Monetary Policy Report Press Conference

Thursday 5 November 2020

Helia Ebrahimi, Channel 4: You've done more QE than market expected. Is this primarily designed to help the government keep borrowing and then secondly a lot of the debate about COVID has been framed in the term 'health versus wealth' but your colleagues in the IMF have certainly encouraged government to move quickly and more severely with measures to do national lockdowns, saying that in fact overall this is more helpful to the economy. Do you agree with that argument?

Andrew Bailey: Yes. So, let me take both parts of those. We do not, you know, essentially set a level of quantitative easing and asset purchases to in any way related to what the government is going to borrow. It is related, as I said in my introductory remarks, to the inflation target and, of course, to the secondary in a sense objective that we have that subject to meeting the target obviously we are concerned to support activity and the well-being of people and the economy. That's what we're aiming at. Now, obviously when it comes onto your second question it is very important that, yes, we collectively use all of the policy tools available and that policy is well-coordinated and I was very pleased that the IMF said last week that the fiscal and monetary policy were well-coordinated in this country but that is subject to the fact that it doesn't, you know, in no sense does it compromise our independence. It's perfectly possible to have coordinated policy and obviously be very, very cognisant of the importance of the independence of the Bank of England and what it does. So, leading onto your health versus wealth question. Obviously, look, to be clear, we take no view on-, we're not experts on what the approach should be on health measures, on national lockdowns. We talk to the experts and we gain a lot from talking to them. What I would say looking at it from the point of view of economic policy, and it really comes back to what I just said, I think it is very important that we take prompt, strong and coordinated action.

I think that has served us well this year in an extraordinarily difficult situation and, you know, I'm afraid we're all obviously too well aware that that extraordinarily difficult situation is continuing, it's by no means over and it is appropriate therefore to take the action that we've announced today in view of the evolution, and particularly obviously the evolution of COVID itself and the necessary reaction to that from a public health point of view.

Joel Hills, ITV: Can I just ask about the number of people you expect to be furloughed? You're saying 5.5 million people are likely to end up in JRS or JSS in November. Are you suggesting that these are jobs that would otherwise be lost?

Andrew Bailey: No. You can't, we don't make that counterfactual assumption about what would be the alternative but obviously we've made an assumption about the take up of the scheme and obviously we've done that now that it's been extended. Ben, did you want to come in on that?

Ben Broadbent: Sure, yes. Thanks, Governor. Andrew is right that we don't make counterfactual forecasts that you can read across. That number will certainly include a large number of people that otherwise would have been made unemployed but it could also include people that firms would otherwise retain, you know, because we know that the downturns tend to hoard labour for a while and some of those furloughed might otherwise have gone into that group. I don't think you can simply read across from one number to some counterfactual forecast. Our forecast requirement-, sorry, we've got a lot of noise on the line. Our forecast for unemployment beyond March, of course, did not include-, sorry, beyond April did not include the scheme and those are purely a reflection of developments in activity and in employment activity. Thanks.

Ben Chu, Independent: Governor, you've said in the past that bond buying asset purchasing is most effective in times of financial crisis when banks can go big and go fast. We don't seem to be in a period of market turmoil at the moment. Is this £150 billion of extra QE intended to head off that possibility at all? Could you just talk a bit more about how you see it helping the economy at the moment, please?

Andrew Bailey: Yes, sure. I mean, just to put into context what you rightly quoted me as saying, the context of that really was, of course, that QE spans several channels through which it can operate and in the context as we had earlier, the sheer loss of liquidity of the financial crisis, there are probably more channels operating than in a-, I mean, in a sense I hesitate to use the word 'normal' but in a situation without a financial crisis and the point we made, and this was in the virtual Jackson Hole remarks I made was that, you know, therefore QE is to a degree state contingent but it doesn't mean that it has no effect at all when there has been no financial crisis because it clearly does have several effects. It does influence obviously the shape of the yield curve and the cost of borrowing, and that's a primary effect and it does also have a quantitative effect in providing liquid assets into the economy via bank balance sheets and via reserves held at the Bank of England. All of those things operate in any situation so in no way should you take the message that QE is in some sense not operating outside of financial crisis. The point being that I made earlier this year was that there is at least one other channel that operates during a financial crisis and, you know, from the very limited number of case studies we have, the points I also made in the Jackson Hole remarks, there's some evidence to suggest that it is more powerful during a financial crisis than not but that's very much the context for that remark and the situation we're in today.

