Monetary Policy Report Press Conference

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Faisal Islam, BBC: Simply another figure in your report is some mortgage holders face a typical rise over a year or so of a few thousand pounds. When they're facing £3,000 energy bills, rising taxes too, how can you justify that they're going to be paying the price for this?

Andrew Bailey: Well, it's a very good question Faisal. I want to start by saying that we do understand the difficulties of the situation we're in and the difficulties that mortgage holders face. What I would say, I will say two things. First of all, if we don't take action to bring inflation down, it gets worse. I've said this before but I will say it again, you know, there is no easy outcome to this in that sense and that's important. The second thing I want to say and of course this applies to people who, you know, will be applying for mortgages or will be rolling over fixed rate mortgages. There's been a lot of commentary quite rightly about what has happened to the mortgage market in the last month or so, what's happened to rates and to availability of mortgages. My central view would be that what we have announced today, both in terms of the rate move, which was fully priced up to markets, and the message that you're seeing that we've given I think very clearly about our view on the market curve, is that therefore this action should not lead to higher mortgage rates. In fact actually I think, you know, there is a downside to mortgage rates and that's in terms of new fixed rate mortgages as we adjust, as we must do, and as markets are doing, from the experiences we've had in the last month or so. Now, I fully accept that is more comfort to some people that others and I want to get back to the point I made at the start which you rightly highlight, this is a difficult time.

Ed Conway, Sky News: Quite a lot has happened since the last time you sat here for one of these press conferences. We've had three prime ministers, three chancellors, more u-turns than anyone can care to count. Do you have a sense of how much lasting damage has been done to the economy in the last two months for households, for businesses, for everyone?

Andrew Bailey: Well, I think you have to, sort of, put a number of lenses on that. It's a very good question. So as we've observed, and I think the first chart showed it very well actually, I mean, there has been what I would call a UK premium on rates. If you look at how UK rates have moved since we were here at the beginning of August compared to the Euro area and compared to the US, which that chart did, you'll see they've all gone up but the UK clearly went up far more. And it went up during this period when there was of course, you know, considerable turmoil in the markets. Now, the first thing I would say and an important this is that we are seeing that unwind now. I mean, that is substantially unwound, we are substantially back to certainly where we were when we had our last meeting in September which was just before that, and that's obviously a good thing. Market liquidity, and I think Dave may want to come in, is not back to where we were. The third thing is, and I think this is an issue that we have to face up to, I was very acutely aware of it when we were in Washington recently, is that, you know, there has been a questioning of UK policy. I use UK policy broadly, it's not for me to talk about but I'm not going to talk about politics, I'm just going to talk about policy now, and that will have some lasting effects and we have to work very hard to put that in the past frankly. Do you want to say anything about market liquidity, Dave?

Dave Ramsden: All I would add is we have seen that round-tripping back to where rates were on the 22nd September. That was the day of our last monetary policy meeting, it was the day before the government's mini budget and so you've seen, you know, for example the two-year OIS-, sorry, two-year swap rate which is what two-year fixed rate mortgages are priced off, that was 4.5% on the 22nd September. It peaked at 6%. It's actually come back to slightly below 4.5% now, it's at 4.38% as of a few minutes ago. That obviously hasn't fed through into mortgage pricing yet, which was the point Andrew was just alluding to. But although we're seeing those round trips, whether there or in the ten-year bond yield, it's clear that markets remain febrile, there's liquidity across different parts of the market. So I think things have not settled down yet and that's obviously something that we're very focused on in terms of monitoring market conditions.

Joumanna Bercetche, CNBC: The Fed Chair Jerome Powell yesterday suggested that the bigger risk was one of under-tightening versus overtightening. I just wonder if you have the same view as well, given even with a 3% constant interest rate you have an inflation forecast of 0.8 percentage points three years out and eight consecutive quarters. Actually, no, with the 3% it's six consecutive quarters of a negative GDP. Thank you.

