Monetary Policy Report Press Conference

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Joumanna Bercetche, CNBC: Great. So a question on the policy sequencing that you announced today. Many people see this potential reduction in reserves in the future as a substitute for rate hikes, in other words that the bank is essentially saying that there's going to be some resistance to hiking beyond zero point five percent. Can you flesh out your thinking on that, please, and specifically on how you see rate hikes working alongside the balance sheet reduction? And then in a similar vein, because it's also the same subject, why have you lowered the rate to zero point five percent? Because that also seems to be very prescriptive, and not that far away from where the base rate is right now. Thank you.

Andrew Bailey: Well, I'm sure Ben and David will want to come in on this, but let me start by just repeating something I said in my opening remarks, that we see interest rate movements, bank rate movements, as the primary active tool of monetary policy. Now, actually, in fact, nothing has really changed on that front, but I think it's very important because your question is obviously apposite to that, to re-emphasise that point. So just to push back on the suggestion that we're using this reduction on the balance sheet as a substitute for what might be viewed as an unpopular use of interest rates. Not at all. We view interest rates as the active tool. However, we also think it's appropriate to have, in a sense, a predictable path for managing the stock of reserves, and for reducing the size of the balance sheet. And the reason that we've emphasised, sort of, in a sense, the first port of call in this policy as being the, if you like, put it on autopilot, no re-investment approach, is that that is a gradual and entirely predicable path. You know, it'll be perfectly easy to work out what the path of no re-investment is, because we're transparent about what we hold and when it matures.

So that is, you know, just a restatement of the fact that interest rates will remain our primary tool. Nothing changes in that respect. In terms of the lowering to nought point five percent, I mean, that is important. But I think it's important to note that since the 2018 guidance was put in place, which put the one and a half percent in place-, I mean, a lot has obviously changed in that period of time, in terms of not only the economic experience we've had, but also obviously, you know, the view of monetary policy. And actually, particularly the view of the market curve. And I have to say to you, I mean, if we stuck with one and a half percent when you look at the market curve, that would be tantamount to saying that we would actually never reduce the Bank of England balance sheet, as things stand today.

And obviously, the market curve can change, but viewed from today, that would be consequence of saying that, and I don't think that's a very sensible approach. And the last thing I'll say is that, for me it's very important that we do use our tools counter-cyclically. And that one of the tools that we've had to use, and we expect we'll have to go on using from time to time in the face of shocks, is the use of asset purchases. Not least because we expect the overall conditions, if you like the equilibrium interest rates which we spend so much time

thinking about, to continue for the quite-, you know, quite well into the foreseeable future, to be one of very low, what's often called, R star, very low equilibrium interest rates. That puts more emphasis on having alternative tools, and I think it is therefore important that we use the opportunities to manage our balance sheet, to fit that use of counter-cyclical policy. I don't know if Dave or Ben wants to come in briefly on this.

Ben Broadbent: Just one thing, which is just, emphasise, you know, nought point five is the threshold for ending re-investment. It is not the threshold for active sales. We will consider active sales only once bank rate gets to one. So yes, the threshold for, quote, natural run-off has been lowered from one and a half to one half, but that's both a predicable process, as Andrew said, and also a very gradual one, because the gilt stock has relatively long maturity. The threshold for active sales, considering active sales, has been lowered by half that amount, from one and a half to one. And I just want to emphasise what Andrew said right at the beginning. We will continue to use bank rate as the active tool. That has been the approach, including when we set out the original guidance some years ago. Thanks.

Dave Ramsden: If I can come in just to reinforce the point about the benefit from a predictable and gradual path. As Andrew said, you know, we're entirely transparent about what we hold the market, you know, can absolutely see it coming. You know, for example with the gilt we have maturing this September. And if you look ahead beyond this year, as we set out in the box, we have 70 billion of gilts maturing in 2022 and 2023, and another 130 billion in 2024 and 2025. So you know, that illustrates the maturity profile for that threshold, that Ben and Andrew have emphasised, the half a percent threshold. And we think that that provides, you know, very useful, very clear, comprehensible, well-understood context, then, for the role of bank rates as the active tool in most circumstances. And then as Ben has emphasised, there's a further threshold we'll consider for active sales, but that's not-, the half percent threshold is a more automatic one, although obviously it would depend on economic circumstances at the time. Stop there.