Phil Aldrick, The Times: Morning, Governor. I just wanted to check a couple of things. I'm just wondering about the headroom that the bank have got left because a speech that Sir Dave gave a couple of weeks ago suggests that if you work through the math’s it looked like on a static basis there was only about £250 billion of QE headroom under your self-imposed limits. Also, with regard to a lot of independent economists are saying that fiscal policy is going to be the active tool nowadays, so really is this very much a marginal bit of help? You know, you need the government to do the heavy lifting.

Andrew Bailey: Well, thanks Phil. I think there's two questions in there, there's a fiscal monetary question and there's a QE headroom question there. On the question of headrooms, Phil, two important things you said, one is you did say of course on a static basis and the other was that the headroom policy is self-imposed. On the static point that's important because the headroom calculations do adjust obviously to the number of assets that are in the market essentially and they have adjusted a lot this year. So, you know, I've said a number of times it was, sort of, comments that both Mark Carney and I made and that is what seems like now prehistoric, pre-COVID age, that headroom will have obviously changed a lot during the course of this year. So, the headroom count, as you said, the headroom calculation does adjust and has adjusted, and that's helpful and it's helpful that it's adjusted this year in ways that have allowed us to operate within it but still do, you know, very extensive asset purchases. As you said, it is self-imposed, we could review it, there's more than one part to it, but we haven't had to but I would emphasise the points, and I'll hand over to Dave then, that obviously, you know, if you go back to earlier this year when Mark Carney and I were both making comments about the scope and headroom, and the policy environment has evolved a huge amount this year and that does indicate-, and, of course, that evolution is obviously in many ways endogenous to the situation we're in.

So, you know, that does suggest that you can do a static headroom calculation but it isn't that significant in terms of the way the thing evolves but Dave, who I hope is on the line now.

Dave Ramsden: Yes, just really to reiterate what you've said. I mean, through this year thinking about headroom has evolved really significantly. At the beginning of the year you and Mark were setting out your thinking, of course we followed that soon after by doing our biggest ever programme at by far our fastest ever pace, £13.5 billion a week. I mean, at the moment we're buying at £4.5 billion a week. We've set out what we envisage as a committee for how the programme is starting in January could develop through next year. We'll set out the details in December in a market notice but I think the key point to leave Phil with is, as we stress in the minutes, the committee is keeping the asset purchase programme under review. In terms of those, kind of, self-imposed technical parameter to the programme, you know, we stand ready to re-evaluate those if we think we need to but throughout this we're confident that we have the headroom to do what we need to do to meet our remit.

Andy Verity, BBC: Hi, morning. Forgive me if this is an overly simplified question but inevitably you will be asked back at base how you're going to classify it. Are we in the middle of a double dip recession? I know there's not officially forecast two quarters of GDP but let's not mince words. Are we in the middle of a double dip recession and also how long do you now expect it to take for the economy to recover to pre-COVID levels?

Andrew Bailey: Right, so, I mean, in a sense, as you say, no we're not in the middle of a double dip recession in the sense of the forecast does not have two consecutive quarters of negative growth in it, however I think what probably your audience wants to know is, 'Yes, but,' and the point I'd emphasise is this. You know, we've got a -2% fourth quarter number, obviously reflecting the fact that obviously we've got the national-, or the England-wide, sorry, I should say lockdown measure. Now, that may not sound that dramatic given the numbers that we've been obviously experiencing during the course of this year but let's put that into context. The level of economic activity across the country as a whole at the end of the third quarter, so at the end of September, on our best estimate was about 9% below what it was at the end of last year, so that's a, sort of, pre-COVID wind, if you like. So, you've got to add to that Q4 number, the fact that we start 9% down because that 9% hasn't come back. We've had quite a rapid recovery over the summer but we're still 9% below and in history 9% is a huge number. So, you know, I hope that helps Andy but I would put it into that context. I mean, yes, we're still, you know, we're still a long way short of obviously where we were pre-COVID, even if as we think because of the pattern of activity we won't necessarily have a technical double dip because of the pattern of quarterly activity.

Andy Verity, BBC: Yes but can I just add one? Given how severe a contraction we saw in the second quarter of the year, 2% looks like a very, very modest estimate of the level of contraction we might see in the fourth quarter.

