

## **Report to the Treasury Select Committee**

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### **Voting record over the past year**

I joined the Monetary Policy Committee on 1 June 2014. Between the June 2014 MPC meeting and August 2016 MPC meeting, I voted to maintain Bank rate at 0.5% and the size of the asset purchase programme at £375 billion.

In August last year, I voted in favour of the stimulus package to support the UK economy following the EU referendum result. This package included:

- Reducing Bank rate by 25 basis points to 0.25%;
- Introducing a Term Funding Scheme, financed by the issuance of central bank reserves, that would reinforce the transmission of the cut in Bank Rate;
- Purchasing a stock of sterling non-financial investment-grade corporate bonds, issued by firms making a material contribution to the UK economy, financed by the issuance of central bank reserves, of up to £10 billion;
- Increasing the stock of purchased UK government bonds, financed by the issuance of central bank reserves, by £60 billion to a total of £435 billion.

I have since voted in favour of maintaining Bank rate at 0.25%, and continuing with the programme of asset purchases set out above.

### **Economic Overview**

Despite a sequence of domestic and international events over the past year, the UK economy has been remarkably stable, with growth close to trend. This broadly mirrors the pattern seen during 2015.

In line with earlier years, the key driver behind growth in the UK economy has been domestic demand, in particular spending by consumers. Consumption grew at an annual rate of almost 3% during 2016.

Over the course of last year, inflation began to pick up towards its 2% target, rising from 0.2% in January 2016 to 1.8% in January 2017, largely as a consequence of past falls in food, energy and import prices falling out of the annual comparison.

In the run-up to the EU referendum in June and, in particular in its immediate aftermath, there were legitimate concerns among a large number of commentators and policymakers, the Bank included, about the effects of uncertainty about the UK's future trading relationships on spending by companies and, to a lesser extent, consumers. These concerns were evident in surveys of companies and consumers, before and especially immediately after the referendum.

Facing the possibility of a materially weaker UK economic outlook in the period ahead, in August the MPC put in place a comprehensive package of monetary policy measures,

outlined above. At a time of heightened economic and political uncertainty, these measures provided additional insurance against a sharp downturn in the UK economy. I fully supported these measures at the time and, in line with a majority of the Committee, also thought it more likely than not monetary policy may need to be eased further before the end of 2016.

The August policy package eased UK credit conditions materially, if anything by more than the MPC expected at the time it announced its package. These measures also contributed to an improvement in sentiment among businesses and consumers during the second half of 2016.

Further support to UK economic growth was provided by the Bank's Financial Policy Committee, through an easing of macro-prudential policy last Autumn; by the UK government, through an easing of fiscal policy at the time of the Autumn Statement; and by the world economy, whose growth has picked up since the middle of 2016.

As a result, UK economic growth has out-performed expectations, including the Bank's, over each of the past three quarters. That is very good news for incomes and for jobs. Among other things, it meant the MPC agreed at its November meeting that the guidance issued in August regarding the likelihood of a further cut in Bank Rate had expired.

Since August, every member of the MPC has voted to maintain the current stance of monetary policy. From a personal perspective, I am comfortable with a broadly neutral stance on the likely course of interest rates in the period ahead.

Reading and navigating the UK economy is unusually difficult at the current juncture. Uncertainty around the UK's future trading relationships, and the impact this will have on asset prices, incomes and spending in the economy, mean that economic data are likely to be more volatile than usual for the foreseeable future.

The MPC is required by Parliament to set policy in a way that balances appropriately its statutory remit of maintaining stable inflation at the 2% target while supporting employment and output in the economy. At present, there is something of a trade-off between these objectives.

On the one hand, inflation is picking up and is likely very soon to exceed its 2% target and to remain above that target for the next three years. This is almost entirely the result of the effects of sterling's depreciation last year on import prices.

On the other, growth in the UK economy is likely to remain modest over the next few years and is likely, on the Bank's central view, to slow in the year ahead as the rise in prices erodes households' spending power in the shops. That would leave a small margin of slack in the economy throughout the next three years.

There are plainly large, two-sided risks to both of these outcomes, which could tip the balance of this trade-off, and hence monetary policy, in one or other direction in the period ahead. For example, consumer spending may prove more resilient to lower real incomes, or wage growth and inflation expectations may pick up faster to compensate workers for the erosion in purchasing power. This could boost nominal spending in the economy by more than expected, supporting a tighter monetary stance.

Conversely, it is possible there could be a sharper slowdown in spending by consumers than expected, if they are unwilling either to borrow or to run-down their savings to continue to finance spending, or if wage pressures in the labour market and pricing pressures in product markets continue to be as muted as they have over recent years. This would reduce nominal spending, relative to expectations, supporting a looser monetary policy stance.

These risks are two-sided and broadly symmetric which means risks to interest rates are themselves two-sided and symmetric. As the MPC has set out, monetary policy may need to move in either direction in the period ahead, depending on how the economy evolves.

In the current fragile environment, however, I would be concerned if there were to be too sharp a rise in market interest rates, in expectation of Bank Rate being raised in the near future. This would tighten credit conditions and potentially hit both consumer spending (at just the point it was being affected by lower household income) and business spending (at just the point it was adapting to the UK's future trading relationships). That triple-whammy could cause a sharper slowing in the UK economy than I believe would be desirable from a monetary policy perspective.

### **Engagement with External Stakeholders**

Over the course of the past year I have pursued an extensive programme of external engagement with a very wide range of stakeholders, with 7 regional visits undertaken.

I have broadened my regional visits to encompass a much wider range of stakeholders. In addition to companies, I speak regularly with trades unions, schools, higher education and further education colleges, faith groups, charities and social enterprises, diversity networks and trade associations. This has given me a wider-ranging perspective on how different cohorts of society, and different regions of the country, are faring economically.

