MONETARY POLICY REPORT PRESS CONFERENCE

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Opening Remarks by Andrew Bailey, Governor

Hello, this is Andrew Bailey.

Welcome to this presentation of the Bank's November *Monetary Policy Report*.

Over the past three months since our August report, Covid-19 and the actions to contain it have continued to have a dramatic and rapidly changing impact on the UK and countries around the world.

Global activity fell sharply during the first half of 2020, reflecting the impact of the pandemic and the social distancing needed to contain its spread. As Covid cases fell, global activity recovered materially in Q3 from low levels. Recently, however, the number of cases has accelerated again in many countries, including the UK.

The outlook remains unusually uncertain. It depends on the evolution of the pandemic and measures taken to protect public health around the world, as well as the nature of, and transition to, the new trading arrangements between the European Union and the United Kingdom. It also depends on the responses of households, businesses and financial markets to these developments.

The MPC's projections assume that developments related to Covid will weigh on spending in the near term, although to a lesser extent than earlier in the year. UK GDP is projected to fall by around 2% in Q4. That is a considerably smaller fall than we saw in Q2. However that must be seen within the context of a level of GDP which is already around 9% lower than the start of the year.

The forecast incorporates UK restrictions announced up to and including 31 October. That includes the heightened England-wide measures in place over the period up to 2 December, as well as the measures announced in Scotland, Wales and Northern Ireland.

Clearly, there is a high degree of uncertainty about the future path of restrictions. We assume that subsequently, for the UK as a whole, the average level of restrictions that was prevailing in mid-October takes effect, and remains in place until the end of 2021 Q1.

Beyond 2021 Q1, restrictions are assumed to be loosened further. Covid continues to affect the economy through heightened health concerns and uncertainty about the outlook. But, over time, those concerns and uncertainty are assumed to wane gradually.

As a result, over the forecast period, the direct effects of the pandemic on the economy are assumed to fade and spending recovers. Nonetheless, through its effects on household and business spending, the pandemic has a persistent indirect impact on the economy.

UK activity in the first half of 2021 is also likely to be affected by lower trade, as firms adjust to the UK and EU's new trading relationship.

Consistent with government policy, the MPC's central projections assume that, on 1 January 2021, the UK leaves the EU's Single Market and Customs Union and there is an immediate move to a free trade agreement between the UK and the EU. As in previous *Reports*, that is assumed to be of a similar scale and depth to the Comprehensive Economic and Trade Agreement in place between Canada and the EU.

As in previous MPC forecasts, over time, we judge trade in both goods and services is likely to be lower as a result. In line with empirical evidence, this reduction in trade with the EU is expected to weigh on productivity and GDP over the forecast period.

Recent evidence from the Bank's Agents and a range of business surveys and intelligence suggests that while some businesses feel prepared for the change in trading arrangements, others – particularly smaller firms – do not feel fully ready, with Covid having hampered some preparations.

Therefore in the central case in our November projections, adjustment by businesses to the new arrangements is assumed to lead to a further, temporary, effect on trade in the near term. These additional effects on trade are assumed to be temporary and to unwind over the course of six months, as businesses adjust.

The recovery in activity over the forecast horizon is also supported by substantial fiscal and monetary policy actions. The recovery takes time, however, and the risks around the projection are judged to be skewed to the downside.

In the MPC's central projection, GDP does not exceed its level in 2019 Q4 until 2022 Q1. As a result, unemployment is elevated, and is projected to peak at around 7¾% in 2021 Q2, before declining gradually over the forecast period as GDP picks up.

Turning to the outlook for inflation.

The fall in activity over 2020 has reflected a decline in both demand and supply. Overall, there is judged to be a material amount of spare capacity in the economy. Spare capacity is eroded as activity picks up and a small degree of excess demand is projected to emerge by the second half of the forecast period.

CPI inflation is currently below the MPC's 2% target, largely reflecting the direct and indirect effects of Covid-19 on the economy. These include the temporary impact of lower energy prices and the cut in VAT, as well as some downward pressure from spare capacity. As these effects wane, inflation rises. In the central projection, inflation is projected to be 2% in two years' time. As evidenced by the width of the inflation fan charts, however, there remains considerable uncertainty about the balance of demand and supply, and so the path of inflation.

Reflecting the downside news to the committee's projections for GDP growth and inflation – and the continued uncertainty and downside risks – at its meeting ending yesterday, the MPC judged that a further easing of monetary policy was warranted. The Committee agreed to increase the target stock of purchased UK government bonds by an additional £150 billion in order to meet the inflation target in the medium term. That programme is expected to be completed, and the total stock of government bond purchases to reach £875 billion by around the end of 2021.

We judged that an additional £150bn of asset purchases over this period was appropriate, to ensure monetary conditions remain consistent with returning inflation sustainably to the 2% target. As was evidenced in March, we believe there is value in acting quickly and strongly to support the economy and avoid the risks of any short term disruption. This is an approach which was also endorsed by the IMF in their recent Article IV visit. Setting out a programme of purchases through to around the end of next year, should also help bridge us through to a time when we – we all – hope we will have more certainty on the health and economic outlook.

Clearly, however, one thing we have learnt about this period, is that the situation can change quickly and dramatically.

So the MPC will continue to monitor the situation closely. If the outlook inflation weakens, the Committee stands ready to take whatever additional action is necessary to achieve its remit. The Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.