were to contribute to the maintenance of financial stability.

So, for example, we could give advice to another part of the Bank of England, the PRA for example, in terms of the minimum underwriting standards that - well actually that would be through the FCA to some extent, but I'll use capital as an example - the amount of capital that needs to set aside against higher loan to value mortgage. We could, I'm not saying we will in any sense, but that's the type of recommendation that we could do.

We could give a recommendation to the government, if there is a specific tax policy, if there's a specific housing policy that we think an adjustment to that policy would contribute to a constructive evolution of the housing market, we could do that. Now what the Chancellor has indicated is that he is actually going to ask for that advice on the one year and two year and three year anniversary of the Help to Buy scheme, so that provides a focal point, but we could give that advice at any point in time.

But I'll finish by saying that with respect to overall risks in the housing market, it's early days. We're analysing the situation as the FPC and the MPC. The FPC is on the front foot here as appropriate. And there is a very broad range of tools that could be used to contribute to a sustainable evolution there. So it doesn't mean we have to jump to the one that's the highest profile, there's other things that could be done first. But I'll leave those judgements up to the FPC and we'll meet later this month, when we meet.

Simon Kennedy, Bloomberg: Question on immigration and demographics. How much do recent trends and imminent trends play a part in falling unemployment? Could these be a brake on unemployment? I think that one million jobs have been created in three years but the number of unemployed has stuck around 2.5 million. What role do those demographics, immigration trends play?

Charlie Bean: Well I mean one of the interesting things about the downturn has actually been the increased participation of older workers, which if anything you would sort of be thinking well that's going to push unemployment up. What one normally expects in downturns is workers leave the labour market, and that, if you like, disguises the true degree of labour market slack - so-called discouraged worker effects.

But this downturn has been unusual in that we haven't seen that process operating and quite the opposite. We've seen older workers staying in the labour force longer than normal retirement age, maybe because they underestimated pension needs, maybe because real incomes haven't risen as much as they hoped or whatever. And equally the squeeze on household income has meant an increased need for second earners to go out and get work and so forth.

So labour supply has actually held up remarkably well this time. What will be of course - one of the things we will learn on this journey going forward over the next few years, will be how labour supply responds as growth recovers, whether some of those workers actually leave the labour force or whether they stay in it.

Simon Kennedy, Bloomberg: And immigration?

Charlie Bean: Immigration is clearly something that's relevant to the overall size of the labour pool available to British business. It was very important during the great moderation period where UK business was able to hire skills that it couldn't get domestically, overseas. And potentially that will be an important mechanism for reducing supply bottlenecks as the recovery proceeds. We are starting to hear comments from some of our business contacts through the agents about they're seeing skill shortages in particular areas, in engineers, things like that. And immigration of specialised labour is a potentially important mechanism for relieving those skills constraints.

Nils Blythe: Well I'm afraid that we have now run out of time. So it only remains to me to thank you all very much indeed for coming.

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