The lessons from that broader stakeholder engagement have fed back into my understanding of the economy, my speeches on the economy (in particular the ones in Port Talbot and Redcar), and my views on monetary policy.

Over the past year I have presented around 8 formal speeches, roughly half covering monetary policy and the other half wider research as part of my role as Chief Economist with responsibility for Bank-wide research and statistics.

I have also given a large number of informal talks and speeches to a wide range of audiences across the UK, including students, think-tanks, trade unions, trade associations, charities, businesses, central banks, government departments, academics, diversity networks and faith groups.

I have given a significant number of TV, radio, newspaper and magazine interviews, national and local. I have also written a number of articles for academic journals, magazines and newspapers

A selection of some of my speaking engagements and publications is listed in Annex 1.

## **Annex 1: List of external engagements since November 2015**

### Monetary Policy Speeches

- [Whose Recovery?](#) – Port Talbot, Wales, 30 June 2016
- [QE – The Story So Far](#) – Dean’s Lecture, Cass Business School, 19 October 2016
- [One Car, Two Car, Red Car, Blue Car](#) – Materials Processing Institute, Redcar, 2 December 2016

### Wider Research Speeches

- [Finance Version 2.0?](#) – Bank of England/London Business School Conference, 7 March 2016
- [The Sneetches](#) – Scottish Business Friends Dinner for BBC Children in Need, Edinburgh, 12 May 2016
- [The Great Divide](#) – New City Agenda Annual Dinner, 18 May 2016
- [The Diversity Project](#) – Investment Association Diversity Project, 8 November 2016
- [The Dappled World](#) – GLS Shackle Biennial Memorial Lecture, 10 November 2016

### Regional Visits

- West Midlands – 22 January 2016
- North West – 3 & 4 March 2016
- Central Southern – 22 April 2016
- Scotland – 12 & 13 May 2016
- Wales – 29 & 30 June 2016
- South West – 7 November 2016
- North East – 1 & 2 December 2016

### Business Group Meetings

- Discussion at Chatham House Thought Leadership Lunch – 20 January 2016
- Discussion at British Bankers Association Policymaker Roundtable Lunch – 10 February 2016
- Discussion at Briefing Circle Lunch – 1 March 2016
- Discussion with Trades Union Congress Members, North West, 3 March 2016
- Discussion lunch with Institute of Chartered Accountants in England and Wales, 3 March 2016
- Discussion at Manchester Business School – 3 March 2016
- Discussion at ICAP Lunch – 18 March 2016
- Discussion at Deloitte CFO Survey 8<sup>th</sup> Anniversary Lunch – 5 April 2016
- Discussion at London Business School Spring Lecture, 18 April 2016
- Remarks at Big Innovation Global Innovation Reception, 21 April 2016
- Discussion at Central Bank Law Commission Meeting, Oslo, 26 April 2016
- Discussion with West Lothian Chamber of Commerce, Scotland, 13 May
- Discussion with Scottish Trades Union Congress Members, 13 May 2016
- Discussion at De Montfort University UK Commercial Property Lending Market Launch, 23 May 2016
- Discussion at Top Flight Women Executives Roundtable Lunch, 14 July 2016

- Discussion at Confederation of British Industry Economic Growth Board, 15 July 2016
- Discussion at MNI Connect Roundtable, 25 July 2016
- Discussion at Home Office Seminar, 6 October 2016
- Discussion at Generation Investment Management Lunch, 4 November 2016
- Discussion at Book Launch of “The Econocracy: the perils of leaving economics” at the London School of Economics, 21 November 2016
- Discussion at the Annual 2016 Political Quarterly Lecture, 5 December 2016
- Discussion at the Institute for Government, 5 January 2017
- Discussion at the Adam Smith Institute Power Lunch, 18 January 2017
- Discussion at Odgers Berndtson “City Vision 2030”, 24 January 2017

#### School visits, charity and third sector meetings

- Talk at Dudley Sixth Form College – 22 January 2016
- Talk at North Chadderton School, Oldham – 4 March 2016
- Open University Roundtable, 4 April 2016
- Talk at St Bede’s School, Redhill, 22 April 2016
- Remarks at Tomorrow’s People Reception at Downing Street – 19 April 2016
- Talk at Y Pant School, Wales, 30 June 2016
- Talk at Aldenham School Business Society, Elstree, 20 September 2016
- Talk at Launch of Pensions Book for Children, 9 November 2016
- Discussion at City of London School Annual Dinner, 17 November 2016
- Talk at North Shore Academy, 1 December 2016

#### A selection of Research Conferences and University Talks

- University of Nottingham Public Lecture – 23 February 2016
- Remarks at Joint Bank of England & Chicago Booth Future of Financial Services, 30 September 2016
- Discussion at Bank/HKMA/IMF Conference, Hong Kong, 24 & 25 October 2016

#### Interviews and Articles

- [“Complexity theory and financial regulation”](#), Science, 19 February 2016
- [“The Jury is In”](#) - Creative Tension, 25 Years On, May 2016
- “Whose Recovery, Few’s Recovery”, Sunday Times, 14 August 2016
- [“The next diversity frontier lies beyond boardrooms”](#), Financial Times, 6 November 2016
- Foreword to “The Econocracy: the perils of leaving economics to the experts”, November 2016
- [“Britain's inequality map - stark and growing”](#), BBC News, 2 December 2016
- [“QE – The Story So Far”](#), Bank of England Staff Working Paper, December 2016
- “It’s time to fill our glasses”, The Journal (Newcastle), 2 January 2017