Andrew Bailey: Well, I'll bring Ben in at this point. I mean, I think there are things that we share in terms of our experience and assessment with the Fed and then there are very important differences between what certainly in the UK but actually I'd say Europe more generally are experiencing in terms of shocks from what the US is experiencing. You know, I do think in the commentary and in the discussions it's important to draw out those distinctions as well. So, Ben, did you want to-,

Ben Broadbent: Yes, excuse me. On that three year forecast you've got to remember gas prices are falling quite a lot so it doesn't give you the straightest picture of, sort of, underlying inflation on that constant rate assumption. But as Andrew says, there's a big, big difference between what's gone on both with inflation and growth between US and Europe and, as Andrew says, it's not always made that clear. So the pandemic was a common shock to all of us, the war is not. The gas prices have gone up hugely in Europe, not much at all in the United States, they're still barely 10% in the United States, wholesale gas prices, compared with those in Europe. Just as a measure of the difference in growth I just wrote down before I came up the PMI indices, which are a good high frequency and up to date measure of growth. At the beginning of the year and what they are now, and at the beginning of the year, they were-, all of them in the UK, US and Europe, very healthy, above trend, coming out of the pandemic, so 54 in the Euro area, 57 in the US, 58 in the UK, right? The latest readings are 58 in the United States, that's higher than it was just before the war, and they're down at 47 in the UK and Europe. We've got a really, really big difference between the path of growth here and by here I mean in the continent of Europe versus the United States. You see similar differences now in the composition of inflation and I think that explains quite a lot of, you know, what divergence there is in policy but also for example part of the strength of the dollar against both the UK and Europe. It's a big difference, you know, pandemic as I say, was a shock felt by everybody, this one is very differentiated.

Chris Giles, Financial Times: I'd like to ask a question about the interpretation of the forecast on two grounds if I may? The inflation forecast is closer to your target on the constant 3% rate assumption than the market path going up to 5.25%. So, would people be correct in assuming that was closer to where you think the terminal rate should be, somewhere close to where it is today than going up? Secondly, the forecast is conditioned on fiscal policy not changing on November 17th when the Treasury is suggesting a large fiscal tightening of maybe up to 2% of GDP. How would that change the inflation forecast?

Andrew Bailey: Well, I'll start, I mean so, sort of, Ben and Dave may want to come in. I mean I'll do it in reverse order if you don't mind Chris? I mean I think to answer your second question of course is that we will-, we always condition on announced fiscal policy. Now, as I explained in the introductory remarks, we've had to, sort of, think quite hard about in the context of the energy side, what the word announce means and by what I think is a, sort of, stylised but sensible interpretation on it. On the other measures which as I said quite explicitly, they do not appear in the forecast, we will of course take those into account when we next meet and then in our next forecast as we always would do, and we'll see the chancellor announces. I think my answer to really a very interesting question on the first part to your question is that the last chart we put up which had the, sort of, you could see the difference between the two parts if you like in GDP terms, and as you rightly say, you can use a similar inflation chart. I would just emphasise the point that there is an upside risk on inflation, and it actually is and in MPC history, it's maybe the largest actually upside risk in MPC history, and that reflects certainly the labour market. You know, obviously there are issues around gas prices sadly as well. So, we're not-, we're very clearly not saying, you know, we're not putting our bet either way in terms of which is the better curve, but it's important that since we do think the market curve is too high, that I think it's useful as a guideline to show where the alternative is. Where, you know, obviously where the truth will lie in-between the two, we're not giving guidance on that because we don't predict market pulse precisely. Dave, you want to-,

Dave Ramsden: Yes, just to add to what Andrew said, so we've got this historically large skew on the inflation fan chart which is our way of quantifying that upside risk on inflation, and I think, you know, that reflects the factors that we've been focusing on more and more through this year, which is concerns around persistence of inflation from domestically generated inflation. That could be because of the tightness of the labour market, but equally also from firms looking at an environment where they think they can put up prices, and those kind of inflation drivers carry with them the risk of being more persistent. Hence, you know, the communication that we gave, the majority of us assuming that projections broadly follow the numbers that we've just published, think that we'll have to make further increases in bank rate to get inflation sustainably back to target. To your other point, I wouldn't be thinking in terms of, you know, looking at those two constant rate or current rate piles to work out where we think the neutral rate is, that's not something we are focusing on. What we are focusing on is where we think interest rates have to go in the mean time, that's the focus and that's in our communications.

