Andrew Bailey

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

Katie Martin

Should we do Mehreen and then Ed.

Mehreen Khan

Hello. Mehreen Khan from The Times. Governor, for the last couple of months, you've told us that the market's been doing a bit of work for you with financial tightening. And that's given you time to wait and see about the evolution of oil prices. Your colleague at the fed made some similar comments, but they weren't taken so well because at some point you have to sort of validate where the market is. Are you ready to give them that validation, which is eventually there will be monetary tightening? Or actually, are you more comfortable if there is if some of that financial tightening disappears because the conditions in the domestic economy at least would give you breathing space on the opposite side.

Andrew Bailey

Well, I'm not going to comment on the situation in the US. That's obviously for the Federal Reserve and for Kevin Warsh. What I would say is this, and just to really repeat what I just said, I think that the situation we see with the market curve is entirely consistent with our reading of the economy. So, when you say the market's doing the work, I think actually it's a reflection of the economy. The market is reflecting that.

Our views, I think are consistent with that. It is consistent with the central view in the market that rates will stay unchanged this year. But there is a distribution of risk which puts it on the upside.

And one way of illustrating this, these three scenarios that we've got and particularly the central one I would caution somewhat that the, the world is so uncertain at the moment that the probabilities you would attach to those scenarios, and particularly the central one is lower than usual. But if you look at the distribution of those scenarios, you can see the similar pattern. The upside scenario is further from the central scenario than the downside scenarios. And I think that's a reasonable illustration of the economics.

Ed Conway

Hi, Ed Conway from Sky News.

Only three months ago, the world felt very scary, and a lot of people expected that the Bank of England at this point was going to be raising interest rates. I mean, you said a bit about the kind of change in the background that's helped contribute to leaving rates on hold. I just wonder, you know, does the world feel less scary now than it did three months ago? And also, what would it take you? What are you looking for to, to make you actually act?

Andrew Bailey

So I'm sure Clare want to come in on this. Let me kick off briefly. The world feels - particularly obviously the situation in the in the Gulf and the Middle East - feels as uncertain and volatile today as it as it did then. I think it's the right you can see that if you compare our upside scenario today. The Scenario Cit was that we had back in April you'll see it has a different profile. It's got a lower peak, but it's persistent.

And I think that does for me that reflects my thinking, such as it is about how this conflict plays out in a sense that we're faced, I do think there are points of resistance in this process. I'm talking sort of broad geopolitical terms now that set in when oil prices have gone high, particularly well above when they get above 100.

But as we've seen and I highlighted in the describing the window, the normal window, that we've had both the ceasefire period and the breakdown of the ceasefire period. So the way I look at the upside scenario today, it's a more persistent missiles get fired, period. We don't know what ends it because we don't properly understand really what's going on there at the moment. So that's my sort of evolution of my thinking there.

Now, I think the last thing I'd say, coming back to what I said earlier is, however, I do think that we've seen more evidence that indicates that the disinflation process is in place. CPI is under today. the latest number is under where we thought it would be back in April. That's obviously encouraging. But the big question there is, is this going to carry forward to the period when the second-round effects from the energy price come through. But Clare, did you want to.

Clare Lombardelli

Yeah. What I would add to that is as you say, we've learned quite a lot since the last time we were sat here doing a press conference. And you can see how that has evolved through the scenarios that we've done where we've learnt, if you sort of cast your mind back to then, it was unclear how long this would go on for. There were worlds in which actually this could escalate through energy prices quite quickly, but also end quite quickly.

Sadly, we've not seen that resolution. We've learnt that this could go on for a lot longer.

We've also learned that some of those very extreme energy prices that could, felt, possible then haven't come to pass and are unlikely to come to pass, which is why we've adjusted the scenarios to reflect that learning over the last, the last three months.

Dave Ramsden

And just to build on what Clare says in terms and Andrew says in terms of the learning, I think the adverse scenario we've got is, if you like, a continuation of this episodic nature of the conflict, which gives you more persistent higher energy prices and, and the learning, I would argue, and we use this language, I think means that that upside scenario, that adverse scenario is a plausible possible future.

