James Bell

Right. Good afternoon, everyone. Thanks very much for coming. Welcome to the Bank of England for today's session on today's rate decision and the February Monetary Policy Report, we're joined by Clare Lombardelli, the Bank's Deputy Governor for Monetary Policy. Dave Ramsden, the Deputy Governor for Markets and Banking. And of course, Governor Andrew Bailey. We'll start with some introductory remarks from Andrew and then move to questions after that. Andrew.

Andrew Bailey

0:00:58

Thanks, Jamie, and good afternoon. So today we've cut bank rate by 0.25 percentage points to 4.5 percent. With the progress we've made to reduce inflationary pressures in the UK economy, we've been able to take another step to make monetary policy less restrictive. And this will be welcome news to many. And we expect to be able to cut bank rate further as the disinflation process continues. But we will have to judge meeting by meeting how far and how fast. We live in an uncertain world and the road ahead will have bumps on it.

We expect inflation to increase this year to a peak of about 3.7% before returning to the 2% target, and we will set bank rate to ensure that it does so sustainably. Low and stable inflation is the foundation of a healthy economy, and we will do our job to continue to ensure that. I'll now describe the outlook for inflation in more detail, the uncertainties we face, before concluding on the decision we've taken today. Chart one has come up and shows the development of 12-month consumer price inflation since 2021. That's the white line.

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It shows how headline inflation fell sharply through 2023 and into 2024, before reaching the 2% target towards the middle of last year. In the shaded area on the right, you can see how we now expect inflation to increase to about 3.7% towards the middle of this year as negative contributions from energy prices, that's the orange bars first fade and then turn slightly positive, with some further upward pressure from food and goods prices. That's the purple and blue bars. And this is a full percentage point higher than the peak we expected in November. But behind this uptick in headline inflation stands a continued gradual easing of underlying inflationary pressures in the UK economy. And this is the backdrop to our withdrawal of monetary policy restrictiveness and to our policy decision today.

As chart two shows, inflation in the prices of services has been coming down since the middle of last year. That's the blue line. In the latest data for December services inflation fell more than expected to 4.4%.

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Some of that downside surprise was driven by smaller than expected increases in airfares, which can be volatile. But other measures of underlying services price inflation have been gradually easing to and higher frequency measures of underlying Services Price inflation, which can be indicative of

near-term inflation moment have remained lower than their annual rates, and this points to a prospect of further moderation in underlying Services Price inflation. Wage growth remains an important factor behind the remaining persistence in services. Price inflation. Annual growth in private sector. Regular average weekly earnings. That's AWE increased to 6% in the three months to November.

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Now, this may suggest that the disinflationary process has slowed in recent months. The news from other measures of private sector regular pay growth has been mixed. The bank staff's indicator model of underlying pay growth has plateaued recently as chart three shows, but it still points to a lower rate of wage growth. That's the orange line than the AWA, which is the blue, and both the bank's decision maker panel and our agents annual pay survey point to a softening in wage growth over this year to just below 4% and 3.7%, respectively.

So, while we expect inflation to rise again over the over the coming months. It is almost entirely due to factors that are not directly linked to underlying cost and price pressures in the economy, and factors that we expect to be temporary. Chart four shows a decomposition of this.

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The combined effects of regulated price changes and fiscal measures may add around half a percentage point to inflation towards the middle of this year. That's the orange, blue and purple bars. core goods and food price inflation measures have also ticked up. That's the pink and green bars. But the single largest driver is household energy bills. That's the gold bars.

With current expectations for wholesale prices, energy prices may contribute as much as three quarters of a percentage point to the increase in headline inflation expected towards the middle of the year.

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The winter has been colder than expected in Europe, and that has led to an increase in demand for natural gas, while supply has remained remain tight. As chart five shows, wholesale natural gas futures prices have risen by around 20% since our November report. The increase in European gas prices has led to an increase in the Ofgem price cap for UK household energy bills for the current quarter, and it will affect the cap for the second quarter of this year too, when it is announced by Ofgem later this month.

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But gas futures prices remain significantly lower than in 2022 and they are little changed further out. While energy prices are volatile and notoriously hard to predict, these are developments that should help to limit further increases in energy prices. Monetary policy cannot prevent such short-term influences on headline inflation, nor should it respond to factors that will fade by the time it takes its effect. But we should recognize that this short-term pick-up in up in inflation introduces some further uncertainty into the near-term outlook for inflation.

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Utility and food prices are salient to the consumer, and we have to make sure that temporary increases in them do not feed through to lasting second round effects on wages and other prices.

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With the underlying disinflationary process well underway and a continued restrictive stance of monetary policy in place, we can, however, be reasonably confident that the pickup in inflation we see ahead of us will be temporary and much smaller and less prolonged than the one we have just put behind us.

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Today, the labour market is cooling. The context is one of a weakening in economic activity. Intelligence from the bank's agents suggests that firms are increasingly either reluctant or unable to pass through costs to consumer prices, given subdued demand. There are signs that the restrictive stance of Monetary Policy continues to work to reduce inflationary pressure in the in the economy.

So, looking further ahead, as in chart six, our February projection, which is conditional on the market implied path for interest rates. This suggests that consumer price inflation will pick up peak this year at around 3.7%, and then fall steadily back to the 2% target over the rest of the forecast period.

In our projection, the return of inflation to target is supported by an emerging degree of economic slack in the UK economy.

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Activity in the economy has been weaker than expected last year. We now expect GDP growth to be notably weaker in the near term too before picking up from the middle of the year. We expect similar growth rates for 2026 and 2027, as we did in November.

There is considerable uncertainty over the over the extent to which this weakness in GDP should be ascribed to demand or to supply. And so, what that weakness means for inflation. Metrics of business and consumer confidence have deteriorated over recent months, and contacts of the Bank's agents report that consumers are more price conscious than holding back on spending. This is consistent with a slowdown in demand.

Equally, the disinflationary process has been slow too, and both Services Price Inflation and pay growth remain at elevated levels. Price balances in business surveys have increased while activity balances have fallen.