Andrew Bailey: Well, a couple of things there. Sorry to just repeat but, you know, remember we're 9% down at the start, as it were, because there's 9% of activity in the economy that hasn't yet come back so you've got to, sort of, in a sense take that 9% and add it onto the 2% to get the measure for the overall effect. Secondly, and I'll let Ben come in, it is actually, of course, it's a shorter lockdown and unlike earlier this year the state of policy is that the construction and manufacturing sectors will go on operating during it, so there are differences. Ben, would you like to come in?

Ben Broadbent: I think those are important differences that with Q2 we start from a lower position already, the lockdown is shorter and it is different and not only on the output side, construction and manufacturing are expected to continue but schools remain open as well and that makes a difference, I think, to the numbers of people who can actually work.

Dave Ramsden: Another way of thinking of it is that I think back in August we were thinking that Q4 would see something like a rise of 4% of GDP and now we're seeing a fall of 2%, so that's a very significant change in the trajectory.

Paul Kelso, Sky: Governor, a quick word on the furlough scheme which previously you suggested might have run its course as a blanket measure and it ought to be more targeted. We've had a, sort of, one month extension now in England. Do you think the time has come for the chancellor to extend that perhaps to the spring when we might see the virus or assume the virus will contract a little?

Andrew Bailey: Well, that's a question of the chancellor really. So, I'm only going to say one thing in terms of context because you made a remark about history, or recent history. I mean, one of the things we've learnt, in many ways very sadly but we have learnt it is that COVID moves extremely quickly and not always very predictably and so in terms of what I would call the overall policy making response, because I'm not commenting on fiscal policy here. Overall policy response, you know, we've all had to respond quickly and I hope, you know, quite fleet afoot as it were in terms of our responses because we're dealing with something that moves so quickly and not, as I say, at times not predictably at all. So, you know, when people do say to me, and you rightly said to me, it's a fair point, you know, 'Well, what were you saying a few months ago? What were other people saying a few months ago?' Well, it looked like it was evolving differently. I mean, in many ways we went through a national lockdown in phase one, we moved towards a more sectoral effect over the summer where it, sort of, goes back to the 9% number I was just giving to Andy when he was asking his question because that really reflected those sectors that weren't coming back, particularly because of distancing type effects. Then we went to a period where we had both a sectoral effect and a local/regional, more of a geographical effect coming in. Now we've got a more national effect.

So, you know, COVID is a really fast-moving thing and we've had to adapt and respond very quickly to it. I'm not commenting on fiscal policy, it's not my job to do that but I would just make a comment about COVID in the overall public policy context.

Paul Kelso, Sky: Can I just follow up? To extend on your point about not wanting to set a policy. Would you give a comment on what you see as the value to general confidence for both consumers and businesses that's given by in this case the blanket extension that we've had at least for the next month?

Andrew Bailey: Well, again, I'm not going to comment on fiscal policy. It's not my job and it's important that we do in a sense respect that but I will in a public policy sense, again. You know, the Bank of England and let me put it back into the context of our policy response and responsibilities, as I've said before, we are here to do everything we can to support the people of this country and we will do it. I mean, we'll do it and we'll do it quickly and we'll do it on a scale where we think it's appropriate.

Larry Elliott, The Guardian: Good morning, Governor. Just two questions, if I can. One is about risks. You say in the report that the risks have skewed to the downside, which is clearly true. I mean, are there any upside risks to this forecast, even though you have to scratch your head perhaps to find any? And the second thing is, there doesn't seem to be any mention here of the possibility of negative rates. Is that because there's no immediate prospect for negative rates because the MPC is so divided on it, or, where do we stand with that?

Andrew Bailey: No, of course, I'll take the negative rate question. I think Ben may want to come in on the risk points. On negative rates, we haven't said anything more today in this report because we've set out the work we're doing. You know, we're very clear on that. You know, we set out in the August Monetary Policy Report our evaluation, particularly of the experience of those other central banks that have used negative rates, and how we thought that could read across. From that we concluded that it was sensible to regard negative rates as a tool that is in the box, as it were, but as I've said quite a few times it would be a cardinal sin for us to say we've got a tool in the box which we actually knew we didn't know how to use or didn't actually know with confidence that it couldn't be used in terms of its effectiveness, and that's why we've set off the work on the operational issues around the use of negative rates. That work is ongoing, particularly with banks and other relevant financial institutions, because, just to give you the obvious example, it would be a real sin if we said, 'Yes, let's implement a negative rate,' and then found that there were many IT systems in the transmission mechanism where people said, 'Well, if you put a negative rate into that system it will just blow up in terms of calculations.' I mean, that would be more than unfortunate. So, we've got to do that work. That work is ongoing. I'm not going to put a timeline on it because as you can probably take from what I've said that, sort of, devil's in the detail with that stuff. Committee is not divided on the importance of doing that work, it's actually very unanimous on the importance of doing that work, and, so, that's what we're doing. So, there's nothing further to report on that. Ben, do you want to talk about risks?