Equally, we've had more evidence, as both Clare and Andrew were saying, on the underlying disinflation process continuing and were the were the balance of risks to change. Andrew's been very clear. I think we've been very clear that we see the balance of risks on inflation tilted to the upside. But - and that's coming from global factors - were that to change, then you're you know, you've got more chance of the milder scenario playing out. But that's not where we think the balance of risks is at present.

Faisal Islam

Thanks, Governor. Just to clarify, I think you did say this in terms that if the conflict persists at the current clip, essentially a rate rises on the cards. But if the sorts of de-escalation that sort of tentatively appeared about a month ago, if that persists, then you could even cut. It just seems so dependent now on what happens geopolitically, well beyond even your powers, Governor.

And then secondly, are you surprised by the resilience of the UK economy? There's a little bit of a bump up in growth and and and there's been some more positive numbers over the past couple of weeks.

Andrew Bailey

Well, I think it's interesting when you say about the current level of the conflict, because you even look at the last week we've had we had a period last week where it looked like there was some settlement and some reduction in activity and then it's come back again. So I think we when we talk about the current level that's obviously a slightly hazardous comment. So there is huge uncertainty there and as you say, rightly so.that is very important. Just to reiterate, I think there are two lenses, if you like, here.

One is that and the other is then how it's reflected through into the UK economy. And this picture I think I described where we are seeing the disinflation process continue as I described there's quite a lot of evidence that's coming our way that for instance margins are taking more of the cost pressure. But, there's an awful lot of distance to travel on that story and we need to see how it evolves.

Tom Rees

Tom Rees from Bloomberg News.

Clare of the people who vote to hold rates today, I thought you sounded the most cautious. Was it a close call over whether to hold or hike today? And how much longer do you feel that you can wait before acting on rates?

Clare Lombardelli

Sure. It wasn't a close judgment for me. I think it's pretty clear. And I was pretty clear that holding rates at their current level was the right thing to do. I think basically you've got these sort of two opposing factors.

We have had more evidence on disinflation. I've sort of learned quite a lot about the security of that disinflation process prior to the war. But obviously there are a range of other things that have factored in. The conflict itself, obviously, raising inflationary pressures other risks around that. So you've got these two effects happening at the moment.

We have got some restriction in the economy. Now, I think the thing that we are watching, the thing that matters is actually this, what will this do for second-round effects? How will these increases inflation through to the direct and indirect effects that we know are coming?

We know inflation is going to go up later this year. We certainly expect it to because of the indirect effects. It's how that plays through into wider inflationary pressures. And it's that assessment of a whole range of data. And we've set out a lot of the things that we're looking at and monitoring.

And it's about those pieces of data and how they all interact with each other that will form the judgment on where rates need to go.

Tim Wallace

Tim Wallace at the Daily Telegraph.

Governor, can you expand on the risks to the outlook for food prices, please? There's the wildfires going on. The MPR mentions El Nino and some of the disruptions from the Middle East. What are you looking at when it comes to the impact on food prices, living costs, the wider economy and monetary policy from those factors?

Andrew Bailey

Well, the first thing to say is that the information we've received in this round on the likely increase in food prices through the rest of this year, would indicate that it will be lower than we thought it would be. And that's a mixture of information we get from our agents, information we get from surveys.

And obviously that's encouraging. So let's start there, as it were. Now you're right to say that there are quite a few risks around it.

I think you probably named most of them, but I'll say a little bit more. So first, obviously there is the effect of the pass through of energy prices themselves. I think one of the things that I was struck by four years ago was just the size of the energy content in processed food costs. It is probably larger than many people, Imy hand up here, would predict it to be if you were asked to guess it without knowing the answer to the question. So that's obviously highly relevant then, as you said we don't for a moment pretend to be experts on this subject, but we can observe the reporting that there is a buildup of what looks to be a large El Nino system in the Pacific Ocean off the coast of Latin America. And we know from, I think from past experience that that does have effects on the world climate to come. So we'll have to watch that one very carefully.

I won't put it more than that. I think at this stage, because it's obviously (a) uncertain and (b) it's a it's not our area of expertise. So there are a number of issues at play here in terms of risks

Dave Ramsden

Just to build on that. One thing we've also emphasized is how these shocks could interact.

