Bank of England

Inflation Report Q&A
5th November 2015

Richard Edgar, ITV News: Governor, not an awful lot has changed in the numbers that you base your forecast on from the August Report to today, and yet the forecast - the market expectations of when interest rates will rise that you base some of your forecast on - have moved nine months further back. Can you explain that move, please?

Mark Carney: Yes, well there's a few things that have changed and your question allows me to draw them out more clearly. First, with respect to what's happened in markets - and I should make it absolutely clear (I know you know this, Richard, but just for everybody) that what we use to condition our forecast is the 15-day moving average of market prices and we fix that at a point which was Thursday of last week, I believe - right? Wednesday of last week.

There's been some subsequent moves in markets; we don't do a real time update. So first thing is we use that historic look-back. And over that period, at least the average over that period showed, as you suggest, quite notable falls in risk-free assets and an implied move-out in the date when interest rates would begin to rise in the UK.

But there also had been quite sharp sell-offs in risky assets. Bank funding spreads had gone up notably, credit spreads had gone up, equity markets had sold off quite significantly. There's been a big unwind of some of those moves in the last few days. But the point being that first, from a financial conditions perspective as a whole, it wasn't unalloyed good news; in other words it just wasn't the improvement or the lowering of the yield curve which of course is, all things equal stimulative, there was actually a lot taken away from changes in the risky asset prices. So that's one element that had changed. And both of those was the opposing forces I referred to in my initial remarks.

The second thing that has changed since August is the outlook for global growth, our outlook for global growth, particularly for emerging markets. Now there's been a lot of news in terms of actual performance in emerging markets, as you're aware, but we also used this last three months to take an assessment of the medium-term prospects for emerging economies. The net result of that, even though emerging economies aren't that big a proportion of demand for UK goods, is a mark-down on level terms for UK-weighted global growth of about three quarters of a percentage point two years out. So it's a notable drag.

It's almost exclusively because of emerging markets; it flows through a bit through the advanced economies, but again, as I referenced in my opening remarks and as you see in the Report, our view is pretty constructive on the outlook for our major advanced trading partners. So you have those two aspects.

The third aspect I'll draw attention to - and I won't go into detail, subject to subsequent questions, is we've refined our estimates of pass-through from exchange rates both into import prices and, as they flow through, into final consumer prices. And so you have an element of the persistence there.

Now that, wrapped it all together, had a consequence not just for the forecast, but also for how we think about the optimal trade-off of bringing inflation back to target.

Robert Peston, BBC: Governor, in the last few months you've repeatedly said that the decision to raise interest rates would come into sharper relief at the turn of the year. It's patently not going to come into sharper relief at the turn of the year. Do you regret saying that?

Mark Carney: Thank you, Robert. Absolutely not. I have No regrets. First thing - let me just preface. Obviously, we speak at these press conferences, as you know - you've been coming to them for a long time - we speak on behalf of the Committee, so not individual views. Second, sort of obvious point, is that the year has not yet turned, and the third point, which is obvious as well and you know this well, is that I'm speaking about a decision, not pre-judging what that decision would be.

The question was how much progress would be made in the economy in the intervening months. You can call that data dependence, but it's a question of how much progress is made.

There have been some notable events in intervening months, including developments in emerging economies. I would say progress in terms of the prospects of normalisation has been mixed, but if you look at growth - growth has ticked down to growing around trend in the most recent quarter - at least in the first estimate of the most recent quarter. We do expect, even in the face of fiscal consolidation and global weakness growth to reaccelerate or pick back up from that into next year - we'll see what happens there.

Core inflation's been a bit softer than we would have expected, all things being equal in August. Part of that could be the greater persistence from exchange rates and the pass-through - again, we'll see how that evolves.

Importantly, domestic costs have evolved largely in line with our expectations - the combination of wage growth and productivity - largely in line, including issues such as the compositional effects Ben spoke about at this last press conference.

So as a whole, we have a situation where, as I say, there is mixed progress, but there is progress towards - and we're in a situation where - and I'll repeat myself from my opening comments - where we have resilient domestic demand; we have quite robust private domestic demand; and in the face of global weakness, we still see the need for limited and gradual increases in interest rates to bring inflation back to target and - an important point I'd underscore is - the point is not just bringing it back to target and then shooting through it, it's bringing it back to target and keeping it there. So bringing it back to target in a sustainable fashion.

