

INFLATION REPORT PRESS CONFERENCE - THURSDAY 3 AUGUST 2017

Mike Peacock (MP): If you could give your name and organisation please. Wait for the mics to come around and, as usual, just one each first time round if you could. Ed and Gemma first up please.

Ed Conway, Sky News: You said in your opening remarks, Governor that Brexit is beginning to affect potential supply. I mean, translated, does that mean that the economy has now been damaged by the vote? Just supplementary to that, are you now less confident about a smooth transition happening than you were three months ago.

Mark Carney (MC): In terms of the first part of your question, I think it's evident. It's evident in our discussions across the country with businesses, it's evident in our decision-maker panel survey, it's evident in other business surveys, it's evident, I think, in the reporting of a number of people in this room. It's evident that uncertainties about the eventual relationship are weighing on the decisions of some businesses. Distilled down from the 1,000 businesses in our decision-maker panel, which is run by our agents, about 40% of those businesses are affected in some way, either through the supply chain or end markets by uncertainties around Brexit. We see it directly in the macroeconomic numbers. Investment has been weaker than we otherwise would have expected in a very strong world, high degrees of profitability, ample availability and low cost of capital and limited spare capacity. The consequence of that is starting to build, and the judgement of MPC in the forecast is that we will see a rotation towards business investment. So we do see business investment picking up from current, very subdued rates, over the forecast. It is still below historic rates and the cumulative effect that deferral of investment is going to mean that the supply capacity of the economy expands at a slower rate. The speed limit, if you will, of the economy has slowed.

As I said in the opening statement, that could have consequences for monetary policy, depending on the evolution of demand. In terms of transition and other aspects related to the negotiations, because any transition or implementation arrangement is part of the negotiations-, negotiations which have really just started. I wouldn't handicap the probabilities as we're not directly involved in those negotiations. We'll see how they transpire. We do think it is important, however, to have a transition arrangement.

Gemma Tetlow, Financial Times: On a similar point, in your forecast, for the long-term you say you take an average of possible arrangements in the future, but for the short-term transition you are currently assuming a smooth transition towards that, which might be considered perhaps the best possible outcome in the short-term would be that very smooth transition. Is that consistent, and what would you need to see to actually change your view in the short-term that that smooth outcome will actually happen?

MP: Well, why don't I start by quoting the President of the European Council, Donald Tusk? He has said, and similar statements have been made by other European authorities, national leaders and European officials, that a disorderly, disruptive process is in no one's interest and that we should be working towards avoiding that. So whatever the end state, the desire of both sides is to have as smooth as possible a transition to that end state, so it's a reasonable assumption. If I can make a point about the forecast, the important thing is not necessarily what we think, as people slightly closer -, we're not in the negotiations, but maybe slightly closer to the discussions. It's not so much what we think, it's what UK households and businesses think and how they react to that, and at present, we do not see any material evidence that their expectation is that the transition would be anything but smooth. What we do see is what I just said in response to the first question, which is that uncertainty about market access post-Brexit is starting to affect some business decisions and has consequences for investment, but people are not building in the possibility of a more disruptive process in any material way. So what

does it take? It takes to see that in behaviour, whether it's through confidence, whether it's through direct discussions, whether it's in survey evidence, whether it's more broadly held.

I would underscore, though, that it's clearly in the interests of both sides in the negotiations to have a smooth transition to whatever the end state is. It's the stated objective of both sides and it's the way the economy is behaving at present, so it is the most realistic assumption.

MP: Simon and then Helia please.

Simon Jack, BBC: How worried are you, Governor, that the growth that we are seeing is fuelled by rising household borrowing? If you are, how worried are you that that rise in credit, unemployment at a 40-year low, inflation above the Bank's target - what is it you're waiting for before raising interest rates?