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This suggests that demand has been slowing against the backdrop of continued weakness in the potential supply capacity of the economy. Our February projection ascribes much of the weakness in economic activity to supply. This means that the more recent slowdown in demand has so far led to only a small margin of slack opening up. The output gap then widens over the next couple of years of the projection to around three quarters of a percent of potential GDP, before narrowing towards the end of the forecast period. This is consistent with current measures of slack in the economy. Both the

level of vacancies and the ratio of vacancies to unemployment have returned close to pre-pandemic levels, suggesting that the labour market is broadly in balance.

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I would also note that the ratio of broad money to GDP shown in chart seven here has returned close to its pre-pandemic trend, though it's also clear that the slope of the current direction of travel is downwards. While we would expect the underlying disinflationary process to continue, the balance between aggregate demand and supply is one of the main determinants of inflationary pressures in the medium term. This will influence the path for bank rate. On the one hand, greater or longer lasting weakness in demand relative to supply would push down on inflationary pressures consistent with a less restrictive path for bank rate.

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On the other hand, if supply is more constrained relative to demand, domestic wage and price pressures could be sustained, consistent with a slower path of future reductions in bank rate. There are risks from the global economy, too. It remains unclear what form global trade policies might ultimately take, and the MPC's February projection is not conditioned on any change in global tariffs. A box in the Monetary Policy Report sets out a framework for how tariffs could affect UK output and inflation.

So let me conclude our restrictive stance of monetary policy has reduced inflationary pressures in the UK economy.

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With the progress we've made, we've been able to take another step in making monetary policy a little less restrictive today. The judgment we will have to make at our future meetings is whether underlying inflationary pressures in the UK economy are easing enough to allow further cuts in Bank Rate. Some domestic inflationary pressures remain and may have eased a little more slowly than we expected last year.

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And that reaffirms the importance of taking a gradual approach to the withdrawal of monetary policy restrictiveness.

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Bank Rate is not on a preset path, with increased with increased uncertainty and risk to inflation on both sides, from the near-term outlook to UK activity and inflation, and from developments in the global economy.

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We must also proceed carefully, judging the evidence afresh at each meeting, based on the committee's evolving views of the outlook for medium term inflation, a gradual and careful approach to the further withdrawal of monetary policy restraint is appropriate.

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And so, with that, Clare, Dave and I will be happy to take your questions. Thank you.

James Bell

Fabulous. Thank you very much. So, let's take questions now. If we could stick to one and then we'll see if we have time to go around again afterwards. Please give us your name and who you're representing.

0:12:52

Can I start with Sam and then Ed?

0:13:00

Sam Fleming

Thanks. Sam Fleming from the FT.

Governor, as you know, the markets have been taking gradualism to indicate a roughly quarterly pace of rate reductions. But your new forecasts are predicated on January market expectations, which point to a much slower, pace of reductions and that leading to inflation only just getting back to target in three years. So, do we need to rethink what gradualism means?

Why are you seeing such a slow disinflation process given the cooling of the economy you're also describing? And can you just amplify a bit what you mean by this new word. Careful. Thanks.

Andrew Bailey

So, I was. It's good you asked the whole question, because I want to be very clear that you should see gradual and careful together.

And you should also see, by the way, from the minutes of the MPC, that there was quite a quite a debate about the choice of the second word.

There wasn't a debate about the choice of the first word because, as you know, we've been using that for some time.

0:13:53

And I think we've been clear for some time that the word gradual has really been used by the committee in the context of, our reading of the signs of inflation, persistence, obviously, coming out of the experience that we had a few years ago particularly, and how that persistence was, wearing off over what time it would wear off.

Now, you know, I think we've seen good progress on that front, but we continue to use the word gradual because we continue to have to see that process of disinflation take place.

0:14:27

Now, as you rightly said, Sam, we've added the word careful, deliberately. And let me emphasize, as I did that around that, you should see the greater uncertainty that we face in the current environment. And as I said, that uncertainty is both domestic and global.

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So, the domestic uncertainty is around, particularly as we've set out at some length, I fear in the report because you'll have to read it all. The interpretation of the weaker growth profile and to what extent its demand and to what extent its supply. And underpinning that also, frankly, the challenges in reading some of the data at the moment, and particularly on the supply side, I would say.

So, if you look at the at the evolution of the last 12 months, we've had an increase in on the supply side, we've had an increase in population. I think we've had an increase there for in labour supply.

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We haven't had a change in GDP. Therefore, you can only conclude mathematically that productivity has got much worse. And you can see that in the term because it's actually negative.

Now, I think there's a lot of uncertainty around what the true story, you know, what the true position here is, frankly. By the way, it's one of the reasons why we do think growth is going to pick up, because it would be unusual for that negative situation to remain.

Frankly, I'd use unusual, advisedly. And then, of course, as I said, there's also global uncertainty.

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I mean, you know, since we're all witnessing it from day to day.

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So there is, you know, there is heightened uncertainty. It's two sided as we've stressed. So, you know, it could lead to, conditions which actually make the path of disinflation less assured. It frankly could also on the other side, lead to conditions which have the opposite effect and lead to it being a faster path for disinflation.

But there is more uncertainty. That's why we've paired gradual and careful.

James Bell

Who was next?

0:16:33

Ed Conway

Thank you.

Ed Conway from Sky news. Governor, last week, the Chancellor unveiled her growth speech and many different reforms that she says will be growth positive for the economy. Planning reforms, new

runways, new reservoirs and so on. I just wonder, I presume by now you've had a chance to look at that. Can you tell us what is the impact of those measures on the economy?

0:16:55

Andrew Bailey

Well, yes, we have. I mean, I'm a very, very strong supporter, both of the growth agenda that this government had. And by the way, the growth agenda of the previous government had as well. I mean, this is, we've told the story quite a few times that the potential growth rates in the UK has been low since the financial crisis. And that obviously has an effect on our policy environment, and it has an effect on other policy environments as well. And addressing those questions is critical. So very strongly agree with the Chancellor on this point. Now, what I will say is, of course, structural policies take time to come through. So when we're looking at a obviously a 2 to 3 year horizon here, you wouldn't expect a lot of that to come through quickly. But I don't for a moment want to leave you with the thought that therefore we don't think it matters, because it does matter, because obviously what matters is what comes thereafter.

0:17:45

But, Clare, did you want to come in on this as well?