So we will have to craft policy as a Committee in order to achieve that, recognising that we have some foreign effects that are dampening inflation, including out to around two years. But they will ultimately dissipate and then we'll be left with the domestic factors dominating, all things being equal, and we need to manage that appropriately.

Scott Hamilton, Bloomberg News: You've alluded to, in your introductory statement and also in your letter to George Osborne today, that the MPC is now going to try and return inflation back to target around - in two years' time, rather than within two years' time. What's the purpose behind that change of language? Is it some kind of increased flexibility?

Mark Carney: Yeah, thanks, Scott. As you know, and it was made clear in our remit letter of two and a half years ago and then subsequently reaffirmed, this emphasis on the flexibility we have over the time horizon for the inflation target, and it's the responsibility of the Committee, to be clear, to take assessment of the types of shocks that are hitting the economy, affecting inflation, and what's the optimal time horizon to return.

When we first had the big move in global commodity prices, the assessment was largely based on so-called base effects. You had, you know, one-time fall in food and energy prices. Those would wash out through CPI in roughly a year, and you could look through those and bring inflation back in a timeline consistent with the peak impact of monetary policy - so something in the 18 - 24 months type horizon.

And that's how we've been thinking about things, and broadly that's been the stance. As we've looked a little more closely about the persistence of some of the foreign disinflation that we're having, so the time over which pass-through is coming through and affecting the inflation target. Another example would be recent moves in energy prices; I'm not talking about oil, but if you look at gas futures curves, that deck has fallen out through two years - you can see the flow-through to utility prices that will weigh on CPI inflation. But it's also an effect that will ultimately come off as well. It's a price level adjustment, but one that happens over the course of a few years.

So taking all of that into account, and recognising, as I said to Robert, the pick-up in domestic costs that would be necessary to offset it, there's a desire to ensure that we return sustainably to target; so not try to fully offset those persistent effects to return too quickly to target, which would imply looser policy, all things being equal; but to ensure that policy is consistent, and consistent with inflation being at target once those effects dissipate. And that brings the shift which is a subtle, but notable, shift from within to around two years.

Ed Conway, Sky News: Governor, five years ago in the Inflation Report, markets were expecting rates to be about 3.75% now. About a year ago the Inflation Report was - looking at market forecasts - saying that the rate was going to be about 1% now, little bit below 1%. All the time the markets have been forecasting that rates are going to be going up at some point about a year hence or a little bit more. Do you - are you really sure this time around that it's even worth endorsing those forecasts, given how many times they've been wrong in the past?

And also - sorry, I know I shouldn't ask two questions -

Mark Carney: I'll just make sure I understand your first question. I just missed the last bit because of the camera - sorry.

Ed Conway, Sky News: Is it worth even endorsing, or not endorsing - commenting on at all - forecasts which have proven themselves to be wrong repeatedly throughout the past five years, in terms of market yield curves?

And secondly, at what stage do we look at what's happened here - and each year rates have remained flat, despite what has been forecast - and say, there seems to be something chronic here? Or is it just a series of unfortunate events?

Mark Carney: Yeah. Well the first thing - we're not endorsing a market view, as you know, Ed. We take mechanically a constellation of market prices and we use them as assumptions in our forecast. What you get in this forecast in doing so is an overshoot of inflation at Year 2, a little higher overshoot at Year 3. And, as I've been noting, that's not the preference of the Committee. The preference of the Committee is to bring inflation back to target and to keep it there.

The bigger question - and I'll pass to Ben to supplement on this - the bigger question, which is the right question, which is - what has been happening and what is the learning process about the nature of the global economy, where equilibrium interest rates are - in other words, how much stimulus has been provided even though - I mean, people talk. Not you, but sometimes - in fact no one in this room does it - but people talk about, quote, exceptionally stimulative monetary policy in the past, just because interest rates are at historic lows, ignoring that the level of interest rates required to actually provide stimulus have collapsed - certainly post-crisis, and in fact were likely very negative during the period where this institution, before my time, was engaged in quantitative easing.

We're at a stage, though, where we do think that those equilibrium interest rates have been rising, that they've likely turned positive, that policy is stimulative, is net stimulative, even in the event of a much slower global economy.

And I will now pass to Ben, but one point I would say as well, that's changed, and the assessment of the potential growth of both the advanced and now the emerging economies has changed, and that's something you do see - the latter is something you see in this forecast.