MC: Well, I'll start from where you finished, which is to be absolutely clear what we, as the MPC, focus on is achieving a sustainable return of inflation to target. We have been conscious since the referendum that the principal cause of inflation being above target, in fact the sole cause of inflation being above target over the course of recent quarters, and as we forecast and continue to forecast, is the fall in Sterling caused by the markets' judgement, not endorsing it, but the markets' judgement about the implications of Brexit for the UK's relative prospects. So, first question is about how to get back to that and I answered that in the opening statement and the Committee did in the report. The second thing, to go to the question of, 'To what extent is the recovery a product of borrowing?' In fact, what we're seeing now is that consumers are adjusting to the squeeze on real incomes. That's one of the reasons why growth slowed in the first half of the year, it's one of the reasons why we think growth will be relatively sluggish this quarter, before only modestly picking up. Over the course of the forecast, we expect consumption growth to be broadly in line with income growth. Again, it's not a forecast that relies particularly on the consumer. Investment and exports are much more important than the consumer, going forward. The consumer, his or herself, is relying on what they're getting paid, not what they can borrow.

Next point, again, to put it into context, is that this country and the UK households have gone through a decade of very painful deleveraging. It's only really in the last year that growth of debt has started to exceed income, so there has been some borrowing. Consumer credit is the minority in that and mortgages are still much more important. There are some issues that the FPC has raised around the nature of some of the credit that's on offer and the potential channels for financial stability because of some developments in the consumer credit side. That's part of the reason why a return to a more standard risk-taking environment, the countercyclical capital buffer has been raised, as you know. It's part of the reason why the adjustment has been made to the stress test and some guidance being given around underwriting standards through the PRA supervisors to banks. What those measures are for are to address tail risks to the economy, not central expectations. The central likelihood, as I say, is what the forecast is here which is that we have a relatively modest recovery, one that's matching the growth of supply, that it's principally driven, at least initially, by investments and then exports. A consumer that's consuming out of his or her income, as opposed to borrowing.

Simon Jack, BBC: You said that, about consumer credit, that there was a spiralling complacency in lenders about that, one of your senior officials, and you flagged it up as a danger before.

MC: First off, you're not quoting me in that line. Secondly, the issue that we have, and this is now we're moving quite a ways away from monetary policy because this is not what's driving the economy, okay? I'm going to say that again. This is not what's driving the economy. It's an issue for a subset of borrowers and a subset of lenders. The percentage of vulnerable consumers, so consumers who have

debt service requirements more than 40% of their income, is 1.25%. It was 2.5% five years ago. Again, keep it in context. The thing we have to worry about, as the other side of the Bank, if you will, is that underwriters don't shift from good standards to irresponsible standards, responsible to reckless. Where we get concerned and what we're clamping down on with the PRA is cases where some lenders have started to extrapolate the good times to assume that in the event that the economy does slow that their losses will be lower. That's an important thing to deal with, but, again, in the big picture this is good housekeeping as opposed to the core issues.

Helia Ebrahimi, Channel 4 News: Governor, can I pick up on something you said earlier, because in May the Committee said that it assumed there would be a smooth adjustment in the transitional period. This time around, the Bank seems to have lost confidence in trying to predict such an outcome because the language has changed. It now says that companies and households assume there will be a smooth transitional arrangement. Is that because there's less clarity about the transitional period than there was three months ago, and at what point will households and companies need to have something in place before they too lose faith with the smooth transitional period?

MC: Helia, you're far cleverer than the MPC. You've read something into words that isn't there. What matters is not what we think, it's what households and businesses across the country think about the end state. Certainly, over the policy horizon that's what matters because that will drive whether or not the economy moves into excess demand and out of excess supply into excess demand. There are a series of issues around Brexit about which we are not necessarily better informed, but are much more in the public domain than they were several months ago, back in May. That's got to be a healthy thing. It's part of a discussion of the end state and the transition to the end state. I think the first part of your question was implying that we have necessarily learned something over recent months regarding these issues and I would say we haven't.

MP: Okay. David Smith and then David Goodman, back middle.

David Smith, Sunday Times: Governor, can I ask you to elaborate slightly on the reduced rate of potential growth that you referred to? It looks, from the monetary policy summary, that that reduced rate is around 1.75% a year, maybe a bit less than that. How does that compare with what the Bank believe the rate of potential growth was a little over a year ago?

