Bank of England

Inflation Report Q&A
4th August 2016

Emily Cadman, Financial Times: Governor, you've been clear that monetary policy can only mitigate, but not cushion entirely, the shock of Brexit. Is there anything the government can and should do?

Mark Carney: Well, the first thing, Emily, is that obviously we can act quickly. And I think the Bank has acted quickly across from contingency planning the actions of the FPC and now the actions of the MPC. So monetary policy is more nimble, and it's appropriate that it's the first responder to a shock.

Clearly, the biggest elements of the change are structural, and monetary policy has to take those structural changes into account in setting policy, but it can't really do anything about those structural factors. So the biggest issues for the government are those that they've acknowledged, which is the importance of the negotiations with European allies on the new relationship that will be developed; the importance of having a productivity plan, a comprehensive productivity plan, for the country. And it's within that context or it's those decisions and those policies which will really be the determinants of the long term prosperity.

What we need to do in that context and in advance of those decisions is to provide the appropriate stance of monetary policy to ease the adjustment. We're governed by our remit, and in that remit we are governed by a trade-off and setting the right trade-off between getting inflation back sustainably to target and supporting output.

And we I think have pretty clearly outlined in the Report and with this decision how we see that trade-off and where we can provide support. Thank you.

Ed Conway, Sky News: Governor, you in the Inflation Report do not see the UK having a recession. Is that as a result of the action the Bank has taken? Were it not for what the Bank has decided today,

would the UK have faced that recession a lot of people were concerned about in the run up to Brexit?

Mark Carney: Yes. Well, I think the first is to re-emphasise how you started the question, which is our central forecast is for a relatively modest period of growth initially, second half of this year. We described it as - there will be little growth in the second half, but positive, positive growth in the second half. That's our central expectation. And then that growth would pick up over the forecast horizon, aided by monetary policy importantly, as the transmission starts to come through. Growth would pick up, but to levels below that expected in May. So that's our central expectation.

If we hadn't taken the steps we took today, we do expect output would have been lower; unemployment would have been higher. And we would have achieved a poor balance in terms of returning inflation sustainably to target and foregoing output.

Now with all forecasts there are risks on either side. It's possible that growth could be a little stronger; it's possible that growth could be a little weaker. We have in the actions that we've taken today, by acting through multiple channels with a coherent policy package, we have improved the economic outcomes for this country. There will be less unemployment, there will be more activity and there'll be a greater prospect of a successful adjustment to the new realities that the UK faces.

Kamal Ahmed, BBC News: Governor, given that the supply of finance possibly isn't the most serious issue facing the UK economy, how can you be sure that any of the measures that you have announced today will work and are not just simply very marginal attempts at mitigating some of the effects of Brexit?

And also just wondered - what's your message to savers, who must be looking at the announcements today and thinking - there is no point in me saving money for the future?

Mark Carney: Well the first thing is that we're living through a time of considerable uncertainty, and one thing we can do is reduce the uncertainties over the issues we have control. We have tremendous influence over the supply of finance, the price of finance, in this economy. So the actions of the FPC a few weeks ago on the countercyclical buffer that built on years of building up the capital position of the banks have been absolutely reinforced by the actions of the MPC today, to improve the price of credit, overall financial conditions.

And I want to stress this point, which is that the MPC didn't just pick certain stimulus measures. It sat down, it thought through, had very detailed analysis, extensive conversations with the FPC, with the PRA board, to think through how various stimulus options would interact with not just the banks but the financial system as a whole, and designed the programme in order to determine that we would get the maximum amount of stimulus to households and businesses. That's why the TFS exists.

And I will say as an aside, but it's an important aside, it's an example of the tremendous advantage of the structure of the Bank of England that we are also the supervisors of these banks and building societies, and we can really get under the hood and understand how they will react to certain policies.

So being clear about, with businesses and households, anyone watching, if you have a viable business idea, if you qualify for a mortgage, you should be able to get access to credit. This is not 2008/9/10/11/12/13 and half of 14. Okay? It's a different world. But that's enough in people's memories that it's important to take that off the table.

Secondly, the stimulus measures we're taking are going to flow through. They're designed to flow through and we've thought it through in terms of how - and we'll be watching that they flow through. That has an effect. As with all monetary policy measures, it's an effect that builds over time. There's an immediate cash flow effect that people see, but it will build over time and have an impact over the forecast. So we can control no more and we're not going to ignore or step aside on those issues when it's our responsibility.