Ben Broadbent: The Governor's said a lot of what I was going to say, and it is a question of this neutral or equilibrium interest rate. The only thing additional I'd say is that that had been declining for many years - many, many years prior to the crisis. A lot of the reason why even at zero interest rates - close to zero interest rates - policy has not been - or was not for some years after the crisis - acccommodative. Some of those factors were obviously to do with the crisis itself, and had depressed that neutral rate. But for a long time, I would say - as much as 15 years before it, the evidence suggests that neutral rate was falling. And you need only look at real interest rates - yields on indexed bonds - to see that, which declined steadily and significantly all the way through the early nineties, right up to the middle of the last decade.

And there are deep forces, global forces, that probably were at work here, including demographics - something my predecessor, Charlie Bean referred to in a recent speech, which I recommend you read - stuff to do with the nature of investment demand, the nature of growth in China.

So the only point I'd want to emphasise at the end is that, you know, the level of official interest rates at any point in time is therefore not some arbitrary choice of the Central Bank. In a way, we're responding to these forces. To the extent they're to do with the crisis, one would expect them to wane a little over time. And as the Governor has just said, that's implicitly true in our forecast, I think, to some degree.

Catherine Boyle, CNBC: Janet Yellen has obviously just said, as I'm sure you know, that there's still a live possibility that the Fed may move in December. Could you still say this about the first half of 2016?

Mark Carney: That the Fed could move in the first half of 2016? No, look, we take a decision each - we've just taken a decision. In the view of the majority of the Committee it didn't make sense at this point to tighten monetary policy. One member did think it made sense. We'll take a decision each month and it will depend on the path.

I think your perspective on the likelihood of that is obviously informed by the forecast that we've given. I would underscore that the forecast takes into account a constellation of asset price moves - so not just the yield curve, but where other asset prices had gone and the impact of that. It obviously updates our perspective - and others may disagree with that perspective - but our perspective on global growth and the flow-through, and it should be seen in the context of the MPC's objective, in terms of the time horizon, to return inflation to target, and its intention to return it there in a sustainable fashion. In other words, to return it there and to keep it there.

Chris Giles, Financial Times: Governor, the forecasts you've got suggests that inflation has a very low probability - 55% or so - of exceeding the 2% target over the next three years, unless if you keep interest rates on hold all the way through 2016. And yet we've got house prices this morning rising by 9.7% on the Halifax index; unsecured credit rising at over 8%. Are we now at a situation where you might have to think of macropru measures to keep some other aspects in check while you still need very low interest rates?

Mark Carney: Yeah, okay. Very important question. Just one point of context, if I may, Chris, first - and then get to the heart of it - which is that, I think at three years, which is roughly what you're referencing, we have a - I think it's a 56%, for what it's worth, probability for the extent the ribbon chart is accurate - of inflation overshooting that far out, again, given the overall context, including asset prices, of global growth.

You know, for what it's worth, that overshoot - and an overshoot of 2.2 - that's the highest overshoot we've had since August 2005 in terms of our forecast. The overshoot at Year 2 is the biggest we've had since February of 2013, a time when inflation was above and coming down. You know, and again I will re-emphasise what the MPC's preference is in terms of delivering the inflation target - which is set out in a letter to the Chancellor under the remit. And I would suggest that that horizon is not entirely consistent with that preference, and that's a mild way of putting it.

But let me just recap the core of your question, which is - you're right - unsecured credit growth growing at 8% for consumers; house price - and this bounces around a bit, but we do see house price growth picking up. And in fact we see activity in the housing market picking up, albeit with respect to activity in the housing market, picking up from a relatively low level. And we do have to be - and I should say as well, we should also have over the course of the forecast, a further fall in the savings rate over the course of the forecast, to historically low levels, as it is now measured.

So we are conscious of those developments and, as an institution as a whole, we do have to think about the balance in the recovery and the potential financial stability implications of those developments or an accentuation of those developments might be a better way to put it. And that does bring into scope some macroprudential considerations.