Chris Giles, Financial Times: Thank you very much. Hello governor, I hope you can hear me. Just one quick question of clarification, then a substantive question. The clarification is, where you haven't been entirely transparent is on what the word 'some' means, in the minutes. In the past, we've always taken the word 'some' as in, the number of members who thought the conditions for talking about raising rates or tightening policies has been met. We've always taken that to mean two or three. Can you clarify, can you confirm that's the case? And then the substantive question is, to what extent do you think that the bank now understands the inflation process, given the very large forecasting error that you've made in the past two reports?

Andrew Bailey: Well thanks, Chris. Let me start with the substantive question. When you say understands the inflation process, I think it's worth just giving a little bit of evolution here. Obviously, we've evolved since May, but as you may remember when we issued the June minutes of the monetary policy committee, we were by that stage expecting inflation to peak at over three percent, just over three percent. We've now seen further news since that, so

let's put that into context. I think, if we look at the underlying drivers of this, the news that we've had-, remember that we've had, for some time, inflation returning, you know, back to target. And a good part of-, a very substantial part of that is, what we tend to call, sort of, so-called base effects. Because if we go back to, you know, a year ago, I mean the best example is obviously oil prices, which were extremely low at this point last year. I think in your sense of the inflation process, what has been news is the growing number of supply bottlenecks that we've seen, some of which as I say were evident to us, certainly in June and some were evident in May. And some of which are, frankly, new, because we are seeing them across quite a range of markets. We've also seen, obviously, upward pressure in global markets on commodity prices.

So, you know, that is news. And the final thing I would say is, and I think this is very much news, and it's why I emphasised-, I'm being quite unsubtle here, it's why I emphasised it in my opening remarks, is that I think since June we've also seen more evidence of an increase in the stock of vacancies in the labour market. And that's why I put the emphasis on the importance of the re-flow of labour into the market. So you know, there is a substantial amount of news there. It's not one story, of course, but you can put it under the umbrella, it seems to me, that you know, the recovery is bumpy. Now, it's not altogether surprising. I mean, we've emphasised on quite a few occasions in the past that, you know, what is unusual about this experience, the Covid period, is that there's been a hit to both supply and demand.

I think everybody's vision of just how those hits to supply and demand have taken effect has evolved over the last year. I don't think we should be at all, frankly, you know, backward in saying that we've learned a lot over the last year about this shock. And that has, you know, caused our view of the inflation process to evolve. Now, you raised the point about the minutes. Just to be clear, this is paragraphs 52 and 53, when you talk about some members and other members. There were two views, and I summarised this rather briefly in my introductory remarks, over whether the guidance was met or whether the guidance was not yet met. But also, you know, when those who thought the guidance was met, whether, you know, that was a necessary but not sufficient condition of taking action on monetary policy. And of course, that depends on the forecast. The forecast is not the only input to this, because we don't set monetary policy mechanically from a forecast, but it's an important part of the picture. And the view of those members, I would summarise is-, who think the guidance is met because of, you know, the way both inflation and activity have evolved is that they have, but judging that we have a forecast that returns inflation to target, and that the hump in inflation is temporary, that that test of necessary but not sufficient remains appropriate.

But, as we emphasised, and the minutes say, because the next paragraph says, having had that sort of exchange of views, all members-, and I use the words from the minutes here, I use the words from the beginning of paragraph 54 of the minutes. All members, if you like, sort of came together again in terms of their view on the appropriate stance of monetary policy and what it should be. So, I would emphasise that this is not a difference of voting. It's not a difference of fundamental views on the stance of monetary policy. It's a difference of

interpretation of the current situation, and that's why we think it's appropriate to use the language that we did in the minutes. Thanks.

Larry Elliot, The Guardian: Hello, governor. A couple of things. If you look at the bank's forecast for the recovery from this downturn compared to 2008/9, it's much quicker. There's no real scarring, and the unemployment peak is much lower. And I wondered, how much of that you put down to the nature of the shock and how much you put that down to the stance of policy, both monetary and fiscal. And just moving on from that, one thing that doesn't seem to be getting back to normal any time soon is monetary policy pre-financial crisis, where you're talking about having a continued stock of assets and very low levels of bank rate. I mean, what does the new normal look like in terms of monetary policy and how long does it take to get there?