MC: I'll start and I'll hand to Ben to elaborate. A little less than 1.75% is the important thing. A gradual accumulation of disappointments on productivity, as you're well familiar, but also an accumulation of, if I can put it this way, stock shortfalls in capital. We have a prolonged period of relatively weak investment. Initially, post-crisis, we all understood about the biggest constraints, both fundamental uncertainties in the economy and secondly access to capital. The latter has been solved. There's new aspects of uncertainty that seem to be weighing down, and there is bigger restructuring to be done which longer term can be very positive, obviously, but as we re-orient trading relationships, there will be, as I said at the start, some sectors which contract and others which expand. That process, as you've seen in the past, normally drags a bit on productivity before it expands, so we have that aspect. I would underscore we haven't made any change to our assumption on the labour supply side. We just take the ONS view on net migration as part of this and different people could describe different risks to that. We're, as I say, just taking a base assumption.

Big picture, this has moved down, as you know, from pre-crisis of 2.25, 2.4. Some of that was ephemeral supply, if you will, because it was based in the financial sector, but certainly there's been a steady shaving of basis points, if you will, at a time when other indicators in the performance of the economy, particularly in the labour market, has been using up supply. Obviously, that's a good news

story. We'd rather have unemployment at a 40-year low than the contrary, but it does have implications for monetary policy, as I said.

Ben Broadbent (BB): If by 'reduced' you mean relative, I would echo what the Governor just said, relative to pre-crisis rates then we've been living with this very low rate of productivity growth for quite some time now. There were some adjustments after last summer and we expected weaker investment growth and in turn, that weaker investment to feed through to slightly lower productivity growth. These things are all very uncertain, but I think the important point is that one should not think that the economy, at the moment, can grow at the sort of rates we used to enjoy, certainly before the crisis before running into inflationary pressure.

David Goodman, Bloomberg: Governor, you say for the second inflation report in a row that policy could need to be tightened by a greater extent than is currently implied by the yield curve. Do you think the curve is currently underestimating the timing of the first hike, the number of hikes or both across the period?

MC: Look, I don't think it's appropriate for me to tie the hands of the Committee by expanding on our view as a Committee, particularly with respect to timing. To recap, as clearly as I can, in terms of our perspective, we have been operating in exceptional circumstances, we will be for some time because of the extraordinary nature of the Brexit process and what that has done to all aspects of the economy relevant to the inflation target; exchange rate, demand/supply. Those exceptional circumstances have meant that we can take a judgement, if we think it's appropriate, to take a little longer to bring inflation back to target, in order to trade off above-target inflation which is caused by the exchange rate and the degree of spare capacity in the economy, particularly in the labour market. As time goes on and that spare capacity is used up, that trade-off lessens. Ultimately, by the end of this forecast, on the basis that the market curve goes away and in fact still have inflation above target in year three, it follows from that, in the judgement of the Committee, it would be appropriate, if we knew the world was going to transpire as per our forecast, to withdraw more stimulus than the market currently has embedded. Timing, degree, amounts, beyond that general direction, we're giving you that, but we're not going to further specify.

I would underscore that conversation that we've been having with the questions which is about relative supply and demand growth, and that the supply capacity not just being used up as the economy has progressed, but actually, the judgement of the Committee is it's going to grow at more modest rates, certainly to the distant part. So, while the economy is sluggish at present, it doesn't have to pick up that much in order to take back further supply and focus the attention of the committee.

MP: Jason then Hugo.

Jason Douglas, Wall Street Journal: Just also on interest rates, can I just ask please how the MPC is thinking about that first move back to 0.5%? Should we think of it as the start of a traditional tightening cycle like other banks are doing, albeit one that's going to be more gradual than it has been in the past? Or is there an argument at all that this could be a one-off to withdraw this extra bit of stimulus you put in place last year because of these extraordinary circumstances that you described?