One aspect - I would highlight that what we have been seeing in terms of underwriting standards in the housing market is that high loan to income - underwriting standards have improved in the housing market steadily since the spring of last year. So those types of risk have reduced. The number of distressed households - and we'll be coming out with the Bank NMG survey early in the new year, but the number of distressed and vulnerable households have continued to go down. Those are households, as you know, who have sort of above 40% debt serviced income ratios. So that has gone down. The overall levels of debt to income have gone down as well. But that's not to say those trends couldn't reverse, and we do have to be conscious of that. We have to be conscious of that - and I'll finish here, and maybe Ben, I don't know if you want to supplement, but we have to be conscious of that - first and foremost from a macroprudential perspective because we do have those tools and so the co-ordination with the FPC is important.

We do have to take into account, as the MPC, that dialogue and the role of interest rates in all of this as well, particularly if decisions are marginal.

Ben Broadbent: No, no, just to say that there is a box on Household Balance Sheets on Page 15 of the Report, if you want to read it, and then as the Governor said, there'll be a further assessment of the survey we do before the end of the year in the Quarterly Bulletin.

Adam Parsons, BBC 5 live: Governor, a word that both you and the Chancellor are quite fond of using is symmetric. And clearly we're at a period here of very low inflation. And in his letter to you, the Chancellor says it is welcome news that we're at this very low inflationary period, even though we're clearly 2 percentage points off target. I wonder whether you think there's a mixed message there? And also whether you think he would be quite as relaxed if we were overshooting the inflation target by 2%, in other words, if it was 4.1%?

Mark Carney: It's - it's not going to surprise you - it's not for me to speak for the Chancellor. The only thing I'll observe in terms of our forecast, and I referenced in my comments, is that real income growth has picked up to rates - the strongest rates since the crisis. Part of that is wage growth getting back to 3% and potentially with the prospect of going further - certainly that's our expectation in the forecast. But what also contributes to that, obviously, is the low level of CPI inflation at present. And a low level that's predominantly affected by imported disinflation - commodity prices, other imported goods prices driven by importantly the strength of sterling. We're not seeing - the judgement of the Committee is still that inflation expectations are well-anchored, so this is, in our view, a temporary period. And we as a Committee have to manage policy through that period. Now the Chancellor or others may look at a much shorter term horizon and the implication's there - we're looking a little further up.

Phil Aldrick, The Times: I just want to return to the turn of the year comments. Do you still stand by those comments that you made back in July and you've repeated? Or have you changed your mind in the light of these forecasts? And, you know, people have been fixing their mortgages on the back of your messages; I just wondered if you felt like your messages - and obviously that may have been an expensive decision now, so I just wondered if you believe your messaging may not have been helpful?

Mark Carney: Well, the first thing is - and I'm a little reluctant to take this Committee press conference into my personal views, because that's not the spirit of it.

The comments and the perspective on how the decision gets potentially tougher, if you will, and the decision is better informed by the progress or not of the factors that influence the prospects for inflation, and of course that still stands. I mean, that's absolutely - that's absolutely right. The decision, as I've stressed - and you know this, Phil - it's not, not a pre-commitment, it's a decision. And if you get to the point, into the next year, after the year has turned, and it's not the appropriate stance to raise interest rates, I - as any of the members of the Committee - if it's our judgement that it isn't the right time to raise interest rates, we won't vote for an interest rate increase, regardless of what had been said previously.

Has the prospect of normalisation increased as the recovery has progressed? Absolutely. Is it prudent for people to take that into account? By the way, for reference, about two thirds of households, on the basis of various survey measures, expect that interest rates will begin to increase at some point over the course of the next 12 months. Given, as forecast, that is a reasonable expectation. But we'll have to see what transpires, both domestically, but as we are reminded repeatedly, what matters as well is what happens beyond our shores and the impact of that on inflation. So we'll take our decisions at the right time and appropriate to achieve our objectives.

David Smith, Sunday Times: Governor, if we look at the influences on inflation in recent years - the big influences - and the rise and then the fall in commodity and energy prices, the fall and then the rise in sterling, and if we look at the things the MPC monitors quite closely, such as spare capacity - that doesn't seem to be particularly well-related to what happens to core inflation. So over the past two or three years, we've seen a tightening of capacity, but a fall in core inflation.

I mean, does this - you know, not to be rude about this, but does this reduce the role of the MPC to that of a spectator when these big global developments are happening?