Andrew Bailey: I think Ben wanted to-,

Ben Broadbent: Just one tiny thing, obviously the fiscal announcement coming, what matters for us is the affects of fiscal policy in our forecasts horizon, and the government's planning horizon may be slightly longer than that.

Lucy White, Daily Mail: Governor, you said in your opening remarks, you know, fixed term mortgages should not need to rise as they have done, you've addressed that. What would you say to the lenders who have been, you know, putting their rates up in recent weeks and what would you say in terms of responsible lending for the future? What would you say to, you know, the consumers who have had to lock in over the last few weeks, either because they thought the picture was going to get worse or because it was the time?

Andrew Bailey: Well, it's a very good question. Well, I'll start by saying that-, because look, the mortgage market in this country over the last decade or so has moved quite substantially from being a variable rate market to a fixed rate market. Not of course fixed rates in the sense that the US knows in terms of duration, but nonetheless much more of a fixed rate market than a variable rate market. Now fixed mortgage rates are priced off the market curve because there's a swap involved in there for the lending institution. So that whereas variable rate mortgages traditionally are priced far more off our rate, if you like, as it moves fixed rate mortgages are priced far more off the market curve. Now the reason I say that, that's important of course as we saw and we've illustrated and said, as we saw this real, you know, blow up of the market curve as it happened that obviously had an impact on pricing mortgages. I think it also, Dave was making this point as well, it also made lenders, you know, pretty uncertain of course about what they were facing in terms of making offers which would last for however long. And I think that explains two things that you point to. One is the increase in new fixed mortgage rates and secondly the withdrawal of offers from the market. Now, it follows, I hope and I would suggest from what we've said that that is now calm. It's calming down, the curve is coming down so pricing off the curve, you know, is getting more predictable I think and the curve itself is coming down. And that should be reflected through as, as many commentators and I know quite a few of you have said in, you know, what you've written in recent days and the last week or so, that should be reflected through into mortgage rates. I mean, that's, you know, these things have to be symmetric in that sense. So that would be my, you know, my view of how it should evolve. I'm not going to give predictions of precise mortgage rates, that's not something I think that's our job. But I would expect that pattern to be reflected through and so therefore I think people who are, you know, now in the process of going for new fixed rate mortgage or rolling over should obviously get those terms. To your point, though, of course it is, I think it is very unfortunate that those who have had to take mortgages out during this period have faced a much more difficult situation.

Dave Ramsden: I mean, just the facts on that, we'll be publishing numbers tomorrow that we cover in the minutes. But the quoted rate on a two year fixed rate 75% loan to value mortgage, 6% in October which is it's highest since 2008, whereas it was 3.6% in August, 4.2% in September. So it's clearly, you know, the spread on mortgages which was quite compressed has opened up a lot and there is a lag so it will take time for mortgage pricing to reflect that. But, you know, we will wait to see how mortgage pricing does reflect the fact that the reference rates that I was giving you earlier have come down a lot from those equivalent peaks. I mean, what was striking was that the pricing, the pass through was very quick on the way up. So it gets back to Andrew's point about, you know, looking to see how quick it is on the way down.

Ashley Armstrong, The Sun: Two if I may? You mentioned the UK premium, it has been called ruder things but let's call it the mini budget premium as well. I mean, how much would you think that interest rates and inflation, sorry, interest rates would have to rise if there hadn't been this instability in the gilt market that we saw and, kind of, that knock on effect? How much is that having an impact on this? And the second point would be given that we are going to go through what you're predicting a two year long recession, the longest we've had since the 1920s, do you not think that adding to the household pain of adding interest rates at that time, we're already seeing that the economy is slowing, we're already seeing these indicators. Why should we be having those higher interest rates during this painful period as well?

Andrew Bailey: Well, let me start. It really isn't possible to do what I call a, sort of, counter factual interest rate. Counter factual MPC decision, what would we have decided had none of the events of the last, sort of, couple of months actually happened? I mean, I did say earlier that, you know, there has been relatively much less economic news but I would, however, emphasise that the components of the, sort of, the upside risk that we see to inflation towards the end of the forecast are really related to the local market. Sadly some of it to, I suspect, gas prices as well. And those things are not, of course, to do with what's happened in the last few months. So, you know, I would, sort of, really only draw those points out. It's not possible for us to do as I say counter factual MPC in that sense. On your point about the recession, it really goes back to I think the point I made to Faisal in his question which is the fact of the matter is that if we don't tackle the inflation then the problem gets worse. And that would rebound on to, frankly, both the duration and the nature of the recession I think. Do you want to?

