Annual Report to the Treasury Select Committee

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Voting record

I joined the MPC on 1 March this year. Since then I have voted with my colleagues in the MPC, to reduce Bank Rate to 0.5%, to maintain it at that level, and to engage in a programme of asset purchases initially amounting to £75bn, subsequently increased to £125bn.

When I joined the MPC it was clear to me that although Bank Rate had already been brought to a historically low level, further substantive policy action was needed to mitigate the risk of inflation falling significantly below target in the medium term. The downside risks to demand had intensified: the world economy had weakened considerably at the turn of the year, and in the United Kingdom unemployment was rising, while access to credit remained heavily impaired. Against that backdrop I voted to reduce Bank Rate to 0.5% in March. Although conditions warranted further stimulus I did not think it helpful to reduce Bank Rate further. That was because I judged that the behavioural responses to further reductions were very uncertain, and could potentially have a negative impact on confidence. Instead I voted with my colleagues to start a programme of asset purchases, totalling £75bn, to be purchased over the following 3 months. I felt that, if such a policy was to be successful, it needed to be conducted quickly and in large size.

In April, I voted to keep the programme of asset purchases unchanged. The broad range of demand indicators had not changed materially over the month and the schedule of asset purchases was broadly on track. In May, in the context of the latest *Inflation Report*, I voted with my colleagues to increase the scale of asset purchases to £125bn, to be completed over the following 3 months (i.e. before the August MPC meeting). Although there were signs that the pace of the decline in output was moderating, I believed that the recovery over the next couple of years was likely to be slow and uneven, with continuing downside risks to the outlook for inflation. In June, there continued to be encouraging signs on activity but the medium-term outlook had not materially changed. Therefore I voted with the rest of the Committee to maintain Bank Rate at 0.5% and to continue with the programme of asset purchases as previously announced.

The outlook

We are in the midst of the deepest recession in at least a generation. This has created spare capacity in the economy and put downward pressure on inflation. However, there are promising signs that output is at least falling less quickly. Indeed the latest indicators are encouraging in that respect: the May reading of the CIPS services activity index is now consistent with flat rather than falling output; and the housing market activity may be stabilising, albeit at a low level. The Committee's May *Inflation Report* projections suggested a return to positive annual growth over the next year or so. But, as I described in a speech about ten days ago, I am much more worried about the nature of that recovery and its impact on future inflationary pressures, especially in light of the risks posed by the constrained lending capacity of the banking sector. The provision of credit is an integral part of economic growth. It sustains both consumption growth and investment spending. It is also key to managing cash flow, including business' working capital. If prolonged, the impairment of the financial sector could have substantive adverse consequences on the economy's potential growth rate. If potential output were affected, we could need to tighten monetary policy, to keep inflation in line with the target, at a lower level of demand than would otherwise be the case.

Explaining monetary policy

Since March I have given my first on-the-record monetary policy speech (to the Coventry and Warwickshire Chamber of Commerce) and made my first regional visit. I think it is important that the public understands 'unconventional' monetary policy so I devoted some space in the speech to explain how that transmission mechanism is working. It also set out my view on how the inflation targeting regime has worked during the recession. I concluded that the inflation target regime is proving a flexible and effective framework for guiding the economy through to recovery. I also appeared before this Committee for my MPC appointment hearing on 21 April.

As Executive Director for Markets, I lead much of the Bank's market intelligence work and I oversee the implementation of the Asset Purchase Facility. Since joining the MPC, I have led around 150 formal meetings and conference calls with market participants of which at least half were related to the Asset Purchase Facility. Those have been important fora to develop the APF, and ensure its successful implementation. It has also given me an opportunity to explain the Bank's thinking behind its current strategy. I have given off-the-record talks to a variety of audiences, including media, banks, institutional investors and representative bodies. The Markets Area of the Bank has also produced the regular review of Markets and Operations in the *Quarterly Bulletin*, which describes how markets have evolved and reviews the Bank's operations over the previous 3 months.