Mark Carney: The - in terms of - this is a crucial question both in terms of the relationship - I mean, historic relationships have been amplifying this - there's been a reasonable relationship in the UK between - there's a reasonable wage Phillips curve in the UK, so the relationship between various measures of labour markets - particularly unemployment and wages. There has been a less robust relationship - a price Phillips curve, so the ultimate translation of those wage developments into prices. Now that's partly - one can posit that that's partly because of the openness of the economy. The degree of pass-through - the very fact that this is a very open economy, that's subject - and its consequence is subject to foreign shocks whether it's through the exchange rate or just through imported good prices, positively or negatively. That breaks down that relationship, or it reduces that relationship - it's less tight than it is at the core.

But by the same token, domestic wages, 50% of domestic cost - domestic costs are a very important determinism in inflation, we have to manage policy to look through. And we can influence, and I think do influence, the evolution of those prices.

So when we look at the forecast - and I'll pass to Ben now - when we look at the forecast at present, we do see - as you rightly point out - these vague external factors. We've been refining our view in terms of over what horizon they impact inflation, but eventually - unless you have a better model than we do in terms of ability to predict the next big oil price shock, up or down, we're going to look through that and influence that which we can, which are largely those domestic factors.

Ben Broadbent: I think that's absolutely right. The only thing I'd say is that, even though we've always been open, I think it's right to say that these overseas influences have probably got noisier over time. It's partly because of the crisis, partly also because we're trading with countries - unlike the period, say, prior to the mid-'90s - who are very different from us, much more than we used to. And trade between emerging and advanced economies has grown a lot, and in that environment you're likely to have big relative price moves.

All that said, these generally don’t last - don't have enduring effects on inflation. And I think it's still the case that what matters if you look two, three years ahead, on the assumption that you don't get hit by more of these shocks - and they're unforecastable essentially - what matters is the domestic cost growth.

So it's become noisier, but I don't think it's the case that it means we don't control inflation any more.

[No Microphone], The Guardian: You talk in the Report about resilient sort of momentum in the UK despite fiscal consolidation. To what extent have you factored in the fiscal consolidation that's still to come, particularly in the Spending Review? And if you haven't, to what extent should we expect a very different picture in February?

Mark Carney: We have incorporated the Government's current fiscal plans in their entirety, as you would expect. The way we treat fiscal is - if there's a change, if there's a legislated change, if through either the Autumn Statement or the subsequent budget the Government changes fiscal stance, we will then incorporate it into our forecast. We won't make adjustments on news, if you will, or on speculation about fiscal. And so the broad brush of the fiscal consolidation is incorporated in our forecast.

And I would note that that fiscal consolidation is - you know, it's material. On the OBR numbers the reduction, the annual reduction in the - and you can take these numbers with a grain of salt, but the cyclically adjusted budget deficit is about a percentage point per annum over the course of each of the next four years, whereas on average it averaged a little less than half a percentage point on the same measure for each of the last three years. It was volatile but it moved around. Those are the OBR numbers, those aren't ours.

But that gives you a sense that - yes, there's a meaningful fiscal consolidation; I don't think that's news. It's incorporated in the forecast and the point we make in the Report and that I made in my opening statement is that we see resilient, in fact robust, private domestic demand, even given that fiscal consolidation. So there's quite an offset we're seeing from the household sector and business investment.

Richard Barley, Wall Street Journal: Governor, you've mentioned a couple of times the moves in risky assets that we've seen in the last few months and there's a reference in the minutes to [short gap in audio] uncertainty about the global economic output. Elite volatility has also been down to uncertainty over global monetary policy. Is there a risk of a feedback loop developing here? Or to put it another way, how much are central banks part of the problem as much part of the solution?

Mark Carney: Well, let me first sort of make a macro point, which is - as we were putting together this forecast, and given as I say the sort of Group of asset prices, consolation of asset prices that exist including risky asset prices, volatility, bank funding spreads, other aspects, you know there are impacts, obviously there are wealth effects and there's that channel, but importantly the sort of cost of capital channel to businesses is there. And then you have to make an assessment on top of that in terms of uncertainty and the impacts of uncertainty on investment.

What matters, as you know, Richard, is persistence of moves. And so we've seen a recovery in the last few days; we'll see how long that persists.

I would give a view which is consistent with the Report; I'll maybe put a finer point on it. It would appear that in the course of - and maybe, Minouche, I'll ask you to amplify on this. In the course of the last three months, certainly since events in August, largely related to China, happened, that markets began to ascribe a bigger probability to a more severe downturn globally, so there's greater uncertainty and you had bimodal distributions.