Andrew Bailey: Well, let me start off, and then I'm sure Ben will want to come in. Dave might want to come in as well. I mean, I think first of all, there is, as you know Larry, quite a broad literature looking at history, which says that some of the worst recessions are those associated with financial crises. Now, of course, there isn't as big a body of literature that looks at recessions associated with pandemics, but the pronounced and somewhat, you know, elongated effects of financial crises have been studied, pretty extensively. And I think that was an important part of 08, 09. You know, there was a deeper problem, and of course it was a deeper problem of financial stability. I mean, I've said it before but I'll say it again, one of the very good stories of the last eighteen months is that we've not had a financial stability problem, either here or in other parts of the world. On the policy stance, I think it's right to say that policy tools, and I use those in the plural, by the way, I'm not just talking about the Bank of England and monetary policy. I'm going to say it in the plural, have been used, I think, more actively. I think it's too early, you know, to write the official histories of that, but I think that is true. On your third point about where we are, I think we come back to this point about R star and, you know, the structural causes of low interest rates. So, Ben, you may want to come in on this, I'm sure.

Ben Broadbent: Sure. Thanks, Andrew. Yes, just quickly to add to what Andrew said about the rapidity. I mean, this is something that's been a feature of our forecasts, if you want to call what we did last May a forecast. We described it as a scenario throughout this episode. Just as recessions after financial crises tend to be longer, and recoveries from them tend to be longer. So we did always think this would be relatively rapid. And policy support was an important part of that, particularly I would say, the furlough scheme. So the rapidity reflects two things, I think. One, the very rapid dynamics of the pandemic itself, where you know, waves are as steep on the downside as they are on the upside, and two, that there was support given to incomes via the furlough scheme in the interim. So that, sort of, cut off what are the normal propagation mechanisms that might otherwise have occurred and elongated the downturn. And so, what happened was that, as soon as the health situation improved, you simply took a cap off the economy, both last summer and then again this spring, and that allowed a very rapid bounce back.

So as I say, I think those are the reasons why, even relative to a normal recession and certainly compared to that after the financial crisis, this was always going to be more rapid. Then on the R star point, Andrew's absolutely right to emphasise that. It's very difficult, I have to say, given that R star clearly can change, and clearly has changed. And has been falling, I would argue, for up to 25, 30 years in this country. It's very difficult to say what, quote, normal means. If someone had told you 30 years ago, you know, what the average level of base rate was over the last ten years, they would have predicted much higher inflation than we've had, here and in other parts of the world. That's not occurred, and that's because quote, normal, what's necessary for interest rates over the period, has been much lower than in the past. So I wouldn't venture to say what, quote, normal means. There's undoubtedly a cyclical part of the easing we've done, and as we say in the report, it is likely that over the course of the forecast, some tightening may be needed. But that's going to be pretty modest, we expect. Thanks.

Lizzy Burden, Bloomberg: Hi governor, deputy governors. I want to ask, where is the new lower bound? Given you're going to start to unwind QE at nought point five percent, can we assume it's minus one percent? Thank you.

M: Well, I don't think it's really useful, actually to think about the lower bound as a single number. Either at any given time or across time. I don't think it's useful to think about it in those terms. So, as I said, one of the reasons that we have taken the decision that we can, you know-, essentially, that we would intend to start or to cease re-investment, and therefore to start to run off the stock of assets, stock of gilts, you know, when bank rate reaches nought point five percent, is really for me based on a couple of things. You're right to suggest, of course, that having negative rates in the toolbox gives us the option to, in a sense, enable and, in a sense, live with an effective lower bound that is negative. But I think that would be very much dependent on the conditions of the time. Secondly, just to reiterate, when we say that we will start to reduce the stock of assets in that situation, I just want to be clear that that does not rule out that in the event that we then had a shock, a negative shock to the economy, subsequent to starting that process that we, a, wouldn't stop it, i.e. to stop the run off of assets, and, b, actually reverse, in terms of undertaking future quantitative easing. Those tools remain on the table. In the box, possibly should have been a better way of putting, giving the language we've always used.

