Bank of England

Inflation Report Q&A
6th August 2015

Robert Peston, BBC: Governor, with unemployment rising slightly and in fact employment growth slowing, and on your forecast inflation at at or near zero for rather longer than you thought back in May, isn't it a bit bonkers to start talking about interest rate rises?

Mark Carney: A couple of things. First, the near-term outlook for inflation is muted, as I said, and it wouldn't be surprising if we have another month or two of negative inflation, given the very substantial moves in oil prices and the changes to some of the utility prices as well. We've seen big moves in oil, big moves in other commodities, but also some changes to utility prices.

And those mechanically go into the CPI calculation. It makes a real difference to households in terms of their disposable income. But they're one-off effects, so we put them into our near-term forecast. They won't be around - those effects in inflation won't be around in the 18 to 24 month horizon over which we can influence the rate of inflation.

So our expectation is that the rate of inflation is going to pick up, and the issue for the MPC is to ensure that it picks up in a sustainable manner - that it first gets back to target in a timely fashion (we say within two years). But we don't want it just to get back to target in order to shoot through the target. We want it to get back to target and, all things being equal, to keep it at the target of 2%.

So it will be consistent, in our judgement - our best collective judgement, in order to achieve that, it will be consistent with rate increases - to a limited and gradual extent, but also rate increases the timing of which, in our judgement, has moved closer than the time that was in May. Because this is not just about inflation, as you know, over the course of the next few months, but inflation for the medium term, so people don't have to worry about inflation, so people can enjoy the

dividend, if you will, of lower petrol prices, lower food prices today, without worrying about a payback in the medium term.

Robert Peston, BBC: And the jobs market -

Mark Carney: The jobs market - important question. What we've seen in the jobs market - first off, big picture, taking a step back as I did in my opening remarks. If you look over the last couple of years, we've had one of the strongest employment performances not just in the advanced world, but also in the UK's history. And you can cut that a number of different ways. I used the unemployment rate - 2 percentage point fall.

In the very recent employment numbers, we have seen a slight fall in employment and slightly less contribution from average hours. Now there's a couple of potential interpretations of what has happened. One would be that there are actually congestion effects in the labour market. So in other words, as the labour market tightens - and we see that tightness in a number of ways: the vacancies to unemployment rate is back at historic averages; job to job churn has moved up quite sharply; the amount of short-term unemployment is back down below historic averages - a bunch of signs of that tightness in the labour market, so the movements may take time, so you may get these sort of blips that are there.

The other thing which does appear to be happening - and we'll learn more about that with time - the other thing that does appear to be happening is that we may be seeing this pick-up in productivity that's there. And that is very good news for the sustainability of the recovery. It means that the wage growth that we have seen - and we have seen a notable, a marked pick-up in wage growth over the course of the past six months - that is very welcome. The extent to

which productivity is filling in around that, that means that that wage growth is more sustainable as well and so it all goes well for the sustainability of the recovery.

So I would not interpret - we would not interpret the recent job news as negative for the sustainability of the recovery. And in fact it's borne out - I'll finish here - it's borne out in our forecast which has GDP growing slightly above historic averages for most of the forecast horizon, and the economy ending up in excess demand.

Richard Edgar, ITV News: Governor, in the middle of last month in a speech in Lincoln, you said that the decision as to when to start such a process of adjustment - in other words putting up interest rates - will likely come at a sharper relief around the turn of this year. What's changed, if anything, in the economy that would adjust when borrowers might expect the first rise in interest rates, in those three weeks?

Mark Carney: Well, a couple of things. One is that my speech in Lincoln is my personal view and I'm here, as Ben and Minouche are, representing the Committee. I was very clear, though, that I was talking about the decision about whether to raise interest rates from my perspective would come into sharper relief around the turn of the year, just to be precise. And that is consistent with the forecast in May, consistent with the forecast that we have, in my judgement, today.

