Bank of England

Inflation Report Q&A
2nd February 2017

Noreena Hertz, ITV News: Governor, back in August the forecast for GDP for this year was 0.8%. Now it's being forecast at 2.0%. That's a really hefty adjustment. What went wrong with your initial forecast?

Mark Carney: Well, I'd turn it around and say - what went right? What went right first was policy actions that were taken by the Bank, then policy action that was taken by the Chancellor, by the government, both of which provide support into 2017. I think, and I wouldn't overstate this, but our sense in terms of the transmission of both the macroprudential measures - the lowering of the countercyclical buffer and the monetary policy measures that we took was that they have had more traction than we would have expected at the time.

Now you could say that we should have anticipated it at the time, but they had more of an impact than we expected at the time.

The second thing that's gone right is that the global economy has been stronger and that also helps support growth in 2017.

I think the thing that we missed is the strength of consumer spending and consumer confidence associated with that, that was present - has been present all the way through this process. So after an initial wobble in terms of consumer surveys, confidence surveys and other indicators in the immediate aftermath of the referendum in the depths of the summer, it bounced back pretty quickly. And you don't see it in the data and in the activity of consumers.

So consumers have not been affected by any of the associated uncertainty around Brexit. And that is to a large degree understandable. I mean, the labour market is still holding up, wages are growing roughly the same rate - modestly - but roughly the same rate as they had in the past.

And in part because of our actions, credit is available and it's cheap, if it's needed.

Now that dynamic will start to be tested as this year progresses. The consumer dynamic will start to be tested as this year progresses, as real incomes move from growing closer to 3% to growing closers to 0%, if our forecast is broadly correct. And the question will be - with what speed do consumers adjust their spending this year?

In this forecast, in the very near term this quarter, we actually anticipate less of an adjustment than we had in November. The bigger news to the forecast though as you progress through 2017 is, if you will, external. It's better world, bigger fiscal, better financial conditions which make the difference. So that's the delta.

Kamal Ahmed, BBC: Governor, you've spoken about inflation risk. Obviously one way to control inflation risk is interest rates. Lots of people will have mortgages, lots of people will be considering a house purchase this year. Can you tell them, compared to the last Inflation Report, is there more of a risk of an interest rate rise than there is of a further interest rate cut?

Mark Carney: Well, what we - first thing we've just taken a decision and obviously, we haven't changed interest rates. So that's the most concrete thing we can say.

We can see scenarios in either direction, and I gave an example of perhaps we could have a sharper adjustment of consumer spending. I would note that our forecast has a quite sharp further reduction in the savings rate of consumers, which is necessary to support the degree of consumer spending that we have in it.

That said, we have made some important assessment judgements - in this forecast, one of which relates to the degree of excess capacity in the economy or the slack in the labour market. We think - and this is a good news story - we think that the economy can run with a lower rate of unemployment - more people can be in work without us having to adjust policy.

Now that's a judgement. It's based on a lot of analysis. It's based on, as I said in my opening remarks, a series of overestimations of wages that we have made over the last several years.

But we'll find out much about the accuracy of that, if the economy continues to grow roughly at rates similar. And if we do see a situation where there is faster growth than wages than we anticipate, or that spending doesn't decelerate later in the year as that real income squeeze comes, or some combination of those. One could anticipate that there would be an adjustment of interest rates, an increase in interest rates - that is not a signal; that is laying out some of the factors that would influence it.

The other point I would make is that one of the differences between now and November is that - to a very gentle degree - the market has started to build in some increase in interest rates over the course of the next few years. And of course, we have conditioned our forecast on that, so when we talk about policy could go in either direction, it's either direction relative to the market curve, if you will, or the market path of interest rates that are in.

Chris Giles, Financial Times: Governor, the big picture here is that you've revised up demand and you've revised up slack. They exactly offset each other so you don't have to do anything on policy. People might say that's convenient. Reasonable people could disagree about both the judgements on demand and on supply.