David Milliken, Thomson Reuters: Hi, David here. Good afternoon, governors, deputy governors. Just a question, sort of, looking at your inflation forecasts. Looking, sort of, two years ahead, can see that, sort of, inflation is still forecast to be a little bit above two percent. And I wanted to see whether, sort of, the market should draw some conclusions from that, that maybe the Bank of England might need to tighten policy by somewhat more than was priced in, in the run up to this meeting?

Andrew Bailey: I'll hand over to Ben on that one. I think you do need to look quite carefully at the chart there. Ben.

Ben Broadbent: I don't think so. I think it's pretty much bang at target, and at three years, you'll notice, you know, it's a tiny fraction below. We don't use, you know, the inflation forecast to send strong signals, any signals really, to market. We've said what we think might be appropriate, but we're not committing to any particular policy path. You know, policy in the future will depend on the economy in future. It is the case that, if you look at the forecast, the medium term forecast, I would include the three years forecast in that description, it is fractionally above target, on the constant rate forecast, so if we weren't to change anything, and fractionally below it on the market curve. But I mean, these are small differences, and I don't think we intend to send any very strong signal there.

Russell Lynch, The Telegraph: Hello. I finally remembered to unmute. Is there a danger that the committee is getting a little bit complacent about inflation, given that some of the more recent surveys seem to be showing some signs of those second round effects, in terms of wage increases? And also, just simply in the wider context of potential changes in a post-Covid economy, which lend to more or speak to potentially more spending on goods as opposed to services? The sorts of points of that Michael Saunders has been making recently. Are you concerned about that?

Andrew Bailey: Well, I could certainly say to you that complacent isn't an appropriate word if you had had the benefit, or possibly you wouldn't regard it as a benefit, of the number of hours we've spent talking about this as a committee, which is entirely appropriate, by the way. I mean, I think you raise a good point because obviously, and I refer back to again the remarks I made at the beginning, there are risks. By the way, there are risks both ways on this, and I think there are risks both, you know, above and below. One of the risks, which you point to and you may have seen, you know, I dwelt on in my opening remarks quite deliberately, is the point about pressure on wages. As I said in remarks, you have to do an awful lot of, sort of, adjustment and picking through the numbers to try and get to what is a sort of underlying, truer sort of steady state earnings number. But when you get to that number, we think, you know, it's interesting that if anything, I think earnings through the Covid period have been stronger than we would have expected them to be. I think what's even more relevant is, as I said, the situation we're in now.

Where there's clear evidence of, you know, labour market shortages, vacancies are now high. Vacancies are at a high level. And you know, as I said in the opening remarks, I talk to a lot of businesses around the country, and I can tell you that in the last, you know, few months, the consistent message I get back is obviously the difficulty of hiring. So we are alert to that. We're very alert to that. You pointed, you know, interestingly, to post-Covid changes in the economy. I think it's too early to make any strong arguments on that, because we do expect that there will be, you know, a switch back from goods to services. We do think that one of the things that is, in a sense, pushing inflation up at the moment is that you've got an interaction of two things.

You've got these supply bottlenecks in goods, mostly. In goods markets. And that's interacting with a relatively unbalanced pattern of aggregate demand, which is weighted

towards goods rather than services, for the reasons we all know, because parts of the service sector are still either not operating or only just coming back into operation. Now, you know, we think as we've set out in the report, that those factors are most likely to be temporary. You know, I made a big point in my opening remarks which you probably-, you know, I'm sure you'll have noticed, which is, you know, there are people who frankly we need to see coming back into the labour market. There is rebalancing from goods to services that we need to see, and there's unblockages. We need to see, you know, the world shortage of semiconductor chips addressed. And we think there are signs, and Ben's talked, you know, picked up quite a lot of information on this. We think there are signs that that is happening. But I can assure you, and I come back to the point I made right at the end of my opening remarks, we're not complacent. If these things don't turn out like that, then there will be no question that we will have to act. I mean, Ben's got his hand up, Dave as well. Dave, do you want to come in first? You haven't been in for a bit, and then Ben.