The point is that none of us on the Committee pre-commit to any future rate increase, any future point in time that we would increase interest rates. We just took a decision today, and as I said, the vote was 8-1. But what we do see - and this is relevant to the timing of rate increases - is an economy where the slack in the economy is being used up, where we're starting to see wages increase, where we're starting to see a pick-up in unit labour cost, where we have some offsetting effects, but the support for a rise in CPI inflation is building.

And as we move forward, we will be looking as individuals and collectively as a Committee, for confirmation of the recent trends, in order to make our individual and ultimately collective decision of the timing of when to raise interest rates.

Richard Edgar, ITV News: Your view hasn't changed in those three weeks?

Jenny Scott: Richard, if you could just keep it to one question.

Heather Stewart, The Guardian: There's been quite a lot of activity, turmoil - to use a journalistic term - in financial markets in recent weeks - a lot of concern about the impact that a Fed rate rise later in the year might have, quite a lot of action in the European markets, bond markets because of what's happening in Greece and also China - extraordinary turnaround in their stock market.

How much weight do you attach to those concerns of financial market dislocations, and how does that impact your thinking.

Mark Carney: Well, I think the first thing I'd say is - I wouldn't characterise what has happened recently in financial markets as being turmoil. I would characterise it as there's been volatility, financial markets have been adjusting to news, the situation in Greece was a steady feed of news about an important situation. I think we learnt a number of things through that process, one of which was that some of the defences that have been put in place by European authorities were holding, importantly, and that is - it's consistent with the Committee's view in terms of the scale of likely contagion if there were to be an unfortunate outcome in Greece.

Obviously, events in China are important. They're important, first and foremost though, from a perspective of global demand. It's why we have one of our downside risks to global growth. The financial links to China are nowhere near

as strong as the scale of that economy would suggest. Now there are some financial links in the UK, but again, these were not factors that were weighing on the Committee's decision in any form. I mean, we will have to make a judgement about the precise timing of raising interest rates and one can expect that there will be some tightening of financial conditions as a consequence of that. But that is part of the purpose of raising interest rates, and we'll take that into account. So I wouldn't say that anything in the past few weeks weighed on the Committee, except for trying to make judgements about the fundamentals of these situations.

Ed Conway, Sky News: Actually first of all, can I ask, in this new era of transparency, do we just have one question per person or are we allowed two?

Jenny Scott: There's a lot of people to get through, Ed, so I'd rather you started with one and then, if there's time -

Ed Conway, Sky News: Okay, I will limit myself. So last time around, in May -

Mark Carney: And that was your one question, Ed.

Ed Conway, Sky News: Last time around, you were quite worried about productivity, and you mentioned that a number of times in the last Inflation Report. I just wonder, since then, we've had the summer budget, we've had the government's productivity plan. Can you reflect on those and say, you know, are some of those issues actually being solved or do we still have a productivity problem?

Mark Carney: Well, no, I - first thing, with all due respect to productivity plans, those are plans for the medium term and they'll have an impact - their impact will be seen in the fullness of time, and they're not hugely relevant for the horizon over which we conduct monetary policy.

In terms of the productivity puzzle, we have been disappointed by the length of time it has taken for productivity to pick up in this economy. There are a variety of ways we could cut the data, and justify why it's taken time. Without fully explaining, I think we've been open, that we can account for some of it, but not for all of it.

So I would say we are mildly encouraged to see the most recent data which does have a pick-up in productivity. Now I just want to be clear what we have done with that, because we haven't run to the other side of the boat as a consequence of a few, you know, good reports. We have taken about half of that improvement in productivity into the forecast, so the level of productivity at the end of the forecast is about .6 percentage points higher than it had been in May. And so what you'll see in our forecast is that the rate of productivity growth over the forecast is slightly lower than we had it in May.

That's being prudent. There's probably going to be some - there's always some volatility in the data and the productive process doesn't move in a smooth line. So we brought that in.

But I will go back to my earlier comment, which is that it is encouraging because the combination of the tightening of the labour market and the improvement in productivity support faster wage growth. And so the pick-up in wage growth that we have seen and we expect to continue is more firmly grounded in that environment.