MC: We're pretty clear, I think, about the way we're thinking about it which is that the first thing is that we've conditioned the forecast on the market curve in the run-up and that curve had more than one interest rate hike over the course of three years. We think that would be insufficient relative to what would be required in order to fulfil our mandate. Those increases would be done at a gradual pace and relative, and you use 'traditional hiking cycle' but tradition has gone for some time. So relative to a traditional hiking cycle to a limited extent, but more than the market, less than traditional.

Hugo Duncan, Daily Mail: Governor, you appear to be warning households and businesses to get ready for rates to rise, albeit slowly, over the coming year or possibly three years, while at the same time warning that the economy is sluggish, that wage growth is weak and that business investment is below what it could otherwise be. How can you be so confident that the economy can withstand such rate rises against such a gloomy backdrop?

MC: Well, first thing to state is that we haven't actually changed interest rates at this meeting, so maybe we should just make that absolutely clear. Secondly, that we have a pretty good read on households' position. In fact, our most recent survey of thousands of households which we did with the NMG looked into, as you would expect, exactly these questions which is what would happen if they either have an income shock or a rate shock and how would they adjust? Consistent with the response to Simon Jack, we're in a position where households are less vulnerable than they were. Now, there are vulnerable households, we recognise that, and we certainly recognise that it is a difficult period when real incomes are negative across the country as a whole. In terms of the overall position of households, there is an ability to withstand an adjustment to monetary policy, if it's appropriate. It being appropriate is a function of where the economy is, and that is going to be more, in our judgement, more or a function, of not what households do, but what businesses and exporters do. We do think that there are reasons to expect some modest uptake in contribution from both of those sectors.

MP: Szu there, then Harry.

Szu Chan, Telegraph: Just to follow up from Hugo's question. Given that we are shifting to a world where weaker productivity growth means that rate rises might be necessary, even though we might see weaker growth rates and pay rates than the past, what is your message to households who have been driving down savings or borrowing a bit more in the hope of sunnier days ahead? Also, in your conversations with businesses, what have they been telling you about the difference a quicker transitional arrangement would make to their investment plans, which could affect productivity in the future?

MC: Okay. I'll start on transition and then start on the first bit of your question and then go to Ben. In terms of transition, consistently across sectors, so not limited to the financial sector, manufacturing sector, range of service sectors, there is a desire for some form of transition arrangement. There is an understanding that there are a series of issues, market access issues, product standards issues, authorisation issues, data issues, that will affect both sides of what is quite an integrated economy between the United Kingdom and the EU 27. It's pretty clear that in the first best world for Europe and for the United Kingdom, there would be some transition to whatever end state is agreed. Exactly what that end state is, exactly what that transition or implementation period will look like or be, that's a core part of the negotiations and it's absolutely for others to answer. In terms of message to households and what's going on in the economy right now, we're going through a sluggish period in the economy. We're not growing as fast as we did post-2013. Part of that is for reasons exactly what they're feeling, which is that real incomes are being squeezed because prices are going up in the shop and wages haven't been growing as rapidly. The second thing to say is that we think we're in the teeth of this right now.

Over the course of the next couple of quarters, it will continue to feel like this, but then as we move into the new year we see inflation start to come down and household income start to go up so that we move out of this real income squeeze. I'm not saying roaring out of this real income squeeze, but we move out of this real income squeeze. The third thing is to recognise that we are in a position of strength. We made a decision a year ago. We could see this inflation coming because of the exchange rate, we could see why it was driven and we took a decision to take this more in prices than jobs. We're now in a position where unemployment is at a 40-year low, so that's a position of strength.

We're in a position of strength because our financial system is rock solid. We have rebuilt this financial system. We're also in a position where other bits of the Bank are addressing potential risks in the economy. We talked earlier about household debt and issues around consumer credit, I won't go into all the acronyms, but behind the acronyms are actual action, whether it's CCYB or PRA, etc. We're also, as people would expect, the Bank in its areas of responsibility is engaged in sustained contingency planning for all possible outcomes around Brexit, transition deal, no transition deal, comprehensive agreement, narrow agreement, to take away those potential tail risks.