Dave Ramsden: Thanks, Andrew. I just wanted to reinforce that point you just emphasised, around our vigilance. I mean, when you look at the financial market expectations for inflation, inflation compensation measures, and we set this out in chart three point one two of the monetary policy report, you can see that same pattern. That in the short term, you know, shorter term inflation expectation measures have picked up. You know, the one year ahead rate has picked up since May. But equally, longer term inflation expectations, you know, five year, five year forward for the UK has been much more stable since May. So when we were talking at this press conference back in May, we said that we would be looking very closely at these measures, particularly the medium term measures. Because it's looking to see if medium term expectations beyond the short term pressures are anchored. It would be those kind of movements that would give us, you know, real cause for concern. As it is, as you've emphasised Andrew, we see the risks around inflation as two-sided in the medium term. So yes there are-, you know, there is that risk of second round effects, but equally, there are some-, you know, there are disinflationary forces, that you could see inflation undershooting target rather than our central expectation that it will hit the target. I'll stop there.

Ben Broadbent: Just very quickly, I mean, this question of goods, remember, as a global one. Highly tradable, many of them, clearly all commodities, but things like semiconductors as well. We're a big net importer of those. So the question of rebalancing of demand back towards services is one you have to ask at the level of the global economy. For what it's worth, if you just look at the domestic numbers, and clearly we have a better handle on those and we have some quite high-frequency indicators, you do see a couple of charts on this. By the way on pages 23 and 24, you do see through the late spring and early summer in the UK, faster growth. I mean, I don't think this is terribly surprising, but faster growth in those areas of the economy that were locked down and suffered more during the lock down than you do in others. So broadly speaking, services did outgrow goods. And if that continues to happen at a global level, that's-, you know, one half of the story will ease, I think. And the other half is the supply problems in some of these supply chains. And as Andrew suggested, we think we have some indications that those two are easing. Some of them are related to the pandemic, so you would expect them to ease as the pandemic itself recedes. So we've thought

very carefully about the nature of this shock, and why we expect it. The central expectation is that it's transitory, but you're right to pick up on the labour market because, you know, it's not only at the level of the global economy we see some of those strains. And you're right, also, to point out the risk of second round effects as well. So, you know, that is clearly something we're watching very closely.

Sebastian Walsh: Thanks, Ben. Phil Aldrick at the Times has a bit of a problem with his microphone, so I'm just going to read out his question. Would a nought point four percentage point increase in rates over three years be modest or less than modest? And was the decision to unwind QE only when rates hit nought point five percent a difficult decision for you, governor, given previous statements about needing to shrink the balance sheet to create fire power for a future crisis?

Andrew Bailey: I'm not sure there's a precise definition of the word modest in this context. That's a bit too precise, I think. Actually, I mean, you've also got to put that in the context of what Ben was saying about R star. You know, what is sort of small, medium and large in terms of movements of interest rates, of course this has to be conditioned by that judgement. I mean, we are just not seeing the same amplitude of fluctuation of rates that we saw sort of, you know, in history. Was it a difficult decision for me? Well, it's a decision of the committee. Let's be very clear. You know, we've thought about this a lot. I think it's an appropriate thing. And I do think, you know, and I think colleagues also take the same view, that we do have to-, and go back to what I was saying a few moments ago, actually. You know, we do have to pay attention to the size of the Bank of England's balance sheet, the size of reserves and thus assets, and our capacity to act in the future. Now, that's not a precise science. Let me be very clear, there's no precision in this. But it is something that I'm very conscious of, because you know, in this world, which we've been very clear on in the last year or so, where we have to have tools in the box, because we are now accepting the fact that things happen. You know, we are struck by shocks and struck shocks that we don't necessarily expect, even in the broader sense of what could happen. We've got to have tools in the box, and I think having a balance sheet that can be used in these contexts and in the future can do these things is important. So yes, I do look at that. And it was, certainly for me, in terms of my thinking, an important part of the approach to this question.

Lucy White, Daily Mail: Hi, governor. You mentioned in your opening remarks the, kind of, slowing of momentum in Q3. I know this is probably a hard thing to pinpoint, but how much of that do you think might be down to the pingdemic? And, you know, had it not been for the numbers of people being told to self-isolate, do you think that momentum may have continued, you know, sort of more into Q3 and possibly even into Q4?

