# Report to the Treasury Select Committee

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**Voting record**

My previous report to the Treasury Committee was in November 2012. Since then, my voting record can be split into three phases.

In December 2012 and January 2013, I voted to keep the stock of asset purchases at £375bn and Bank Rate unchanged at 0.5%. Developments since the November 2012 *Inflation Report* had done little to alter the balance of arguments between maintaining and increasing monetary stimulus. The outlook for UK growth remained weak, while the situation in Europe remained fragile. The impact of the previous round of asset purchases, and from the Funding for Lending Scheme (FLS), was still feeding through, and while inflation was likely to be sticky at above target rates for the next year, I felt it likely to fall back in the medium term given the degree of spare capacity in the economy. Overall, the stance of monetary policy seemed appropriate in order to meet the inflation target in the medium term.

In February 2013 I voted (but was in a minority) to increase asset purchases by £25bn to £400bn. Output growth had continued – for too long – to be broadly flat. The degree of spare capacity in the economy appeared to be large and the risk was of a continual contraction in supply. Growth prospects remained subdued and medium-term inflation expectations remained well anchored, despite elevated current CPI inflation. Wage growth in particular had weakened further. Given the level of spare capacity, and the likely positive response of supply capacity to increased demand, the arguments swung in favour of more stimulus. I felt that some further asset purchases were warranted, but perhaps at a slow pace to give sustained support to the economy. I voted for an initial £25bn increase with the idea that further purchases would be made over an extended period. I maintained this view (and my vote) up to and including the June meeting, while also supporting (and then implementing) the extension to the FLS in April.

In July and August 2013 I voted for no change in Bank Rate and the stock of asset purchases. Although I thought there remained a strong case for further stimulus, by the time of the July meeting, the MPC was in the process of discussing whether there were alternative ways to make the existing stimulus more effective, via the use of forward guidance based on a threshold. I felt that voting to restart QE that month- which clearly would not have the support of a majority of colleagues - might have made that decision more complicated to achieve. In the August policy meeting, I agreed that explicit forward guidance should be adopted. Although the short end of the market curve was broadly consistent with my view of the outlook, I felt that forward guidance might be particularly useful in reaching out to the wider business and household community. And although the case for further stimulus remained as compelling as earlier in the year, I felt there was merit in waiting to gauge the impact of forward guidance before reconsidering whether a further increase in asset purchases was appropriate.

**The outlook**

My interpretation of recent data is that the UK economy appears to have returned to modest growth, but at rates that are still no better than the previous trend. Business surveys and near-term indicators have improved, confidence is picking up, and some of the headwinds holding back output in recent years are slowly easing – for example, a range of indicators suggest that credit conditions are steadily improving, supported by the FLS. The recent introduction of explicit forward guidance should also support the recovery by making the existing monetary stimulus more effective, in part by providing greater clarity to businesses and households as to the conditions under which the currently accommodative stance of monetary policy will be maintained. My view is that unemployment is likely to fall back only gradually, as I am relatively optimistic that the improvement in activity growth will be accompanied by a pick-up in productivity.

Nevertheless, the legacy of the financial crisis and the further balance sheet adjustments that are required by different sectors of the economy – banks, governments, households and some businesses - means the recovery is likely to remain weak by historical standards, at least for the next couple of years.

Although there remain some significant non-wage cost pressures in the system, I think there remains considerable spare capacity in the economy and little inflationary pressure is currently being generated by domestic demand pressures. As those cost pressures fade, CPI inflation should fall back to around the 2% target over the next couple of years.

Of course, there are numerous risks to this assessment. The situation in continental Europe remains the biggest single identifiable risk to the UK growth and inflation outlook. In addition there are downside risks to global demand from slowing growth in some emerging market economies, while recent political tensions in the Middle East, particularly Syria, could put upward pressure on inflation via oil prices.

**Explaining monetary policy**

Since I previously reported to you, I have given two on-the-record speeches on monetary policy (with another scheduled for October). Facilitated by the Bank's Agents, I have visited many businesses and participated in roundtable discussions in Scotland, Wales, the South West, and Yorkshire and Humber. 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, including background briefings on both the extension of the Funding for Lending Scheme and the introduction of forward guidance.

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.