HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Dr Swati Dhingra to the Monetary Policy Committee, HC 460

Wednesday 29 June 2022

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Watch the meeting

Members present: Mel Stride (Chair); Rushanara Ali; Anthony Browne; Gareth Davies; Dame Angela Eagle; Emma Hardy; Kevin Hollinrake; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1 - 48

Witness

I: Dr Swati Dhingra, Associate Professor of Economics, Department of Economics, London School of Economics (LSE).

Examination of witness

Witness: Dr Swati Dhingra.

Q1 **Chair:** Good afternoon and welcome to the Treasury Select Committee and our hearing to consider the appointment of Swati Dhingra as an external member of the Monetary Policy Committee. Welcome, Swati.

I am going to ask you a little bit about monetary policy and inflation in particular. We know that at the last MPC meeting we had the fifth consecutive increase in interest rates, but there was a split on the committee—six-three, as you will know—with three of the nine members thinking you should go for a 50 basis points increase, as opposed to the 25 that was the majority view. Where would you have sat on that, had you been a member of the committee at that time?

Dr Dhingra: Let me begin by saying that, overall, the broad consensus seems to be that the range is somewhere between zero to 0.5. It is not like the time of the financial crisis, where we were talking about much bigger ranges of changes. In that sense, specifically what I would have gone for in what seems like a small range of zero to 0.5, yesterday I would have maybe said on the higher side. Today, having seen—

Q2 **Chair:** You would have been with the three external members that wanted a 0.5% increase, would you?

Dr Dhingra: Yes, until yesterday, when the new data came out, with the Consumer Confidence Index showing that consumer confidence is even lower. In hindsight, now I think that there may be some room for a very gradual approach here.

Broadly speaking, at this point I would need to hear what precisely the debates are, for the reason that there is some level of uncertainty about what the tight labour market data is showing. There is of course the much bigger uncertainty regarding what is happening with global shocks. As somebody who is coming from international economics, that is going to be something that I think I am going to have to watch very carefully.

Even putting aside that uncertainty, which is a little bit outside of our control, even domestically, with what the data is showing, the response would be very nuanced at this point.

Q3 **Chair:** It sounds like you are saying that, before that latest data on consumer confidence, you might have been leaning towards 0.5%, but now you are beginning to feel that the dampening effect is perhaps more pronounced across the economy than you would have thought.

Dr Dhingra: There are two reasons for that. One is the fact that the newer data is starting to show that a slowdown possibly has become much more imminent than we thought before.

There is a second component to that. It is better to have a slightly more medium-term plan, about how inflation is to be tackled, rather than going back and forth about what the interventions should be. Just having a very clear plan about that is much more important, so that people do not think there is not some kind of strategy in place.

Q4 **Chair:** You do not think that is there at the moment.

Dr Dhingra: I think it is clear: the fact that there is dissent is reflecting the fact that there is a lot of uncertainty attached to it. This is probably one of those times when, when I have looked at the data, I have had to rethink two or three times about what it is showing us.

Let me give you one example. For instance, we hear that there is a tight labour market and that is really why you want to do higher rate increases, so that there is some level of taking off the excess demand, and that should moderate what is happening to prices. The problem with interpreting that data too literally is that we have not had cases where vacancy data has diverged so much from other sources of data where it could be verified. There is also the issue that, when we are looking at where the vacancies are and where the unemployment rates are higher, or inactivity rates, those two things are not very correlated with each other, at least up until now.

There is also the issue in terms of where wage growth has been higher and where those vacancies are. That is also not very tightly correlated. The kinds of vacancies that are being created are the ones that are much lower paying than what people were doing before. This gives me pause to think that the data that we are looking at may not be as highly representative and as certain as we used to think of labour market data coming out of the UK was. That worries me a little bit.

There are also immense amounts of work that have been done before on thinking about what unemployment even means when you have a furloughing scheme. We still have some of those base effects in the data. Those things worry me, and the fact that the total hours worked are below the pandemic level still. We are possibly going to have to pore over this data in much more detail. This is where, even if I look at different types of economists—what the Bank's view might be or what the views of the other commentators would be—this is the part where there is a serious nuance in the commentary, starting from at least May 2021, or probably a little bit later than that.

Q5 **Chair:** If we think about the causes of inflation at the moment, when we have had discussions with the Bank and the Governor of the Bank—I am paraphrasing rather crudely here—80% of it, or thereabouts, is fuel and commodity prices, supply chain bottlenecks around the world and all that kind of stuff. It is a very valid point that monetary policy cannot control oil prices, et cetera. That is the external stuff that is being done unto us. Then there is the 20%, which is more around the labour market and inflationary expectations getting, arguably, rather de-anchored from the sense that inflation is going to come back down to the 2% level.

If you look at both those areas—maybe we will start with oil and everything—what is your expectation of the inflationary pressures from that 80% over the next six months? Are we going to see it basically wash through, so you would have some confidence that inflation will peak in the autumn and thereafter come down? Do you think there are factors out there that might mean that does not happen? On the labour market side, on the inflationary expectations, where do you see that going over the next six months? We will start with oil, gas, commodities and those kinds of pressures.