Ben Broadbent: Sure. I mean, as a general comment not precisely, but obviously our central forecast is in a place where we think, by definition, there are risks on both sides. Maybe I could point out something which is clearer and more dramatic in other advanced economies, which is not just the speed of the pandemic but the speed of the response of the economy in both directions. And as I say, these numbers are starker in the euro area and the US, but back in the spring when we did our scenario that entailed a prediction that in the third quarter activity in the US and the euro area would still be around 18% lower than they were at the end of last year. The outturns are both around 4% below, and that's because we had hugely rapid bounce backs in the third quarter as containment measures were lifted. Now, as Alex said earlier the figure for the UK is nine, we think, in Q3, which is below that, but even that was quite a lot higher than we were forecasting in the spring. So, it's possible, indeed quite likely I think, that were the pandemic and containment measures to fade, and remember that we do assume lockdown is eased on the 2nd of December as far as its economic effects are concerned, and we also assume that over the course of 2021 health measures and treatments gradually improve. I think stronger growth next year is a reasonable prediction, and of course there are risks on both sides of that. And I'd finally end with that although the risk, we think, are to the downside on output, we think they're evenly balanced on inflation. Thanks.

Lucy White, Daily Mail: I just wondered, had a couple of questions. On unemployment and, sort of, the predictions for next year, you talk about restrictions being lifted at the end of Q1. You mentioned that there's still uncertainty going on from that, but do you think that post-Q1 there's going to be some sort of vaccine? Does that play into your forecast? And, if not, looking at how we've seen the past few months play out do you think that that could be slightly over-optimistic?

Lucy White, Daily Mail: It was just, if banks were to reinstate dividends, obviously in conversation with the PRA, and they were to also, at the same time, instate charges for basic banking services as we've seen some of the banks suggest would that be a concern to you?

Andrew Bailey: Oh, right, okay. So, on the first question, on the health and vaccine question, just to be clear, what we set out in the report is that we've essentially stuck to the position that we adopted in the August reports, but obviously modified that in the very short-term because of the path of COVID itself. We don’t make any assumptions about a particular point in time when there's going to be a, sort of, breakthrough in COVID treatment. We, honestly, cannot. Experts in that, and more than that, actually, we do talk to the experts quite a lot and we don't get the sense that there is any point in time when you can really with confidence say that. So, what we've assumed once again is essentially a gradual path of lifting of the, sort of, in a sense the health concerns and the health impact over the duration of the forecast once we get, as you said, beyond this point really up to in the next couple of quarters, so, we've stuck to that approach. On dividends, let me say a couple of things. Firstly, on the dividend policy itself, it's worth just giving a bit of context for earlier this year. Obviously COVID hit quite suddenly, and it hit quite suddenly in, you know, March, really, I mean, sort of, late February, going into March. That, of course, was interesting timing because it was just at the point when the banks were finalising their dividend payments for the previous year. Now, I should say that in all stress tests that we have done in the years since we've really been stress testing, since the financial crisis, we don't allow banks to take many so-called 'management actions' to offset the effects of the stress test, the impact, but one we do allow them to take, where they have a variable dividend policy, is to vary dividends i.e. to stop paying them.

Now, you know, this year we found ourselves in a stress. So, it was appropriate that that was the action taken. But obviously it had to be done very quickly, and it had to be applied to a period in the past where the dividends were almost, sort of, done as it were, so, I think it was necessary that we stepped in with a very clear view from outside as to what we thought should happen. I want to get back to, obviously, a situation where we don't have to do that, and the banks, obviously, as they want to do, set dividends themselves, bearing in mind the objective of financial stability and bearing in mind the framework that we use for the stress test, and that must be the right place to get back to. On the question, then, of the trade-off, as you put it, you know, 'What is?' There is then a separate, if you like, but coincidental move towards charging customers. I'm not going to make any prediction as to where that evolves. But I think, you know, again, as businesses, I would expect banks to take sensible decisions on that front, but they will then be scrutinised by both the PRA as a prudential supervisor and the FCA as a conduct supervisor.