You've got nine reasonable people on your Committee who've all come to exactly the same judgement. Does this worry you?

Mark Carney: Two things. One a not unimportant detail. The other part of the puzzle, or the equation, if you will, is there has been some appreciation of sterling - 3% appreciation of sterling. As I just said to Kamal, there also has been some - the market path has some increase in interest rates, both of which help ensure a similar trade-off between the two.

In terms of - you know, there's a range of view on the Committee, both on the strength of demand and the degree of slack and the risks around the trade-off that we are striking. So, in other words, and so those risks around the trade-off relate to - by and large - the risks around the economic forecast.

One can paint scenarios, as you just alluded to, where the economy has more momentum or has less momentum or the labour market has more or less slack. But, you know, the balance of judgement is that the stance is appropriate. No, it doesn't worry me because these are judgements that are - we have come to on the basis of vigorous debate, vigorous, detailed analysis of the issues.

And we I think share a view both of the main forces acting on the economy, the framework for analysing those, the trade-off we're broadly trying to strike and we will be - those opinions will evolve with time. And it's reasonable to expect that different people will come to different conclusions at different times, as the economy moves forward and the degree of uncertainty reduces.

So just because we agree today doesn't mean that we would agree at the next meeting or subsequent meetings. That's the way it works.

Ed Conway, Sky News: Governor, for some people perhaps the most alarming chart in the Report would be the one on page 36, of the savings ratio. Are you and the Bank really relaxed about the savings ratio going down to the lowest level on record? And given that you have dropped interest rate to the lowest level since 1694, are you not in some way part of that, complicit, if not responsible?

Mark Carney: Well, the - distinguish between the savings ratio and consumer borrowing, and certainly the adjustments to macroprudential policy capital rules and the adjustments to monetary policy encourage borrowing. Those who are saving less out of income are making a judgement about their future incomes, to put it in the simplest terms, and may have a more positive view of their future incomes than - well, time will tell whether those views of future incomes come to pass.

I think what I would say about the savings ratio - our view on the savings ratio is we view this as plausible on current trends. It does show that there are two-sided risks around our forecast for household spending. It certainly - one could see scenarios where, because of shocks or just because of - for other reasons where people decide not collectively to draw savings down to the same extent, which would mean slower growth, more slack in the economy and have implications for, at least domestically, generated inflation.

In terms of - I'm going to say a word on household borrowing, if I may, which is - we look at this from an institutional perspective. We start from a very basic premise, which is that any time you see a credit aggregate grow rapidly, accelerate, you should dig into it and try to understand better the dynamics behind it. How long it's going to persist, is it sustainable? And the pick-up in unsecured consumer credit, which I would include auto. We can debate about whether to include auto leases in that, but we've included auto leases in that. That falls into that camp and it falls into the camp at least initially of the FPC and the PRA. The MPC takes interest in it because of what it may say about the pace of consumption going forward.

So you can expect that the FPC and the PRA are taking a look at underwriting standards, the sustainability of this, all the things we should be doing - and we have been doing, in fairness, with previous stress tests.

From an MPC perspective, just to put those numbers into context, on the most expansive definition, the increase in consumer borrowing would contribute up to a tenth of the increase in consumption. So it's something, but it's not everything. This is not a debt-fuelled consumer expansion that we're dealing with.

Now that doesn't mean we shouldn't focus on the issue more broadly with our institutional responsibilities, but the bigger picture is- where you started your question, which is around households' willingness to draw down savings during a period where real incomes are being squeezed.

The last thing I will say on that is that one of the reasons why they might want to do that is that we are going through a period for a few years where we have higher inflation because of pass-through of a weaker exchange rate. And the two will pass, and so households may take a decision to look through that. But it's a big judgement.