Clare Lombardelli

Yeah. I mean, I think that's completely agree. I mean, obviously we are very supportive of measures that raise growth in the long term and his speech was focused on those they were structural reforms. The UK actually like lots of advanced economies, has a has a challenge on productivity. You know, that's the sort of challenge of, of our time, those sorts of structural reforms. I mean, I spent a lot of time at the, the OECD.

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This is the sort of meeting meat and drink that we spent a lot of time on. It is structural reforms that will drive that long term, long term growth rate. It's absolutely the right thing to thing to do., the UK, like lots of advanced economies, actually needs to do an awful lot in this space. But in terms of the forecast horizon that we use, you know, obviously you wouldn't expect to see a change in that because of these sorts of policies. You would expect to see it over the longer run obviously helps. These things are important for everyone right across the, across the UK economy. As we all know, it's the only way to get rising real incomes in the long term.

From our point of view, as sort of Monetary Policy-setting, it also matters because it's the speed limit for the economy in terms of in terms of supply. So, you know, hugely supportive, right, sorts of things to be focused on. And so we would hope that that medium longer term it will help raise supply in the economy.

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As Andrew says, it's incredibly hard to make these judgments about supply, and particularly in the shorter term, more cyclical supply that we have to think about for our policy rate setting.

Ed Conway

0:19:23 This will cost is zero, right?

Dave Ramsden

0:19:27

I thought I'd come just to reinforce what Andrew and Clare have said. I mean, if you look at chart C in, as Andrew was saying, the quite long box on where we explain our thinking on supply. You can see just how unusual the performance of potential productivity, which is something we assess and judge. And you know, there's uncertainty around it. But potential productivity growth has been really weak since the global financial crisis. But particularly we think last year, as Andrew was saying in his first answer, given the other developments we've seen in population, and given that GDP has really been flatlining since last March, you know, we've had to mark down potential productivity, as Clare was saying. That in turn means that the, you know, the speed limit in the short term is lower.

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But as Andrew was saying, there's good reason to think that potential productivity will pick up. And what the Chancellor announced were very important set of reforms that, over the longer term, will support potential productivity picking up.

Andrew Bailey

0:20:43

I think, I think the one thing to your point Ed, I think it is important that being committed to these reforms and showing real signs they are going to happen will have a confidence effect. So, in the shorter term, you might get something like that.

Joel's now so excited that we're going.

James Bell

Can we have Faisal and then Joel.

Andrew Bailey

You just have to contain it, Joel, for a moment.

0:21:09

Faisal Islam

Faisal Islam, BBC news. Governor, it's I think it's flat growth from last March all the way through to the middle of this year and inflation rising all the way through to the Autumn. Is this a light or even a medium form of stagflation?

Andrew Bailey

0:21:26

Well, I don't use the word stagflation. It really doesn't have a particularly, frankly precise meaning. Moreover. You know, you've talked about the growth profile. And you're right. I mean, obviously, we've had essentially a flat, a flat economy over that period. We obviously. in the early part of last year had a faster pickup than we were expecting. But since then, we've had a flat economy. But let's go to the second part of the term, which is the inflation part of it.

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And I just want to re-emphasize the point I made, which is that the judgment that we've made today, the really the heart of the judgment that we've made today, which is which has allowed us to take the next step in reducing interest rates, is about the continuing path we think of disinflation and why I put so much emphasis on services, on how we're reading the labour market, on how we're reading pay because there is noise in the pay data as well, we think. And that is the key. So, in terms of pushing back on stagflation, I really would come back to that point that our judgment today is really anchored on a view that we think the disinflation trend is in place.

Dave Ramsden

0:22:34

And it's also worth putting it in perspective. The euro area also saw no growth in Q4. Our inflation rate is the same as the euro area is at present. So, these are we're expecting inflation to pick up, in the short term. But we are also, as Andrew stressed, expecting GDP to pick up our forecasts, once you get into next year are similar to last November.

James Bell

Okay. I've got Joel and then Joasia.

0:23:06

Joel Hills

Joel Hills, ITV news. I have a couple of questions if I can. Governor, we saw quite a sharp rise in bond yields and a weakness in Since sterling a few weeks ago. That's quite an unusual mix. To what extent do you think that was caused by a loss of credibility here in the UK? Or do you think it reflected global factors? And my second question is about box R. In 2018, the bank estimated neutral at around 2.25%. You've referred to three estimates I think in box A, which of those how are you waiting? Those do you put equal weight on all three or more weight on 1 or 2 of them.

Andrew Bailey

0:23:50

Right. I will say a few things that I'm going to I'm going to get Dave to come in on bond yields and Clare to come in on R*. So, on bond yields we've got actually got a chart in the report. And we use a technique which we call a Rigour Bond Decomposition. To in a sense decompose the movements in bond yields. And what you find is and by the way this is, this is pretty much the norm with, with the UK curve is that of course it moved essentially with the US curve. You can see in the chart quite

interestingly, there was one week essentially in January when you can see a sort of quite a UK contribution. But this, this sort of movement up. And then by the way, of course, what we've seen since then, which is the movement down in the curve, has been really led by the US. And you can see from the chart that I think our market has followed.

So, I would use that to avoid, you know, any sort of say, making great, great commentary that I don't think is right to make great commentary about what the UK has done here, because it is actually much more of a global trend than that.

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Dave may want to say more on that. on R*, I'll let I'll let Clare come in. But I would simply make the point that we've been very clear in the box that, R* - we've had this discussion many times- it's a very useful concept. It's very useful to look at it as a global concept. And particularly for a small open economy like the UK.

There are reasons, we think, why there may have been some upward movement R* in recent years and not just here, by the way, but generally, in terms of the various measures, we do not publish them, to put weight on one or the other. Frankly, we're laying them all out. There is a high degree of uncertainty around this and as we say, that's why we don't use it for setting interest rates. Dave, did you want to come in?

Dave Ramsden

0:25:37

And just to help with the with giving a bit more detail on the answer on, on the first question is chart 2.8 on page 31 Joel which sets out, I mean, this is just over the period. I mean you can look at these decompositions over much longer periods, but this is just since the 31st of October, the November report and the aqua or turquoise bars for the spillover from global shocks.

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influence on UK yields is much more significant cumulatively than any role for UK factors. There was a week, you know the week in January when UK factors according to this decomposition which is the best we've got but it's inevitably a bit imprecise. UK factors were one third of the total. And you know, we were very clear on saying that at the time Sarah Breeden was giving a speech over that period that we, you know, that this was fundamentally global factors being driven by perceptions and expectations of UK and US fiscal policy.

