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 February *Monetary Policy Report*.

The outlook for the economy and inflation

Covid-19 and the actions to contain it have continued to have a dramatic and rapidly changing impact. Since the November *Report*, Covid vaccination programmes have begun in a number of countries, including the UK, which has improved the economic outlook. Nevertheless, recent activity has been affected by an increase in Covid cases, including from newly identified strains of the virus, and the associated re-imposition of restrictions.

The MPC's central forecast assumes that Covid-related restrictions and people's health concerns weigh on activity in the near term, but that the vaccination programme leads to those easing, such that GDP is projected to recover strongly from the second quarter of 2021, towards pre-Covid levels. Projected activity is also supported by the substantial fiscal and monetary policy actions already announced. Further out, the pace of GDP growth slows as the boost from those factors fades.

The UK and EU agreed a new trading relationship in December, which has applied since 1 January 2021. The main features of the agreement are similar to the assumptions made in the November Report. In its February forecasts, the MPC has also retained its assumption that trade and activity will be lower in the first half of 2021, as firms adjust to the new trading arrangements. These additional effects on trade are assumed to dissipate by the end of Q2.

Turning to spare capacity and inflation, the fall in activity over the past year has reflected a decline in both demand and supply. Overall, there is judged to be a material amount of spare capacity in the economy at present. This is eliminated as GDP picks up during 2021.

CPI inflation is currently below the MPC's 2% target, largely reflecting the direct and indirect effects of Covid. As temporary effects fade and the impact of spare capacity diminishes over 2021, inflation rises towards the target. In the central projection, and conditioned on the market path for interest rates, inflation is projected to be close to 2% over the rest of the forecast period.

Therefore, at this meeting, the Committee judged that the existing stance of monetary policy remains appropriate.

Operational readiness for a negative Bank Rate

Since the previous MPC meeting, the Committee had been briefed on the findings of the PRA's structured engagement with firms on the operational considerations around the possible implementation of a zero or negative Bank Rate.

The Prudential Regulation Committee had concluded that implementation of a negative Bank Rate over a shorter timeframe than six months would attract increased operational risks and so could adversely impact some firms' safety and soundness.

There were a range of views on how the MPC should respond to the findings of the PRA's engagement. The Committee was clear that it did not wish to send any signal that it intended to set a negative Bank Rate at some point in the future. But on balance, it concluded that it would be appropriate to start the preparations, in order to provide the capability to so implement a negative Bank Rate if necessary in the future. The MPC therefore agreed to request that the PRA should engage with firms to ensure they could be ready to implement a negative Bank Rate at any point after six months.

In addition, and against the backdrop of the recent significant expansion in the scale of the Asset Purchase Facility, the Committee also agreed to ask Bank staff to reconsider the previous guidance on the appropriate strategy for tightening monetary policy should that be required in the future.

I would like to stress again that neither of these requests, nor any subsequent supervisory actions by the PRA, should be interpreted as a signal about the future path of monetary policy.

Instead, these requests should be seen in the context of adapting the monetary toolkit, in a world of larger shocks and an environment of sustained lower interest rates globally. As a result the task of monetary policy has moved from being a choice (albeit not an easy one) on a single dimension (the official interest rate), to a more multi-dimensional choice which also involves decisions on which tools to use, and which tools to develop – have in the box – for possible future use should the need arise. It is important to be as transparent as possible on tools – as we are doing today. But also to be clear that these decisions are kept separate from signalling about the current or future path of policy setting – they are contingency planning.

Conclusion

To conclude, as set out in the Monetary Policy Report, the outlook for the economy remains unusually uncertain. It depends on the evolution of the pandemic, measures taken to protect public health, and how households, businesses and financial markets respond to these developments.

The MPC will continue to monitor the situation closely. If the outlook for 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.

Thank you.