Dr Dhingra: Assuming the geopolitical situation is what it is, I do not feel like I can have a very enlightened view of that. Just taking how things are at the moment, the monetary policy report forecasts are fairly on target, in the sense that, yes, there will be some pressure in October that we will see, but we should expect that eventually this is going to drop out of the index. That being said, I take your point, which is that there is this worry about whether inflationary expectations are getting de-anchored already, or whether that is something we should be worrying about right now.

In terms of my sense of it, this is not a recent view. We have talked about this and written about it as early as May 2021. There has been a lot of focus on what inflationary expectations might do on the wages side, but there is also the second element of it, which is that there are these second-order effects coming from the fact that a lot of businesses in the

UK use imported items to be able to produce goods and services. The issue now is what they are doing in terms of the prices that they are passing on to the consumers. We have not talked enough about this. This is not so much in the current debate, but my worry is that this is something we are going to start to look at. I am going to give you my two or three reasons for why I think that is important.

The first reason it is important is that it is a fairly big share of the cost to businesses. Put that together with the wages and, if I do a very simple, back-of-the-envelope calculation of "Here is the increase in imported input costs. Here is the increase in wages that we have observed. How much is the share of imported inputs and labour in production?" and put those numbers together, use the input price index that we are seeing from the ONS and use the wage growth rates that we are seeing from the ONS, the number you would get would actually be much smaller than the number we are seeing the output PPIs, the producer price indices, to be.

Q6 **Chair:** This is suggesting that they are passing on the increase, maintaining margins. Is that the idea?

Dr Dhingra: That is also showing up, yes, exactly. That is also showing up in what the Bank's agents are reporting. There is some sense that firms would like to maintain those margins and you might understand why. After a prolonged period of a slowdown, you are going to have to maintain those margins. How do you then move forward? It seems like that pass-through to consumer prices is substantial at the moment.

I cannot say for certain how that evolves, but, at least from the intelligence that the Bank has right now, it seems like there is some concern on that front. I would look a lot at those inflationary expectations as well as what the business confidence numbers are showing and what the market intelligence would be about the agents' contacts.

Chair: This is just a personal view: I suspect that companies will increasingly start to struggle to pass on, as the economy slows. We will see. It is an interesting question.

Q7 **Kevin Hollinrake:** Good afternoon. I want to talk about potential conflicts of interest or independence. Can you set out any potential conflicts of interest that you have in taking this role from your previous life or career?

Dr Dhingra: I have raised this with the Bank and discussed it with them. My brother works for Standard Chartered Bank (Hong Kong) Limited, which is technically not related to UK monetary policy, because his role is in retail banking in Hong Kong, but there was one element of it—being an international economist myself, this is how I thought about it—which is that Standard Chartered globally is regulated by the PRA, which is why I raised it with the Bank. They think that there is not a conflict of interest because it is not as though I am actually going to be directly involved in the prudential regulation aspect.

Q8 **Kevin Hollinrake:** You set out in your questionnaire, "my brother works at Standard Chartered Bank Hong Kong Limited. As his role pertains to retail banking in Hong Kong, the Bank is satisfied that it does not present a conflict". Banks move people around; what would happen if he transferred to the UK, for example?

Dr Dhingra: He used to be in the UK. He decided to move back closer to home.

Kevin Hollinrake: What if he came back?

Dr Dhingra: Then I would be raising that with the Bank again, letting them know and then taking action accordingly.

Q9 **Kevin Hollinrake:** You might have to step down, should that be the case.

Dr Dhingra: I do not think he has any intentions to come back.

Kevin Hollinrake: No, sure, but if he did.

Dr Dhingra: I would definitely do that.[1]

Q10 **Kevin Hollinrake:** Are there any other commitments, conflicts or connections that you can see that you have not already set out? I know that you changed some of your roles, in terms of you set out some of the things you have decided not to do. What were they in the past and how have you changed those?

Dr Dhingra: I do not think that it presents a conflict of interest, but I have decided to take a leave of public service from the LSE. The key reason for doing that was that, in this environment, it is not necessarily going to be feasible to just spend three days a week. This is going to occupy a lot of my time and I did not want to compromise on that.

There are three roles that I am keeping and those do not pose a conflict of interest. If anything, they are actually going to enrich my understanding of what is happening in the world. One is being engaged in the research activities of the Centre for Economic Performance at LSE, which is a UKRI research institute now. The deep knowledge that it has of the UK economy is something I would benefit from.

I am also keeping my role at the Royal Economic Society, where I am the academic lead on RES Presents, where we try to provide a public platform to think about how economic policy can impact people's lives.

I am a trustee of the Royal Mint Museum, but I believe that does not pose a conflict of interest because it is also supervised—I do not know the right term, but you are in charge of that as well.