It is a more difficult time, but in terms of the bigger risks, we're taking our responsibilities to take those bigger-, I hate to use the term 'tail risks', but I can't think of another one-, off the table. Ben, do you want to?

BB: No, not really. Only to emphasise what the Governor just said. Less rapid growth of potential output and the capacity for real wage rises over the medium-term doesn't mean no growth. I still think it's reasonable, the Committee certainly still thinks it's reasonable, that with unemployment at very low levels, we will see faster growth of nominal wages over the forecast period than we have over the last couple of years. We've been disappointed by that, but still think that's the reasonable judgement. As the Governor just said, we are right at the zenith, if that's the right word, of these pass through effects and the hit they're imparting to real incomes. Those will dissipate. They'll stay at this level for a while yet, but then they'll begin to fall away and households will feel the benefit of that. So things are particularly tough right now. With regard to the borrowing point you made, I just want again to echo something the Governor said earlier about keeping these numbers in context. So consumer credit has gone up 10% over the last year and a bit over the previous year. Total household borrowing from banks is up over the last year by 3.9% in the year to June. This is really not big, big numbers and nothing remotely like what we saw prior to the crisis. The level of unsold debt is still materially lower, relative to income, than it was for many, many years prior to the crisis, actually. So one should keep numbers in context.

Harry Daniels, Livesquawk: What has materially changed between your speech in Portugal at the end of June and now for a slight reining back expectations around a rate rise? If we're in a new environment, would you consider less than a 0.25 basis point move higher in rates when you start that incremental-,

MC: To the latter thing, there has been no discussion of that, so I wouldn't put any weight on changing the increment. Secondly, obviously when I spoke in Sinta I spoke for myself, but I view what I said there as entirely consistent with what we're saying here. The difference is that now we have an updated forecast of the Committee which uses a higher rate curve than existed at the time. The Committee's judgment, which I share, is that some more withdrawal of monetary stimulus would be required above and beyond that, if the economy is preceding consistent with that forecast.

MP: Can you give a mic to Katie on your left? Then we'll go to Ben.

Katie Allen, Guardian: I Just wanted to come back to wage growth again. You've trimmed the forecast for wage growth. Can you say how much of that is down to, according to the Bank's work, the change in perhaps the nature of employment? Types of jobs people are in, their ability to negotiate pay rises at the moment.

MC: Let me start out then Ben expand. First, the big elements here are productivity, softer productivity. Ultimately productivity gets shared out between firms and workers, so that softer productivity which is, in part, a product of accumulated lower investment and prolonged period of lower investment, helps explain that. The second thing, what we're picking up across the country at a

number of firms is that there is an element of Brexit uncertainty which is affecting the wage bargaining. A potentially material number of firms are less willing to give bigger pay rises given that it's not as clear what their market access is going to be over the course of the next few years. Then there is an unexplained element to this. We have a relatively tight job market and we do think that wages are going to begin to firm. We're seeing, and one doesn't want to over-interpret, but certainly on a survey basis and some very recent data, some elements of that firming. We'll see if it's consistent. To me, those are the big drivers.

BB: Yes, I think we should bear in mind the big influence on real wages over the last year, as you know, has been rising import prices. Over the last ten years, it's been weak productivity growth. There have not been material changes in the share of domestic income going to profits on the one hand and wages on the other. In fact, that share of labour income has fallen slightly over the last year, but over the forecast we expect it to go back up again. I think the big picture, predominant influence on wages have been these much bigger trends in productivity growth and more recently, import prices, rather than necessarily changes in the nature of the labour market. Although we do pick up, last year at least, some signs that some firms have been a little bit cautious on pay awards because of uncertainty about Brexit.

MP: Ben, down there.

Ben Chu, Independent: Governor, you mentioned that the Bank is engaged in contingency planning for all states of the world in 2019, whether a transitional deal or no transitional deal. Could you give us some sense of how advanced you are in making those plans? Are we going to see, at any stage, some of the economic analysis underpinning those various scenarios? As you know, there are those who say that if we crash out of Europe with no deal at all, it will be a great boon for our economy.