And then there was a little bit of a UK overlay, but if you look at the very latest bar, UK shocks actually pulled down and that was probably a reaction to a marginally lower UK inflation rate than was expected in, that week?

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So that should give you some perspective and context on that. The other thing really worth stressing over that period, if I can, in fact, the whole period is that UK market's gilt markets have been operating in a very orderly way. There has been some repricing in response to, news, whether it's,

fiscal perceptions or as I was saying, inflation. But they've been responding very awkward, very in a orderly way. And our facilities have been operating exactly as you'd expect them to. Our Short-Term Repo and index, Long Term Repo Facility to provide the liquidity that the market is demanding.

Clare Lombardelli

0:27:51

Yeah, let me add a bit on the R*, the neutral interest rate box that I'm very pleased we've put out because it allows us to explain how we think about these concepts, how we use them and I would distinguish between the kind of very long run equilibrium global concept of sort of R*, as people call it, and sort of where the cycle might end up.

But, this is useful and a useful way, a useful thing for us to think about for two reasons, really. One is sort of conceptually, you know, this is how we think about the balance of sort of demand and supply for capital and savings. And think about how that evolves in the long term in response to structural factors. Some are laid out in the box.

It also feeds into the kind of basket of ways we think about restrictiveness. I would say we monitor that in lots of ways, and we put an awful lot of weight on looking at the data and, you know, across the transmission mechanism, including credit conditions.

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So, it's one of the one of the things we look at, I wouldn't say it's the dominant. We spend much more time looking actually at the more near-term data and how the economy is responding to those. We've put out some estimates in the box today, basically to lay out the sort of whole the whole landscape here.

I would strongly, strongly advise against trying to derive a point estimate from that, that it would imply a level of certainty that you just don't have. These are big kind of moving things. But, we have said in there, in the period between the global financial crisis and before Covid, we had an estimate of around 2 to 3%. If you look at a broad range of models, if you look at sort of market-based measures, that gives you that sort of range.

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We've also laid out the structural changes over economies seen through the pandemic and beyond, and we think that would drive up slightly, you know, marginally those numbers maybe by 0 to 1%. You know, you can add all that up and say perhaps we're in the region of 2 to 4. It's very broad.

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I think it's really important not to sort of assume a level of certainty around that. We can't be certain it's completely sort of unknowable, unobservable thing, but it's an important concept we think about. And that's why we wanted to lay it out on your question of, you know, lots of different models are basically saying, do you take a weighted average of them? No. We've set them all out to show the level of different views and uncertainties out there.

Depending on what model you use, depending on where you get your data from, you'll get a very, very, very different no.

Andrew Bailey

0:30:27 We equal uncertainty there.

Clare Lombardelli

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They're just they're they give you a sense of the uncertainty around this concept that that's the point of it. We also feed into it. As I say, I would really stress when we're thinking about Restrictiveness, actually, we look at a much wider basket of things than this.

Joel Hills

0:30:45

Our viewers will be that you talk about interest rates being restricted, but don't seem to have very much of a clear idea of where neutral is.

Andrew Bailey

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No, Joel, can I just on that point, because it's an important point. We don't judge Restrictiveness just by looking at a model of R* and the neutral rate. We judge Restrictiveness by looking at the transmission mechanism of monetary policy. And then of course, how it affects the output gap, since those are the things we observe. I mean, merely using a theoretical model, I would not advise your viewers to do that if they want to maintain a theoretical model, because it's not going to give you a very good read.

James Bell

0:31:21

Okay. Now I've got a long list, but don't worry, we've got time. We will get around to everyone.

I have Joasia. And then if you wouldn't mind passing to Heather afterwards. And then I'm going to go over to Stephen. Ashley.

0:31:36

Joasia Popovitch

Hi. Joasia Popovitch from Central Banking. I wanted to ask about gold, given it can act as an inflation hedge. And the currently the current liquidity stress in what you said yourself last week is one of the world's major markets.

So how much gold has now left the BoE vaults in anticipation of tariffs, and with bullion banks looking to borrow from central banks that hold their gold at the BOE.

What does the central bank doing to help alleviate current queues?

Andrew Bailey

Dave, do you want to.

Dave Ramsden

0:32:07

Yeah, I didn't I think I picked up the question. And look, it's worth, given that this is the MPR press conference, it's worth putting what's been happening to gold, which is the detail of your question in the context of what's going on in the world economy and the uncertainties out there.

0:32:30

And, it's also worth bearing in mind that because this this helps explain some of the, the, the facts around, the, the time it's going to take to get gold out of the banks vaults because of the nature of our approach to the gold.

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So, the first thing to say is and I think this is broadly known, but, we have the second largest stock of gold in the world, over 400,000 bars of gold at the moment. That's gone down a bit since the end of 2024, reflecting the market conditions that you're talking about and have and have been a feature in the news.

But the stock has gone down by about 2% since the end of. So that's important to keep that in perspective.

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And the US gold market has been trading at a premium to the London market. And commercial gold holders have been looking to take advantage of that price differential. So, they've been you know there's been strong demand for delivery slots. We can meet that demand. We all our main counterparties, as it were. Or better to say, All of those. Bodies who ship the gold have, they've all got, the delivery Slots they need over the next few weeks. If you were coming in new to us, you might have to wait a bit longer because all the existing slots are booked up.

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But this is a very orderly process. It is worth stressing. Compared to some of the markets we usually talk about, I mean, it's an obvious point, but gold is a physical asset. So, there are real logistical constraints and security constraints, getting into the bank for me this morning was a bit trickier because there was a lorry in the bullion yard but that's just the reality of it. It takes time and the stuff is also quite heavy, as you know.

0:34:55

So well, I think these things sometimes get forgotten about in a headline that says, there's a six week delay or something like that. There is a lot of demand, but we've got slots for all the people who currently want to get their gold or want to ship gold on behalf of a customer. And we're managing it.

James Bell

Can you pass it on to Heather? And then we're going to go over to Steve and Ashley next to each other.

0:35:22

Heather Stuart

Heather Stuart from the Guardian. I know you've said that the current forecasts aren't conditioned on any particular outcome for trade policy, because of course there's a lot of uncertainty.