Siobhan Kennedy, Channel 4 News: Just to clarify, Governor, on the Lincoln speech where - do you stand by, then, what you said about the potential for rates rising at the turn of the year, because everything that we've heard today would imply spring or even June of next year. So the two things seem a little bit confusing.

Mark Carney: Let me clarify it for you. I'm not sure it's necessary. First thing is - I'd recommend reading the actual speech, because I didn't say rates increase around the turn of the year; I said, exactly as Richard Edgar, who had read the speech, that the decision around that comes into sharper relief. That's the first thing.

The second is that the forecast of the MPC, which takes into account a variety of things that have - a variety of developments, does not deliver a sustainable return of inflation to target. It brings inflation back to target in two years, but it then overshoots; the economy then moves into excess demand.

And so a judgement that has to be made individually and ultimately collectively by members of the MPC is - all things being equal - how would one adjust policy in order to have policy slightly tighter than where the market is? Which can be an adjustment in terms of timing of the start of rate increases or the cumulative amount of rate increases. And those are judgments that we'll make.

Taking a decision in August, Siobhan, a decision in August which is not the turn of the year, about whether or not to raise interest rates today is entirely consistent with what I said in Lincoln.

Phil Aldrick, The Times: There's conflicting data in the labour force stuff. You've got unemployment has been picking up a little bit, but you've also got wages rising strongly, and you do a bit of analysis on this, but you don't actually set out a conclusion. And I just wondered if you can provide some clarification around whether you think the labour market is indicating that conditions are tightening, on the balance of probabilities, or whether the labour market is still providing ample room for

slack and there really is no tightening happening. Because there's mixed messages coming out of these reports.

Mark Carney: Well there are cross currents in the labour market, there's cross currents in the economy, because we are seeing in the supply side of the economy - because as you observed, longer suite of time there has been this big labour supply shock, it's largely been absorbed. We've had a slight uptick in unemployment in the course of the last few months, but at the same time we have seen a concurrent pick-up, apparent pick-up, in productivity.

What the MPC has done is we've taken all those factors together and made a judgement about the amount of excess supply in the economy, the output gap if you will. Our judgement is it ends up in roughly the same place as it was in May, about 0.5 percentage points of GDP. Now there's a wide range of views on the Committee about exactly where that is, and it's an inexact science, to be polite. So we do bring it together in - we bring it to conclusion around the output gap.

But let me say a word about the labour market - actually I might ask Ben to supplement - which is that the bigger picture in the labour market is that the labour market is tightening, and it is tightening and wages are beginning to reflect that. And, as I said to Ed Conway earlier, that the performance of productivity, all things being equal, this end is sustained, is supporting that wage growth, which is a welcome development. Now when you turn to actually labour income, then you get into some complications. But, Ben.

Ben Broadbent: Yes, I won't add much. As the Governor says, it's only in the latest data you see this rise in unemployment. The data are also quite volatile on a short-term basis, so we'll have to see whether this persists.

I might add that of course our forecasts had for a while implied a slowing rate of employment growth and that's probably what we're seeing. Over the last two years we've seen a significant tightening. That's true in the rate of unemployment; it's also true in other indicators, as the Governor said, like vacancies. A combination of that, plus now a degree of productivity growth, is boosting real incomes and we will see this year significant growth of real labour incomes.

So I don't think the very latest data disturb a broad picture which has been a feature of our forecasts I would say throughout the last year.

Jennifer Ryan, Bloomberg News: I've got a question on the pound. It seems to me, just from your opening statement and some of the remarks in the minutes, that the pound is really doing a lot of the tightening for you, and so that's really the key factor in postponing an interest rate increase. But I would also wonder how confident you are in your projections for inflation, given that the last time we saw a big move in the pound, i.e. down a couple of years ago the Bank's forecast didn't so well, and this obviously admitted by - you know after the fact?

Mark Carney: Yeah, no, a very timely - look there's been a big move in sterling, 20% on a trade weighted basis since the trough of March 2013 and a good - a notable chunk of that has come between May and today as well.