With respect to savers, let me first say - this is something that we think about a lot. There's a group of people who have worked hard, absolutely done the right thing, set money aside, and the returns are very low and are likely to be low for some time. That's true in the UK, it's true in all advanced economies. And the challenge is to get the economy in a position so it can grow sustainably at a higher rate.

Those decisions will be determined not by the Monetary Policy Committee, but to go to Emily's question earlier, those are the big structural decisions that will be made by governments.

We can support that adjustment, and we will. And we will ensure for savers, for pension funds, for insurance companies, for other pools of capital that ultimately are only there for the benefit of UK citizens, but for all those entities, that there will be a better economic outcome; that the economy will grow more; that there will be fewer unemployed; and that ultimately we'll adjust to this new equilibrium faster and in a better way. And that's our contribution.

Noreena Hertz, ITV News: Governor, last week NatWest and RBS talked about their concerns about negative interest rates. This is something that you yourself have expressed many concerns about in the past. Can we now definitively rule out the possibility of

negative interest rates? Because I note that in the Report you say that you are currently bound to the lowest level of interest rates being just above zero. But I noted the use of the word currently.

Mark Carney: Yeah. Thank you for the question. Look, as you might have gathered and you said in your question, I'm not a fan of negative interest rates. We see the negative consequences of them through the financial system; we've seen that in other jurisdictions. We've seen the issues with savers, it goes even further than the issues that were just raised with Kamal. We have other options to provide stimulus if more stimulus were needed, so we don't need to go to that resort. I think the MPC is very clear that we see the effective lower bound as a positive number, close to zero, but a positive number. And we will continue to be clear in our expectations on that.

Let me say this about the banks. The banks have no excuse, with today's announcement, not to pass on this cut in Bank Rate. And they should write to their customers and make that point.

Phil Aldrick, The Times: Governor, I'll pick you up on that last point then - the banks have no excuse not to pass this on. It looks like potentially a £750m bung that you're giving to the banks through the term lending scheme. This is through reducing their funding costs against that 1% which you said is the average norm at the moment. Is it possible that you should - or are you considering wrapping this with a condition around bonuses, with any conditions around dividends, to make sure that there is a responsible approach here?

Mark Carney: Well, I'll say a couple of things. There's two sides to this. One is that what we have seen elsewhere, and what we see here as their supervisor, is the squeeze that starts to come in on bank margins that then affects the price they charge on marginal loans - this is really about the new loans that they're

making, the price they charge on new loans - that happens when interest rates get very low, very close to zero.

So we've seen this movie, we've seen it elsewhere. We've seen the sequels elsewhere. We've been monitoring this for a number of years. We have very carefully calibrated the pricing and the sizing of the TFS to neutralise this effect so that in aggregate there is no reward for the banks and there's no penalties for the banks. What there is is a facility that ensures that they can fully pass through the cut in Bank Rate to their customers.

And by the way, it's a facility that also means that we have some limited, but additional flexibility to lower Bank Rate if that's required to support the economy - again in a way that that further reduction would be passed through.

So it's offsetting a squeeze that could be there, and it's an advantage of the structure of this institution, candidly, and the MPC listening to other parts of the institution - asking the questions and then listening to other parts of the institution - in that we're able to understand these dynamics and design a facility that does that.

There are penalty rates if banks reduce lending, but I would stress this is really about - and your question is about - the transmission of those Bank Rate cuts to the real economy, as opposed to a scheme to incentivise certain amounts of lending. That was the old FLS; this is designed for a different purpose.

Larry Elliott, The Guardian: In his letter to you today, the Chancellor said he was prepared to take any necessary steps himself to boost the economy over the coming months. If he was to issue infrastructure bonds at public investment, would you have any objection to using the asset purchase facility to buy those bonds?

Mark Carney: Well, the first thing I'll say is that, as you'd expect, since the Chancellor was appointed, he and I have met a number of times to discuss the economic situation, to discuss policy options. As you would expect, as you know, the Chancellor himself - or whoever the Chancellor is - he or she is - knows the broad outlines of an MPC decision prior to that decision, and of course in the case of this decision, where there's an indemnity being given for the asset purchase facility, we had extensive discussions of the possible decisions of the MPC.