But I know you've looked at this in the report, and I wondered if you could just talk us through the potential impact on the UK economy of tariffs.

And just I think you implied this but is the political uncertainty one of the reasons you're now being careful about monetary policy as well as.

Andrew Bailey

0:35:46

So, by the way, we have included a box in the Monetary Policy Report, which sets out a framework for thinking about exactly a question, which is obviously a very important question about how to think about the effects of tariffs.

And I would and you're right, of course, in my commentary on uncertainty. Yes, this obviously does feature in that in that assessment. So, two things I would say on the on the sort of the direction of impact, one on growth, one on inflation.

So, I think that if there were to be tariffs that contributed to what I would call a fragmentation of the world economy, then that would be negative for growth in the world economy. I think we have to be clear on that.

0:36:28

I hope that doesn't occur, but that would be, a result. It's not hard to, in a sense, derive that result from thinking about the sort of negative effects on trade effects on inflation, as we set out in the box, are much more ambiguous, actually. And that's because in a, in a country which is sort of not the, not the originator of the tariff, if you like, the UK wouldn't be. And that's because it depends upon a number of things. It depends upon obviously, what the reaction of other countries is to the tariffs. It depends on to what extent the tariffs lead to a redirection of trade and to what extent that affects the trading patterns of other countries. And it depends on movements of exchange rates, all of which are important.

So, we're very clear in the box that you can't make a clear and unambiguous, prediction on what would happen to inflation in that context, because it depends on a lot of things.

0:37:27

What I can assure you is that although we haven't factored in any adjustment in tariffs into our assessment in the in the forecast, because frankly, we just can't we just don't know what's going to happen. And I think, events of the last week have illustrated that.

We are we, of course, follow it very, very closely.

Clare Lombardelli

0:37:47

If I could just add on that, I would say it links a bit to the earlier, earlier question in the very sort of long run beyond our forecast horizon. Obviously, a reduction in trade would be inflationary through its effect on productivity. There is a very strong, clear link between trade and productivity. You know, if you look historically, if you look internationally, you can see that you can see that very clear. But that would obviously be long term.

James Bell

Thanks, Steve and Ashley. And then I'm going to go to Phil.

0:38:18

Steve Sedgwick

Steve Sedgwick CNBC. Governor, the market seems to have got a little bit overexcited about the Catherine Mann conversion to a dove from a hawk as well. And, seems to be, according to the headlines, pricing in more aggressive rate cuts from here, having sat in the lock in for two hours.

Have I missed something? Because as far as I can see actually, your forward projections are less dovish on interest rate cuts. First quarter 2026 looks a lot higher. End of the forecast period looks a lot higher, around about 4%. So have you got a message for the markets that they've misread your gradual and careful message. They seem to be getting carried away that we're going to have more aggressive cuts.

0:38:58

From what I can see from the report, it looks less aggressive. The cuts.

Andrew Bailey

0:39:01

Well, I think that first of all, obviously, there is no groupthink on the MPC. As I've said many times. And each member obviously votes as they think best. I, Catherine, will, I'm sure, be speaking in the near future and will explain her position in much more detail.

There is, of course, a paragraph in the minutes which sets out the voting position of the minority. So, I will leave Catherine to explain her position because I think that's appropriate.

But I would come back to this. I think it's important to focus very much. You know, it was 7-2 vote. So there was, seven members, took a took a reasonably similar view or identical view on the actual decision on rates.

0:39:46

You'll see in the minutes box there were some differences of view within the seven on the language. And that can be boiled down really to the choice between the word ‘careful’ and the word ‘cautious’. Actually, as you'll see in the minutes, you can see that coming through in the minutes.

And so, I would just, you know, be very, very clear that the position of the majority of the committee, which of course, eventually decides the outcome at any meeting, was conditioned on that and I would not therefore overinterpret any other moves in, voting patterns. I really wouldn't.

Steve Sedgwick

0:40:19

Overinterpreting. The forward interest rate cuts from here, i.e. they seem more. I think there's going to be more aggressive cuts from now. And you're not saying that in the slightest.

Andrew Bailey

0:40:28

Honestly, what I would say to that is that I think it's important that the view on the future path of interest rates comes, is based on the sort of economic fundamentals. I mean, that's what really determines it and then I'd come back to this point that we made in the report. We think the path of disinflation remains in place very much as we had it back in November.

0:40:51

There will be a bump in the road, but we don't think that bump is going to have a long-lasting effect. And there is a lot of uncertainty coming back to the point I made earlier to Sam, about the degree to which the path of activity is going to be supply or demand driven, and that really is going to be if you think what's going to shape this, how that sort of shakes down is going to be the thing that really, really influences it.

Dave Ramsden

0:41:16

I'd add, if I may, we've said this before. I mean, the market is obviously entitled to its view, both in terms of where it thinks rates are going and where they're trading.

We have to take a 15-day average. We've seen movements since then as we've seen before. But back to Andrew's emphasis and our emphasis on gradual and careful. I mean, we've been saying

gradual since, near the start of the cutting cycle last August. And I think developments in the economy have validated a gradual approach. And as we've stressed in the current report, there have been important developments since November and in the last few weeks.

But those we're trying to frame those in terms of the uncertainties that Andrew was emphasizing around how much of the persistence, in inflation can be explained, but also how much the weakness in activity is demand versus supply.

0:42:28

That's a kind of critical uncertainty for us, because that will have implications for the persistence of inflation.

James Bell

I've got Ashley, then Phil, then Sue.

0:42:39 **Ashley Armstrong**

Thank you. Ashley Armstrong from The Sun. So, most Brits will be watching what you've done today and what you're saying in relation to what that what it means for their own personal finances, of course.

And in your report, despite today's interest rate cut, you say that around half of households will actually be having to remortgage at a higher rate over the next three years. If we add that also with your projections for lower growth than expected higher inflation, what does that actually mean for most Brits pockets? Are they going to be better off over your forecast projection period or not?

Andrew Bailey

0:43:14 So, it means.

Ashley Armstrong

0:43:15

Do you think that there will be as a result of the higher inflation, the higher mortgage, monthly costs, the lower growth? Will they be better off or not over your projected forecast period?