And that in part what we've seen is that markets' views, the collective view of the market, has shifted with time, with data, but also with central bank attitudes towards those prospects. So partly what's been read into some major central bank statements has been a different view of the relative risks of a bad outcome if you will in emerging markets and that cascading through advanced economies. And you know, in the run up to this forecast there was greater weight on that; in the last few days there's been less weight on that channel - I would say broad brush. But maybe just …

Minouche Shafik: Yes, I mean you're right to say that we saw quite a bit of volatility in August, I mean the VIX reached levels that we hadn't seen since 2011. But I mean, I think as the Governor has said that was driven by a reassessment of expectations for growth prospects for emerging markets.

Some of that has been retraced in October and so we've seen a retrenchment and an improvement in that. But I think it's also part of a wider phenomenon of more episodes of volatility in financial markets after a very long period after the crisis in which volatility was really unusually low. So in some sense we're sort of going back to normal when we have these sort of episodes and volatility in the period prior to the great moderation.

Ben Chu, The Independent: Governor, these figures you've put out today make it quite clear that the flattening of the yield curve since August is playing quite a large role in getting inflation back to target over the horizon. I know you'll be reticent to deal in hypotheticals, but if the yield curve hadn't flattened in that way and hadn't delivered that stimulus, is it totally crazy to imagine that you and the MPC would have this week have been considering possible extra stimulus, maybe even a rate cut?

Mark Carney: Well, the first thing is to put some of the flattening into perspective if I may, which will seem like a technical point, but it's important; which is that there was a bigger flattening in the curve that was used for this forecast. A lot of that has now been retraced in the last few days, but there's a bigger flattening of the curve out three years and beyond, certainly at the ten year as well.

But over the horizon that's most relevant for where inflation ends up at the end of the horizon because of the lags in monetary policy, the flattening was more modest. So in the order - I mean if you go out one year for the curve used, it's about ten basis points of flattening versus odds. The point being - the curve has been for some time - has been very flat out through 18 months or so. And that's part of the reason why you get relatively small moves in that curve. And the implied lift-off date for market measures moves quite dramatically, whereas the views of informed market commentators - are much more static, are much more slow to move.

And so one can read too much into those curves near or out and it's an important caution in all of this. Because what matters, as you know, for the ultimate impact on inflation - not just getting it back to target but keeping it there - is the sort of cumulative tightening, the integral, if I can say that, of tightening over the policy horizon. So it's a very basic point, so the curve had flattened but it hasn't flattened as much as it might seem.

On top of that you had quite a bit move in risk - the prices of risk assets which flow through the forecast, which has a dampening effect on the forecast.

You're right in your preface to the question that I'm not going to engage in hypotheticals and speculate on what we might have done if the world had been different, but the world wasn't different and we dealt with the one we had.

Hugo: Governor, the minutes of this month's meeting note that investors have been unwilling to position for increases in UK interest rates, having lost money on similar strategies in recent years. Given everything you've said about the importance of the market yield curve and all that business, how concerned are you that your message is losing credibility in the markets and among those investors?

Mark Carney: We're not - not at all. I mean the question is whether the market adjusts to developments in the economy, both domestically and abroad. And in the wake of some disinflationary forces - the markets' global perception of disinflationary forces. So the market took on average a view, since August, I would suggest, that the global economy was going to slow more markedly than had been anticipated.

You had a sharp sell-off in a series of commodity prices and certainly leaving sterling as a whole still up substantially and still up - in a manner that was relevant for the inflation horizon, on the margin and the market had a reduction in the likely degree of monetary stimulus recognising what our likely reaction function would be. Directionally it all adds up and makes sense.

Now the market is informed by our updated forecast, recognising prices have moved around a bit. It should be informed by our perspective in terms of our optimal trade-off, which is very clearly set out in the letter to the Chancellor. I repeated it several times here, it's in the monetary policy statement, it's thought through in terms of the optimal time to get back.

The views on policy and the optimal shape of the curve of the market will continue to adjust with developments in the UK, with developments in Europe, with developments in the US - all our major trading partners. So - entirely comfortable with it.