Phil Aldrick, The Times: Governor, Theresa May has laid out some more clarity on her position for negotiations with Europe, and I just wonder - I mean, obviously this has serious economic implications in terms of membership of the single market. And I wondered how that position may affect your forecasts going forward or whether it's been factored in already?

Mark Carney: Yes. So, the short answer is - we haven't changed our judgement for the purposes of this forecast about the long term resting place for our relationships with Europe and other potential trading partners. And the reason we haven't is a couple-fold.

The first thing is the Prime Minister laid out really a range of potential alternatives. At one end of the spectrum was a walk-away position equivalent to a WTO-type position. And the other end of the spectrum was an ambitious, bold, comprehensive trading arrangement with Europe which - and also, while not being in the customs union would have customs union-like characteristics - potentially.

So that's a wide range. Entirely understandable why, and it would be a false position for us to try to narrow that gap before the negotiations even began. And then on top of that, as you're well aware, the country's begun initial exploratory discussions with a range of other countries about potential new trading arrangements to follow after the exit from the EU.

Which gets me to my next point. Of course the bigger impact of all these is offstage, if you will, from this forecast. In other words, they actually take effect in all likelihood - likelihood, not certainty – beyond the forecast horizon.

And the effect on supply, particularly, is predominantly determined - at least in a judgement that we make - by firms' investments plans - changes to firms' investment plans in anticipation of those potential arrangements.

And as I said in my opening comments, you know, we do have - at least the uncertainty around those potential arrangements has a pretty material impact on investment. It's about a quarter lower than it would have been according to our May forecast, our sort of undisturbed forecast. And that has some impact on productivity, it has some impact on the capacity in the economy and therefore inflation.

But those impacts, as you can appreciate, are dwarfed by the ultimate impacts on the economy of the ultimate deals that are struck. So it would be false precision to refine it is our judgement, and I suspect - I can't bind the Committee - but I suspect that will continue to be our judgement as the negotiations progress over the coming years, because one thing about trade deals is that they're never agreed till everything's agreed. So it's not clear we'll be that much better informed on the final outcome.

And the key judgements we will have to make is about the scale of business reaction to those possibilities and what it means, particularly for productivity but also for hiring.

Helia Ibrahimi, Channel 4 News: Governor, this week we had a rather unprecedented intervention from President Trump's economic advisor which moved the currency markets. I wonder if you could reflect on whether it's becoming more difficult to be a central banker when political commentary is becoming more and more influential and more unpredictable, and specifically whether you think it's right for politicians to criticise other governments' currency policies?

Mark Carney: Well, let me see how I can get out of that. I think they - what I'd say is that, in many respects we're coming to the last seconds of central bankers' 15 minutes of fame, to use the, you know the Warhol line, which is a good thing. Because we're moving more - I talked, in this forecast and my opening comments – I mentioned fiscal policy a couple of times, for the UK a notable increase to growth because of the Autumn Statement and our judgement in other economies' rotation to fiscal policy. That's positive; it's a more balanced policy mix. Also, structural policy is becoming more important, trade policy - clearly important here and elsewhere.

And that, just in general, is a much better balance than - to use the over used phrase - than the only game in town being central banks and monetary policy. So this is positive; so I'm not going to quibble about specific comments at specific times in what is a you know, a generally positive direction of travel.

And you know, as members of the MPC - Ben, Minouche and my other responsibilities - you know our job is to take other policies as given and then optimise around those, or respond to those policies. And that's what we'll do, whether it's UK policy or the policy of our major trading partners.

Larry Elliott, The Guardian: I'd like to ask you a question about the labour market and your view of the labour market, where you seem to have accepted that the analysis by the former MPC member, Professor Blanchflower, is more accurate than your own have been in the last few years.

But just as a way of asking this question, is it really plausible that - with the labour market pretty tight, some indication that there's been a fall in the number of migrant workers coming to the UK, some evidence of skill shortages - that people in the UK are not going to try and bid up the price of their labour as their living standards start to be eroded in the course of the next couple of years? Isn't it more likely that they're going to try and push up wages as they are in the US?