Ben Broadbent: I'll just add one thing, a word of caution on the duration. If you look at the, for what it's worth, the central projection that the quarterly numbers as you get into the second year of the downturn, they're very small, right? And in particular they're very small compared with a, kind of, standard area around this. It really wouldn't take much either to lengthen or shorten that duration considerably. The important thing for us is what is likely to be the increase in spare capacity required to ensure that domestic inflation returns sustainably to target? And after allowing for the negative effects on demand that the very same shocks that have pushed up inflation, energy, pandemic and so forth, how much more is there left for us to do? And it's in the nature of the extraordinary sequence of difficult shocks the economy has faced that at the same time it's pushed up inflation and yet depressed growth. And unfortunately, as Andrew said, it's very important that we do our job and make sure that that inflation does not persist for longer than it should. But as far as the duration, as I say, the projected duration is concerned, I mean, I wouldn't be that confident about the precise number of quarters, frankly, given the shape of what we're forecasting. It's quite flat as you get to the end of the downturn.

Larry Elliott, The Guardian: The Bank is saying that we're about to have a two year recession. Two members of the committee didn't vote for a 75 point increase. You're saying that on constant rate assumptions inflation would be quite close to it's target in two years' time. I know you're not saying where you think rates are going to peak, but couldn't people be forgiven for thinking that rates are going to peak closer to 3% than the 4.6% currently being anticipated by the markets? Isn't that the message that you're actually trying to send out here?

Andrew Bailey: Well, by the way, I mean, I think you were saying this Larry, but just to be absolutely clear of course the constant rate assumption is post the increase. It's a 3% constant rate in that sense, just to be clear. I mean, you will probably criticise me for stating the blindingly obvious at this point, but in a sense what we're saying is our best view of what the rate should be, given the circumstances and the evidence we have to date, is nearer to the constant rate curve than the market curve is to the constant rate curve currently. Now that, as you say, thank you for that statement of the blindingly obvious I think you will probably say at this point. But just to reiterate, I mean, we do not have a precise alternative path because the reason I had to somewhat labour in my opening remarks the conditioning assumption is that we've made more changes to the conditioning assumption this time out of necessity than probably we ever have before, actually, because things have happened. But those conditioning assumptions are, of course, an important part of determining the outcome in terms of where the forecast takes you to. We can then apply, sort of, our judgment over that, which we have done. But our judgment doesn't lead us to a precise number in that sense.

Dave Ramsden: Can I just be clear on another factual point, which is that the conditioning path for the market rate base forecast was an OIS curve with a peak in bank rate of 5.25. So not the current level of bank rate. It's, you know, the seven days implied a peak bank rate of 5.25.

Andrew Bailey: Yes, I mean, we have to cut off so that we can actually produce the report.

Dave Ramsden: Yes.

Andrew Bailey: And it's a sign of the times that the curve has moved quite a bit since we actually cut off.

Szu Chan, The Telegraph: Just to follow on from what you guys have just said, why have you decided so explicitly to push back against those market rate expectations? And I know you just said that inflation risk remains skewed to the upside on your forecast. But we really seem to move away from this idea that, you know, rate rises might need to be more forced one of those words is still in there. You know, you say the Bank Rate might lead to a rise from sustainable return to inflation targets, does that suggest that given we've had eight rate rises in a row you're more in a, sort of, wait till you see mode?

Andrew Bailey: Well look, Ben developed this thought in his speech the other day so I'm going to let Ben develop it some more.