Andrew Bailey: Well, I don't think we can be precise about these things. I would also say, of course, that it's not just the-, it's not the pingdemic, actually, even first and foremost. Of course, you know, we're having to live with the Delta variant. So, you know, we have had an upsurge in cases. And, of course, in a sense, that's what lies behind the so-called pingdemic. I would certainly say, is there a Covid element to this? Yes there is, to some degree. However,

just to emphasise here. What I would empathise though, is a very important point. Is that the evidence is quite strongly that the impact of Covid, the economic impact of Covid, has attenuated over time. So that the economic impact of Covid, you know, in recent months, certainly in the course of this calendar year, has been nothing like what we were talking about a year ago. But you know, has it contributed to this slight flattening? Yes, I think that is correct. Because when we look at the high frequency data, we see the evidence of this flattening going right through to things like mobility data, the sort of mobility data we can now get our hands on. And I think these things probably are related, yes. So there's an element of that story, yes. But, to be clear, we can't attribute causes in any precise, arithmetic way.

Eshe Nelson, New York Times: Hi, good afternoon. Onto a little bit more about the job mismatch, with how many vacancies are out there, and how long you expect this mismatch to last, and what that might mean for the policy path? You know, how crucial is resolving this to the future policy path? And then on the downside risks, the minutes say that the risks of GDP are skewed to the downside for the near term. What else is it? Is it that these risks are larger than before? Or is it simply that the forecast is a bit more optimistic in terms of unemployment not peaking much higher, GDP kind of staying consistent even though there is this Delta variant wave happening at the moment?

Andrew Bailey: Well, I'm sure Ben will want to come in on this, particularly under risks. Let me just say, on the labour market point, there are very good reasons to think that this will be resolved. The furlough scheme is obviously now winding down, it's going to come to an end in September and there are obviously very good-, we're optimistic that that's going to, you know, resolve some people returning to their jobs or being re-absorbed into other parts of the labour market where necessary. Secondly, I mentioned quite intentionally the quite notable increase in the number of people who have decided to continue for or to go into full-time education in this country. But actually when you look at history, that's not an unusual thing. That's actually quite common in recessions, that people make a choice. You know, people face the choice, do I go into the job market, do I stay in education for longer? They decide that in those sorts of economic conditions, it makes sense to stay in education longer and then come into the job market. Again, there's every reason to believe that they will come into the job market and that will be a process that will work, and therefore will help to address some of the issues we're seeing. But I would highlight, as I did in opening remarks that of course we do need to see this happen. And we are seeing, and businesses, you know, telling us very clearly, that we are at the moment seeing frictions in the labour market in terms of jobs being filled. Ben, did you want to come in on this, and on the downside risk point?

Ben Broadbent: Sure, just very quickly. I mean, the nature of those, in particular the risks around the end of the furlough scheme, notwithstanding what Andrew said about the likelihood that these people will be absorbed into employment, has been the same throughout. It has been that, you know, we're not entirely sure and there may be some up-side risk to a forecast for unemployment, which as you point out is materially lower than it was, certainly before the extension of the furlough scheme in the spring. The risks remain to the upside in

the near term. I don't think that in and of itself has any bearing on medium term risks around inflation or therefore on the policy stance. It's pretty much the same story we've had throughout. I should say, sorry, very quickly as well, that there may be something there, again, from the risk that-, you know, of another wave of the pandemic, which is always a possibility, even though it's smaller than it once was.

David Robinson, Market News: Hi. In the light of the recent Lords' report, should the deed of indemnity for the asset purchase facility be made public, and can you clearly state that reserve remuneration is legally a matter for the bank and not the treasury? I ask that because their lordships didn't seem to be convinced about the reassurances they were given.