What we have to do - and there is substantial exchange rate pass-through in our inflation forecast; it does do a fair bit of the work in terms of, as you say, keeping inflation down, not just in the short term but over the relevant policy horizon. And it's one of the reasons we need to see domestic costs come up.

So one of the judgements we have to make is how much of this is going to flow through to consumer prices. And we have been, as you would expect, looking very carefully about what the recent history is, not just the further back history. And there has been less of this being passed through than we had previously assumed. So one of the adjustments in this Inflation Report is just to take that reality - the fact that there has been less pass-through - and we've adjusted our forecast accordingly.

So there's no question, there's no question that the strength of sterling, the persistent strength of sterling, is having an influence on policy, and it's one of the factors. But it has to persist. We will take it into account. But even taking it into account, the strength of sterling, and even taking into account the fiscal consolidation that we're going to see over the coming years and the weakness in global demand, we see robust private sector growth here, and consistent with that is a need to begin to increase interest rates. And the precise timing will be determined, and as you've heard me say many times, it will likely be limited and gradual, but sterling hasn't taken away that requirement.

Catherine Boyle, CNBC: Mr Carney, there's been a lot of focus recently on the Office of National Statistics and some of its data has even been criticised by the UK Statistical Authority. And obviously a lot of this data is what we're making your forecast based on. How concerned are you about this and the rest of the Committee?

Mark Carney: Well, we have to work with what we're given. No statistics are perfect; they're all in some respect based on some degree of surveys. We have, I would say we have - the Committee and certainly the staff of this institution have - a great familiarity with the data we use and very close working relations with the Office of National Statistics to understand what's coming out. And you see it in our forecast - I'll give

you one example, you see it in our forecast, both in terms of when we forecast GDP, we forecast what is expect to come out, but more importantly we forecast what we expect it ultimately to be measured as, so that so called backcast. And often there's quite a substantial difference. And in general, those forecasts of the backcast have proven accurate.

Obviously, we care about this issue a tremendous amount, as does everyone at the ONS. We're very pleased to see Sir Charlie Bean be appointed in his new role; we have seconded people to assist him. I can think of no better person in the country to do the important work he's doing.

And I'll just finish with - you know, I think we do need to put this in context, which is that all statistical agencies have to continue to get better. It's a constant effort to improve. The economy is always shifting, resources are always scarce and the ONS is doing the best they can with the resources they have. And I am sure they will be improved by Sir Charlie's work.

Emily Cadman, Financial Times: Governor, your forecast makes it quite clear that you think the consumers are going to be fundamentally the driving force behind the recovery. Savings ratios are declining, house prices going up, is this sustainable and balanced going forward?

Mark Carney: Well, I think the first thing is to recognise that this is not a debt-fuelled consumer recovery. We have had - British households have paid down about 30 percentage points of debt relative to income over the course of the last several years. We would see only a modest sort of flattening of that trend over the forecast horizon.

So households are consuming out of income. They may be drawing down their savings rate, as you rightly note, over the course of that horizon, but they are being paid. They're in

work; their wages are starting to increase; we think that their incomes are going to rise further over the forecast horizon, and so there is absolutely a sustainability to that aspect of the recovery, particularly as productivity starts to fill in and make the expansion more sustainable. Thanks.

Ben Chu, The Independent: Governor, a question about business investment. You've revised up your forecasts for investment this year and for the subsequent two years, and the Inflation Report tells a quite optimistic story about business investment. But the Chief Economist at The Bank, Andy Haldane, recently gave a speech where he presented a less optimistic picture. He said that there might be a potential structural break on investment due to the short termism of equity investors. And he suggested that might be one of the reasons why it's underperformed since the financial crisis. Is that a minority view amongst the MPC and the Bank staff, of this this something - an area that the Bank is actually looking at?

Mark Carney: Yeah, well the first thing is - thanks for the question - I mean the first thing to observe is Andy is a member of the MPC and he signs up to the forecast, so this is the best collective judgement of the MPC. And as you rightly note, at the heart of the forecast is this pick up in business investment. I think we have to remember that there were a few difficult years here in the past where business investment was not strong, not just because of the absence of demand, but difficulty in obtaining financing.