MC: Okay, there's a fair bit in that. On the contingency plans, they are extensive. We started from prior to the referendum, but it certainly accelerated post the people's decision. There are a range of issues and these, at a high level, have been detailed, detailed in the last Financial Stability Report. There are a range of cross-cutting issues, so issues around access to data, issues around contractual continuity, the latter in insurance and in derivative markets. There are different potential fixes depending on the type of market, so we're engaged with others, including the private sector, to address those issues. Some issues might require legislative cures or cures through the nature of the agreement, so obviously we work in close concert with the Treasury and Her Majesty's Government, as necessary. I want to reassure you that there are a range of issues, including cross-cutting ones, where we're very actively engaged and we think we've identified the main ones. The second bucket, if you will, relates to the plans of financial firms, both those who are headquartered here and potentially may lose some market access in Europe, and those that are based in Europe and are interactive here. It's a quasi-public process anchored around a so-called 'Dear CEO letter' by Sam Woods, the CEO of the PRA to the CEOs of all these institutions for their contingency plans.

The fact is, we had most of people's contingency plans prior to this, but now we're getting in their latest and comprehensive and it's covering everybody across banks and insurers in the UK. There will be firm-specific issues, as well as issues of general application, that we'll be addressing. You snuck in there a very big macro question which is probably a question for another day, but there is a reason why we're engaged in extensive contingency planning which is to take out some big tail risks from financial stability, which obviously would affect the economy. Then there's a separate question which is, 'What is the impact of the economy of moving from the relationship we currently have with the EU to a WTO relationship with the EU overnight?' So you can strip out financial stability amplifiers to that, but then there's just a fundamental economic question. To bring it back to today, what we're seeing is that financial markets are putting a certain weight on that. Business uncertainty and the weight of financial

markets is flowing through to households through the Sterling and inflation channel. Businesses are putting a certain weight on that and that's affecting investment and potentially some of the wage bargaining. All of that comes together and we have to make judgements about the impact on growth and inflation. We can do so and are doing so.

I think what this all underscores is that, and it goes a bit back to earlier questions about messages to households in difficult circumstances, the big, big macro decisions are not the decisions of the Bank of England in this environment. The decisions of the Bank of England-, monetary financial stability. we have to get them right so that the environment for adjustment is appropriate. What's going to move the needle, what's going to change the prospects of real incomes for households and prospects for businesses is going to be this negotiation with Europe, other negotiations with other countries and the transitions to those. That is the story and we play a supporting but very much second-tier role in this, to just ensure that the economy can flexibly respond to that. So there are limits. We're clearly in the territory of limits to monetary policy when we start discussing, what can we do to change the real income profile for households?

MC: Jasper, back middle and Mathijs right at the back.

Jasper Jolly, City AM: You noted in the statement that there are a few signs of domestically-generated inflation, but you also said that the market might be underestimating how early a rate hike is going to come, or multiple rate hikes are going to come. Is it viable to have multiple rate hikes while there are few signs of domestically-generated inflation?

MC: So you didn't quite accurately quote either of what we said in those cases I'm afraid, Jasper, on important issues, so I'm going to have to correct if you don't mind. The first thing is that what we say, and we go into some detail in the report, is that most measures of domestically-generated inflation are not yet at target-consistent rates, so we detail in the report a series of measures of so-called DGI. They're not yet at rates that have historically been consistent with inflation being at the 2% target. The most obvious and, I would say, the most easily measured and almost cleanest one relates to average weekly earnings and estimates of unit labour costs. We do expect those to build, and I would say that it's not a universal story. There are some that are close to target-consistent rates and even though there may be some element of exchange rate pass through there, we look at those closely. There are signs, and we have an expectation that domestically-generated inflation will build over the course of the forecast period, and of course what we want to happen is that it builds to levels consistent with the inflation target and doesn't overshoot from that point. Which is why we're having as much of a discussion around where supply capacity is and demand relative to that. We did not give any signal on timing of rates. I think people caught up on that.