Andrew Bailey: Well, I said at the House of Lords – the three of us were actually, the same three of us you've got before you today were before the House of Lords, so you've got the same group – and I was saying, on the deed of indemnity question, this is a question for the treasury. You know, the treasury are, if you like, the owners of the deed of indemnity so any decision to publish it is theirs. I did make the point to the House of Lords, I'll make it again, that I've read the deed of indemnity and I'll give you my own view of it. I don't think it contains anything that anybody would find surprising if you think about what should be in it. In terms of those point about remuneration of reserves, though, I think the key point here is this. We remunerate reserves at bank rates, at the rate the monetary policy committee sets, and that is an important part of what we tend to call the monetary transmission mechanism. So there is no reason why, frankly from the point of view of the efficacy of monetary policy, why we would want to vary that. So any decision-, and by the way, you know, this is a hypothetical question at this point. I want to emphasise very clearly that there's been no discussion of this and there's no intention of having a discussion about this, but you know, since the question gets raised by outside parties, I will address it. It seems to me that given the efficacy of monetary policy, and given our central banking and our monetary policy interest in remuneration reserves, any decision to vary that, which, you know, I'm going to use very blunt language here, would amount essentially a form of fiscal taxation being levied by varying it, is not one that we as a central bank would take. Because I have to ask you, why would we do that, given the monetary transmission mechanism? That's essentially what we said at the House of Lords. I've probably said it in a slightly blunter way today, but obviously the report, as you said, by the House of Lords has been published, so I'll just reiterate that point. There's no reason why a central Bank of England would do that.

Holly Williams, Press Association: Yes, thank you, good afternoon. I'd like to just go back to that, the topic of the Lords' committee report, if I may. They, the report said that they believed the BoE was addicted to quantitative easing, and warned it was being seen as a tool to finance government spending. I just wondered if you think the guidance you've given today on your approach to eventually unwinding QE, if you think that's enough to address those concerns?

Andrew Bailey: I'm going to be very clear on this. We have not adopted this and we have not published this statement today because of the House of Lords. It's the right thing to do. Be

very clear on that. Can I say, I'm afraid I'm going to be very blunt. First of all, I think the House of Lords should not use the word ‘addicted’. Frankly, you know, that is a word that has a very particular and very damaging meaning for many people who are suffering. I think it is wrong to use that word loosely, and you know, frankly I think it is a very poor choice of language. Secondly, I've got to say this again. Some witnesses said to them that, you know, there was monetary financing going on. I think all three of us have spoken on this subject in public over the last eighteen months. We've made the bank's position very clear, but let me say again. Quantitative easing operates by affecting the yield curve. It effectively keeps down, you know, the cost of borrowing, as you go up the yield curve, through the length of the yield curve. And it has worked well. It's worked well, and that has been very important in terms of the cost of borrowing for the companies in this country, and for individuals. And that is how it's worked. Now, you can't discriminate amongst borrowers. This is why I've said, and I've said it very transparently and I'll say it again, because I'm not going to hide this. Of course, if we adopt that policy, every borrower benefits from it, and by the way, every borrower includes the Government. We're not doing it for the Government, but you know, it's the yield curve. It's there and all borrowers are on the same yield curve, at the end of the day. So you know, it is quite wrong to attribute this motive. I'm afraid those who've appeared before the House of Lords and done that, you know, are quite wrong in what they are saying, and I find it regrettable, frankly, that the committee has chosen to believe it. And I'm afraid we can't agree with that, and we don't. Ben.

Ben Broadbent: Yes, just to say, I mean, arguably, you hear this quite often. The House of Lords committee didn't actually say they believed it. They say, sort of, slightly mysteriously, 'Well, other people believe it.' The measure of that that we most care about, that is the best measure and is the most important one, is the level of inflation expectations in markets, longer term that Dave was talking about earlier. If this was, quote, a widespread perception, and I don't believe for a moment that it is, that's where you'd see it. If people begin to doubt this framework, if they really thought that the monetary policy committee had adopted this policy for some other reason other than meeting its objectives and the inflation target, then you'd see those break evens widen significantly. And actually, they've been pretty stable. So judging it by that measure, which as I say, frankly is the most, by miles the most important measure, certainly the one we care about, that has not happened. Thanks.

Sebastian Walsh: Thanks, Ben. I was going to turn to Anna at the Independent, but she's having connectivity issues, so I'll read out her question as well. Is there a risk that the committee is overlooking Brexit import frictions and associated costs in the coming months as an inflationary force? There are a range of deadlines, she says, that are likely to make importance more costly in the autumn, and by the turn of the year.

