<u>Re-appointment of Michael Saunders to the Monetary Policy Committee of the Bank of England</u>

These comments were completed on 29 May 2019.

Personal and professional background

1. *Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in continuing to carry out your duties as a member of the MPC?*

No

2. *Do you intend to serve out the full term for which you have been re-appointed?*

Yes

3. *Have you taken on, or do you intend to take on, any other work commitments in addition to your membership of the MPC. If so, what impact will they have on your work on the MPC?*

No other work commitments.

Openness, accountability and performance

4. *Is the accountability process delivering better public understanding of decisions made by the MPC? Based on your experience, are there ways in which either the accountability process or the MPC's public communications could be improved?*

In acting to fulfil the inflation remit, the MPC is accountable to Parliament and especially through the TSC. In a broad sense, the Committee is accountable to the general public.

In general, this accountability process through the TSC works well. In talking to businesses and other groups around the UK, I find a fairly high level of understanding of the Bank's aims of low inflation and economic stability, and of our message of limited and gradual tightening with a relatively low neutral interest rate. Surveys suggest that households and businesses expect that interest rates in coming years will rise but remain well below the precrisis norm of roughly 5%. Household inflation expectations remain around their historic averages. Opinion polls point to a sizeable positive "net satisfaction" rating for the Bank of England among the general public. The acid test is that the MPC has been able to keep interest rates well below historic norms for over 10 years, and to appropriately loosen further in mid-2016, while retaining credibility in the commitment to return inflation to the 2% target over time.

One slight area of concern is that the Bank of England's regular TNS surveys suggest that a rising share of people say they "don't know" or have "no idea" where inflation is likely to be in coming years. In the question relating to inflation in the year ahead, the share responding "no idea" is up from 13% on average in 2000-13 to 17% in 2014-18 and 22% early this year. The share of "don't knows" has also risen over time for expected inflation the year after next, and for inflation five years ahead. One could take an optimistic view and argue that people take low inflation for granted and don't need to have a view on whether inflation will be slightly above or below target. But these results also may reflect a wider disconnect between the general public and decision makers, with people drifting away from traditional forms of news media. They also create the possibility that short-term inflation trends may affect expectations and hence distort longer term behavior.

I regard this chiefly as a communications challenge rather than a credibility challenge. The MPC has made significant changes to its communications strategy in recent years, with the introduction of a Monetary Policy Summary alongside the minutes, and the more accessible "In a nutshell" summaries that are released alongside each Inflation Report. I suspect the Committee will continue to face challenges in ensuring our communications keep up with the changing ways that people choose to access news.

5. *What are the main communication challenges faced by the MPC at present?*

In general, monetary policy is most effective when inflation expectations are well anchored and households, businesses and financial markets have realistic interest rate expectations. Clear and consistent communications from the MPC can help ensure that.

Alongside the communication challenge discussed in the previous question, I would add two others.

The first challenge is to ensure that the general public, business and financial markets understand the extent to which the economic outlook - and hence the outlook for monetary policy - is conditional on Brexit developments and the response of households, businesses and financial markets to those developments. There is always some uncertainty around economic forecasts. The Bank does its best to acknowledge such uncertainties by, for example, publishing fan charts and forecast evaluations etc. At present, these normal uncertainties are magnified by those relating to Brexit. The MPC's forecasts are conditioned on a smooth Brexit adjustment to the average of a range of possible outcomes for the UK's eventual trading relationship with the EU. Those outcomes (and hence the fan charts) do not include a no deal Brexit, either with or without a transition. Nor do they include continued longterm EU membership. If either were to become the central case, the economic outlook could change materially. Under these circumstances, any guidance on prospects for monetary policy at present is more clearly conditional than usual.

The second challenge is to ensure that expectations of what monetary policy can achieve are realistic. Monetary policy can help keep inflation low over time and thereby contribute to economic stability. This provides a necessary background against which government can seek to tackle other economic challenges, for example low productivity growth, regional imbalances, and inequalities. Monetary policy has not caused these problems[1]. To be sure, ill-judged monetary policy could – by adding to economic instability -- make these and other social problems worse. But even an optimal monetary policy is unlikely to solve them. For example, the policies needed to address structural weakness in productivity are likely to range across education, government spending and taxes, housing, trade relations, training, and regulation. These are issues where, appropriately, policy is set by democratically elected governments. Similarly, it is unlikely that monetary policy could prevent a disorderly no deal Brexit – if this were to occur -- from damaging the UK's economic growth prospects in coming years.