El Nino plus were there problems with supply chains perhaps linked to a re-escalation of the conflict. We flagged in Box E how because of El Nino, there were challenges with getting through the Panama Canal. And again, as Andrew says, we're not experts in these in supply chains or in climate.

But, but we do think that these could have consequences for global prices, which is why we see the risks tilted to the upside on inflation relative to our central projection.

Eshe Nelson

Eshe Nelson, New York Times.

So you've talked about this underlying disinflation still continuing in the background. And assuming a relatively soon resolution to the conflict that may be returning as the dominant factor. But just in terms of economic activity, do you see, can you just kind of talk about what you see as being the underlying trend there, whether an end to the conflict could see that speeding up, or is that weakness in demand continuing?

And then I'm not going to ask you to comment on what Kevin Walsh has said yesterday, but I do wonder if you feel that the refusal to give any forward guidance leads to volatility in Treasury markets that then can impact the gilt market. If you have any sense of that spilling over more globally.

Andrew Bailey

Well, I'll do the second bit and then I'll come in on your first question.

I think if you look at the gilt markets, you look at government bond markets generally, I think over recent months by far, of course, the biggest influence on volatility in gilt markets has been the fluctuating events in the Middle East. There's no question that's the biggest and dominant cause of fluctuations. I mean we've obviously followed we follow it very closely and you can see it, you can see it in very much in real time.

Clare Lombardelli

Yeah.

On activity at the moment is we judge it to be relatively weak. So it was about 0.1% growth in the last quarter. That's obviously below what we would expect supply to be.

So you've got weakness there. I mean we do you know in our central projection. And as Andrew says, I wouldn't put too much weight on it. But we do have that weakening slightly as, as and we've been expecting that for some time. As we've heard, the economy has proved more resilient than in lots of expectations formed.

And actually, we've recently more recently had some positive data around consumer confidence retail sales, the PMI, most recent PMI, those sorts of things.

So, we are obviously keeping an eye on activity. It has proved to be a bit more resilient than we might have we might have expected. But underlying the trend is one of relative weakness.

Phillip Inman

Hi, Phillip Inman from The Guardian.

One of the frustrating aspects of this press conference is we don't have any of the people who voted for a rate rise on the panel. Given that, could you explain a bit more about why you think they would believe that it's almost baked in that there are second-round effects coming and that that's why they voted for a rate rise.

Andrew Bailey

Well, you've got their paragraphs. One of the things that we've obviously changed in recent times is to introduce these individual paragraphs. So you can see that we set out there if I can speak for them for a moment, I think, yes, you'll see a difference of view in terms of concerns about the second-round effects. You can put different weightings on these scenarios as we said, Clare just said it again quite rightly frankly there we are all of us less sure about the weightings to put on these scenarios because of the volatility in the Gulf, particularly than we would, I think normally be when we have scenarios in front of us.

So that's very fair. And then I think so to speak, for my colleagues, I think there are some differences of view around whether given all of that and if given the sort of the distribution of risks, whether it's better to act sooner or to see how this evolves.

And that's reasonable, reasonable people can disagree. That's a sort of monetary strategy point really. I think we are, in my own view, as you'll see, has been set out. I think we are in a position where we can sensibly wait to see how this evolves, but I absolutely respect colleagues who take a different view on that.

Dave Ramsden

Can I just add something? And just on your point, Phillip, because these press conferences are always about the decision. And we almost every decision at the moment, there's a split vote.

But the press conference is about the decision we've made today. And as Andrew says, the paragraphs set out in quite a lot of detail, the range of views. But I think it's very important that the focus here is on the decision.

Delphine Strauss

You flagged up that it will take quite some time before second-round effects can be observed, although they are the’re the crucial part. Would you wait to make any move until you're able to observe those? Or would you potentially react on the back of movements and energy prices before we get to see those wage settlements coming through?

Andrew Bailey

Well, my view on that is, I think to sort of develop your point, that second round effects emerge over quite a long period of time, because obviously that's consistent with the transmission mechanism of monetary policy that we've explained and written quite a lot about and spoken quite a lot about.