Mathijs Schiffers, Dutch Financial Times: There is a modest strike going on in front of this building. It is modest, but related to an interesting topic, of course. It's about the cap of 1% for the public pay rise. Should the government abandon this policy at the moment? It gives a good example to give the people some wage growth. Do they not have a point, because they are losing out at the moment? Inflation is much higher than their pay rise.

MC: Your German readers want to know the answer to this? Let me say a couple of things about that question because it's an important question. I think the first thing is that, in terms of the strike here, it's regrettable and that we were in discussions right up to the day before the strike, including at the ACAS, which is the mediation service. My colleagues at the Bank stand ready to resume discussions at any time. I do want to reassure, which I think is clear, but I'll take the moment to reassure, that given the strike is 1% of employees we're fully covered and operating as business as usual at the institution and will continue to be so. Now, moving to your question which is the broader environment. I think it is

important to look at it in the context of the broader environment, and I wouldn't start in the public sector first, I'd start in the private sector. This country has been in a prolonged period of very weak private sector wages. That's related to the productivity performance, but other factors and in fact, we're in a period where, over the course of over a decade now, real incomes are negative, so real income growth relative to where it was prior to the crisis, real income levels in real terms, on average is still below where it was in 2007/8. That's driven by the private sector. In that context, for a variety of reasons, it's understandable that there is public sector wage restraint.

The Bank of England is separate from the government, it is a public institution and obviously we operate in that context. We operate with a limited budget and we have to be fair, both to our employees, use that limited budget within the group of people who work at the institution to compensate those who are most underpaid relative to their peers and relative to people outside this institution. We have to be fair, to go back to the general point which is to taxpayers, to operate with restraint consistent with the overall environment. That all means difficult decisions that have to be made. We share those difficult decisions with others in the public sector and I think all of us in the public sector are conscious that in the private sector, a series of difficult decisions and disappointments have been there. That's the macro-environment. In the end, to bring it back to monetary policy if I may, monetary policy is not going to shift those fundamental drivers of those wages. Much bigger structural decisions and the big structural decisions are around Brexit and other trading relationships right now in the UK. A series of decisions by private entities, businesses across the country that are of course heavily influenced by Brexit but not exclusively influenced by Brexit, that's what will determine when wages actually sustainably begin to rise.

MP: We'll go back to Helia one last time as I believe she's representing two broadcasters today.

Helia Ebrahimi, Channel 4: Back to the transitional agreement. If the transitional agreement doesn't include access to the single market or the customs union, does that mean that economic growth will be damaged?

MC: Look, relative to the current arrangements, in the medium term, any agreement, and if I isolate it to just to the agreement, that reduces access to aspects of our largest trading partner, is likely to reduce the level of economic activity in this country. The bigger question, of course, is what else comes alongside that? What other agreements might be struck with other trading partners? What other measures and elements might be taken? If you just isolate it to that decision, it has those impacts and entirely understandable uncertainty about that decision and the scope of that is affecting, to varying degrees, financial markets, businesses and households in this country has, feeds back into the balance of demand and supply in this economy, inflationary pressures and the stance of monetary policy.

Cat Contiguglia, Politico: On the transition period, is there a certain date that you would say the government needs to clearly put out their transition plan or we're really going to see a slide? For example, your colleague Andrew Elliot FCA said really by the end of the year, this transition plan needs to be in place. Beyond that, companies are going to be struggling.

MC: I didn't see exactly what Andrew said, but in terms of the companies we supervise, they have started to activate their contingency plans and you see a series of announcements about their contingency plans, potential destinations and in some cases more sophisticated announcements of moves of activity and potentially moves of personnel-, I would say, none of which is news to us, all of which we had line of sight in advance, as you'd expect. In general, the time it takes to move to one variant of end state is something around the order of eighteen months. So you can work backwards. It varies by institution, it varies by what their assumption is about access, it varies about assumptions about the degree of regulatory cooperation. I think that the converse is also true for institutions that are

operating in this country. If you work backwards from that timeline, it gives you a sense of when it would be most useful. The advantages of institutions that potentially have to move to Europe of remaining in London are quite considerable. So even some costs of moving they would overlook. Certainly there is a path dependence and as people move and clients are restructured and repapered and capital and collateral moves, it becomes more of a fait accompli as time goes on.