So we're fully aligned in terms of, he's fully informed in terms of the MPC's thinking and the broader Bank's thinking about what we can do to support this adjustment process. As you rightly know, he has been clear that he's willing to take any necessary steps to support the economy and reduce uncertainty. Those are the decisions for him and for the government, and they operate on a different timeframe.

With respect to - and we're not privy to those decisions, and as you can see in the forecast we make no assumption about any change in the stance of fiscal policy, for example - in the forecast, as per convention, as we always do.

We think - the MPC thinks this is the right package for today, so it's not appropriate for me to commit that we would countenance doing something else beyond what we have said. And the one thing we have said is that for a majority of members of the MPC, if the data over the course of this year comes in broadly consistent with the forecast in this Inflation Report, they would expect to move Bank Rate to that effective lower bound, just above zero.

Andy Bell, Five News: Governor, just to go back to the source of all this, drawing on all your experience, just how extraordinary was the problem with which you were presented by the Brexit vote?

Mark Carney: Well it's an unusual situation in the sense of it is a very large identifiable supply shock. You know, the biggest news on the horizon is there will be an adjustment to the supply potential of the economy. I would distinguish that there is an adjustment with the changed relationship with the EU and then there's an adjustment which may happen at the same time, or maybe slightly after, with expanded relationships with the rest of the world. So we have to think about that supply shock and how that affects the economy today. That's a relatively unusual situation.

What isn't necessarily unusual is to be in a position where there is a trade-off between supporting activity and the time horizon over which a Monetary Policy Committee returns inflation to target. And one of the advantages of this system - I speak having been operating in another system - one of the advantages of the system here is that we have to be very upfront and transparent about how we've thought about that, which disciplines the Committee. And we come out and are clear over what horizon we're going to bring inflation back and how we're going to support the economy.

So unusual is the supply shock, the trade-off isn't that unusual. The third aspect, which is somewhat unusual or exceptional, to use the language I've used today, is the fact that, given interest rates are relatively low and given what we now know about the interaction of conventional and unconventional policy with the financial system, it has been relatively unusual, or it has required some creativity, or innovation in terms of the design of the package in order to get the right amount of stimulus in a way that will really affect underlying financial conditions.

David Smith, Sunday Times: Governor, one of the responses you may get to this from people who supported Brexit and maybe even from some former MPC members, is that this was an overreaction, or is an overreaction based on fairly limited evidence, and that it

could even undermine, rather than boost confidence, because of the scale of the Bank's actions. How do you respond to that?

Mark Carney: Well, look, this is the appropriate response to the economic conditions in which we find ourselves. This is a response which will make this process of negotiation, transition, ultimately Brexit - it's going to support it, it's going to make it more likely to be a success, not just in the longer term, but in the nearer term, it's going to help with adjustment.

There is a great degree of uncertainty, it's entirely understandable that there is, there's uncertainty about the eventual model that we will have with the European Union, there are a number of options on the table. Whichever model is chosen itself will require some degree of adjustment in the economy and that brings its own effects on growth and productivity for a period of time.

We are seeing - and I'm going to ask Ben Broadbent to expand on this - we are seeing these risks manifest in a wide variety of indicators, indicators which actually in many cases are better indicators of what's actually happening in the economy than hard data, so-called hard data. And there is a clear case for stimulus and stimulus now in order to be there when the economy really needs it, to have an effect when the economy really needs it.

So this is about cushioning the shock, supporting the adjustment, taking uncertainty off the table and ultimately making this a success. But I might ask Ben to speak a bit to some of the data, to go into it.

Ben Broadbent: Perhaps I can say to start with that there are sort of, in the information we get, degrees of hardness if you like. Even the early official estimates of GDP I wouldn't describe as totally hard, in the sense that they get revised for many years

afterwards. And many of these surveys continue to have information about what that final estimate of GDP will be many years from now, even after the ONS has started publishing its own earlier estimates.

If you look at the chart on page 22, the top of that page, this is one of the more reliable indicators of activity, the CIP Surveys. We've weighted the sectors here into one single series, or rather two - one for output, one for expectations. These are the steepest falls in both those series we've ever had, and they are both of them at levels we haven't seen since early 2009.

They are reliable indicators, these and a few other surveys. And I would point out that if you took them at face value they would suggest the economy is actually contracting. Now we've aimed off that, and we've aimed off it precisely because on occasion, even for these surveys, big shocks can lead to over reactions of things like this, and in particular the other confidence indictors. But we would need them to recover in coming months to meet the forecast we have, which is for a little bit of growth during the second half of the year.

