Report to the Treasury Select Committee
Paul Fisher, Executive Director for Markets, Bank of England
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Voting record

My previous report was in November 2011. As we entered 2012, the economy was weak, as I had feared when voting for more asset purchases the previous October. Output growth had already been broadly flat for over a year. Inflation had peaked in September 2011 and then started to fall sharply. However, I remained concerned by the possibility that the UK economy would slip into a deep recession, alongside continental Europe, and hence generate a significant risk of price deflation. By February, I thought this risk was sufficient to warrant a further £50bn of asset purchases.

During the Spring of 2012, inflation continued to fall, but not quite as fast as I had hoped. By June, the euro crisis was deteriorating further and the balance of risks to the medium-term outlook for inflation had shifted to the downside. At the June meeting I decided that additional asset purchases of £25bn over two months was the right policy action, with a likelihood of more at the time of the August *Inflation Report*. A majority voted to leave the stock of purchases unchanged and other colleagues voted for an additional £50bn. This is the first occasion on which I have been in a minority since I started on the Committee. I thought we needed to restart asset purchases to support confidence and to support other policies which were being pursued. At that stage I was uncertain as to what the total monetary impulse would need to be, but I expected it to be imparted over a longer period. Hence my vote for only £25bn.

By July, there were increasing signs that financial tensions in the euro area were affecting domestic growth, while inflation was continuing to fall. That reinforced my view that more stimulus was needed, notwithstanding that potentially significant effects could come from the Funding for Lending Scheme (FLS); the prospective relaxation of regulatory liquidity requirements; and the activation of the Bank's Extended Collateral Term Repo Facility. In July, one month ahead of the August *Inflation Report*, I judged that it would be best to add £50bn over four months and a majority of my colleagues agreed.

The decision not to make more purchases in November was finely balanced. Further purchases would have been supportive of the FLS by continuing the flow of liquid assets on to banks balance sheets, and could have had useful confidence effects. But inflation was increasingly being supported by administered or controlled price rises which would not be determined by weak domestic demand (e.g. energy bills and university tuition fees). That means that the risk of price deflation is less, reinforced by the upward surprise in the October CPI, which we received during the meeting (but could not analyse in depth before its official release). The proposed transfer of APF coupon receipts to HMT did not affect my vote as the amount to be swept over the next three months is relatively small. I think it remains the case that we are more likely than not to need more monetary stimulus in future, but I will only vote for that if it is consistent with hitting the 2% inflation target in the medium term.

The outlook

Given extreme uncertainty over the supply side of the UK economy, predicting output growth has been extremely problematic. UK GDP growth should pick up modestly in 2013 as some – but only some – of the headwinds holding back demand in recent years abate. In the absence of further shocks, it seems likely that inflation will remain closer to target over the next two years than over the past two, and this should help support real income growth and consumption. In turn, that should incentivise businesses to increase investment. Growth should also be supported by an easing of credit conditions thanks in part to the FLS. But full pass through from lower funding costs via lower lending rates to higher lending to the real economy will take time.

There are downside risks even to that subdued expectation. The situation in Europe remains the biggest single identifiable risk to the UK growth and inflation outlook. Resolution of the challenges posed by the banking crisis and sovereign indebtedness in the euro area will be difficult and take many years, despite the policy measures announced so far. In the near-term, that will be reflected in heightened household and business uncertainty in the UK. In addition there are clear downside risks to global demand from the situation in the Middle East and slowing growth in some emerging market economies. Domestically, if firms and households want to repair their balance sheets further then recovery will take correspondingly longer. Despite the uncertainty over the outlook for activity, inflation seems set to remain not far from target unless there are further upside shocks. The weakness in the economy is keeping wage growth subdued, whilst administered/controlled price rises are likely to prevent inflation falling significantly below target.

Explaining monetary policy

Since I reported to you, I have given three on-the-record speeches. One of those discussed developments in financial markets, and monetary policy, focussing in particular on the FLS; another addressed the basics of the FPC (including the interaction of macroprudential and monetary policies); and the third outlined aspects of the Bank's liquidity operations which enable both policy functions. Facilitated by the Bank's Agents, I have visited many businesses and participated in roundtable discussions in Central Southern England, the East Midlands, Northern Ireland, Scotland and Wales. I have given interviews in national and local media and given a substantial number of off-the-record talks and presentations to a wide range of audiences. I led the press briefing for the FLS.

I have also had numerous meetings and discussions with market participants to discuss developments in financial markets as part of the Bank's market intelligence function which provides valuable information to both the MPC and the FPC. That included leading rounds of visits in London and in New York. I have also regularly represented the Bank in international meetings at the Bank for International Settlements.