So I think, I'd only go so far as to say that I don't think it would be wise to wait for all of the second-round effects to emerge because I think in most situations, if not all, it would be too late by that stage.

But that doesn't help with the sort of the underlying question you're asking, which is - Yeah so at what point would you therefore act?That's all very well to say, you wouldn't wait till the end. I think we just have to judge that by the situation we're in.

Dave Ramsden

And we have set out a monitoring framework in Box A to try and help frame this to exactly deal with the challenges that Andrew's just flagged. And we've given our assessment as of now in, in I think Box B.

So we're trying to be as transparent as we can about how these will will feed back to inform our judgments and our decisions.

Andrew Bailey

But there's no single measure that will give you the single answer.

Ritika Gupta

Ritika Gupta CNBC. Governor, I wanted to get your thoughts around QT. I know that the final decision is coming in September and you've, given some analysis of the impact of the balance sheet run off being modest. But I wanted to get your thoughts on the kind of the conditions, the kind of conditions, that would make you hesitant to continue with QT in the future.

Andrew Bailey

Well, I can tell you one thing with absolute certainty - there will be a decision in September, as there always is, and we will announce it. And it will be, it'll be transparent.

And as we always say and we've laid them out again. There are the principles that we operate under. And market conditions obviously form an important part of that judgment. So we will behave as we always do in that respect.

Patrick Tooher

Hi, Patrick Tooher from the Daily Mail. Just a quick follow up on that. Have you any plans to reduce the interest rate that you charge on bank's reserves held with you as a result of [inaubdible]?

Andrew Bailey

Well, the interest rates on reserves is a key anchor for the monetary transmission process. Because when we announce a decision like the decision we announced today on bank rates, you can well ask, well, what does that mean?

It means exactly that it's the rate we charge on reserves of accounts that the banks have to hold at the Bank of England, and then that transmits out into the economy. So our absolute focus is that we need that that rate to be aligned with the with the decision of the MPC to make that transmission process work.

So that's a slightly longer way of saying, no, that's not an issue that we've reflected on.

David Milliken

David Milliken from Reuters.

One thing I did want to ask is sort of whether sort of what the Bank of England does in rates is affected at all by sort of what the Fed or the ECB does, whether it becomes harder for the Bank of England to sort of keep interest rates on hold if the Fed potentially raises rates, if the ECB continues to raise rates further.

And just returning to this issue of sort of QT, I'm not expecting the bank to announce a decision today, but I did notice that sort of in the box, you did have a slightly higher estimate of what you think the impact of QT on gilt yields has.

I was just wanting to get a sense of whether that upward revision is the type of thing that has sort of much bearing on sort of a decision in September, or whether it's just a relatively small change, especially given that I think the Bank's last survey of market participants shows a lot of people in markets do expect the bank to slow the pace over the next 12 months.

Andrew Bailey

I'll take the first part. Dave may want to say something on the second part of your question.

Well, all of us as central banks obviously set monetary policy for our own domestic economy and our own domestic inflation situation. Now the UK is an open economy,so obviously we look at we look at world conditions and of course in some ways never more so at the moment, given what's going on in the in the wider world and particularly the conflict in the Gulf. So the world economy enters that way.

But ultimately we all set the level of our official interest rate to match thesituation in our domestic economy. And so we don't say what has the Fed done or what the ECB done and what should we do. But we are looking at, obviously, the state of the world economy, the state of the economy of our trading partners and feeding that back through into the assessment system we have.

Dave, do you want to.

Dave Ramsden

Yeah. Just to recap on the analysis we published today in Box G and I mean the story so far on QT - the stock of assets peaked at 895 billion in terms of the stock of assets for monetary policy purposes. That was at the right at the start of 2022. Four and a half years on we're down at 491 billion.

So that's a 400 billion fall. So that's the scale of QT over that period. 10-year gilt yields have risen by about 350 basis points. And we think about 200 basis points of that was driven by term premia. So that's your context. And then within that we our latest estimates are the impact of QT, which remember is over that period, is about 20 to 30 basis points. That's up from what we published last year of15 to 25 basis points.