Mark Carney: Well, it's certainly possible, and the question is whether that's the most likely scenario. And I'll say a couple of things and then pass to Ben in terms of what specifically we - how we made our judgements on the labour market side.

But we have been looking quite hard at the wage puzzle in the UK, and we have examined a series of candidate explanations which helped explain part of it, but never the whole. So the composition of the labour force was one element; the impact of inflation expectations on wage rounds was another element.

But even controlling for these factors we still had big, so called wage residuals. And I'll put a number on it. If you took any of our wage forecasts in 2015, the four wage forecasts for 2016 wage growth, they overestimated by 1% to 1.5%. So these are big, you know these are big differences, and that's part of how we got to the judgement.

In terms of where wage pressure is - and there's a variety of surveys on that - I mean, we feel pretty comfortable as a central expectation. The one piece of information I'll give you on the other side just to balance it, and I wouldn't overweight this, but it is referenced in the Report, which is that our Agent surveys of wage settlements suggested a pretty marked deceleration of wage settlements this year - so going broad brush, from 3% to about 2%.

Now I wouldn’t overweight that because that's only a subset of the market. It has been a pretty good indicator in the past, but of course every time something is a good indicator in the past and you mention it at one of these press conferences, it's by definition no longer relevant. So we'll stop doing that survey from now on.

But no, we are picking up, we're not picking up a lot of that yet. And so I think the point - and then I'll pass to Ben on the specifics - but the point that we were trying to make in the MPS and I made in the opening statement, is that we will be looking quite closely at what happens to regular pay. Because we've made this big judgement, and if a world transpires like you're suggesting, that will have implications for the stance of - that could well have implications for - the stance of policy. So it's right to spend time on it. So how did we get there, Ben?

Ben Broadbent: I don't think I've got much more to add. I mean the Governor is right; the main piece of evidence is the relatively subdued rate of wage growth over a number of years. I mean - we talked about this as a Committee as long ago as four or five years ago. We mentioned specifically the possibility of a lower equilibrium rate a year or so ago, and again last May. And now that we do these regular annual assessments of supply, we had the opportunity to look at it more in depth.

You're right that, I mean the main piece of evidence that would suggest risk to that view in the direction you indicate is the level of vacancies. There's a chart showing those. We think now, having done quite a lot of work in this, that that piece of evidence is mitigated somewhat - I won't go into the technicalities as to why - by certain demographic changes in the labour force, including gradual increase in average educational attainment. But the main reason is the lower level of wage growth than we'd forecast.

Specifically, with reference to your point you made about rising inflation and the response to that, that's clearly a risk, although this is a slightly different situation from one in which the inflation is domestically generated.

If you've got a rise in prices, the benefit of which goes to British firms, then they can afford to pay higher wages. The difference in this case, as indeed it was in 2009, is that it's import prices that are going up and the benefit of that doesn't go to British firms. And indeed if you look at the survey of the Agents to which the Governor referred, they do cite that as one of the factors, that firms say - well, we simply can't afford to compensate everybody for the rise in import prices.

Now there are risks around this, and that is why we flag it as one of our key judgements. You know, there was a range of views on the Committee about how low this number should be, and it's a pretty important judgement. And, you know, I think there are risks on both sides. So we will be watching pay growth, notably regular pay growth - the underlying rate of pay growth - quite closely over coming months. We do expect a little bit of an acceleration, I should say, we do expect wage growth to rise, but not by that much.

Ben Chu, The Independent: Governor, you've conceded that the main reason, the dominant reason why the Bank's forecasts last August were wrong was because the Bank did not foresee that consumers would carry on spending the way they did after the Brexit vote. How worried are you about the Bank's misjudgement about consumer psychology in that way? Do you think that this means you should have a fundamental revisit of the Bank's models? Most people, after getting a big call like that wrong, would naturally be pretty nervous about the next call they had to make, so how nervous are you?

