



Treasury Committee

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David Roberts
Chair of Court
Bank of England
via email

13 June 2023

Dear David

Bank of England forecasting and the Independent Evaluation Office (IEO)

In his recent evidence to the Committee, Huw Pill, Chief Economist of the Bank of England, told us that:

We recognise that our forecasts of inflation have been too low and we are trying to understand why we have made those errors, interpret those errors in terms of the behaviour and then make an assessment as to whether that behaviour will continue into the future. Models are essentially taking averages of behaviour in the past.¹

This was part of a discussion reflecting concerns around the ability of the Bank to forecast inflation. I acknowledge it currently does so in the face of a number of historically large shocks to the economy, but this only increases the importance of ensuring that the forecasts are produced transparently and using the best possible practice.

Given the importance of the inflation forecast as part of the MPC's processes and communications, I therefore write to ask you to consider commissioning the Bank's Independent Evaluation Office to undertake urgent work assessing the current effectiveness of the Bank's forecasting platform. The work should also look at the transparency of the forecasting process and whether external challenge is sufficiently enabled.

Should you commission such a review, I would welcome the inclusion of external input to the process, much as there was in the previous IEO review of the Bank's forecasting in 2015.² In commissioning such a review, the Court would be meeting its statutory duty to keep under review the Bank's performance in relation to its objectives.

In line with our usual practice, this letter, and your reply, may be published by the Committee.

I am copying this letter to the Governor and the Chief Economist.

With best wishes,

Harriett Baldwin MP
Chair of the Treasury Committee

¹ <https://committees.parliament.uk/oralevidence/13216/pdf/>, Q813

² <https://www.bankofengland.co.uk/independent-evaluation-office/forecasting-evaluation-november-2015>