Chris Giles, Financial Times: Thank you very much, good morning. I just want to ask a question, if I could, about the calibration of 150 billion of additional QE. Could you say both of the primary objective and your secondary objective why you chose 150 not 100, 200, or zero? How much more inflation would it have created had you done more, or less if you'd done less, and how much would have activity been lower had you done nothing?

Andrew Bailey: Well, I'm sure Ben will want to come in on this as well. As we said earlier, we don't produce counterfactual forecasts, so, we don't have a forecast of, 'What would it be like if we did nothing?' We do spend obviously spend a lot of time looking at the impact of the policy change on the forecast and you can see that in the fan chart obviously. And we do spend quite a lot of time thinking not only about what you might call the economic forecast in its literal sense but also in the terms of the more optimal policy profile that we can take, i.e. what is the best way to respond and how does that factor into the forecast. And I would add that, that is, I think led us to see the benefits of acting more rapidly and in scale at times in response to very high uncertainty. And we certainly applied that framework for thinking about the right choice of amount of QE to do, and as you can see from the profile we've got 150 does bring inflation pretty much back to target over the course of the forecast. And you can probably work out that if you do more or less, what else, you get. But it's through two lenses. It's through what I might call a strict economy lens and then through an optimal policy lens. Ben, do you want to come in on that?

Ben Broadbent: No, not much more to add. I mean, you'll see, Chris, that the forecast conditioned on the set of asset prices that prevailed at the time we did it reaches the target with balanced risks after a couple of years. Now, what's tricky about this, those asset prices might well, in fact probably did, embody the expectation of more QE. The other complication is that there's no fixed multiplier. Our estimate of that has changed over time and according to economic conditions, so, as Andrew explained earlier this year, we think it's probably higher relative to a counterfactual where you did nothing in situations where financial markets are in distress and liquidity demand is high. But certainly what the committee was conscious on, I think, was the risk that were nothing to be done those monetary conditions embodied in these asset prices might tighten. And, as I say, it would be sensible to maintain them at a level where we thought with balance risks we could return inflation and sustainability target.

Dave Ramsden: Really just to amplify the final point that Ben made because it comes back to this emphasis that we've made throughout on the downside risk to the forecast, and, I mean, it's kind of amplifying your point, Andrew, as well. Risk management considerations do suggest that in these kind of circumstances where there is a lot of uncertainty you have got those risks on the downside. So, announcing now a package leading through the whole of last year will guard against that risk that Ben highlighted that's what already going to be an unavoidable slowdown in near-term activity wouldn't be amplified by a tightening in monetary and financial conditions. So, I think that’s, if you like, a further consideration.

Andrew Bailey: It's an interesting point, Chris, a really interesting point you raise, because it is something of a turnaround from the more traditional, you know, approach towards uncertainty. The more so-called Brainard approach, which tends to emphasise being cautious in response to uncertainty. Do a bit and then see how it works, and then do another bit if you need to, and I think there's been quite a change, and not just by us, but other central banks as well in terms of how we think about this in the particular context we're in.

Russell Lynch, The Telegraph: Just a couple of things. You obviously said that negative rates, the work is going on, but your forecasts have inflation hitting the target today but they're also based on market assumptions of interest rates or the base rate turning slightly negative. Is that a tacit endorsement of the market position? And also your unemployment forecast, 7.75, it's gone upwards but it's still below quite a lot of other forecasters. Are you being slightly too optimistic on the jobless front?

Andrew Bailey: Well, I'll start off but I think Ben and Dave may want to come in on these as well. I mean, first of all, the market conditioning assumption obviously is an assumption we make and we don’t vary that assumption from forecast to forecast. I mean, you know, I think you're rightly pointing to it, I think you can deduce from that that the market puts a certain probability in the future on a negative rate grade, by the shape of the curve. We don't read anything into that and it doesn't imply anything about our intentions but we do use that market curve to condition the forecast. On unemployment, I mean, and others will come in, I would simply caution that, I think as we've said quite a lot of times already, I'm not surprised that forecasts have different unemployment numbers and then for what reason. I mean, obviously they can be different because of the view you take about the future. The other reason that they can be challenging and quite different is that it is of course pretty hard at the moment to read what exactly unemployment is, and our forecast of unemployment obviously is what we think it's going to be in the future. But, and no criticism of the ONS at all here, actually it is very hard at the moment to read what unemployment is. So, you have to start by working out what you think it is today and then project that forward, so, it's probably not surprising that it introduces something of a greater degree of variability. Ben and Dave, do you want to come in on this?