Mark Carney: I'm not. No, look, I think the - last summer we were in pretty exceptional circumstances. A big decision had been taken; we did not yet have a clear course for how to implement that decision from the Government, the Government was just being formed.

You had a sharp, a sharp fall in business and consumer confidence, on any survey, on any measure. And it was - and you had a sharp fall in financial market measures as well. So unidirectional view of - at least near term where the, in terms of survey measures - there were people who had different views - but if you had any sort of aggregate measure, whether it was GFK surveys, whether it was CIPS surveys, whether it was asset prices, said the same thing.

And so the question - and on top of that an understanding that there would be a period of adjustment that necessarily would happen and that that in and of itself was likely to weigh a bit on demand as businesses had to hesitate in terms of investment, something we're seeing, and it would have - could have knock-on effects.

So the judgement of the Committee, which has a remit for exactly such exceptional circumstance literally written into the remit, that we should think about balancing the trade-off - took the judgement, which in retrospect we think is correct, because we've just confirmed the policy stance - even after having very welcome news in terms of the strength of the consumer and improved global economy, a fiscal response from the Government, we still have the same policy stance. So it's hard to then sit here and say - well we shouldn't have done that.

And in fact, by doing it and, you know, I'm not going to overstate the case, but there is a case that we helped support the economy during an important time. And very importantly given the way monetary policy transmits through to the economy, we will help support the economy as the squeeze starts to come in, this squeeze on real incomes starts to come in this year and next year.

And during a period, where arguably the degree of relative uncertainty about the ultimate outcome is elevated, because it will be in the middle of negotiations, and so businesses may be hesitating - we're seeing some evidence of that. We talk to the business; it's entirely understandable. So we provided that support for that period of time.

And we can always adjust policy from this position. But we would be adjusting policy from a position of strength, a position where the economy has grown, a position where more people are in work, a position where people are getting paid more. And that is a far, far better place to be.

And the last point here, which is I think very important to stress, is that we are going to go - we're just starting this period, we think this month will be the month where inflation comes back to target, gets back to 2%. Now it will only be there briefly because it's going to go above target. It is going above target because the exchange rate has fallen 18%. And the predominant reason why the exchange rate has fallen 18%, is because we are going through this process of leaving the European Union. That is the market's judgement at present of the appropriate level of the exchange rate, given that process.

Now the market will constantly revise its judgement and you know, in all likelihood - well I shouldn't predict, but certainly circumstances where better arrangements struck with Europe, better arrangements struck with other countries, the adjustment process moves forward, the exchange rate adjusts up, that's certainly reasonable. That's part of how that tension between where the consumer is and the market is can be resolved.

But given that judgement of the market, given the real change that - fundamental change that is in prospect, we took a decision to help support the necessary adjustment during that. And it's still valid today because we've just confirmed that appropriateness of the stance. Now we've laid up potential conditions around how we might, if we had to change, what would be particularly informative for that.

Ben Broadbent: I want to add one thing about the forecast for last year. I mean, you know, unfortunately we didn’t need only the experience of the second half of last year to tell us that forecasting is a hazardous business when you've done it as long as we have.

I would make a distinction, however, between - just because you raised the question of models - between economic models, which we use for forecasting over the medium term, and the stuff we use for more short term forecasting which is very different. It's based on these survey measures because they generally have a reasonable correlation with subsequent moves and output. Those fell extremely steeply in July - as steeply, if not more so - than anything we saw in the financial crisis. That was overwhelmingly the reason for the downgrade in growth we made, and indeed other forecasters, almost all other forecasters I think, made a more aggressive downgrade. We were amongst the very few not to forecast a contraction in GDP in the third quarter of last year. We aimed off; as it turns out we didn't aim off by enough.