So I don't think it's premature to have acted in the face of weakening in these output surveys, weakening employment surveys, steep falls in some of the investment intentions against a backdrop in which investment was already falling, and also pretty steep falls in indicators of housing market activity.

Louise Cooper, Freelance: I was on Radio 2 yesterday and a saver, a lady - doing a question and answer session actually for ordinary people, what this meant for them. And a lady, I think she was called Lucy called in and she said - I've got six grand of savings, what do I do with them? What are your models assume she does with them? Do you assume that savers spend their money? Do you assume they're forced into riskier assets?

What do you want them to do with their savings, which if your inflation forecasts are right, are earning substantially less than inflation over the coming years and their purchasing power is going down?

Mark Carney: Well, the first thing is our models and the way we look at the economy is we look at it in aggregate, because that's our responsibility is to target aggregates, aggregate level of inflation; keep it low, stable, predicable, that 2%. That's the core of our responsibility. But in doing that, to do it in a way that minimises impacts on output - how much activity in the economy - and employment.

And we're faced right now with a forecast after a substantial stimulus package where the unemployment rate goes from 4.9 to 5.5%, that's more than a quarter of a million people losing their job, after stimulus. Okay. Should we ignore that? Should we have more - I'll get to the point, but should we have more people lose their job in order to target a different part of the economy? Should we have a poorer outcome for the economy at a time when there's great uncertainty? Should we change the way we manage our responsibilities to aim off what we are statutorily obligated to do, which is to manage this trade off to achieve the inflation target over the medium term?

That’s not the judgement of the MPC, every single member of the MPC's view was that this economy needed stimulus now. Different views on different degrees of stimulus and packages, but everyone viewed that it needed stimulus now.

I fully recognise - we fully recognise - that a long period of low interest rates puts savers in a very difficult position. And fully recognise that there is a difference between individual savers and institutional savers, the pension funds, the UCITS, the insurance companies.

We do expect those aggregates - and what we do see for those bigger institutional savers are the moves into riskier assets, longer dated government debt, into corporate debt if they had government debt, into equities if they had corporate debt, from equities into hard assets if they had equities and on and on. And that supports the economy, that makes it less likely that we will have a very long period of high unemployment, low output, and very low interest rates. So we recognise the challenge, ultimately this lessens the challenge for the economy as a whole.

I'll say one last thing, which is that, when you step back, as we must, and look at the global economy as a whole and what's happening to interest rates in the global economy as a whole, there are a variety of forces. Some of it's the legacy still of the financial crisis; some of it is broader demographic forces; some of it's the rise of China and other economies - a variety of factors which are all pushing down on global interest rates globally. And we're faced with the choice that as that - and I'm sorry to use jargon - but as the equilibrium interest rate goes down, and in fact in many jurisdictions goes negative, we're faced with a choice of either ignoring it and then running monetary policy too tight and unnecessarily contracting the economy - unnecessarily, missing our mandate - or adjusting with as smart stimulus as possible, that is as effective as possible, goes through multiple channels, which doesn't just go through the channel that directly affects the saver, but goes through multiple channels which doesn't lead to negative interest rates, to go to Noreena's question, in a way that can support growth. And that's the judgement that we have made today.

Hugo Duncan, Daily Mail: Thank you. Governor, I note that you discussed cutting rates immediately to the effect of lower bound and the majority thought that that could be done now. You didn't in the end; is that because you wanted a unanimous decision on rates? I note that the decision to buy government gilts was not

unanimous because there were concerns among three members that recent surveys overstate the weakness of the economy. Were you trying to give a unified decision on interest rates at least, hence the reason why there was just the quarter point cut?

Mark Carney: Well, there are two reasons. The first is that we were able to provide the stimulus in other ways. And we saw value in having a package of measures, as opposed to relying on one measure alone. Why is that the case? First, it goes through multiple channels, Bank Rate at the short end, gilt purchases long end, corporate bonds through a new channel and then the TFS, making sure those Bank Rate cuts get across.

So multiple channels, complementary, mutually reinforcing, stronger as a result. And by the way all of this backed up by some other technical decisions of the FPC around the leverage ratio and countercyclical capital buffer, important technical decisions.

So value in having a package, and also the reality that we will have another meeting in September, another one in October, another on in the December, and we will get more data. And as we said, if the data is broadly consistent with the forecast, the majority of members would expect to act during the course of this year.