6. *What are the costs and benefits of the MPC collectively, and members individually, providing greater clarity on their expectations for the path of interest rates, including through conditional forecasts?*

I think it is very useful for the MPC as a group and individually to give general guidance on the outlook for monetary policy over the next 2-3 years, and whether that outlook is changing. The MPC has made significant steps in this direction over recent years. For example, the Committee now publishes a Monetary Policy Summary (and MPC minutes) alongside each policy decision. The Committee's current guidance is that, if the economy moves broadly in line with the Committee's expectations, then interest rates are likely to rise over time and that tightening is likely to be limited and gradual. MPC guidance also makes it clear that the effective lower bound for Bank Rate is close to zero (and not below zero); that a neutral interest rate in coming years is likely to be in the range of 2%–3% (and probably in the lower half of that range); and that the Committee will not reduce the stock of purchased assets until Bank Rate reaches around 1.5%, and that any reduction in the stock of purchased assets will be conducted at a gradual and predictable pace.

At times, it may also be useful for the MPC collectively (and individually), to indicate whether, if events unfold more or less as expected, the actual path for the policy rate would be expected to be above or below the market yield curve. For example, in the May 2019 Inflation Report press conference, the Governor noted "The MPC's latest projections imply that the current market curve used as the conditioning assumption for our forecast is unequal to the task of achieving the MPC's remit." I agree. My view at present is that, conditioned on a smooth Brexit, interest rates are likely to rise somewhat more than the very flat path currently implied by financial markets over the next 2-3 years. That is a conditional forecast and not a promise.

I am not persuaded of the case for publishing precise quarterly interest rate forecasts, either collectively or individually. I suspect that such forecasts would give a false sense of precision and certainty over the interest rate outlook. And publishing the separate forecasts of individual MPC members is unlikely to be a very effective means of communicating the uncertainties around that forecast.

While I am in favour of guidance on the policy outlook, as a general approach I do not believe it is necessary or desirable for the MPC to use specific code words (eg "extreme vigilance" or similar) to signal in advance that interest rates are likely to move at the next policy meeting. Such a policy simply creates a gap between the date at which the decision is effectively made (and signaled) and the date at which it is formally announced. It unfairly prioritises communication with financial market participants, who are likely to devote resources to understanding the subtleties of central bank code words, over communication with the rest of the economy. I would prefer to announce -- and properly explain -- decisions when they are taken.

[1] See Bunn, Pugh and Yeates (2018) for discussion of the distributional effects of monetary policy.

Monetary and economic policy

7. *What are the most significant risks to growth and inflation? Do you see any trends that give cause for either particular optimism or alarm?*

The biggest domestic uncertainties in the outlook are from Brexit developments and the reactions of households, business and financial markets to those developments. Significant preparations for a no-deal Brexit were put in place early this year, for example the Transitional Simplified Procedures for customs declarations and duties, reduced security declarations, extra Border Force staff etc. Most firms surveyed by the BoE had contingency plans for a no-deal Brexit and were activating those plans early this year. Moreover, as the result of actions taken over the last 10 years or so, the financial system is well capitalized and has abundant liquidity.

Such preparations may limit any short-run economic disruption from a no-deal Brexit. That's good news. But a no-deal Brexit would not be painless. Most firms reported they were only "as prepared as they could be", and their contingency plans focused mainly on defensive actions, such as stockbuilding and accumulating financial reserves. In my view, a no-deal Brexit would probably have a significant adverse effect on the UK's long term growth prospects, because of reduced openness to international trade in both goods and services, and the resultant deterioration in the attractiveness of the UK as a global business location. This would be exacerbated if the UK were to move to a no deal Brexit with only a limited time for firms to prepare: it is worth noting that the average time between trade deals being signed and actually implemented is slightly more than two years[2]. The BoE Decision Makers Panel survey suggests that a no deal Brexit would significantly hit investment, exports and hiring. Lower growth in the capital stock would probably hit productivity and potential growth. For the same reasons, sterling would probably depreciate hence, in the short run, pushing up costs of imported goods and services and causing CPI inflation to rise.