Now we have certainly strong domestic demand; we have a financial system that's working - it's virtually firing on all cylinders. If you look at financial conditions as a whole in the country, they have continued to improve over the last several years and they're quite attractive both in terms of costs and availability of finance. So it's more a question of opportunity.

I would put, I would pick up on the short termism element and I would put Andy's speech, if I may, into its proper context. He's looking really at a medium term issue; he's looking at issues of principal agent problems, corporate governance issues, the structure of compensation, the incentive structure around quarterly reporting, and other issues, all important issues. But these are medium-term structural issues as opposed to questions which pertain specifically to the forecast.

And I'd underscore that - yes, we have a strong forecast for business investment, but it's consistent with strong domestic demand; it's consistent with very healthy financial conditions; and it's consistent with what we're hearing directly from businesses themselves, both in terms of our surveys and broader SIPPs and other surveys.

Ben Broadbent: Just to point out that - you can see this in a chart, the chart on Page 14, 2.8. The fact is that business investment already has been growing very strongly over the last couple of years. You can see a growth rate hit 10% early last year, and this is what tends to happen in economic recoveries. So actually I would say, you know, not untypically this is as much, if not more, of an investment driven recovery as it is a consumer spending driven recovery.

So as the Governor says, I think Andy's points were more about the medium term. That does not mean that one should not expect to see the usual cyclical recovery in investment, it is much the most cyclical component of aggregate demand.

Richard Barley,
Wall Street Journal: Governor, could I take you to a couple of lines in the minutes, one of which talks about moving rates earlier allowing a more gradual adjustment and on the other hand an environment of heightened uncertainty to benefits of waiting for more information might be beneficial. Is this heightened

uncertainty a fair judgement or it is a post-crisis over-sensitivity to uncertainty, in that the future is always. Uncertain when we get to the turn of the year and these issues maybe come into sharper focus, things may still be equally uncertain?

Mark Carney: Yeah, Richard a couple of reasons I want to thank you for the question. I think the first thing is - you pick up on something in the minutes which reflects a discussion that we obviously, as appropriate, it reflects the discussion we had. But we have from time to time, as you would expect, sort of stepped back conceptual strategic discussions if you will, deliberation type discussions.

And what that refers to, that bit of the - and part of the point of this process is actually that you get to see the minutes, you get to ask us questions and we can explain it in real time, as opposed to you just ponder them and then lose the opportunity. That bit in the minute refers to issues around a risk management approach at the zero lower bound versus some work that Charles Evans has done on the benefits of waiting, which are interesting theoretical/policy questions. I would say, to characterise the central view of the Committee, very much the collective judgement of the Committee is that neither pertain to the United Kingdom at present.

So we're not sending a policy message here today, that the world is all so uncertain, we can't decide what to do. You know there's always cross currents as I said earlier, but we have a recovery that's turned into an expansion that's built solidly on robust domestic demand. We have tightening of capacity, tightening of the labour market. We have very low inflation at present, but gradually building inflationary pressures. And the question is when to begin a process of beginning to increase interest rates in a limited and gradual fashion in order to keep inflation around target over the medium term.

So no, we're not - I entirely agree with your characterisation. Next time we're in front of you there will be lots of uncertainty, some of which we won't have predicted, but that's not a justification for permanent stasis.

Harry Daniels, Live Squawk: It's a question really from my listeners, saying on the MPC is there any sympathy or consideration to the Neofisherite view that a sustained period of low interest rates could be contributing to low inflation rather than preventing it? So in the sense - I know expectations have started to rise, but slowly.

Mark Carney: It certainly didn't - I don't recall it characterised in any of our discussions. I think what I would say, just to go to that question, is - we did have a discussion. I think there is some sympathy that there - low interest rates can contribute to a sort of passive forbearance in the financial sector, which as a consequence can delay some of the necessary reallocation of capital, births and deaths of companies, if you will, that are necessary to support productivity growth.