I would stress that on all elements of this package we have scope to add if that were necessary. And we would do so, but only to the extent that it's consistent with our remit. So it is a very much contingent on how the forecast evolves.

Harry Daniels, Live Squawk News: Listening to your response about other central banks and the actions they've taken, having looked at other central bank decisions, did that affect the MPC's decision to deliver a bigger package now, as opposed to wait and see where the

data went? And also, is there a yield limit at which government and corporate bond buying will be capped as in the ECB and the way they work their bond buying scheme?

Mark Carney: Well, the answer to the second is no. And the answer to the first effectively is no as well. You know, we're influenced by conditions here. This is a package which targets the domestic economy, that's where the big adjustments are going to take place. We've already had a notable exchange rate adjustment which will help the external sector; we do see the external sector as importantly contributing to growth. We do see the current account deficit likely halving over the course of the forecast horizon. But it's the domestic economy which likely will need some support from monetary policy. And that's why we designed the package as we did.

Szu Chan, The Telegraph: Just a follow up question on the Term Funding Scheme. On the one hand you say this scheme was specifically designed to help banks with their net interest margins to ensure that all the benefits are passed onto households and businesses and there should be no excuses. On the other hand, we've already seen lenders increase their tracker margins on mortgages. So what conversations or reassurances, if any, have you had from the big lenders that the benefits will be passed on to borrowers as well as the potential costs to savers?

Mark Carney: Well one of the things - I mean Szu, we did not discuss any monetary policy measures we were considering taking with anyone in the financial system in advance, as you would expect.

Szu Chan, The Telegraph: But they were concerned, and they voiced it you know through the media about the potential impact?

Mark Carney: Look the concerned voice, as I interpreted it, was concerned about negative interest rates, and we’re not intending to

move to negative interest rates - at least well, I'm not intending to move to negative interest rates.

There are legitimate concerns about this compression. We've seen it in other jurisdictions; we understand the dynamics of it. Effectively think - I mean you understand the point, but it's hard to see deposit rates and one wouldn't want to see deposit rates go below zero. So there is value to having some offset, and we have very good line of sight into what that offset should be and that's how we've designed it.

I'll say one thing, which is there are some legacy mortgage products that existed prior to the crisis and are still around that were mispriced. You know, some people have very good mortgages and they should hang onto them. And I can understand why some financial institutions are no longer providing - or have made adjustments to the pricing of those products which were mispriced and consumers rightly took advantage of that. So we're not talking about that, but we're talking about making sure that this comes forward.

And look, be clear. We expect that that is what's going to happen. The economic incentive is going to be there; the competition is going to be there. If you're shopping around and you're not getting keen pricing, go to another bank or building society. And you should because they all have access to this facility.

Ben Chu, The Independent: Governor during the referendum campaign you warned that a technical recession was a possibility as a result of a Brexit vote. Your pro-Brexit critics said that was inappropriate because they said it assumed no countervailing stimulus from the Bank of England. Now today's forecast they don't have a recession forecast in them, but the strong implication is that's because you have stimulated. So the question is - do these forecasts vindicate you or them?

Mark Carney: Well, Ben you're a sophisticated reader, as everyone is here obviously, but a sophisticated reader of inflation reports. And you know that on the GDP forecast we have a fan chart which there are probabilities around. I am quoting you the central expectation - the most likely outcome we expect - a little growth in the second half of this year, gradually picking up to relatively low rates over the forecast horizon, a cumulative 2.5% reduction in the overall level of GDP relative to what we thought in May. Now that growth could be a little higher or it could be a little lower, I'll let you get out the ruler and figure out the probability that it goes below zero.

And that's a forecast with stimulus and so you can - if you can follow the logic, you can make your own conclusion.

William James, Reuters: You talked about monitoring the flow through of this stimulus, you mentioned it several times. I wonder if you could give us more details of exactly how you will monitor that, what criteria you will use and what levels would be acceptable?

Mark Carney: Yeah well we look at overall - I mean, we supervise the banks themselves, and banks and building societies on an individual basis. We have virtually, if we want, real time knowledge of where their net interest margins are going, where their profitability is going. And we're able to assess that both on an institutional - but what we're really interested is on an economy wide basis, so the sector as a whole. So we'll be watching that.