Now in the forecast - and we thought well, if we were to get this severe weakening, how would it happen? And we therefore said - you know, you fit the bits of demand into it. But we don't use economic models to forecast in the very near term and nor do any forecasters. Now as it turns out very happily, those surveys bounced back and looking backwards, it looks like consumer spending, strong consumer spending growth was the thing that most surprised us relative to that August forecast. But we do them in a slightly different way and they were extremely volatile.

And we take a look at the forecast as you know regularly, at the forecast performance, and I think we're doing another - our annual assessment in May, at which point we probably will look again at all the statistical evidence regarding the links between the survey indicators and output.

Szu Chan, The Telegraph: Just a follow up on your comments on consumer debt. You said that this is not a debt fuelled consumer expansion, you outlined the reasons why, unsecured credit growth, the annual pace has slowed. But on the other hand, one of your scenarios is that consumers continue to buy things on credit. You said at a recent FPC hearing that it would be a big call for the FPC to tweak policy beyond ensuring the core system is resilient. What would that big call involve and is this ultimately a question for the FPC and not the MPC?

Mark Carney: Well, I think from a first order - yes, it is an FPC or a PRA call. I think the first stance is to ensure whether it’s mortgage underwriting or commercial real estate underwriting or underwriting of consumer credit, that the standards are appropriate. And if they had been appropriate that they’re maintained; there's not that slide from responsible to reckless. And that’s something that the PRA regularly reviews and from time to time can do thematic reviews of such issues.

From an FPC perspective, as you know, it’s on a longer time horizon when you start to - if that first point is satisfied and you’re confident that the financial institutions are adequately capitalised against these risks - both because of capital and because of underwriting standards - then the question becomes are you growing - is the economy growing a bigger and bigger group of people who are heavily indebted that will face real trouble when the interest rate cycle turns? And as a consequence of that, amplify the business cycle, so beyond the monetary policy cycle.

It becomes an issue for the MPC really only - well not only, but as part of a variety of indicators and drivers or supports to broader consumer behaviour, as part of broader aggregate demand, relative to supply, relative to inflation. So it’s - I mean, of course we care about it, but it starts earlier up the chain, and I would suggest that at this stage that it is more of an issue for the PRA or the FPC than it is for the MPC.

There have been a number of questions quite rightly about household spending, the track of spending relative to savings, the risk both on the upside and the downside to that. We've been seeing upside behaviour since August - Ben's question. One can also anticipate that it could go the other way, which is why we're flagging this as a very key judgement.

David Smith, Sunday Times: Governor, you've talked quite a lot about labour market slack. I just wanted to ask you about another measure of slack which is spare capacity within firms. Three months ago you thought there was substantial spare capacity within business; now you think there's very little. Normally if firms don't have much spare capacity, they would invest and invest quite a lot and clearly, for the reasons you've said, you don't expect that. So what are the consequences of very little spare capacity within business and weak investment over the next three years?

Mark Carney: Yes, it's a good point. And in part that explains part of - sorry, a slightly technical start to the answer which is that's part of the explanation of the revision to our productivity forecast, which is the productivity benefit of using up that spare capacity is not there with the judgement.

It is quite a weak or modest investment forecast here, particularly given that investment has been - as I said at the start - has been flat since the end of 2015. And it's based on our read of the surveys, it's based on our conversations with businesses across a range of industries and it's based on what is, we think, a reasonable judgement, which is that during a period of uncertainty that - what we're finding, David, and be interested in what you're seeing, but what we're finding is that, in general, projects that are either in train, had been green lighted before if we use that term are proceeding, including those that rely on a high degree of access to the European Union.

But new projects, things that are still on the drawing board, things that are coming up to the boardroom, if they have a component that relies heavily on access - whether it's up the chain in the supply chain or down the chain in terms of people buying the product or the service - are being deferred.