Ben Broadbent: Only quickly on the first to remind people that the forecast is conditional on a whole host of asset prices, some of which could if the interest rates change, so, one has to be careful about interpreting precisely a link between the yield curve and the forecast. On the second, I mean, Andrew's right, there's huge uncertainty around these numbers. As I said earlier, our forecast beyond April are constructed quite carefully by not just the aggregate path for GDP but the sectoral path, and we assume that the relationships between output and employment hold beyond the end of the schemes. So, they are, we think, consistent with those output forecast, but if you look at the unemployment fan you'll see how unusually wide it is, so, we certainly accept there's a great deal of uncertainty about these forecasts.

Brian Swint, Bloomberg: I've got two questions. You talked earlier about the headroom for more QE and that you need to have all the tools possible in the toolbox that you can. What's the next step after QE? And I'm assuming it’s not really negative rates if you're still working on whether it's even feasible. You could talk more about other tools that you have in the toolbox and what order you might use them in. And secondly, if I could, it appears the details of today's decision appeared early in The Sun newspaper. Are you going to be investigating that?

Andrew Bailey: Well, I'll take them in reverse order so let's take that one first. Obviously I don't like seeing speculation what we're going to do appearing, and, yes, we will look into it. What I will say, look, we reorganised the timing this morning, as we've said, in the light of the fact that the Chancellor was making a statement on the economy later this morning around the time that we would have been doing this. And we did that, I have to be honest with you, in good part because of all of you, because it makes no sense for the two of us to be making statements at the same time. You would not be impressed with us if we did that one. I realised that by moving it at short notice, by the way, the parliamentary timetable is what it is, there's not a lot of choice, I think, on parliamentary timetables. By moving it at short notice it would inevitably set off speculation about why, even if the reason was actually just pretty pragmatic, and therefore we moved the timing to seven o'clock to have it before market opening because that is the right thing in my view today. Unfortunately, I can well imagine it was going to set off speculation just in and of itself, so, the right thing to do was to put it before seven o'clock. Let's go back to the tools question. Now, I think to start with it's very important that we do not have a fixed schedule of tools in mind. You know, we don't have a fixed order in the box to pull them out in. It would be very state contingent, and, you know, so, we don't make any predictions about which tools we're going to use because it would depend upon the situation. Yes, if I could just offer a broader reflection, I mean, that's an area in which monetary policy has changed, of course, because if you go back in time the decision was very much one around the setting of one tool, i.e. interest rates.

There is now a greater degree of decision making because you're not just setting the calibration of a tool but also choose amongst tools, and the environment that we're in now, and we have been in that environment for quite a while. The second thing, I'm going to hand over to Ben on this, can I also make the point that, of course, yes, we're using QE. We're also using forward guidance, as you'll have seen and as I said in my opening remarks, so, I might just get Ben to say a little bit about how the guidance fits in as well.

Ben Broadbent: Sure, Andrew. Yes, and I think this matters and we felt it was an important complement to the decision on asset purchases. We had already indicated in August that we would need to see clear evidence that a remit was likely to be met. Specifically that we're well on the way to closing the output gap and helping inflation return sustainably to target. We would need to see clear evidence of that before we would even begin to think about withdrawing any of the easing. And to that, we added today a point to say that were there to be any serious reversal in those prospects and specifically if the outlook for inflation worsened that we would add to that easing. And I think, as I say, that's an important complement to the decision on asset purchases itself. We are determined to ensure that monetary and financial conditions are such that we meet our remit and then inflation returns to target. So, we have employed those two tools, if I can put it that way, and we always look and have been looking, as you know, quite intensely this year at a variety of other options. Thanks.

Bill Schomberg, Thomson Reuters: Yes, hi, Governor. On Brexit I've noticed a change of language, or addition of some language, really, about the risks that even with a deal there could be an impact on the economy, something you mentioned earlier. Can you just talk us through a little bit how the MPC is viewing Brexit, you know, the end of transition on December the 31st and your concerns about that.