Harry Daniels, Live Squawk: A lot of the questions you've answered here I've had but one from a few of my listeners. The range of views on the MPC, you say there's a wide range of views. Has that widened since last Report or has that narrowed in terms of the progress? You mentioned resiliency and robustness of the economy so, with that in mind and do the MPC members have a narrower view of where we’re going to go with the economy?

Mark Carney: Thanks, Harry. I'm probably not going to get into the second derivative of range of views of members of the Committee. I mean the Committee signed up to the forecast, the Committee has a common view on the likely path of interest rates - limited and gradual increases once rates begin to rise. There's one member of the Committee, as you know, who believes now is the time to begin those rate increases; for others it’s not yet the appropriate point. But those decisions will be taken subsequently.

There are a series of places, as you know, in the minutes - and I'll finish with this, where there is a range of views of member of the Committee whether it's around the output gap, whether it's around the speed of pass-through, whether it's around other aspects. A lot of those factors cancel out in the aggregate in the forecast. I'll give you one final example, which is that there are certainly arguments that the rate of productivity growth could continue to accelerate or could continue at this level, given that it's now picked up, which would increase the potential growth in the economy.

There are arguments on the other side, though, that - on the labour market that perhaps the participation rate won't go as high as we had assumed, or that desired average hours won't be as much. And there's some element of that may offset each other. We'll do, as our intent is, is not to update these things every time we have an MPC meeting, but to do a sort of comprehensive stock take which we'll do in the new year.

Szu Chan, The Daily Telegraph: In your opening remarks you talk about the forecast balancing domestic strength and foreign weakness, but in the minutes it even suggests that while domestic strength is strong, wages and unit labour costs need to pick up a little bit further to sustain the 2% inflation target.

In front of MPs at the Treasury Select Committee, you talked about unit labour costs, if they edged up into the 2s and wage growth going up into the 3s it would bring the decision to raise rates into sharper relief. Could you give us a broader idea of what you're looking for domestically in order to return targets sustainably and not overshoot?

Mark Carney: Yeah, well we have - we actually gave you a decent sense of that in the Report in terms of historic levels of wage growth and implied unit labour costs around that. One thing - one of the big questions as you know, Szu, is where will productivity growth get to? So we have a - our forecast for average weekly earning wage is - sorry average weekly earnings, one measure of wage growth, compensation growth, gets to historic averages by 2018. So it gets nearly there by late 2016 into 2017, around 4%, then gets slightly above it into 2018.

We don't bring productivity - we don't think productivity will necessary get back up to historic levels by that point, which means that - all things being equal - unit labour costs are going to run a little stronger than they had in the past. Some of that gets offset by other factors which dampen a potential continuation of foreign disinflation. I'm not talking about sterling pass-through, but just relatively lower foreign prices given the global outlook. And that's consistent - well it's not fully consistent with the target because the point is it overshoots in the end by a notable level, so we have to take that into account as a Committee, and think about what is the right policy response for that.

When we met this week the right policy response was not to adjust interest rates - that was the view of the Committee. But that wouldn't necessarily be the case and be consistent with exactly the way you framed it which is - what's consistent with hitting the target and staying there? So again, if you look at the forecast, if you look at the evolution, if the world transpires as we forecast in terms of the growth of wages, the outlook for productivity, it would require more tightening than is in the implied market curve in order to sustainably - to have inflation sustainably at target. I mean that's about as bluntly as I can put it.

Andy [Break in audio]: Economists polled by Reuters expect central bank policy around the world to diverge quite a bit next year, obviously with the Fed and the Bank of England perhaps looking to raise interest rates at some point and the European Central Bank, the eurozone and Japan and China probably going the other direction.

What discussions has the Bank of England had with other central banks about how this will all fit together and how much does this divergence feature in your thinking on monetary policy for Britain?

Mark Carney: Well the - I mean we meet almost continually, it feels like sometimes, as central banks. We'll be meeting again this weekend as you probably know in Basel. And the core of our discussions we have is about what's fundamentally going on in each other's economies, it's an understanding of real and nominal factors in each other's economies.

Yes, we do have some discussions in terms of respective path for policy, but I would say that in this era of central banking that there is not much that's discussed that isn't in the public domain anyway. It's just - I mean, Minouche, you might want to speak to this and your G7 discussions, but it's just a - yes, it is a chance to be sitting around a table with the people who are at press conferences like this, but they're not saying - okay I said X at the press conference, but let me tell you what we're really going to do.