Ben Broadbent: I mean, I hope it's reasonably clear at the minute, we think that it's likely given this forecast that further rate rises will be necessary. But if you think of that comparison that Andrew began with between what the market was expecting at the time of the August report, without commenting on whether either is precisely right or wrong, the scale of the move in the predicted peak over the following two months was enormous. So it's perfectly possible, and this is where we are, to say we think further rises will be likely to have to occur. But we also think they're not likely to have to go as high as 5.25% given everything else in the forecast. I mean, both those statements are true and the point about forceful is veering more towards a conditional statement that's very important that we always make, that what actually happens will depend on the shocks that actually hit the economy. And the thing to take away, I think, is not so much that we had some predicted value of interest rates that we're telling people we're going to go to, we will do whatever is necessary to ensure that our projections of medium term inflation are sustainably close to target. And on this particular forecast, it suggests that, A. We don't think it wouldn't be if things turned out like the forecast necessary to go to 5.25%, but yes further rate rises are likely to be necessary. Both those things are true.

Phil Aldrick, Bloomberg: Can I just get a point clarified to begin with because you talk about the correct path of rate rises doesn't need to be what has been priced into financial markets? You mentioned 5.25% peak and you mentioned 4.75% peak in the documents in different places, so are both of those market paths too high or are you being specific about a single one? So just a point of clarity. And in the new found spirit of clarification, of collaboration between fiscal and monetary policy, I'm just wondering if you've got any ideas about what measures might help the Bank hit it's inflation targets? More fiscal tightening and particularly with regard to the job shortages, if there's anything that could ease job shortages? Just those, kind of, policy measures.

Andrew Bailey: Well, I'll do the second, Dave may want to do the first, I think? I'll do the second. Nice try to get me to, sort of, lecture the government on what it's policy should be, but it really is for the government. I mean, our report lays out the situation, it lays out the issues that the economy faces. You're right and it's why I made the point that I think in everything that's been going on recently we should not get away from the fact that there's a real issue in terms of the size of the labour force in this country, which has shrunk. But it's not for me to prescribe what government or even suggest what government policy should be. I'll leave it there.

Dave Ramsden: Just to set out as clearly as we can, I mean, I think it is set out in para 16 of the minutes. The MPC's projections were conditioned on the path of Bank Rate implied by financial markets in the seven working days leading up to 25th October. That path was rising to a peak of 5.25% in 2023 Q3, so all the forecast numbers based on the market path, that's where the 5.25% comes from. We then just report that, and this goes to my point that markets remain febrile, even these pretty liquid markets that in the run up to our November decision yesterday the peak had come down to 4.75%. But the conditioning path is the 5.25%.

Mehreen Khan, The Times: Just on what happened today, given that inflation is still in line with your August forecast, the fact that we've had a financial tightening and we can expect fiscal consolidation, is the reason that you opted for 75 today because it was priced in by the market and not delivering that would have produced maybe more volatility than you would have liked in this febrile environment? And is it fair to say that we're not going to be seeing 75 moving forward? And another question, the Fed yesterday stressed that it is now thinking about the cumulative impact that it's rate rises are having on inflation. Are you also going to start thinking about all of the action you've done so far and the, sort of, variable lag that's now going to have on the economy and inflation going forward?

Andrew Bailey: I was tempted to say the answer to those are no and yes. No in the sense that we do not follow the market, you know, we obviously condition on the market path for the forecast, but I would draw a distinction between the forecast and our judgment on the policy decision. And you can see that from the way we've described our thinking on that and our thinking on the forecast path conditioned by the market. So no, we don't follow the market and we are prepared as you can probably recount from the past, there are times when we're prepared to, you know, to diverge from the market path and accept that that would obviously lead to some repricing. So, you know, I think that's a very important one. Did you want to come in on this one?

Ben Broadbent: Well only to make very clear because I hope it's clear in the minutes what led to those decisions. There are various, and we're always looking at all the data, we saw upside surprises in wages and inactivity and that's been a key area of focus for the second round effects of higher food and energy and other imported goods prices. That's been important for a while and we saw another upside surprise in that. And we don't know yet what's going to happen with fiscal policy and in particular following Chris' question, fiscal policy in the relatively near term which is what affects our forecast. What we do know is that the energy price package will be a significant support to demand relative to the August forecast and each of those two things justifies tighter policy. And we are always led, taking account of what we've already done to then get to your second question, to think about, you know, what is the right level of interest rates and the right path to hit the inflation target. We do not just simply reflect back what the market already thinks. I mean, it's their job to follow us not ours to follow them.