So on the margin that's one potential explanation. And so you - you can have an environment as rates increase, that's actually pro-productivity, if you will. Now I wouldn't overplay that and I wouldn't say that's central. But that's the one observation, it's not a factor - we're not making that inverse -

Mike Bird, Business Insider: I just wanted to ask - the labour market and wage figures were a little bit surprising in comparison to what was thought in the May Inflation Report. For once obviously wages surprising to the upside and unemployment to the downside. Is there any concern about The Bank's understanding of what's happening in the labour market, given that it seems to have missed this trend a little bit and a couple of years ago it very much missed the trend of much stronger employment and much weaker wages and productivity?

Ben Broadbent: I wouldn't call this is a trend. I mean, as I say, we've seen it in two or three months of data; I think we need a little longer to call something a trend. And every forecast has an error surrounding it. And as I said to an earlier question, actually if you look at the shape of the path of unemployment, we'll do it from your perspective, and indeed wage growth, the broad shape is actually I would say close to what we've been forecasting for quite some time.

So yes, it looks like in the second quarter of this year wage growth will have been a little firmer than we were expecting in May, employment growth weaker. As it happens, that leaves the most crucial single number from the labour market - the growth of unit labour costs - pretty much exactly where we expect it to be, just marginally below.

You referred to the forecast of unemployment and how rapidly it fell 2013/'14, and that was surprising. And it's a part, or associated with, this productivity puzzle we've had. And as the Governor said earlier, we have some ideas about that. We're never going to explain it fully, I think. But I wouldn't actually call the variations we've seen recently to be on the same scale as that, I don't think they are.

Hugo Duncan, Daily Mail: Governor, is the overshoot in inflation three years out that you spoke of a few minutes ago, is that a sign that interest rates will probably rise faster, or may have to rise faster than the market is currently expecting, as you detail in the Inflation Report?

Mark Carney: Look, I think what it says is that in the Committee's best collective judgement that the market curve does not deliver a sustainable return of inflation to target, because there is an overshoot; the economy moves into excess demand. Now there are a range of outcomes around that, that's why we have inflation Fan Charts, but that's the median of it, yes.

Sam Nussey, Nikkei: In the July minutes it was noted that the appreciation of the exchange rate could have an adverse impact on the balance of growth in the economy and had occurred despite the large current account deficit. Are you concerned about the rise of sterling, the impact that that could have on the balance of growth, and whether it could be a risk for economic stability in the future? Thanks.

Mark Carney: Well, I would say - let me speak for a moment - the three of us are members of the Financial Policy Committee, which looks at issues of economic stability. And the current account deficit is one of the top risks to financial stability over the medium term. It's sizable; in fact we used it to motivate our stress test of banks last year, that if there were a disorderly adjustment in the current account, what are the knock-on effects for prices, for interest rates, for unemployment and ultimately the housing market and bank balance sheets. That is not the base case that we expect, and in fact the very process of going through that makes it less likely - that's part of the point of stress tests.

But yes, we do think about it from a financial stability perspective. And one of the things that we're doing as an institution is to ensure that the Financial Policy Committee is talking to the Monetary Policy Committee so that we have - we can share analysis and perspective, but we also understand each other's concerns and what we might do about it. And those discussions include discussions around the current account.

Mario Blascak, World Business Press Online: Governor, I would like to return to graduality issue or graduality terminology. Have you ever considered at the MPC other than 25 basis points moves in interest rates because there is a long - at least a year of history of gradual and

limited interest rate increase. So would ten basis points do the gig?

Mark Carney: I'll give you a straight answer. The term gradual refers to relative to past cycles. The average increase, once the Bank of England starts a - since the adoption of inflation targeting, once the Bank had started raising interest rates, the average increase per quarter was on the orders of magnitude of 37.5.

Discussion

Mark Carney: Exactly, 37.5 per quarter. So it's relative to that level in terms of rate increases per quarter, which gives us a sense that we would proceed more slowly.

Directly in terms of your question, no, we have not had any discussions of changing interest rates in anything other than the traditional increments of 25 basis points.