But these are very small incremental increases against that backdrop. And suggest that QT is driving a very small fraction - between a tenth and a sixth of that total change in term premia - which is, as Andrew was emphasizing earlier, entirely consistent with our principles that bank rate is our primary tool, and QT is operating in the background and is well understood.

Mauricio Alencar

Mauricio Alencar from City AM.

You've talked about the analysis there on how much QT has impacted gilt yields with the new Prime Minister and new Chancellor coming in. How much of that premia is actually down to economic policy uncertainty? And just on a general note, what advice would you have to Burnham and Healey in managing the economy?

Andrew Bailey

Well, on the first point, I think really, what is it, a week and a half? The measurement exercise that we did and that Dave's been talking about runs a lot longer than that, in fact actually terminated before that point. So please do not try to in any sense derive any sort of assessment of the change of government out of that, that calculation, because it's just not there.

I think look, as far as any advice I would give, if you don't mind, that's obviously advice that the Chancellor and I talk regularly. And I think there is a role for us having those conversations. And I think advice might be a slight overstatement, but we do exchange views. Have done with quite a lot of chancellors now, and I very much look forward to working with the new Chancellor. We've already had conversation and that's good.

Anna Wise

Anna Wise from Press Association.

You've talked about businesses are more likely to absorb pressure from the Middle East into their margins. What consequences do you think this will have on the business environment. And do you expect more businesses to collapse as a result?

Clare Lombardelli

This is a challenging cost pressure for businesses to absorb, and to some extent pass on. We take some comfort from what we've seen from an inflation perspective in terms of, if you look at, for example, some of those surveys about own price expectations, those haven't gone up as much as you might expect, our analysis might have expected. So that's where we're getting this suggestion that there's going to be this squeeze in profit margins. It's another cost to businesses that are quite difficult and challenging time.

I spoke earlier about some of the weakness on the activity side and in demand. So that that will add to that as I say, we have seen more resilience than could have been expected. And some of the more recent data has been quite positive. But we're keeping an eye on that. It's a challenging environment out there for businesses.

And we recognise that. We hear about it a lot through our agency network out and about talking to businesses around the country all of the time. So we've got a good sense of how they're feeling and what are the things driving their costs. And, and insofar as they're able, what they're expecting to do with pricing.

Andrew Bailey

I suppose the other thing, this is a fully dynamic story. So you would imagine that if, as we're describing, businesses are finding it difficult to pass costs on into prices, of course, that will cause them to re-examine their costs.

Josia Popowicz

So Governor, my question is around the new communication strategy and the risks around second-round effects.

So we saw today that MPC is edging towards edging towards a hike. You yourself highlighted how much searches have increased around inflation on the internet and also that wages and parts of the economy have been falling. So communication is particularly important at this time. And so my question is, um could sharing each MPC members views as well as multiple scenarios be adding to uncertainty and the risk of second-round wage effects, particularly among members of the public who aren't finance professionals.

Andrew Bailey

Well, can I first of all say that please do not leave this room thinking that the Bank of England is edging towards a hike, because, frankly, there's nothing in what I said, and I think any of us have said, along those lines.

We took a decision today to leave Bank Rate unchanged, and that is the relevant conclusion. This whole transparency question is really interesting going back to Mehreen’s question at the beginning - you might say, well, obviously I'm not going to comment on the Federal Reserve except to say obviously there's a lot of commentary on sort of in a sense that the communication has in a sense become quite limited in some sense.

That point is being made. I'm not going to make that conclusion. I just observe that it is being made. Now you're making the reverse point that we've actually expanded communication. We've got the paragraphs, we've got scenarios. And that was much obviously, in response to the report that Ben Bernanke did, because that was very helpful to us in thinking about it. I think the point on which I agree with you on is that it's not just communication for the sake of saying things.

It's got to convey meaningful messages. Now, those come from the combination of having a collective message. You get that obviously, with us, with the monetary policy statement. And that is the view of the majority.

Let's be very clear on that. But I think it's helpful then to be able to see the range of views. And I hope, I hope the paragraphs that each of us write help with that. That's what they're intended to do, to give people a sense of how the range of views is formed.