Dave Ramsden: And just on this point about do we take account of what's already happened, I mean, as Andrew set out in his opening remarks, this is the eight consecutive meeting that we've put up rates. So every meeting since December 2021 when rates were at 0.1% we've been raising rates by a cumulative now 2.9% and we are very conscious that that cumulative impact is feeding through on to the economy and is adding to the challenges that households and businesses are facing. So I think we've been pretty consistent in flagging that cumulative effect.

Andrew Bailey: On your second question, I'd just emphasise that point because one of the things that obviously we do spend quite a lot of time on is the transmission of monetary policy. So how each of our decisions transmits into outcomes and obviously as we approach the anniversary of the first interest rate rise and given what we know about the transmission mechanism. Yes, of course, the impact of the transmission of our earlier decisions is obviously a factor in our consideration. And of course we also, by the way, have to consider going back to the question on mortgages, of course, we also have to consider how the transmission mechanism changes and adapts over time as aspects of the economy and aspects of the financial system change.

Eshe Nelson, New York Times: Given the lag in monetary policy, when do you expect today's rate to be felt on your, you know, inflation in the country? When will people expect to experience that? And are you waiting to see evidence of inflation going down in domestic price purchases as well as those global factors before you think about slowing down or even ending this current hiking cycle?

Andrew Bailey: Do you want to?

Ben Broadbent: Those are very good questions. We're focused as always, I mean, one of the reasons we use the forecast both to think about policy and describe it is because of the lags that you discuss and I'm not trying to suggest that there are very precise estimates. But typically you might expect a peak effect of an interest change on demand, I don't know, a year or maybe a little bit less and inflation, say, 18 to 24 months or maybe longer than that under some circumstances. So it's because of those lags indeed that we have a forecast in the first place. What will determine how long this goes on for should be seen much more in the context of that forecast which depends on lots of things and lots of indicators rather than any single one. We have stressed the domestic labour market as one key indicator of domestic inflationary pressure. But I wouldn't want to pick out one single indicator even within that, frankly. But it's more, as I say, to do with our assessment of medium term inflation and there are lots of things that go into that forecast, rather than the current rate of inflation, precisely because of the lags you talk about. And I'm not going to say that means, you know, that interest rates will either stop going up at this particular point or peak at this particular level, we don't know yet. But it's a slightly broader framing that we consider rather than any specific indicator.

Jack Barnett, City AM: On both of these projections you've got on the constant rate and the market rate, I mean, they're pretty bleak on both sides. I mean, are you essentially saying this path to the so-called soft landing is now dead, we're not going to avoid this recession, we actually might even need this recession to push down inflation to complement rising bank rate? And then just secondly you obviously mentioned there that we're approaching the year anniversary of when you first raised interest rates. Just, kind of, taking a step back for maybe all of you, I mean, how sharp has the swing been in the economy's performance when we were going into the meeting to now?

Andrew Bailey: Well, let me start by saying I think when we look at the path of the recession it's worth bearing in mind always the sheer size of the shock that we've experienced to real income in this country. Call it terms of trade shock, if you like, from events in particular obviously during the course of this year from events surrounding Russia's invasion of Ukraine. I mean, this is a huge shock. It's very interesting and Ben has said in the past that if you compare this to the 1970s, when you compare this year to single years in the 1970s, and obviously government policies also come into play there in terms of energy markets, this is a bigger shock than we saw in a year in the 1970s. So while I don't for a moment want to, sort of, ring my hands and say a recession is inevitable, when you look at those paths you have to look at them in the context of the shock that the economy is experiencing, and sadly of course the people of this country are experiencing. So I would put it into that context.

Ben Broadbent: No, and you say we're now not saying there's a soft landing, we were forecasting a recession in August, if you remember, this is not the first time we've forecast a recession. As Andrew emphasises the different-, I mean soft landing is often used to describe the aims of policy tightening in the United States and I emphasise the answer to a question I gave earlier, we're in a very, very different position. Because on its own the rises in import prices of goods, of food, of energy will depress growth here. We then have to decide regrettably how much more do we have to do to ensure that the combined pressure of those real income hits and monetary tightening bring inflation back to target? But I don't think we've ever said we're aiming for a soft landing. We're aiming to bring inflation back to target, that's what we're aiming to do. It's been a feature of the forecast for a long time because of the nature of the shock that our forecast for growth got progressively weaker and, as I say, we had a forecast recession in August. You asked about the turn around, this time last year before energy prices really started rising, the central forecast I think was for GDP growth over the following year, so to the fourth quarter of this year, of almost 3% and it's now 0.2%. That's already happened. That's a measure of the scale not so much of the tightening of interest rates because of those lags, but the direct effect of the huge rise in import prices, particularly energy.