And to be clear, of course one of the advantages of the minutes is you see the proposition that is put in front of the Committee. And if we did ever have a discussion, just to be absolutely clear, if we did have a discussion about something like that, we would include it in the minutes and we would disclose it so that you would know and raise it with us.

Kieran Williams, Live Squawk: So we've recently had some upper revisions in the 2012 and 2013 GDP figures. So seeing as the employment figures won't be revised over those periods, and actually productivity was stronger in recent years than was actually thought, which also means that productivity is close to its potential level, so how do you anticipate that will affect your estimates going forward?

Mark Carney: Yeah well, it's relatively modest in terms of productivity. I think it totals to about a percentage point cumulative over the course of the two years, and the drift of productivity from

potential, historic potential, if you will, is north of 15 percentage points; it's probably around 17 - I mean it's a big number. It's such a big number; I'm not even tracking it anymore.

Now we don't expect the economy to go back to historic potential, not least because part of that trend of growth, not least because part of that was from North Sea oil and gas and obviously the economics of that have changed. But a notable proportion was from the financial sector, which proved to be more ephemeral productivity. And having put it on the right track, we would expect the growth of productivity in the financial sector to be lower than in the past.

Ferdinando Giugliano, Financial Times: Governor, I have a question about the appointment of Gertjan Vlieghe which happened last week, and the following comment by Andrew Tyrie from the select committee over his business interests with Brevan Howard.

My question is whether you think in retrospect it was the right decision to allow him to retain those ties? He then eventually sold the stake, but I was just wondering whether this initial decision was right, especially as it later emerged that he could actually cut his ties with the hedge fund. So I was just wondering what your opinion was now.

Mark Carney: In the "full, full" hindsight- well let me say a couple of things. First, I'm very much looking forward to working with Jan. He's an outstanding economist, he's known to the Bank, he's someone who has gone out and gotten more financial market private sector experience and he's coming back to serve in the public sector, and he should be commended for that. And I very much look forward to working with him, as do all our colleagues.

In terms of appointments to the MPC, appointments to the MPC are made by the Chancellor and determinations of conflicts of interest and others are made by the Treasury. So they made the determination. I'm a little loath to pass judgement on those.

We have a code of conduct for members of the MPC and the judgements, in consistency with the code of conduct, is judgements made - the financial aspects of somebody's personal affairs, as you would expect, it's not a judgement that I make. I don't oversee the financial affairs of my colleagues on the MPC. Somehow I could imagine that might create a conflict of interest somewhere along the line.

So it's overseen by effectively our compliance within the Bank, our Secretary of the Bank of England. And Jan's arrangements were consistent with the code of the MPC because it was a passive stake. Now he took the judgement, Jan took the judgement, to eliminate any possible misperception of a conflict, to exit his stake and he arranged that and I commend him for it.

But I'll go back to my first comment which is I very much welcome his willingness to serve the British people and look forward to working with him.

Dan Hinge, Central Banking: So this was the new - the first meeting under the new format. I wondered if you could talk a bit about whether the nature of discussion had changed at all, given the increased scrutiny particularly of the second session?

Mark Carney: The nature of the discussion - I wouldn't say the nature of the discussion changed as a result of the format. I would say, and hopefully it bears out, that the - well you'll be the judge, but my personal impression is probably a sharper connection between the minutes, the Inflation Report and we've added what we call a Monetary Policy Summary, which is quite

helpful because that is in effect - it's the first place I would go in terms of the thinking of the Committee. How do we see the trade-off at present? Over what time horizon do we think we need to bring inflation back to target? What's our strategy to do so? And then the main elements of the forecast. So for the first - we're stepping back.

Now that's something - and many of those elements will look a bit familiar this month because many of them are in the letter to the Chancellor, but where this will be particularly relevant is when we don't have to write a letter to the Chancellor, when we're back within the zone, we still will have the discipline. And I think the discipline of stepping back to that was helpful as well in terms of forming an opinion. Minouche, do you want to -?