As the MPC has said, in such a situation, the monetary policy response is not automatic, could go either way and would depend on the balance between the changes in supply, demand and the exchange rate. It is unlikely that monetary policy could fully offset the adverse effects on growth of a no-deal Brexit, given the likelihood of higher inflation and a deterioration in the economy's supply side in such a scenario.

The major external risk is that the ongoing trade tensions could escalate further, with successive rounds of retaliation, hence undermining business confidence and growth on a wide scale. The UK, as a highly globalized economy, would suffer through various channels including effects on exports, investment and asset prices.

One trend that gives cause for optimism is the accumulation of evidence that the equilibrium jobless rate in the UK has fallen significantly compared to the level of roughly 5% (for both the actual jobless rate and equilibrium level) seen in the precrisis period 2000-07. During 2013-15, the growth of pay and unit labour costs remained subdued even while the jobless rate fell towards 5%. That offered grounds for believing that the wage Phillips curve had shifted down and that the equilibrium jobless rate had fallen, reflecting changes in the labour market including the growth of flexible forms of employment, rising participation, greater under-employment, changes to the tax and benefit system, and effects from increased education attainment across the population[3]. Since the end of 2016, the MPC has cut its estimate of the equilibrium jobless rate from 5% to 4.25%. The actual jobless rate has fallen to 3.8% in Q1 this year, well below any levels seen in the last decade and indeed the lowest since the mid-1970s. With the labour market tightening, pay growth has picked up -- but at 3.2% YoY in Q1, is running around a target-consistent pace, allowing for trend productivity growth. To sum up, the UK now has the lowest jobless rate (and highest employment rate) in decades without inflationary growth in pay or unit labour costs. Given the decline in the equilibrium jobless rate, the MPC at present does not need to set a restrictive monetary policy stance.

Set against that, the main trend that gives ground for concern is the sustained weakness of productivity since the financial crisis. Over 1990-2007, the growth of GDP per hour worked averaged 2.3% YoY (using OECD data), above the OECD average (1.8% YoY) and indeed the fastest among the G7. Over the last 10 years, GDP per hour has risen by an average of 0.3% YoY for the UK, well below the OECD average (0.9% YoY) and the second weakest in the G7 (Italy is lowest). A range of factors probably lie behind this, but I would stress the sluggish pace of business investment over the last 10 years, and the decline over the last 15

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[2] An analysis of 20 free-trade agreements concluded by the US found that on average the negotiation period took 18 months with, on average, a further 27 months after signing the FTA to implementation. See Freund and McDaniel (2016).

[3] See Saunders (2017)

years or so in the share of those in employment that receive on-the-job training. There is little sign of a turnaround. The latest CBI Quarterly Industrial Trends survey of manufacturing firms suggests that firms' expectations for spending on plant and machinery, training, and process innovation are all below their longrun averages.

8. *Based on the current MPC forecast, how do you expect interest rates to change over (a) the next year, and (b) the next three years? How do these expectations compare with those of other MPC members?*

Conditioned on a smooth Brexit and the market yield curve prevailing at the time, the central forecast in the May Inflation Report is that economic growth will rise above trend from early 2020, such that the economy moves into significant excess demand (slightly more than 1% of GDP three years ahead), with inflation above target and rising above target 2-3 years out. That forecast implies that some further monetary tightening is likely to be required over time and, probably a bit more than priced into the yield curve at that time. My own view is that, conditioned on the same assumptions as used for the May IR, the economy will move more clearly into excess demand than the forecast in the May IR, reflecting upside in consumer spending. Such an outcome would reinforce the prospect that rates will rise more than the market curve used in the May IR. I would still expect that tightening will be limited and gradual, with a lower neutral rate than in the precrisis period.

I am not giving a signal on how I might vote at any particular future MPC meeting. That will depend on data and the economy's prospects at the time. But there would be costs if we delay tightening until all the potential warning signs across pay, capacity and prices are flashing red. In such a scenario, it is less likely that tightening would be limited and gradual, and more likely that the economy would face a painful adjustment. Set against this, at the May meeting, I judged that there was a good case to wait and see more evidence to confirm that the expected improvements in global growth prospects and UK business confidence do come through.

In the event of a no deal Brexit, I would expect that the UK will have weaker growth but (because of a lower pound) some rise in inflation. As the MPC has said, the implications for monetary policy could go either way and will depend on the resultant effects on supply, demand and the exchange rate. I am agnostic as to whether it is more likely that monetary policy would loosen or tighten in that scenario.