MP: Final, final one to Ed and then we're out of time I'm afraid.

Ed Conway, Sky: It's a slightly chewy question, so apologies for finishing on this note. When you see those people who are protesting outside, you know, placards and a lot of people are quite angry about pay and about distribution in this country and the fact that this is the first strike that the Bank has had in 50 years, does it strike you that there's something happening here? People are angry. Many people across the country and we know what's happened across the course of the last year or so as a result of that. Does it strike you that there's a phenomenon here? I know that the Bank doesn't necessarily get involved in the distribution of cash around the economy, but does it strike you that there is something going on that needs to be thought about here?

MC: The first thing is, I repeat something I said a moment ago which is I absolutely recognise-, we recognise that a series of difficult decisions have had to be taken in this institution over a number of years-, other public institutions and very much in the private sector as well. The fact is that, you know this, that real income growth has not been this weak in this country since the middle of the 19th century and that is the product of several things. It's very much related first to the financial crisis, and now related to other factors which may prove temporary, but that remains to be seen. These are big, big structural issues that the country has to face. We, as the Monetary Policy Committee, have to deal with the consequences of those. We have looked with respect to the impact of Brexit and the adjustment to Brexit to as much as possible cushion that impact in terms of people in work, because ultimately the biggest distributional issue is between being in work and not being in work, then one moves to appropriately higher order ones. We have looked to cushion that as much as possible. We are in a position where, as you know, unemployment is at a 40-year low and recent job growth has been full-time, the participation rate is high, so we're getting to a point where we have almost done as much as we can on that front.

We need to ensure that the other side of the equation, the sustainable return of inflation to target, is achieved. So yes, we absolutely recognise it, but these are much bigger questions, certainly than questions that the Monetary Policy Committee or the Bank can address. A last thing, just to go back to the Bank as an institution, we have to operate within that bigger environment. It is entirely right that we have a limited budget relative to others in the public sector, and that the public sector has a limited budget relative to a private sector where private sector wages as a whole have been growing at quite low rate.

BB: To emphasise the macro point, I don't know if you call it chewy or not, there is a graph in the inflation report that gets across the point about the importance of productivity trends, 3.10. There is a line which has output per head and there's another line which has the ratio of wages to firms' prices, so real product wage. They track pretty closely together. You and I talked once before about distribution. The weakness of real pay is not because the amount of money in the economy has been shifted in large order from one group to another, it's because aggregate income per capita has grown extremely weakly. Matching the statistic the Governor just gave about the decade of weak real income and growth, and weakest since the mid-19th century. The same is true of productivity and that is the fundamental point, not a distributional one.

MP: This really is the last one.

Adam Linton, Ransquawk: Given the fallout of the UK election and potentially a slightly less austere Britain moving forwards, maybe a chance for having a say in the books might not necessarily balance now until 2027. How are the MPC viewing these developments in the fiscal space and could they potentially be keeping half an eye on that in order to reduce the burden yourselves on monetary policy, particularly when there could be things such as the unfreezing of pay caps in the public sector, for example?

MC: It's a fair question. The approach we always take on fiscal is we don't change our views on fiscal until fiscal policy changes and then we take stock of that. Last autumn, we viewed that in the fall statement, effectively a mini-budget, there was a loosening of fiscal policy or, said more accurately, a slight reduction in the pace of tightening of fiscal policy over the period of time. That was one of the reasons why we marked up our forecast at that time. We will take stock once the budget is in place and having balances is desirable, but the biggest sustainable stimulation to this economy are other structural policies, of which the most important is the outcome of the Brexit negotiations.

MP: Thank you all for coming. Enjoy your summer break. We'll see you soon.