Andrew Bailey: It's interesting just to recall this time a year ago when we were sitting here a year ago and the issue we were wrestling with-, and remember the decision we took at that meeting attracted a lot of commentary, let me put it that way. But the issue we were wresting with then really in my view was the labour market and what was the impact at the end of the furlough scheme on the labour markets. That remains an important issue in the sense that the labour market remains important and the whole question of the tightness of the labour market remains important and I think we, like other forecasters, were, you know, surprised I'd say that the ending of the furlough scheme didn't lead to any loosening of the labour market, any really marked and certainly prolonged rise in unemployment. But I say it also because just to recall, I mean, it is interesting to put it into context, just how many major events have happened in the intervening period. I mean, it is pretty striking. You know, we go back to a year ago, what the issues were a year ago and then everything that has happened subsequently.

Francine Lacqua, Bloomberg: Governor, now that you've started QT, do you have any estimates on how might tightening that will impart?

Andrew Bailey: Sorry, how much tightening-,

Francine Lacqua, Bloomberg: On QT, now that you've started QT, how much tightening does that impact?

Andrew Bailey: I'll hand over to our resident QT expert on that one.

Dave Ramsden: I'll differentiate the answer from the one I gave previously. I mean, we've always thought of QT as being very different from QE in the sense that when we were doing QE we were trying to send a signal about what was going to happen to bank rate. That's clearly not the case with QT. And also we quite often did QE at times when markets were really not functioning well and those episodes tended to be when QE had its most significant effect, which is why we talk about QE being state contingent. QT is also state contingent but we've made clear, the MPC has made clear that it would not do QT under issues of market dysfunction. We did pause the start of our active gilt sales by a few weeks because of what we were seeing particularly at the long end of the government bond market back at the end of September. So we paused from, we were planning to start in early October, we didn't start until Tuesday when we did our first auction and carried that off successfully. You know, 750 million proceeds, one of eight auctions we're going to do in the remainder of this year, a total of around six billion. I guess the final point I'd make is throughout the way we've planned our QT programme, going back to last August, we tried to be deliberate, we've always said that we would do this in as predictable a way as possible and that means it should be priced into markets as and when we do it. So it's impossible to extract, you know, what was the exact effect either of the total programme that the MPC has set out, which is 80 billion over a year, or of any particular auction.

Andrew Bailey: If I could just add, I mean, just on the state contingent points, I think there is also, certainly in the current context, another piece of state contingency which is that, you know, as quite a few market commentators will tell you and a number of you have written, I know, there is currently quite a wedge between the unsecured rates and secured, sort of, GC collateral rates in the repo market. And that of course is relevant to us selling assets into the market in many ways. I mean, people are saying to us there's a shortage of collateral in the market at the moment. So in a state contingency sense of the immediate context that's relevant and actually to your question, Francine, that would suggest that our sales are not going to have that much impact in that sense accumulatively.

Dave Ramsden: And indeed was why we, when we published the revised plans for the sales, we deliberately skewed the sales to short and medium buckets so that we can support the market by providing collateral. And equally given, you know, still concerns potentially at the long end, we thought we can start selling from the longer end of our holdings in the new year.

David Milliken, Thomson Reuters: Just a little point of clarification, sort of, Governor. When you were sort of talking about these likely path for rates likely to be close to a constant path than a market rate path, were you talking about, sort of, the market rate path-,

Andrew Bailey: No, hang on, I didn't say that. What I said was that if you think about the gap between the market path we have in the forecast and the constant rate path, I said that our commentary would suggest that the path would be nearer to the constant rate path than the market rate path at the forecast. And I'll repeat the apology I made to Larry, that's a statement to the blind and the obvious, there is nothing more than that.