9. *To what extent is there still a UK productivity puzzle?*

As noted above, UK productivity growth in recent years has been weak, relative to previous UK trends and other major advanced economies. The deterioration in productivity growth has been especially marked in manufacturing and finance. ONS estimates (published April 5 2019) suggest that low capital stock growth and weakness in multi-factor productivity have played a role. More broadly, I would point to weakness in business investment, training and some areas of education as key background factors. The OECD reports that the UK does less well than the average across advanced economies in two specific areas: a relatively high share of the 16-29 age group have low cognitive and digital skills; and a relatively high share of workers are in occupations at high risk of automation and would need moderate training efforts (up to 1 year) to transit to safer occupations with low or medium risk of automation[4]. In addition, the UK is some way short of the top performers in terms of the share of adults participating in nonformal and informal learning over the past 12 months.

There are grounds to expect that over time, increased automation will lift productivity growth. And, there is substantial scope for a productivity catch-up, given that UK productivity levels (output per hour) are roughly 16% below the average of other G7 countries (as reported by the ONS, 6 April 2018). But the near term prospects for productivity are not encouraging, and in my view it would not be surprising if productivity growth remains meagre in the next year or two. As noted, business investment has been sluggish, and business surveys suggest that – with ongoing Brexit uncertainties -- firms' intentions for spending on investment, training and innovation are subdued. Discussions with businesses suggest that considerable time and money that could be spent on enhancing productivity is being used on Brexit contingency plans which, on the whole, are unlikely to yield significant long term productivity gains.

10. *How would you measure regional imbalances?*

Regional imbalances can be measured in a variety of ways, including real GDP (or disposable income) per head, jobless rates and employment levels.[5] The UK has longstanding regional imbalances in terms of the

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[4] See OECD (2019).
[5] See Haldane (2019) for discussion of various regional and local indicators for the UK.

average level of disposable income per head, with London some way above the rest. Measured in this way, regional imbalances have risen in recent years. But, measured in terms of jobless rates or employment rates, regional divergences have fallen over recent years. For example, compared to the 1997-2007 average, jobless rates have fallen most in regions that previously had relatively high unemployment (eg NE and NW England, Scotland, N Ireland).

The MPC tries to get as full an understanding of the economy as possible, looking at it "top down" through macro data on, for example GDP growth and inflation, and from the "bottom up" through the Bank's agents and visits to the various home countries and regions of the UK. These regional or local perspectives often provide useful insights to economic trends. But it is important to recognize that the MPC does not have a remit to address regional imbalances and nor does it have tools to address them: monetary policy is set to achieve the inflation target for the UK as a whole.

11. *What are the principal risks associated with monetary policy normalisation, and what can be done to mitigate them?*

The first risk might be if households and companies were to believe (incorrectly) that the MPC has an aim to achieve monetary policy normalization for its own sake. It does not. MPC decisions are guided by the remit, aiming to keep inflation on target over time. In the MPC's (and my) central forecast, that is likely to require some further increases in interest rates over time, and probably more than was priced into the market yield curve at the time of the May Inflation Report. I do not have a separate aim of trying to normalise policy or to move interest rates to any kind of "normal" level regardless of the outlook for the economy and inflation. If the economy's prospects are such that further monetary tightening or loosening is appropriate to achieve the inflation target, then I would vote for it.

A second risk is that households and businesses might extrapolate a modest rise in rates into expectations that interest rates will return to precrisis levels, without allowing for the likelihood that the neutral level of rates has fallen significantly over time.

In addition, there are the usual risks from running a policy stance that is too loose or too tight. On one side, if interest rates are kept too low for too long, domestic cost and capacity pressures could build up in a way that requires a sharper monetary tightening and more abrupt adjustment in the economy later on. On the other side, tightening too much too early could leave the economy with undesirable spare capacity and below-target inflation.

These risks can be addressed by clear communication of the MPC's aims and general guidance on the outlook for monetary policy. In particular, that monetary policy is aimed at ensuring inflation returns sustainably to the 2% target over time. And that under the MPC's central outlook, which assumes a smooth Brexit adjustment, some further monetary tightening - limited and gradual - is likely to be needed. The MPC has discussed reasons why the neutral level of interest rates has fallen significantly[6].