Bill Schomberg, Thomson Reuters: Is that better? Sorry, apologies, my phone. I'm not very good at it. Two months away from Brexit left. You seem to be giving a bit more detailed commentary about how you view the risks. I know you talked about this in your introductory comments but could you just talk us through a little bit about how the MPC is looking at Brexit, which is now so close and no deal, and even if there is a deal it might not be that good a deal.

Andrew Bailey: Yes. So, our standard and stated approach is to condition our forecast on government policy where there is government policy. We regard government policy as being to have a trade agreement, and, indeed, we observe that that process and those negotiations are continuing so it seems to us to be appropriate to continue to condition the forecast on that stated government intent and government policy. Now, you're right that we have then got to set out the question in any trade agreements, since any trade agreement involves ceasing to be a member of the Customs Union and ceasing to be a member of the Single Market, what will be the effects of implementing that trade agreement, and let me just say a few things on that. We have assumed an adjustment period, and as I said in my opening markets, that adjustment period is assumed to last over two quarters and, basically, the adjustment is gradual over those two quarters, so, it's more at the beginning than it is at the end in terms of the adjustment effect. We've used a lot of information from all sources we can lay our hands on including our own regional agents to try and get a feel for preparations and the state of preparedness. I would just observe on that that the information we get back suggests that on the whole larger firms are more prepared or say they're more prepared than smaller firms. We've assumed overall that around 70% firms are prepared, and 30% would have quite a lot more to do. That's, I say, sort of, distilling all the bits of evidence we've managed to get our hands on. I'll make one observation on that. A lot of firms actually say, when you ask them, 'Well, we're as ready as we can be.' Now, obviously that begs the question, 'What's your assumption on 'can be'?' So, we've had to, again, look through that.

The last thing I'd say is this. It is a symmetric, of course, because the UK has said that it will only really apply the full, sort of, weight of new regulations and new processes after the evolution of two quarters, and that will smooth the adjustment process. The European Union has not done that, and so we've not assumed they will do that. Obviously, you know, if there is a trade agreement and there is a degree of good will around that trade agreement, I hope there is, then obviously I think the more that can be done to smooth in the adjustment process on both sides the better for everybody, and by everybody I mean both the UK and the European Union. So, you know, that's a variable, we haven't made any assumption about that, but the more that can be done through a process of good will the better all round.

Harry Robertson, City AM: Great. So, obviously with this forecast you've downgraded your view for part of the UK economy and say that it's going to take longer to bounce back. So, would you say that there's now more scarring on the economy? And we hear that term 'scarring' a lot but, I mean, could you just put it in layman's terms what that means for households and individuals? Okay.

Andrew Bailey: Yes, no, we haven't changed our assumptions. We haven't, in a sense, because of the different short-run profile of COVID used that to change particularly our assumption about long-run scarring. What I would say to you, bit of an advert, if you like, for a moment. There is a section in the Monetary Policy Report on these more structural issues where we start to set out our views on it. You can accuse of saying, 'I would say this, wouldn't I?', but it's a very interesting read actually, and it's about, kind of, you know, the different angles on structural change. So, you know, how things are made, how we all work, how we buy things and the structural effects of that. The one observation I'd make, because a number of people have said to me, 'Well, the Bank of England's assumption on so-called scarring on structural change is quite low relative to some other assumptions.' Now, you know, look, there's a huge amount of uncertainty around this. One point I would make in terms of saying, 'Well, why have you taken that view?', and it's in the report, we've done quite a bit of looking at history. And history doesn't repeat itself, but it can be helpful. Some of the bigger numbers you get in the past for scarring, particularly if you look at the 1980s and '90s, and you think about what was going on then, you had a process by which you had structural change in the economy which was driving a change between sectors. So, you had a move from manufacturing to services, you had the decline of traditional heavy industries, you had the decline of things like coal mining, and with that went a lot of capital scrapping because the capital wasn't reusable easily, and a lot of dislocation of labour and a bigger requirement for reskilling and retraining of labour.

I think our starting point is that we would expect the structural trades this time to be more within sectors, so, once it's within services, let's say. And prima facie you might think that would actually cause a relatively lower cost relative to history. Now, that's all hugely uncertain. So, it's a very important and fascinating question, we've laid out some of our thinking to date, but there's a long way to go on this one.