Andrew Bailey

0:43:28 Well, of course, in terms of mortgage rates, as we've discussed before. I mean, they are priced off the interest rate curve, and the interest rate curve, of course, has been the market was essentially pricing what we've done today in for some. I don't think the market was surprised by what we did today.

0:43:44

So, I don't think that will have a major impact on mortgage rates, because I think they've already been anticipated to a considerable degree.

Now, as I set out, we do face what we think is this sort of bump in the road on inflation. And as you can see, I spent quite a bit of time explaining it because I think it's important to just set out all the reasons, we think this is that are causing this. Energy prices, some utility prices. And but then to make the come back to the point, we don't think that's going to have a lasting effect.

0:44:18

However, I want to be very clear because you raised a very important point. There is, of course, we target inflation, that's our job. We do recognize that the cost of living is a different concept. It's a levels concept in terms of prices. So yes, it does concern me obviously that the impacts of these, one-off effects do impact the cost of living.

Now we are seeing of course, in general terms we're seeing pay increase in the economy leading to an increase in real earnings. And that's obviously a helpful in that respect. So, I would stress that point.

0:44:55

But I always want to be very clear, because I think it's so important to note for your readers that we do understand this distinction between inflation and levels.

Dave Ramsden

0:45:04

And just on if I can add, Andrew, on mortgages, because it's linked to the point that we've been stressing that because the disinflation process has been continuing, we have been able to reduce the degree of restrictiveness of monetary policy.

I mean, just to take, if you look at chart 2.9 on page 33, the key reference rate for the take a popular mortgage. The two-year 75% LTV mortgage. The reference rate has come down from its peak in 2023. From the OIS curve. But the actual, you know, the quoted rates for those mortgages, they peaked at just over 6% in 2023, similar to where they were back in late 2022. And they're now significantly lower than that, below 5%.

0:46:01

So, they're still relatively high compared to before inflation started to go up. And we tighten policy. But mortgage rates are coming down and that over time will support the economy and is supporting the economy. I mean, to give and you quoted one, you know, 111 statistic which is which is correct. But it's also the case that just over a quarter of mortgage accounts are expected to see monthly payments decrease between 2024 and 2028 Q1 because they're either on variable rates or they were fixed over that period of higher rates.

0:46:39

And now as we get into the period of gradual reductions in rates and that feeding through into mortgage rates, that will support the mortgage market and demand, and, elsewhere in the report, we emphasize that we think that the housing market is picking up.

James Bell

Okay. Thanks. I've now got, Phil and Szu and then I was going to go to Graham and Maureen. We've got about 15 minutes left. I think we will get to everyone, but we'll see.

0:47:07 **Phil Aldrick**

Thanks. Thank you, Governor, Phil Aldrick at Bloomberg. You've done a bit more broad analysis of the impact of the NICs rise from the budget. Now, which you say that it will lead to more job losses, I think, than you were anticipating before, and also higher prices. At the same time, you've downgraded your short-term estimates of the supply capacity for the UK. Are the two related? And even if they're not, I mean, what is the sort of general impact of the of these next rises? Do they contribute to. Do they make you more careful or do they encourage you to continue with the gradualism?

Andrew Bailey

0:47:45

I would say, Phil, that we really haven't received any evidence and information since the last forecast, which really has changed our view. Particularly we made a small adjustment, as you rightly said, but we haven't seen evidence yet that we changed our view on the impact and channels through which the NICs effect will come through.

We talk a lot to businesses. We've got our decision maker panel, which we explicitly asked about it in. We've got the agents, all of us, when we go around the country, obviously talk about it. I think it's fair to say, and I certainly find this when I talk to businesses, that at the moment when we lay out the channels of how this can come through, that businesses tend to say all of the above. I think they're very much waiting to see how this will affect one point.

0:48:30

We did draw out more, which I will point to is that there will, be one area where those one of those channels will be constrained because the effect of the national living wage increase. And I'm not saying this to be too critical of the national living wage increase, just to be clear. But it does, of course, constrain the adjustment channel or the wage adjustment channel in the Nic adjustment for those for those employers who've got a higher proportion of employees that are at or below the national at the National Living Wage. So that's one channel.

But big picture, we really haven't yet changed our view.

Phil Aldrick

0:49:04

Of the potential for changes to that at all.

Andrew Bailey

No not really. No, it's not a particular factor in that.

James Bell

Szu then, Graham.

0:49:15 **Szu Chan**

Szu Chan from the Telegraph. You've cut your 2025 growth forecast in half. How much is that to do with the budget? And just to be clear, given, as you said, you devoted a chunk of your opening remarks to stressing that the spike in inflation this year will be temporary. Does that mean you are comfortable cutting rates further against a backdrop of what you say is a backdrop of rising headline inflation?

Andrew Bailey

0:49:40

So, I'll take them in reverse order if you don't mind. So, let's go back to what I said at the beginning. We do see a pattern and a picture where the disinflation trend remains in place. And I spoke quite a bit about services inflation. Now we'll have to watch this as we always do, of course, as you'd expect us to do carefully. But that will be the backdrop to decisions on interest rates going forward. And asI said earlier, my expectation is that the path remains downwards, but there is more uncertainty. And that's why we've introduced the word careful, frankly. But, you know, I would say the path, my expected path is downwards, but there will be the word gradual and the word careful can apply very much. So those are the ways in which we'll judge it.

0:50:24

On the first part of your question on the growth forecast. It's not it's not sort of goes back to Phil's question, really. No, it's not a judgment on the on the budget in that sense.

The judgment really is that, as we said, growth has been flat as measured since, really the sort of spring of last year, actually. So, going back before this, and we've had to then say go through this process of to what extent is it supply or demand? But we've had to revise down because, frankly, the evidence is there now.

It's left us with, as I said earlier quite a few puzzles, frankly, as to what's going on, because particularly because of the way in which the increase in population will come through and what effect that has, because I said earlier, just going back to Sam's question, yeah, we've got more population, we've got more labour force and we've got the same output. So, you can only conclude then that you've got lower productivity.

0:51:21

But negative productivity, just to re-emphasize the point is not it would be very unusual if that persisted. Frankly, I mean that's a very odd situation to find yourself in. So that's the real backdrop. It's not a point about the budget, really.

James Bell

0:51:36 Graham and then Maureen.