Lucy Lequier

Lucy with AFP.

You previously won the new Prime Minister of the current low growth in the economy, stating they should be in his top priorities. Given that you don't have a dual mandate, how do you intend to navigate this equilibrium between raising rates to help him combat inflation and the effect that it could have negative effects it could have on the economy.

Andrew Bailey

Well, I made a sorry, I don't want to use this question to advertise my speeches, but if you don't mind, for a few seconds, I made a speech in the central bank of Iceland, actually. Late May, mid late May on this very point, actually. And I said, look, we don't have a dual mandate, but we do in our mandate have what we call what we tend to call, for short, trade off language.

In other words, when we face a situation, as we do at the moment where there is a, in a sense, a tension between a negative supply shock, which is pushing prices up and pushing activity down. Our mandate remains the same. It's obviously the inflation target, and that's very important. But the language in the remit, the so-called trade off language in the remit, gives us some flexibility about how quickly we return inflation to target.

And that judgment is made according to the structure of our remit. It's a hierarchical remit, like the ECB treatment actually. And the second part of the hierarchy is around growth and employment. So the point I made in Iceland is yes, we do consider that in the current environment that is a sensible thing to consider. It's our job to return inflation to target. We have got choices over how quickly we do it, and I think it's sensible to exercise those choices with the trade off in mind.

Jack Barnett

Jack Barnett from The Times sorry, I'm going to try and draw you into fiscal policy again.

Andrew Bailey

Well you can try, I can’tstop you doing that.

Jack Barnett

Also potentially one with your FPC hat on. There's been some talk about the new administration potentially looking at the bank levy or some sort of bank tax, maybe changing the regime. Would you caution Andy Burnham and his Chancellor against looking at the bank levy again, it's had a lot of criticism.

Andrew Bailey

I'm not going to really get into that because I've had no conversations. I've had a conversation with the Chancellor.

We haven't had any conversation about policy because frankly, you know, a week and a half is a short time - may not be in politics, but it is in economic policy. And so I think it's entirely appropriate that a government has a chance to think through its own approach to policy, to think things through. I'd be very happy to talk to them as and when.

And that's the right way to do it.

Hannah Brenton

Hannah Brenton from Politico. Coming back to the geopolitics, you said the UK is an open economy and you have to look at world conditions. But could you perhaps expand on do you think the UK is more exposed to the kind of on again, off again nature of the Middle East conflict and the effect on energy prices than other economies.

Andrew Bailey

Well, as I say, we are. I mean, the UK is historically a very open economy. So we are more exposed to events in the rest of the world. We've set quite a few of those out in the in the Report, because there are quite a few things going on. Now, that doesn't obviously necessarily mechanically give you the answer on energy prices, but what it does tell you is, yes, we do have to spend probably relatively more time as an open economy, examining the impact of the world on the UK.

Harrison Moore

Harrison Moore Market News.

So in the minutes it's noted that the dissenting members referenced research that found that setting policy as if there are stronger second-round effects, then course-correcting would be less costly than the converse. What is your take on this. And I know you've already said that you would view it, the potential evidence of second-round effects at the time. But do you have a sense of how confident you'd need to feel about whether they're materializing.

Andrew Bailey

Yeah this is a point, I think, when the previous question asked me to have to sort of, in a sense, put myself in the sort of position of the, of, of the minority and describe their decision, I mentioned this point, which is the, what I call, I think the monetary, the monetary strategy point. But I think just the way you frame the question was actually quite right, actually, which is you did make the point.

If the second-round effects were stronger, then this question, this strategy question comes into play. That is the better course of action to sort of be to take out sort of insurance, if you like, pre-emptive insurance or not. And so if, as I said, there are different views on, on, on the question of second-round effects at the moment, I think some of my colleagues, you know, well, I don't think the evidence points to stronger second-round effects, but I think they think there will be stronger second-round effects.

Speaking for myself, I think we should take something from the fact that we've seen weaker, weaker pass through in recent times. And going back to this point we are actually in the latest CPI numbers somewhat under where we were expecting to be.