I mean, that's understandable. And whereas for businesses that are outside, don't have exposure to Europe, have exposure to the rest of the world, have the benefit of the lower level of sterling, have access to credit and labour, they're unaffected by this. In fact, they're quite bullish. So you get a pretty mixed picture. All of that, on balance, leads to this lower track for investment than we would have seen a year ago.

But all of it, on balance, is in an economy that - at least with our latest forecast - that's growing 1.6%, 1.7% over the course of the next two years. So it's significant but I wouldn't overstate it. And if there's clarity towards the end of that time horizon about access, there could be some significant pent-up investment demand to put it on the other side, and certainly businesses are ready to adjust when they know what they're adjusting to.

Scott Hamilton, Bloomberg News: Governor, you mentioned earlier about market expectations for interest rates have risen since November, in fact they've risen quite markedly. These forecasts are based on markets pricing in a full 25 basis point interest rate rise by early 2019, and in fact they've risen even further since then, now pricing in a rate hike by the end of 2018. Do you think that market pricing is appropriate, especially considering that implies an interest rate rise just months ahead of Brexit? Could the Bank of England really raise rates just months ahead of Brexit?

Mark Carney: I'll make the general point which is that we will calibrate policy appropriately regardless of the timetable. Obviously, we take into account major events, but I'm not going to comment on the specific day-to-day moves of the market.

But I will make the general observation, as the Committee has, that this forecast is conditioned, as you said, on a market curve that has a gently rising rate of interest rates and that there are two-sided risks around that.

So when we talk about scenarios with consumer borrowing - or sorry consumer spending - or that there may be less labour market slack or that exchange rate pass-through doesn't come through exactly as we expect and we realise the upside risks, then you know, it's possible that policy would be tighter than that path. Now that's not a promise and it's not a prediction, it's not guidance on it, but the Committee will take the decisions it needs to do. And what it's tried to do consistently, in advance of the referendum and in subsequent forecasts and today, is to flag as much as possible the key drivers and the way it is thinking about the trade-off it has to strike.

So as much as possible we're trying to give you, the market and the British people, the information they need to judge what we would do if the economy performs better and there's more inflationary pressures or if the converse happens.

Eric Albert, Le Monde: I just wanted to come back to something you said in front of the Treasury Select Committee a couple of weeks ago, that there are greater financial stability risks on the Continent in the short term for the transition compared to risks in the UK. Now I mean, there is no doubt that there are a lot of EU corporations getting financing in the City here, but big banks have said they would be moving jobs - UBS, HSBC. Therefore that finance will be where the clients need them. That would tend to show that, if finance does move, that the financial stability risk for the EU is not that big and indeed maybe it might be bigger for the UK than for the rest of the EU.

Mark Carney: I totally disagree with your logic. The core of this activity to which you referred - and let's take derivative markets, the front end of derivative markets not the back end, not the clearing - is highly complex, highly interrelated and needs to be intensively and continuously supervised. And the ability to pick that up and move it to another jurisdiction, people, capital, models, collateral, that is a very, very complicated exercise, there is huge operational risk involved in that, there's huge financial risk involved in that. It's not something you do overnight.

When we have an individual institution, and more of this business is concentrated in London than anywhere else in the world. In fact, 40% of the business is concentrated in London globally - not European, globally. Three quarters of European business here, but 40% globally. So when we have an institution, major global institution who reorganises itself and has to move people, capital and trading books, collateral into the UK arm, in order to do it right, it can take up to four years for one institution. We're talking about moving the whole activity in extreme scenarios.

Now the one thing I know is the capacity is here, the collateral is here, the people are here, the capital is here, the expertise is here, the supervisory ability is here, the clearing is here. So the one jurisdiction that is going to have capacity is the UK. What we need to do as regulators, as authorities, is - within whatever is agreed - is to try to smooth whatever transition needs to happen. But it shouldn't be underestimated how to do this. And if it is done conveniently with workarounds, then one's taking black box risk in the jurisdiction that accepts the workaround.

