**Report to the Treasury Select Committee**

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**Voting record**

It is useful to split the last year into the period up to the referendum and the last couple of months.

Over the first period, I voted each month for no change in Bank Rate or in the stock of asset purchases.

During this period, the labour market continued to tighten and the output gap narrowed. Headline inflation was very low, due mainly to external factors such as the sharp fall in oil prices, which were likely to be only temporary effects. Inflation expectations remained well anchored around the inflation target.

But underlying inflationary pressures also remained weak despite the tightening labour market and smaller output gap. Pay and unit labour cost growth were below rates consistent with inflation returning sustainably to target. Furthermore, output growth appeared to lose momentum over the course of 2015, slowing to around or even a bit below trend, partly due to continued weakness in productivity growth. There were also downside risks from the global economy.

I judged that no change in policy was the appropriate response to balance these developments and return inflation sustainably to target as external factors weighing on inflation waned and domestic cost pressures picked up.

Over this period, however, I was increasingly concerned that we had had a series of disappointments over a number of years. The anticipated pick-up in pay, productivity and inflation seemed always to be just around the corner. I put this down to a slow healing process following the financial crisis and a number of set-backs during that process such as the euro area crisis in 2011/12 and the market turbulence in China and other EMEs at points over the last year or so.

But as time passed I became less certain about the slow healing story. The possibility that there were deep and secular forces continuing to push down on the economy became more plausible. In such a world, the expansion would be marked by persistently slower growth, lower interest rates and higher vulnerability to shocks. This would be consistent with an enduring decline in the natural rate of interest which might mean that central banks would have to loosen policy even further to stimulate the economy. So while I voted for no change over this period, it became less clear to me that the next move in Bank rate would be up.

The economic picture changed markedly following the EU referendum in June. My view was that the decision to leave the EU marked a regime shift for the UK economy. It would require some adjustment of the UK economy to future trading relations with the EU and with the rest of the world, though the extent and nature of that change was as yet unclear. It would also create a prolonged period of uncertainty about those relationships. The referendum result would therefore have significant implications for supply, demand and the exchange rate, throughout and beyond the MPC's forecast period.

The initial reaction to the referendum in economic indicators, intelligence from the Bank's Agents and in financial markets made it likely in any event that demand would weaken and the output gap would widen. There were sharp falls in output and expectations balances in surveys covering the services and manufacturing sectors of the economy while survey evidence covering the construction sector continued to point to contracting output, in the share prices of companies exposed to the UK economy and in household confidence and business investment intentions for example. These initial signs of weakness made a 'wait and see' strategy a less viable option.

Given that backdrop, I was keen to implement a monetary policy package that supported demand and that underpinned confidence in the economy. I was particularly concerned about a scenario in which companies constrained investment, hiring and pay, and that this then led to a sharp drop in consumer confidence and demand and opened up a larger output gap.

The policy package announced by the MPC in August, which I voted for, was coherent, robust and pre-emptive. It should boost confidence and demand, relative to the counterfactual of less or no additional stimulus, and highlight the breadth of the monetary policy toolbox.

One design objective of the package was to minimise any undesirable side effects of monetary easing on the financial system that might have reduced the efficacy of monetary policy. In this regard, the Term Funding Scheme should improve the transmission of the cut in Bank Rate to rates faced by borrowers in the economy. The Financial Policy Committee and the Prudential Regulatory Committee also announced measures to alleviate possible side effects in the financial system and so improve the efficacy of monetary policy.

**The outlook**

Looking ahead, my central view of the economic outlook is broadly in line with the MPC's collective forecast in the August Inflation Report. I expect inflation to return to, and overshoot, the 2% inflation target due to the exchange rate depreciation but slack in the labour market and in companies to increase as demand weakens.

This presents the MPC with a policy trade-off: reducing the inflation overshoot at our usual policy horizon – around two years – would mean even higher unemployment and a wider output gap in the near term. In these circumstances, I think it is prudent to use the leeway allowed in the MPC's remit to extend the period over which we return inflation to target. This strategy will support growth and employment and enable inflation to return to target in a more sustainable manner.

I would stress though that the economic outlook is particularly uncertain at the moment. Regime changes mean that past economic relationships and data are less useful and we have had minimal hard data since the referendum.

This uncertainty is likely to endure. The UK's future relationship with the EU remains to be determined, the time profile of the adjustment to the new arrangements is uncertain as is the speed with which demand will respond to changes in supply. The strength of GDP growth in Q2 – 0.6% versus the MPC's expectation of 0.3% in the May *Inflation Report* – and also signs of recovery in some high-frequency indicators of demand could provide some reassurance that the impact of uncertainty on activity is less than we feared. But it remains early days and uncertainty is likely to increase further, possibly more than expected if the trade-offs around the negotiation come into sharper relief.

So we will need to assess economic developments closely and be prepared to adjust policy as necessary.

If the economy evolves as set out in the August forecast, I would expect to vote for another cut in Bank Rate this year as highlighted in the Minutes of the MPC's August meeting.

If demand slows more significantly than expected, and the output gap is correspondingly larger, I would be willing to vote for further monetary stimulus. The MPC has the ability to expand stimulus using each or all of the four parts of the policy package it announced in August.

Conversely, if the economy turns out to be stronger than expected, then the MPC can maintain policy at its current setting rather than cut Bank Rate further, or indeed could easily tighten policy if needed. I would much rather be in the position where we can take away stimulus rather than doing too little or acting too late and risking a loss of consumer confidence, under-utilised economic resources and a growing output gap.

**Explaining monetary policy**

Over the past year I have given six on the record speeches (list below). Of the speeches, one focussed squarely on monetary policy issues, with the remainder covering the work of the Bank's Financial Policy Committee, bank resolution and aspects of the international regulatory reform programme. I have discussed my views on the economy in interviews with regional and national newspapers and in radio interviews.

I have given around twenty off-the-record-talks on monetary policy and financial stability. I have made four visits to different regions of the United Kingdom – the North East, Yorkshire and Humber, the South West and the South East – to explain the economic and financial outlook to local business leaders and to hear their views on these matters.

I have had regular meetings with other central bankers and members of the regulatory community, including at the ECB General Council and the European Systemic Risk Board, the European Economic and Financial Affairs Council, the Bank for International Settlements, and the G7, G20 Financial Stability Board and G20 Finance Ministers and Central Bank deputies meetings.  I have also maintained extensive contacts with the business and financial communities both here and overseas.

Speeches

2016

29.04.16 – A 21st century approach to dealing with failed banks

26.04.16 – Remarks at the Alastair Ross Goobey Memorial Lecture

24.02.16 – The UK Economy Post Crisis: A Series of Unfortunate Events?

09.02.16 – Credit: Can trees grow to the sky?

2015

10.11.15 – The Outlook for Countercyclical Macroprudential Policy

22.10.15 – Market liquidity and market-based financing