Now the net interest margins of the banks will be affected by a few factors. One is the pricing of this and the existence of this facility. The other is actually the economic implications of the package as a whole for the performance of the economy, the degree of impairments of loans which flow through. So we will look at that.

We're not going to act as a shadow FCA on this. We'll look at the aggregate effects, the economics are there. It's there for a reason, it's there because there is an issue. To be absolutely clear it's there because there is an issue; the banks aren't making this up. But it's priced in a way that neutralises it so that it can be passed on, and we do have competition in the banking building society sector and we would expect to see that move forward.

Geoff Cutmore, CNBC: Governor, there's clearly been a reaction in sterling today to the announcement, but given the announcement as it stands and the package of measures you've taken, the Bank is quite relaxed about the inflationary implications of that decline in the pound that's happened so far. But can I ask you - is there a size of decline or a proportion of decline in future for sterling that would raise alarm bells for you? Or perhaps a type of market behaviour that the pound is experiencing that would raise concerns?

Mark Carney: Well, you know, we're an inflation targeter, not an exchange rate targeter, so having a flexible exchange rate is an important element of the monetary policy framework, it's an important element of the overall policy framework in this country. It's served the country well and it helps with adjustment. But the stimulus that we've designed has been targeted not at the exchange rate but at the domestic economy in order to support the domestic economy. And we would expect to see it flow mainly through that. That's the first point.

The second point is we have spent a lot of time analysing and thinking through the pass through of changes in sterling to the inflation rate and what we have seen, and what we have learned since the financial crisis, has been that that pass through tends to be protracted; it takes place over a number of years. And in fact it's that which creates the sharpest bit of the trade off over the forecast horizon, the reason inflation

is at 2.4%, not below 2% in year three is entirely in our view because of the pass through of past depreciation of sterling. So we're making a judgement about looking through that so that we're sustainably returning to target.

Now there's a limit to which we would do that. We didn't reach - obviously we calibrated this package appropriately in the judgement of the MPC to balance that trade off, but it shows that there are - the existence of that shows that there are limits to where we would go in providing additional stimulus domestically.

Geoff Cutmore, CNBC: Is that a 10% decline from here or …?

Mark Carney: That sounds like a follow up question.

Facilitator: We have loads more who haven't asked a question yet I'm afraid.

Catherine Boyle, CNBC: So you've mentioned in the Report a potential decline in house prices over next year. Can you quantify that any further for us and will there start to be any scenario where you could see yourself starting to have conversations about negative rates ever?

Ben Broadbent: Could you repeat that last bit?

Catherine Boyle, CNBC: I was just wondering if there was a scenario where you could ever see yourself starting to have the negative interest rates conversation?

Mark Carney: No on the negative interest rate conversation. I don't see a scenario for that. I think I've been about as clear as I can be on that. If anyone - just write in whatever you want to take that off the table for me, okay. I'm not trying to be clever in the way I'm answering that question.

But on house prices, Ben?

Ben Broadbent: On house prices we have a, in the central forecast and if there were fans around this and we published a chart, it would probably be at least as wide as any other fan we have. I think we predict in that central forecast a small decline in house prices over the next year and then they start to pick up again in line with average incomes after that.

Richard Barley,
Wall Street Journal: Governor, if we're at the point where interest rates - a move lowering the interest rates has to be offset for the banking system by the term funding and some of the tweaks to regulatory measures, what are the implications for the wider financial system, particularly of very persistent low rates? You talk about this move into riskier assets. We've already had seven years of people moving into riskier assets. Where does this go from here and what are the wider financial implications for stability?

Mark Carney: Look I'll step out of the MPC role for a second and speak as a member of the FPC; all of us are. We basically approach financial stability from a perspective of - we're in a low for long world for a long time, because when you think about downside risks that's the downside risk. So the stress tests that we favour are those which are bear flattening type of curves. We look at the implications of very low interest rates for the insurance companies and how that flows back through for the pension sector, for other asset classes and how they manage that.

At this stage we understand these risks; we don't see these risks, these costs - we see these risks and costs as being absolutely dominated by the benefits of providing the stimulus, first point.

The second is, to go back to something I said earlier, which we've stressed a number of times at these press conferences, is the reason we have low interest rates is not because central banks are choosing to have low interest rates. There are much bigger forces which are driving this, and so the question is whether we're blind to that and therefore we don't provide the right amount of stimulus for the underlying economy, or we take it into account.