Minouche Shafik: I couldn't agree more. I mean you do get a bit more detail in some of these discussions and a bit more candour, but the basic policy messages are the same. I mean the good thing is that this co-ordination does happen and there is very good awareness of the expected actions of other central banks, and obviously taken into account and to our own thinking.

Mark Carney: And I'd just underscore that point which is "expected" actions. And it's expected actions of the individuals, so there's no central bank, there is no major - I'll tell you and give you deep insight. There is no major central bank, the Bank of England included, that knows what it's going to do at its next meeting, in the first quarter or second quarter of next year. Every major central bank has a framework that is guiding that discussion. Obviously it has an objective but it has a framework of the most important factors that could influence that decision, and obviously different individuals weigh different factors differently. But there's no way direct game path.

And the only time in my experience as - for what it's worth - as a G7 Governor that that was different was in the depth of 2008 when we basically agreed that we would do certain things in some order. And even then on the margin there were some pretty big decisions that needed to be made.

Mike Bird, Business Insider: Over the weekend ECB President Mario Draghi revised his own view in an interview that the ECB's deposit rate couldn't be cut further into more deeply negative territory. I don't expect you to comment on the ECB policy, obviously, but he referenced experiences in countries like Sweden and Switzerland, which have implemented more steeply negative policy rates seemingly without any sort of flight to cash - they seem fairly manageable. Has the experience of those countries adjusted the Bank of England's understanding of the tools it would have to tackle this in the future?

Mark Carney: Thank you for the question. We - let me preface this with a statement of the obvious which is - our discussion was not about easing options - okay, absolutely clear. We didn't discuss easing options. We discussed whether or not to tighten policy, appropriate time to tighten policy, etc. And you see the vote and so you know the outcome of that.

What we have done, as you're probably familiar, is that we did some work about six months ago, nine months ago probably now, where we looked more closely at what the effect of lower bound was in the UK. The reason we stopped at half a percentage point, the MPC several years ago stopped at half a percent, is the feeling was couldn't lower rates more than that without A, causing disruption in money markets, that's now more of an open question, but B, I think really the binding constraint was the profitability of the building society sector and the impact that would have, given the capital - the need to rebuild capital then. And that was a legitimate concern, and so it would have been not loosening, it would have tightened given the importance of building societies.

Now building societies have rebuilt capital, they're in a better position and we have updated our view, which is that we think - if we ever needed to, we could cut rates from this level, and in fact I'm sure I reference that, I do reference that in the letter again, if we ever needed to.

We're not in that world, we're not contemplating. It's not clear that that extends as deeply as, say, where the Reichsbank has gone. I'll make one other point on this though which is the fact that we're not at the zero lower bound any more, or the effective lower bound, loosens somewhat the sort of risk management arguments that one sometimes hears around the optimal stance of policy and the prospective start of any tightening cycle.

Ben Broadbent: It's also important to understand they have different systems of setting interest rates and different rules for reserves. These are marginal deposit rates, paid only on a certain proportion of reserves. We set a single interest rate on all however many 300-odd billion of reserves are on the system. So we have a slightly different system and all else equal that will reduce our capacity to …

Mark Carney: Yeah. This is a crucial point because the extent to which the negative interest rate flows through actually to the customer, if you will, is much diminished when you have that type of reserve setting framework. Now obviously the more negative you go, and on a bigger proportion it ultimately can flow through, but it doesn't flow through as quickly. But in our system it is more immediate and so these things are more binding, right.

Mario Blascak,
World Business Press Online: Governor Carney, does the MPC look at the Taylor monetary rule as an option to view the monetary policy decisions? And if so, would that be the original Taylor rule or the modified with Okun's law?

Mark Carney: We'd hope the modified. I'll let you take that one.

Ben Broadbent: Can I say one thing about this Taylor rule? The Taylor rule is, when it was first written down, was not a prescriptive rule, it was not meant to suggest here's how you should set monetary policy. It was simply a description of the way the Fed behaved over a certain period of time.

Second point I'd make is this: it's not robust as a rule to the kind of variations we talked about early on in the natural equilibrium rate of interest. Our objective is the inflation target, and we take an assessment each month what level of interest rate is necessary to hit that and we do not tie ourselves to some particular feedback rule, and certainly not that one.

Facilitator: Thank you very much everybody, that's all we've got time for. We look forward to seeing you next time.

END