Harry Daniels, Live Squawk News: Good afternoon, Governor. Just going back to the global picture, E3 baseline is for continued easing this year, while the third baseline is pricing three heights throughout the course of this year. How does this complicate policy outlook for the Bank of England? How do you weigh each of those diverging policy regimes?

Mark Carney: Well, Harry, that I mean - those potential policy paths are incorporated in asset prices and market prices and they fold into our forecast. Let me give you one example of this.

I said at the outset, and we say in the Report, that one of the reasons why we marked up global growth is because of an anticipated fiscal stimulus in the United States, okay. Now the Trump administration, the President has been very clear about the broad directions of that, but the specifics will take time and so we've done our best to make an estimate of that. On our estimate of that fiscal stimulus, the market path doesn't fully offset that fiscal stimulus, so it's net fiscal - market path sorry for interest rates doesn't fully offset, for US interest rates doesn't fully offset. So we take that into account.

It then affects demand for UK exports; it affects the pressures on inflation here, and ultimately feeds into the policy determination. So that's one example of how we would take it into account, but in effect we take it as given and use market judgements on that and optimise around it.

Jason Douglas, Wall Street Journal: Could I just ask you to say a bit more on the global outlook as well please, particularly around its fragility? We have, as you mentioned, a US administration that's talking on the one hand about fiscal stimulus but also about more protectionist measures. We also of course this year have pretty high stakes elections in Europe. Given that the stronger growth sort of underpins your forecast for the UK, how fragile do you think it is and what are the consequences for the policy trade off that you describe? Thank you.

Mark Carney: Are you okay, Jason? You've got a bit of a cold; okay just want to make sure [laughs].

In terms of - well let's take the first part of your question because it slightly links with Harry's, which is that - for our forecast, as I say, we have marked up global growth. And in fact, if you dig into it, the bit of global growth that matters most for the UK has been marked up more significantly than global growth.

So just to give you broad numbers, I think it's 2% - UK weighted global growth grew at 2% last year and it's about 2.4% by the end of this year and subsequent years. So that's a pretty - that's significant and that's part of the reason why better world in our view for the forecast contributes about more than a quarter of the increase in this forecast.

And importantly in that is US fiscal which I mentioned, but also what has been an improvement in sentiment thus far in the United States and a business sentiment, and also financial conditions. So we're taking some of that on board in our forecast.

We do have a downside skew to our global growth forecasts in year two and three, and they relate to some of the fragilities you mention. So we've taken up the most likely scenario but we see downside risk.

And not ascribing to any particular country or policy, but there are risks around de-globalisation that exist in terms of big changes to market access, whether it's capital market access or access for goods and services. And there are risks around - there are risks in emerging markets; we have long flagged some of the risks around China and domestic developments there, and how they could spill over if things didn't go as well as hoped, how they could spill over globally.

And there is a bit of an intersection, as you can appreciate, between some of those de-globalisation risks and the China risk. So that's how we've taken that aspect on board.

Jenny Scott: That's about all we've got time for.

Mark Carney: Okay. So as some of you would know this is Minouche's last press conference as Deputy Governor for Markets and Banking and it's noted in the Minutes, but just on behalf of the Committee, the MPC and all colleagues at the Bank of England, we want to thank Minouche for her service to the Bank and to the people of the United Kingdom. I mean from time on the MPC, but really for making what was a new position, establishing it firmly and getting all the benefits across markets, banking and international to make this a more effective institution.

And I can highlight many things but compliment particularly work that had a higher profile, which is a fair and effective markets review which has catalysed a series of reforms here, and in work which would have a lower profile, but is equally important around how we're managing risk management for our balance sheet at the Bank, which as you many of you know is pretty big, and the reforms to RTGS, which is the large value payments system, which she's also received. So on behalf of all of us - thank you, Minouche, and thank all of you for your attention.

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