And that under point reflects underlying inflation. It's actually in this area of the sort of persistence and second-round effects. So I'm not in that place of saying there are stronger second-round effects. I'm not in that place at the moment of saying I think there will be stronger second-round effects.

My jury is out, as it were. But I would say that we go into the position with having shown rather less in terms of second-round effects and its a point Clare made earlier as well.

Elettra Ardissino

Elettra Ardissino from the Financial Times on QT and the balance sheet, are you still of the view that the Bank of England requires an indemnity from government over future asset purchases?

Andrew Bailey

Yes, this goes obviously way down into the minutia of our balance sheet and our history. There really is an important difference between our position and other central banks. And it really reflects this, that our balance sheet is split into two parts by the 1844 Bank Charter Act.

So we have what's called the Banking Department and the Issue Department. And the Issue Department is, is the note issue. And the income of the Issue Department is the seigniorage, which is the profits from the note issue. And obviously the seigniorage is actually quite considerable.or take, it's around £4 billion a year .

Now other central banks have a combined,they have a consolidated balance sheet. Now what that enables them to do is to, that enables them to do one thing. And then another thing enables them to do another thing. So obviously they can use the seigniorage in a sense as a buffer, an income buffer.

They've also tended, some of them anyway, have adopted accounting standards, which allows them to book a deferred negative asset. In other words, say that's in a sense anticipating future seigniorage income.

We don't have that ability, because of the way in which the 1844 Act governs our balance sheet. So it's, now look it's been pointed out by the people, actually, our balance sheet is, our situation is more transparent. But it does therefore, to your question, underline why we do need the indemnity.

Francine Lacqua

Francine, Bloomberg TV.

How much does the uncertainty over the budget in the fall impact your thinking on the insurance hike?

Andrew Bailey

Oh, I like the way you slipped the insurance hike in Again. I'll just remind the answer I gave to the previous question that if you. I'll borrow the phrase of Alan Greenspan, the late Alan Greenspan. If you come out of this session thinking that we've talked about an insurance hike, you've obviously, I'm afraid not understood what we've said. But no, look on the budget, no it doesn't we approach we will approach this budget like every other budget we approach, we condition our view on announced government policies. When the budget is done we will therefore do just that.

Emma Taggart

Emma Taggart, The Telegraph. I'm just jumping back to the change of government this month. One topic that's come up is the UK tax burden, which is heading towards a record high. In your view, what would the impact be if this were to rise further?

Andrew Bailey

Well, again look, I think it's important that any government has space to consider what it wants to do about the situations that it finds itself in. I don't think it's helpful if people like me go around influencing the shape of that space in any way whatsoever. So I'm really not going to comment on that.

Delphine Strauss

It was a question on the global inflationary environment.

So on these forecasts UK inflation will be running above target for seven years I think before it comes back below 2%. And that's obviously due to these series of exceptional global shocks we've had. You're now pointing to another potential two exceptional global shocks in the form of AI supply chains and El Nino. So at what point does one have to see this global environment as normal?

Andrew Bailey

Well. First of all El Nino, as I said earlier, I think it's something we have to watch carefully to see how it plays out, how it shapes up. On the AI point, I would simply say that yes, yes, it is an issue. I get asked quite often what the inflationary impact of AI is going to be.

And I say, well, it depends, because AI can AI will most likely have productivity benefits, but it may have cost implications as well. And it depends on the sequencing of those things. But let me make one final point before I ask Clare to come in. We are also seeing some downward pressure on goods prices at the moment that may be reflecting the impact of tariffs and the fact that there is trade redirection going on.

But that's one to put in the pot as it's going in the other direction.

Clare Lombardelli

Yeah. I mean look you're right in that we've had a long period now with a series of, you know, each individually could be seen as quite an extraordinary shock. But actually, as you say, sort of seven years of this or depending on how you measure it, it's been going on for some time.

I mean, that is why we have changed the framework by which we're thinking about and communicating monetary policy to be one that is much less anchored around a single view of the economy, with a particular view of both the demand and in particular, supply. It allows us to think a bit more about some of these structural shocks, some of these supply-side shocks.