12. *What is your outlook for the global economy?*

Global growth slowed during 2018, largely in response to the lagged effects of policy tightening in the US and China, but also partly reflecting increased trade tensions – notably between the US and China. In the MPC's central forecast, that slowdown in global growth will prove to be another mini-cycle, with a mild pickup during this year and global growth in 2019 and 2020 of 3¼%-3½% YoY. There are some encouraging signs. Quarterly global growth appears to have troughed in Q3 last year. Moreover, changes in policy and policy expectations for major central banks over recent quarters have helped generate a notable easing in global financial conditions which should start to support activity later this year. However, trade tensions have recently escalated again in some areas, and this could pose downside risks for the next year or two.

13. *What is the outlook for consumer spending, and the housing market, in the UK?*

Consumer spending has grown at a modest pace since the Brexit vote, but a bit better than expected. Initially, that outperformance largely reflected a greater-than-expected decline in household savings, as households kept spending through the temporary real income squeeze caused by sterling's depreciation. But since early 2018, the main factor is that growth in nominal and real household wage income have both been higher than expected, reflecting stronger gains in jobs and, recently, pay. The resultant overshoot in household real incomes has allowed higher-than-expected consumer spending and a slight rise in the savings ratio over the last year.

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[6] See box on pages 39-43 of the August 2018 Inflation Report and Saunders (2018).

The key underlying cause of this consumer outperformance probably has been the support from loose monetary conditions, with the mid-2016 policy easing (lower Bank Rate, QE), plus sterling's depreciation and subsequent decline in spreads on new mortgages and unsecured consumer loans. In addition, there has been some recovery in the labour share of GDP, which in 2013-15 had fallen to the low end of the post-2000 range (with a relatively high profit share). And Brexit-related uncertainty seems to have had much less adverse impact on hiring than business investment.

Looking forward, the May IR projects that household consumption growth will slow a little further this year and next. In the IR, this is driven by a slowdown in job growth, such that real household income growth is forecast to slow in 2019 and 2020 despite the expected lift from lower household gas prices. I regard that as a pretty cautious forecast. Conditioned on a smooth Brexit and the yield curve at the time of the May IR, I suspect that consumer spending will continue to outperform expectations -- probably growing at or slightly above the average pace of the last year or two.

Wage income again may well do better than expected. Firms' hiring intentions have weakened recently, but in Q1 were probably depressed by fears of a no-deal Brexit. If those fears recede, in line with our Brexit conditioning assumption, I would expect hiring intentions to recover.

Moreover, monetary conditions also are likely to remain favourable if Bank Rate follows the very gently upward slope seen at the time of the May IR. The IR assumes some rise in mortgage spreads (about 20bp) over the forecast horizon, so that mortgage rates rise more than Bank Rate. I suspect risks are on the side of stable or even lower lending spreads. To be sure, net interest margins on new mortgage loans have fallen over recent years. However, with the shift to ring fencing of the retail banks, and banks now in aggregate having more deposits than loans, my hunch is that competition in lending markets will remain fierce. And some rise in net interest margins would occur if – with a gently rising policy rate -- lending spreads over riskless rates are stable while banks' deposit rates rise less than one for one with the policy rate[7]. It is notable that mortgage lending spreads have generally turned out lower than expected since mid-2016. Indeed, mortgage rates have barely risen since mid-2017 – remaining around record lows -- despite two 25bp rate hikes over that period.

During most of 2017 and 2018, housing turnover was fairly steady while housebuilding rose strongly. In the last few months, housing activity has slowed and this probably reflects the rising uncertainties associated with risks of a no-deal Brexit. Under the MPC's assumption of a smooth Brexit adjustment to an average of a range of outcomes, I would expect housing activity to rebound a bit from recent weakness, but with turnover remaining well below precrisis norms. Recent weakness in house prices partly reflects the same Brexit-related uncertainties, but also in part reflects the effects from extra housing supply and reduced demand from Buy-to-Let investors. These drags on house prices are likely to continue, even if some Brexit uncertainties diminish. Under our Brexit conditioning assumption, I would expect house prices to rise slightly in nominal terms over the next year or two, roughly flat in real terms.