Minouche Shafik: Yes. I mean, I think as you said, the minutes I think are fresher because we prepare them immediately after the discussions and I think that's a good thing. And the consistency across the three products I think is also better. So I think it was - I think as members of the Committee we felt the staff did an excellent job of pulling it all together so quickly in time for all of you today.

Robert Peston, BBC: Inevitably we all obsess about when interest rates are going to rise but it's also of some importance that you own £375bn worth of UK government debt. You took the decision in the latest meeting to reinvest £17 bn worth of maturing debt in new bonds. Why isn't this the moment to start paying or reducing the holding of UK government debt? And if this isn't the right moment, when would be the right moment?

Mark Carney: Well the first thing - let me just state what the policy of the MPC is because it's an agreed policy of all of us - is that we will continue to reinvest any maturing proceeds at least until we begin to raise interest rates. So with that policy sort of mechanically follows - and that's to provide guidance to the

market, clarity of the market that our marginal instrument of monetary policy is going to be the interest rate, is going to be Bank Rate at least initially.

We further said that we will not sell any - make outright sales of any of our gilts until we have raised interest rates to a level from which we can materially cut them. Again the common theme behind both of those points is that we want to use bank rate as the marginal policy - the marginal instrument of monetary policy. We have - there's lots of uncertainties, imperfections, etc., but we have a much better sense of the transmission mechanism of changing interest rates in this economy than we do for a given adjustment in the level of gilts.

And I think the market also would have a much better sense for given change in interest rates on what prospective future interest rate changes might be as opposed to discrete decisions about whether we reinvest this lot of gilts or sell that lot of gilts.

I think your question though goes to an important point which we have discussed as a Committee and we'll develop over time, which is to think about how we can provide greater guidance and clarity about our plans for that stock of debt.

I'll be clear that these are decisions of monetary policy, these are monetary policy decisions, because they will affect overall conditions and affect our ability to hit the inflation target. We will want to co-ordinate those decisions as much as possible with the debt management office because £375bn of gilts is a material amount, and what's incumbent on us is - and Minouche is leading this work - is to work through and then provide as much clarity as possible in advance about the potential programme.

But all of that presumes first, movements in interest rates, and for anything above decisions around just reinvestments, likely material moves in interest rates before we make those decisions.

Szu Chan, The Telegraph: Governor, could you give us perhaps a deeper insight into any changes in the mood music between the July meeting and the August meeting in light of the new forecast. Obviously the minutes show a clear divergence with one member voting for a rate hike, another saying there's risk to sort of wage and price expectations in the near term maybe holding off. Would you say that more members are thinking about upside risk to the inflation forecast than a month ago?

Mark Carney: Well I think - let me first go from May, which is that - there were some big developments since May that would have otherwise pushed down on the inflation forecast. So we had a big move up in sterling, 3.5 percentage points; the rate curve moved up to a notable amount; and depending on how you interpret the labour market data and productivity, there's also - there had not been a reduction in spare capacity as much as we would have expected.

Now set against that was a reduction in some of the external risks, the Greek risk specifically; although there's still residual risk around Greece - we shouldn't forget that. But a reduction in some of the external risk. And this continuation of domestic momentum - robust domestic momentum - investment led, as well as household consumption and supported by wages. So for a number of members, it makes these decisions more poignant and they reflect on it.

I think the minutes faithfully represent where the Committee is, as you would expect. There's the specific vote on whether to move rates today, which is 8 to 1 not to. There's some of those members see more upside risk to the inflation forecast than others do. And these are fine judgements; it's

absolutely appropriate in a committee of nine individuals that some would think that for example there's a little less slack, there might be a little less pass-through, the economy might have a little more momentum, and all of that would play into individual perspectives on the timing. So I would just draw your attention to that.

Look, as the economy progresses, and if the economy progresses broadly in line with this forecast, the decision about when to move interest rates is going to come into sharper relief - that's the way it works. And there were some big changes between May and August. But as I said in my opening remarks - as a whole, in the judgement of the Committee, we're moving closer to the point at which the first interest rate increase may happen.

Jenny Scott: I'm afraid that's all we've got time for. Thank you everybody for a long morning. Thank you.

END