Ed Frankl

0:51:40

Thanks. Ed Frankl from the Wall Street Journal. Given in the monetary policy report, you go at some length into saying that tariffs, the effect of tariffs will have an unclear effect on inflation. How long will it take for the Bank to finally assess the impact? And perhaps as an addendum that you did say, the report is not conditioned on any changes in global tariffs? So, for the record, does that mean if any are implemented on major economies like in Canada or Mexico of recent weeks? That would decrease growth in the UK, or would it make it less likely that inflation would reach 2% by the end of 2027?

Andrew Bailey

0:52:31

Well, first of all, I think to your question, we've seen this this week. Look, I think we're going to have to give the administration the US time to form the policies it wants to form. And then we can judge the effects of those because we're just not in a position to judge these effects at the moment because we don't know what the policies are they do change from day to day. We've now got a 30-day period where, there's a sort of a process going on, we presume, but we don't know what that is and where it's going to end up. So, I think we have to, let that take its course and then we'll judge it. But of course, we will judge it when it happens.

0:53:11

Now to your point about tariffs on other countries. Well, again, we would have to judge, the significance and the impact of those. Go back to the point I made earlier in if there were a broad increase in or a broad move towards what I call fragmentation of the world economy, that would be a very significant thing. Now, I said earlier that the impact is clearer on growth than it is on inflation. But we would have to make that judgment. Now individual tariffs may, you know, may or may not get us there. We'll just have to wait and see where they go to.

James Bell

0:53:47 Okay. I have got Mehreen, Chris, Tim. And then I think that might be it. We'll see.

Jack Barnet

0:53:56

Hello, Mehreen. Just actually had to step out. Sorry. Jack Barnet from The Times. On the supply, stock-take which you've updated in the in the report today. It's slightly lower than what you had previously. Can you just elaborate a bit more on that. I'm sure there'll be some repeated points in terms of how poor productivity has been, even though we've had this increase in the population. Can you just elaborate a bit on that, and then can you also just potentially point to some policies which may reverse that trend and try to stimulate potential supply as well?

Andrew Bailey

0:54:28

Well, let Clare come in. Obviously one policy will be to get the LFS, the labour force survey, more firmly established and based. But. Clare.

Clare Lombardelli

0:54:39

Yeah. Let me let me talk about this a bit. I mean, look, it's very hard to judge the supply capacity of the economy in the in the short term or the long term, right. It depends on the size of your labour force, your capital stock productivity. These are all these are all quite difficult things to measure. We have had some new information. So, in particular we've got new population data which the ONS has released. We've sort of fed that through into some of our long-term judgements, particularly about the labour force.

0:55:10

They haven't yet put that through the latest data into the Labour Force survey, which is obviously really, really important to us. When they do that, we will take it, on. But at the moment what we've got isa slight increase in population size and labour force size, as you can see, which feeds through to the to the long-term numbers. We haven't made a sort of radical adjustments there. As I said, the thing that matters most from a kind of rate setting, policy-setting is actually the sort of short-term supply. And how much of this activity change that we've seen in the fall in activity is, is demand or supply? I mean, on policies, that's not that's not sort of for us, for us to comment on. But I would refer back to the comments we made earlier about productivity.

And really that is the thing that, and this is not a UK problem or advanced economies with the exception of the US, have been suffering a really sort of challenging time on productivity ever since the global financial crisis.

0:56:13

So, you know, the sorts of policies that would address that around, you know, public investment, private investment, all of those sorts of things are exactly the sorts of things that you would.

Jack Barnet

Is it still the LFS?

Clare Lombardelli

0:56:30

So, we get a gauge on the labour market by looking at a whole range of, of indicators. We you know, obviously the LFS is a part of that, an important part of that, because of the well-known challenges with the LFS, we've now looked to a much broader range of indicators, as we've talked about before. The ONS is committed to improving it. We're working with them.

0:56:50

Improvements are happening. They've boosted the sample size. That is very, very welcome. There's still quite a lot of work to be done there. We're very committed to doing it, including things like mapping it to the latest population data, including boosting the sample size. There's a whole set of things that we've set out, including publicly what it is we need to see there to be able to use the stock's data and also the flows data, which are really important to us. So, it remains a challenge. It remains a sort of area that we're everyone's working to improve.

0:57:25

But on the labour market as a whole, as a result, we look at a broader, range of indicators. And in some aspects of the labour market that's more helpful than others. We can get a really good gauge on wages. We can get a good gauge on things like employment from other data sources, some of the issues around participation, but a bit harder.

Dave Ramsden

0:57:45

I mean, if you just, to give you a graphic example, if you look at charts 2.14 and 2.15 that show employment growth and the unemployment rate, you can see that the LFS numbers are pretty volatile. And the indicator models that we look at for employment growth and unemployment are much more stable and just give more of a signal.

James Bell

0:58:09 Okay, we can run on for five minutes just to make sure we get to these last few. I've got Chris and then Tim and then.

Chris Giles

0:58:19

Chris Giles from the Financial Times. Just to characterize the decision and the forecast today, it looks as if the data has been pretty good and disinflationary and the decision is pretty dovish. But the forecasts are pretty terrible. With higher inflation across the forecasting horizon and lower growth across the forecasting horizon. That does make people ask the question, do you believe your own forecasts? And assuming you do, why is the UK? We've had meetings from the other big central banks recently.

Why is the UK apparently alone in having such a difficult time in time in getting inflation down compared with other countries?

Andrew Bailey

0:59:06

Well. The forecast is an important input to the policy decision, but it's not the only input to the policy decision. And I did you know I've made quite a point today. And it's important that there is a lot of uncertainty around. I think it's an interesting question.

Look, we've set out and you know, I really, you know, deliberately today spent quite a bit of time explaining what lies behind this short run pickup in inflation. Because it's important it's important to explain it so people understand it.

0:59:38

It's also important to then, you know, in a sense, take the message that we have taken in terms of what we think will be the consequence and consequences in terms of inflation persistence, which we think will be very little actually.

Now, when you look at that pickup, some of it is quite UK specific or, it is completely UK specific. Things like water charges, bus fares and so on in that that area of sort of utility and sort of administered charges is very UK specific.

The energy story is of course a mixture. I mean, what as I said in the chart, what we're really seeing is it's a pick-up in gas prices in Europe over the winter, 20% increase since we were here in November.