It does make our job harder as a whole because we do have to absolutely worry about these channels; we do have to take adjustments. That's part of the reason why you see such an active FPC and an active international regulatory agenda of which this institution is very much a part of.

Scott Hamilton, Bloomberg News: Since the Brexit vote we've seen a lot of turmoil on the other side of London, a lot of political turmoil. Would you like to take this opportunity to reassure investors in markets about your commitment to seeing the UK economy through this choppy waters and does that mean staying on toward 2021?

Mark Carney: Didn't quite know where you were going with how I could reassure investors, I'm glad that's the way you ended up on.

Scott Hamilton, Bloomberg News: About stability.

Mark Carney: No, look I'll say two things. First is that it is an absolute privilege to have this role and it's a tremendous responsibility. And we have been - it's not going to surprise you - we have been flat out since the run up to the vote through to this discussion and beyond this discussion. And I can candidly say I have not had a moment to sit back and reflect on an issue that I said I wouldn't come back to until the end of the year. So I appreciate the question, but I don't have an update because we've been - it's a privilege to have the job and we've been doing the job. Thanks.

Mathijs Schiffers,
Dutch Financial Times: You said you are not a fan of negative interest rates, but what are your feelings about helicopter money?

Mark Carney: Well that's - I'm trying to think of a way to express it. No, I don't see the merit in the strategy. Look, let me answer it this way which is that we have a range of tools. We still have scope under all the tools we announced today. There are other things we could do if necessary. It might not be necessary that we have to provide additional stimulus, it depends on how the economy unfolds and how the trade-off evolves, but there's not a need and I can't conceive of a situation in which there would be a need to have such flights of fancy here in the UK.

Helen Thomas, BBC: Governor, you mention in a couple of places here that purchases of corporate bonds could actually have a greater effect in the economy today than purchases of gilts. Given that you've been very clear that you don't see other easing measures going much further, what is the scope to expand that £10bn, given the overall size of that market?

Mark Carney: Two things. First I would say that again we see scope for all of the measures we announced today to go further. But secondly to answer specifically on corporates I'm going to ask Minouche to answer that but also maybe give a bit of a context, not just about going further but how we're going to run this, run the programme.

Minouche Shafik: Sure. We estimate that the sort of universe of firms that would be eligible for our corporate bond purchases would be about 150 firms and it's roughly a market of about £150bn. So we think that purchasing £10bn in that context is quite feasible and there are various things we could do to expand the universe of purchases.

But the initial focus will be on purchasing conventional, senior, unsubordinated debt. We will look at only debt which is corporate bonds which are rated investment grade by at least one of the major agencies, but we will also do our own assessment of creditworthiness. We'll look at minimum amounts of about £100m, and we will operate initially only in the secondary market, so bonds that have been in the market for at least a month.

So that's where we're going to start but as the Governor said there are various ways we could expand that if the MPC decided that it wanted further stimulus.

Facilitator: Last question.

Sam Nussey, Nikkei: Given this enormous uncertainty about what the future relationship with not only the EU will look like and with the rest of the world, and also how long it would take - some people are suggesting two or three years, some people are suggesting ten years, how does the Bank go about making forecasts in that situation? And do you have a central case that you're using?

Mark Carney: We haven't picked any particular model for the new relationship with the EU. What we have assumed is that there will be a period some point beyond the forecast horizon where the degree of openness in the UK economy will be somewhat lower than it is today. And just to follow that logic through virtually any model, any new model of the EU relationship, has some reduction in the degree of openness compared to being a full member of the European Union; that's understandable. But we haven't picked a specific one. So if you just look on average in terms of probabilities you come up with an adjustment.

It's clearly the strategy of the UK government to more than compensate for that reduced openness with the EU with

greater openness with the rest of the world. There's a question in terms of the exact timing of the compensation, given the time to negotiate trade deals. And so the basic assumption, which is relevant to the model or to the forecast, is some reduction in openness beyond the forecast horizon which then affects some of the investment decisions today.

But of course what's some of the big drivers? The big drivers of this forecast are uncertainty about what we've just discussed, of course which has an impact; the adjustments that are going on and expected in property markets which have an impact on demand; and some marginal increase in the cost of capital. All of that flows through to the outcome. So that's where we end up. We don't pick a model and it wouldn't be credible if we did.

Jenny Scott: Thank you very much everyone. That's all we've got time for.

END