Ben Broadbent: It amounts to saying simply that we've thought we wouldn't have to get as high as the market curve, given the forecast we had.

Andrew Bailey: Yes.

David Milliken, Thomson Reuters: Yes, and sorry, just to finish that part of the question, so were you talking about the market rate path as it was at the time of the forecasts when they were set or the market rate path as it is today?

Andrew Bailey: Yes, and the market rate path today is lower. I mean, as I was saying earlier, that's an interesting, sort of, feature of the times we live in, that although not that much time has elapsed since we came to the end of the window for the forecast, actually it's moved quite a bit since then and it's move downwards, but as I said we're not giving, 'Here's our line.' That's not what we do. So I'm not going to comment on, you know, how much is today's curve in the right place relative to what it was a week ago.

Ben Broadbent: We'd have to do a whole forecast. The statement is about the market path at the time of and underlying the forecast we've just published, not what it is minute by minute.

David Milliken, Thomson Reuters: And, sort of, more broadly do you feel a sense that you're flying blind a little bit with still a huge amount of, sort of, uncertainty about government fiscal policy, what exactly is going to be coming up, how much tightening we're likely to be getting?

Andrew Bailey: Well, going back to what I said earlier, we moved on from what we might call the long established definition of announced in terms of fiscal policy in terms of the energy package because, you know, I think I can describe what the chancellor has said, if you think about two bookends-, this is what happens after April, obviously what happens between now and April is set. If you think about two bookends, one of which is that there is no package of, there is no household support after April, the other which is the full package remains in place, I think it's clear the chancellor has said that neither of those are things that he intends to pursue. So it would obviously not be sensible for us to condition on those two and therefore I think it was required and natural that we had to make an assumption that fell somewhere between the two. But frankly it's a stylised assumption, it's not in any sense us saying, 'Well, we know what's going to happen,' because we don't actually in that sense. Then on the rest of fiscal policy, we have followed our normal practice that if it isn't announced it isn't in there, as it were. So whatever else the chancellor is going to say at the fiscal statement that's going to come up, that does not feature in our forecast because it is not government policy as of now.

Lucy Hager, Market News International: The bank's projection shows unemployment rising to 6.5% in three years time. Does the bank see this as more of a normalisation in unemployment levels or is it of concern? And as far as unemployment goes, do you see the risks as being more skewed to the upside or downside?

Andrew Bailey: Well, I'm sure Ben and Dave will want to cover on this. If you talk about the term normalisation you can interpret that in a number of ways it seems to me. Is it normalised relative to history? Well, our job is not to normalise relative to some point in the past because that is not the context we face now. Now, of course, another way of expressing this question is to go to the concept of a neutral rate or the concept of R-star as it's often called, and certainly speaking for myself here I think there are two parts to that story. One is what you might call the shorter run cyclical element of it, and the other one is the longer run structural element which I, sort of, did make the speech on earlier in the summer with some colleagues who have published a paper on it, although I have to say they did most of the work and I didn't. So they get the credit and I get the blame, which is entirely fair. On the longer run point, on the more structural point, what I would say, and that's the conclusion of the work that we did publish, and these are global drivers, they're not UK specific, and the more cyclical thing you can talk more in UK terms. On the longer run issues. On the longer run point I think, you know, the point we did make in that paper, in that speech, was that the longer run global drivers are very slow moving structural drivers, particularly ageing, population ageing, which is obviously a global feature. And it's hard to see that those things have run their course, as it were, at the moment and particularly played through. So the conclusion we drew from that where we didn't see that as being a long run change in that context of the neutral rate or R-star going upwards. I think the more cyclical element, of course, yes, I think you can see some upward movement in it for reasons that, sort of, in a sense, underline what we published today. Do you want to-,

Ben Broadbent: No, no. I mean, on unemployment, for what it's worth, there's also a natural rate estimate we have of that and 6.5 is very clear above that. Of course any rise is regrettable, whether you think it's coming from below or coming from above that natural rate, but it's the compliment to a recession. This is what tends to happen. We've discussed at length the underlying causes of that recession and that downturn. The risks I think both on all the real side of the forecast, I think Dave will correct me if I'm wrong, GDP and unemployment are balanced. They're neither skewed in one direction nor the other.