1:00:29

That of course, the gas market is a European gas market. So, the weather, of course, is European. These pipeline disruptions are European because it's related to Ukraine. There's some disruptions in Norway, I think, as well. But of course, how it feeds through into energy pricing is quite country specific because each country has a very different way of doing it.

1:00:52

So, we can map it for the UK because we know we sort of pretty much know how Ofgem do the cap. So, there's a mixture there of UK specific and other elements. But there is I would say, Chris, there is quite a lot of UK specific stuff in there actually.

Chris Giles

Even in 2027?

Andrew Bailey

1:01:10

No, not in 2027. No, I'm talking about the hump in the short run.

Dave Ramsden

And it's worth saying I mean, we quoted the figures earlier, but, inflation has ticked up in the Euro Area. You do get these short term factors. As Andrew was emphasizing earlier to your comment about the forecast, after this year, growth is very similar, GDP growth to what we were forecasting back in November. And there are other strengths that the UK economy has. I mean, measured unemployment - I was just talking about it being volatile - but it's still measured at about 4.5%. I mean, unemployment in the Euro Area is close to record lows, but it's still at 6.3%. So, you know, there have always been trade offs between a flexible labour market and, you know what that might mean for productivity. That's one of the characteristics of the UK.

James Bell

Right? Last two. Tim and then Nisha.

1:02:14

Tim Wallace

Thank you. Tim Wallace at the Daily Telegraph. On productivity, Governor, the report shows clearly the public sector is expanding quite rapidly. Public sector productivity growth is not very good. Can you explain why that is and also how productivity growth in the wider economy can rebound at a time when it's the public sector driving growth?

Andrew Bailey

1:02:33

One of the things that we do point to in the in the box that we did on supply side is -and actually, by the way, this goes back to, well, 4 or 5 years actually, that there's been an increase in public sector employment relative to private sector employment.

1:02:47

Now public sector output is measured by a whole series of, if you like, sort of conventions. So, I think, I think it's fair to say that we have seen an increase in public sector employment. We haven't seen a commensurate increase in measured public sector output. So, part of the story is, is that one. It's not the only story. As we set out in the box.

Again, I can't tell you, Tim, to what extent that's a sort of a real phenomenon and a measured phenomenon, because as we say there are sort of conventions in terms of how you measure outputs in the education sector, how you measure it in the health sector.

1:03:28

We spent quite a lot of time looking at these during Covid because it became quite challenging during Covid, of course, as to how to map these.

1:03:35

So, it's an issue, I think I would caution about drawing any sort of strong conclusions about what you think about what's going on in the public sector, because there are a lot of conventions about how these things are measured.

1:03:50 **James Bell**

And last one.

Eshe Nelson

Eshe Nelson from the New York Times. Just quickly, the Federal Reserve left the Network of Central Banks and Supervisors for Greening the Financial System. What impact do you expect this to have on

the network's activities, if any? And also, just on the general sense of commitment towards these goals. And have you had a chance to speak to U.S. Treasury Secretary Bessent?

Andrew Bailey

1:04:14

Well yes, the Federal Reserve has left the network. It's a choice that each central bank makes. You know, obviously, membership is not compulsory. And each central bank has different objectives in its remit. And so, I respect the decision that the Federal Reserve has made. We have decided to continue to be a member of the network.

1:04:36

And the reason that we are a member of it is not through any institutional position on, you know, the politics of climate change. We don't take any position. I think the network is useful for the macroeconomic modeling it does on climate change. So, we value the fact that we can come together with the other central banks and think about the long-term modeling of the macroeconomics of climate change. I think it's a good thing to do. It's important, but it doesn't go further than that.

1:05:06

There's no judgmental view buried in there about the politics of climate change or indeed anything other to do with climate change. I think it's just a good forum for macroeconomic modeling, and that's our decision. But I respect the decision of the Federal Reserve has taken.

James Bell

And then the bonus one for John Paul.

1:05:23

John Paul Ford Rojas

Thanks, John Paul Ford Rojas, from the Daily Mail. You talk about the increase in inflation later this year being temporary. And of course, a few years ago it was described as transitory and that didn't turn out to be the case. So, I just wonder whether the insertion of the word careful, is a result of that perhaps bitter experience of a few years ago, In terms of your plan for interest rate cuts?

1:05:52

Just one other thing, if I may. The Chancellor recently gave an interview in which she talked in positive terms about Goldman's forecast that rates would be cut six times this year. Was that helpful or unhelpful to you as a central bank for the Chancellor of the Exchequer to be making those kinds of comments?

Andrew Bailey

1:06:11

Well, I don't think it has any real relevance to our decision. I mean, I think the Chancellor obviously can choose what she says. I respect what she says. She was commenting on an outside forecast, but obviously that outside forecast doesn't have any particular effect on our forecasting at all actually, we obviously take an independent view.

And that's it, frankly, on that.

1:06:33

On the question of, temporary and the, the pickup in inflation, the word gradual is, as I said, is in there because there is more uncertainty. This is only one part of the uncertainty. We had a number of questions about trade policy, which of course is another area of uncertainty. Just to go back to your point, about a few years ago. Can I just say, look, there is a basic piece of economics around supply shocks and the way they feed through and don't feed through. And nothing I think has really changed in that respect.

The problem we had a few years ago, my view was that we had a whole series of them which kept very big ones, which came one after another. And of course, you can't use the word temporary in the same context when you have this elongated series of very big supply shocks going on, because it just it just stretches the bounds of in a sense, understanding of that term. Now we don't two things I'll say we don't see that happening today.

But, secondly, this is very important. You have to then put it into context. And let me just go back to two bits of context in my opening remarks or three bits. You know, we obviously are seeing a weaker profile of activity. As I said in my opening remarks, the labour market we think is in balance at the moment. And thirdly, just for the monetarists amongst everybody, we do look at monetary data.

You saw the chart I used. I think that's the best way to sort of take the monetary perspective on this, to look at, not just to look at monetary aggregates from month to month, but to relate them to nominal income. It's actually come back to its trend line.

1:08:15

And as I made a point of saying, if anything, it's on a declining trend. And that's significant, I think in terms of judging the situation we're in. So that's the way I'd look at it.

James Bell

1:08:24

We really are done now. Thanks very much for coming. Thank you. Enjoy the rest of the day.