14. *How effective is the co-ordination of monetary and macroprudential policymaking between the MPC and the FPC?*

The MPC and FPC have separate remits. The MPC's remit emphasizes the 2% inflation target, while the FPC aims to remove or reduce systemic risks with a view to protecting and enhancing the resilience of the UK financial system. There are overlaps between the actions and responsibilities of each Committee, as acknowledged in their respective remits.

Coordination between the Committees occurs through several channels: sharing relevant information and analysis; joint discussions of issues of common interest; and understanding the effects of each Committee's actions. For example, most FPC briefing papers are available to MPC members, and MPC members can attend (as I have done) the wide-ranging and detailed briefings provided by BoE staff for FPC members in the runup to the regular FPC policy meetings. This coordination works well. I gave a recent speech[8] that drew on very helpful analysis from FPC staff and members.

Over the last couple of years, the MPC and FPC have both withdrawn some stimulus. For example, the MPC has increased the policy rate twice, by 25bp each time. And the FPC has lifted the counter-cyclical buffer

[7] See Saunders (2019).
[8] See Saunders (2019).

from zero to 1.0% in two steps (announced June and November 2017, taking effect in June and November 2018). It is not necessarily the case that the MPC and FPC will always act in the same direction in the future.

15. *What is your current estimate of the size of the output gap, the potential rate of productivity growth, the natural unemployment rate, and the equilibrium rate of interest?*

I judge the output gap is around zero, with a modest margin of error on either side. Output gap estimates are inevitably uncertain. The MPC's estimates use a range of indicators, including prices, costs and surveys of capacity pressures. In general, labour market data suggest the output gap has closed. For example, the jobless rate is slightly below the MPC's estimate of equilibrium, vacancies are around a record high, while pay growth has risen to around a target-consistent pace (allowing for productivity trends). Indeed, the high level of recruitment difficulties suggests the economy may already be in excess demand. The relatively subdued pace of core services inflation might appear to indicate there is still some spare capacity. But in practice, core services inflation is being capped by idiosyncratic weakness in rents and car insurance prices that probably has little significance either way for output gap estimates or the UK's medium term inflation prospects. Allowing for this, core services inflation is around a target-consistent pace, which is consistent with the output gap having closed.

I estimate that potential productivity growth is around 0.5%-0.75% per year, similar to the actual average pace over recent years (2013-18 average is 0.6% YoY for GDP per person in work and 0.5% YoY for GDP per hour worked), but well below the precrisis average. As discussed earlier, there is little sign that UK productivity levels are likely to catch up with the G7 average in the next year or two.

In judging labour market slack, I look at a range of indicators as well as the jobless rate, including for example under-employment, vacancies, survey guides to recruitment difficulties, as well as the growth of labour costs and pay. The MPC's current estimate is that the equilibrium jobless rate is around 4.25%.[9] I broadly agree with that, but accept it could be slightly lower, around 4.0%. On either figure, the jobless rate (currently 3.8%) is close to equilibrium.

Estimates of the neutral interest rate are uncertain, but I agree with the MPC's estimate that in coming years it probably will be slightly above 2% in nominal terms, implying a neutral real rate of slightly above zero. This is well below the precrisis norm for Bank Rate of roughly 5%, reflecting (among other things) wider lending spreads, demographic changes and lower productivity growth, both in the UK and elsewhere. We will learn more about the level of neutral rates in coming years, and of course it could be affected by Brexit developments.

16. *What are the material differences between your personal forecast for the UK economy, and the MPC's collective view?*

I have voted to keep policy on hold in recent MPC meetings, in line with other MPC members. I broadly agree with the MPC's central forecast in the May Inflation Report that, conditioned on a smooth Brexit and the market yield curve prevailing at that time, the economy will move into significant excess demand over the 3-year forecast period, such that inflation is above target and rising 2-3 years ahead. Assuming a smooth Brexit, my view is that risks to consumer spending probably lie to the upside of the latest IR forecast. This would push the economy even further into excess demand than the central projection in the latest IR, with the jobless rate likely to reach new lows. In turn, this would be likely to reinforce upward pressure on domestic cost growth and inflation over the next 2-3 years. In this case, Bank Rate will probably need to rise further over the forecast period than implied by the market path to return inflation to target. I do not expect that policy will have to become restrictive, and still expect that tightening would be limited and gradual. But my conditional forecast is that we probably would have to return to something like a neutral stance earlier than markets project.

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