So it's one of the reasons that we're keen to use this framework in which you've got, you're thinking about other scenarios for the economy because of the sorts of shocks that you're facing. There's just a lot more uncertainty around there. Andrew's right, we've highlighted in a sense three sort of trends, shocks, pressures in the, the global economy in that Box. tTey do move in opposite directions. You've got the potential sort of trade redirection.

We've got evidence and analysis that shows actually that is pushing down on UK inflation. Now we think the AI question is a really interesting one. And you can see it not just actually in the global Box that we've done, but also in the agents analysis that show actually for companies in the UK they are they are telling us that they are seeing increased costs because of AI now. It's a really interesting question, how AI will transmit through the economy is obviously highly uncertain.

There'll be a cost element and we're beginning to see that now play through globally and domestically. But of course there will also be the impact on productivity, the impact on labor markets. And there's a whole range of scenarios there about how this may play out. We do expect, and you can see it in things like the DMP results that that we're getting, is firms are seeing an increase in productivity and are expecting an increase in productivity.

So that over time will change that, change that balance. But whether, as Andrew says, these happen, it may be that you see the cost before you necessarily see the supply, the supply benefits.

What we do know is there's going to be quite a lot of sort of transition and reallocation. And we've talked about the the El Nino as well. And I would broaden that out and just think in general, there's a there's lots of risks to food and other commodity prices out there in the global environment. We have to factor all that in. And it is something that we've always looked at, but we're increasingly putting analysis onto that and thinking about how those things may differ and what that might mean for our inflation paths.

Faisal Islam

The new Prime Minister’s first measure was obviously to cut VAT on electricity bills. So that you agree, I think does have an impact on the inflation number. So part of a pattern we've seen with the predecessor of almost trying to manage the inflation number through policy.

How much does the Bank, now you've seen a few of these types of policies, does that count as a sort of real reduction in inflation. Do you consider this to be a slightly different quality of inflation reduction? That requires a slightly different response from a central bank, because it seems to be quite a novel development that is now continuing.

Andrew Bailey

Well, let me say two things. We obviously put it through the forecast machinery, but obviously also we have to take into account how long it lasts for. It's not a permanent policy. The other point I make is, I think, quite rightly, the government has described this as a cost of living measure, and I've distinguished that. Yes, it has an effect on inflation, but it's not the government doing monetary policy for us. I mean, a cost of living measure is designed particularly to benefit the low income households.

And that's very much the right thing. That's a government responsibility. And I think it's important to distinguish that from our responsibilities. In fact, of inflation, we take it into account as we should do, and we do.

Henry Saker-Clark

Henry Saker-Clark at Press Association. I just want to ask about consumer spending. You've mentioned there's some resilience, but some of the survey data has also pointed towards, I guess, some sort of fragility. You pointed to supermarkets flagging fragile consumer sentiment also in the service figures as well. There's been some weakness. Is there a concern there that we're about to see some sort of issues facing consumers. And how does that play into your considerations?

Clare Lombardelli

Look, we monitor this very carefully and we look at household balance sheets and over time. We've we see mixed data and there's a lot going on in the data and lots of sort of temporary factors, as well as some permanent ones. We monitor this data on how households are doing. On average, the picture is one that wouldn't expect wouldn't mean that you expect to see a sharp deterioration.

But we're also very conscious that there are a set of households at the lower end of the distribution that are very stretched at the moment. But we don't we're not anticipating a sort of immediate fall off in in consumer demand. As I say, we've got a slight weakening in the economic activity data in our central projection.

These things are very uncertain. But that's our that's our outlook.

Andrew Bailey

I'll just say a couple of things. First of all, thank Bloomberg for hosting us while our premises,our facility is being refurbished. I really hope that when our facilities refurbished, we can hear the questions there as well as we can hear because it's a joy to actually do these press conferences when we can actually hear what you're asking.

The second thing I want to Nicola Heathman, who organizes all of this and for years has been shepherding this around,is retiring today. And Nicola actually has been in the Bank even longer than I have. She joined in 1983. So I'm a real newcomer joining in 1985, but I just want to put on record our thanks to Nicola for everything she's done to make these press conferences run as smoothly as they do. Thanks.