Andrew Bailey: I think no is the answer to that. And think we, you know, spend a lot of time looking at, obviously, trade prices, import prices, and indeed world export prices. And there some very interesting questions in that field. What I would say at the moment, and I don't think this is a very radical thing to say at all, of course, is that trying to identify the impact of Brexit on trade prices versus the impact of Covid on trade prices is actually, you know, a-,

well, it's not just a hard thing to do, it's extremely hard. But what I would just emphasise is that that in no sense means that we're not focused on the question of import prices and world export prices. We are highly focused on it, because of the nature of the inflationary mechanism that we're experiencing. Just going back to the point I was making earlier, because, you know, quite a strong input into that inflation picture is global prices. Ben, did you want to say anything on import and export prices?

Ben Broadbent: No, except that you're right, Andrew. I mean, it basically is impossible to distinguish. We see one series for import prices and world export prices. My sense is, because you've seen various similar things in other countries, that what's dominated here are the, kind of, stories of global supply chains and shifts in demand that we talk about in the report. It may well be that there's some effect of trade frictions specific to the UK within that, but it's very difficult to say precisely what they are. I think they're likely to be much smaller than this, kind of, more general Covid-related global story we've been discussing.

Matei Rosca, Politico: Thank you. My question, again, relates to what was discussed in the Lords' report, regarding the potential impact on financial markets and financial stability, when unwinding QE. Apart from the Lords' report, there are other indications that markets might react negatively to unwinding. And in the report, the bank says the impact might be smaller than when making purchases. So I just wonder if you could elaborate a little bit on that.

Andrew Bailey: Well, yes, thanks, Matei. I think, really, I'm afraid I have to sort of restate what I said earlier, which is, you know, we think that by starting and emphasising not reinvesting, and doing that, as Dave was saying earlier, in a very transparent way, I mean Dave set out the numbers-, once we hit that point, when we start to do it, the market will very easily be able to work out, you know, what's going to happen and to discount that. And I think that is, you know, the way to address that question that the Lords raised. The other point, just to reiterate, is that, as I said, you know, we think QE, the impact of QE, is quite substantially state-contingent, in that it works better, but not exclusively by the way, in conditions of market dysfunction. Now, you know, we wouldn't start the process of not reinvesting if we were in the middle of a market crisis. That wouldn't be a very sensible thing to do. So, you know, on average, we expect that we would be taking the size of the balance sheet down in conditions of stability. Whereas we've used QE across a range of conditions, but we know that we've particularly used it at times when markets have undergone dysfunction. So that's, again, why I think, you know, the process of unwind, both in terms of how we would do it in terms of tools, but how we would do it in terms of the conditions that we would do it, would be different.

Ouida Taaffe, Financial World: Thanks you for letting me cram this one in. Could you talk a little bit about the impact of investing in getting to net zero, what that might mean for inflation? Thank you.

Andrew Bailey: Well, I mean, you can come at that in a number of ways. Interestingly, and this is something we're putting quite a lot of emphasis on and you'll have seen some of the things we've published in recent months, I would say that more work over the last, you know, five or ten years has been done, probably on the financial stability impacts of moving to net zero than on how it's going to work through macro-economies. I'm not saying about the Bank of England here, I'm saying, you know, globally. And so that's a particular point of emphasis at the moment. I mean, it will require investment. And I've said a number of times, that that will be both a challenge and an opportunity. But again, you know, it will affect the supply side of the economy, so we'll have to work through that. And then secondly, I mean, Dave may want to come in on this very briefly of course, we've also published, you know, our own thinking on our approach towards how we will manage our own corporate bond portfolio in that context.

Dave Ramsden: Just on that latter point, I mean, we stressed in the discussion paper that we put out back in the spring that, as the MPC, we would be absolutely focused on our remit to achieve low inflation, the two percent target. Within that, though, you know, we've actively been consulting through the discussion paper on how we might green the corporate bond purchase scheme. You know, the twenty billion of corporate bonds that we own. And, you know, we're coming up for a reinvestment period for that scheme from September onwards, so we'll be setting out more operational details on how we'll do that. But it is worth reiterating that that approach to, you know, greening that scheme to create the right incentives for the wider financial market, that twenty billion is very small in comparison to the holdings of gilts in the APF, you know, where the target stock is 875 billion. So that gives you a sense of the relativities. But in terms of the details of the corporate bonds schemes, you know, watch out for more details from us after the summer.