Q11 **Kevin Hollinrake:** You are taking a leave of absence for public service

[1] Dr Dhingra contacted the Treasury Committee after the hearing to clarify that this answer refers to raising the issue with the Bank.

from the LSE. That was about time constraints rather than conflict.

Dr Dhingra: Yes.

Q12 **Kevin Hollinrake:** In terms of the Centre for Economic Performance, you do not see that as a conflict. You state that it might enhance the work you do in the MPC. How will that be the case?

Dr Dhingra: One key thing that happens at the CEP is that it has always been involved in policy-focused research. There is a lot of really deep understanding of the evolution of policies in the country, as well as of the data. They are among the first people who pointed out about how the right metric for unemployment numbers needs to changed to be based on hours, because so many people were on furlough schemes. Those are nuggets that are hard to pick up outside of a research environment.

Q13 **Kevin Hollinrake:** You will continue with academic research alongside your MPC work.

Dr Dhingra: It might be difficult this year, but, as time permits, I would go back to doing some.

Q14 **Kevin Hollinrake:** In terms of academic work, is there any alteration in terms of the work you will do with that, or will you carry on pretty much as you have done before?

Dr Dhingra: I am trying to finish my older projects and I do not want to start something new until I have more time in hand.

Q15 **Kevin Hollinrake:** I want to ask a question on Brexit—Rushanara will take most of the questions on leaving the EU. In the last session we had with the Governor of the Bank of England on inflation, in the written evidence provided prior to the hearing, and indeed in the minutes of the Monetary Policy Committee, there was no reference to Brexit, despite the fact that the tightness of the labour market is a key issue for the UK. Part of that could well be attributable to leaving the European Union. Were you surprised by the fact that that had not been addressed?

Dr Dhingra: Not particularly, because we are still struggling with that issue, which is how to distinguish between the impacts of Covid and Brexit. I have written previously about Brexit. That is why I am even more concerned than most people about overinterpreting the data.

One of the big things that happened on 31 January was that as we are, of course, no longer in the European Union, declarations do not have to be made on a VAT form; rather, they now become exports and imports. In my view, that switch has created a fairly substantial break in the data. This is something that the ONS has readily talked about, as has HMRC. Being able to tease apart and disentangle these impacts, especially when the exit date happens to coincide with when we are getting out of another wave of the pandemic, is an extremely challenging task.

Q16 **Kevin Hollinrake:** Yes, I get that. Is it surprising, therefore, that we do not reference it at all? I get the fact that we do not know which bits are attributable to Covid and which bits to Brexit, but why did we just mention Covid and not Brexit?

Dr Dhingra: There are two elements to that; that is how I would answer it. The first element is that the Covid impact is likely bigger in the sense that we know which items are getting really affected and which ones are driving the sharp increases in the CPI, which is energy.

There is a second component to it. The more reliable research that I have seen out there is looking at food price inflation and how that was impacted by the exit. It is to be caveated, in the sense that what is better about this data is that you are actually using the price data and the older trade data. In that sense, we know that all those other issues that are pointed out are not present in this.

The problem remains that when this is happening. It is an event study and that time period is itself contaminated with both Covid and Brexit, so we are not going to be able to tease that out. What the numbers look like and what the numbers suggest is that there was about a 3% increase in food price inflation from the Brexit shock. If you then put that together with what share of CPI comes from these items—I am talking about the 3% increase—that is 11% to 16%. We are talking about not big effects yet.

The other stuff is almost impossible to tease apart, though I know that people have a different view on that. For example, Adam Posen would say that all the excess inflation we see in the UK is driven by Brexit. I am a bit more cautious about going that far yet.

Q17 **Kevin Hollinrake:** Going back to independence, do you agree with the principle that political issues should not interfere with the MPC's rationale behind these things? It should look at these things without fear or favour and not shy away from mentioning these things because they might be politically difficult.

Dr Dhingra: Yes, absolutely.

Q18 **Chair:** You were talking there about disentangling effects of Covid from Brexit. Do you have any observations to make on the trade intensity of the UK economy relative to other countries? They all took a dive together but, since the economies have opened up, the other countries have all moved up, back to roughly where they were before. We have stayed a long way adrift. Is that due to Brexit?

Dr Dhingra: That is the most tell-tale sign that there is something deeper going on. At least in some of the analysis we have done, we have tried to compare the openness of Britain's international peers with the openness of the UK. You see evidence there that the UK's openness has declined more than that of its peers.

The key problem with that is that I still do not know if I can say categorically that that means Brexit holding effect or Covid holding effect. We have not done something yet that is that sophisticated that tries to control for some of these composition effects—the fact that we might be making different goods and that those different goods, and services in our case, are differentially impacted across countries and sectors.

Q19 **Chair:** The OBR suggests that there is. Its central forecast is a 15% reduction in trade intensity as a result of Brexit. That is its central estimate. You do not think that is necessarily the case. You think there could still be complicating factors that are masking that analysis, as it were.

Dr Dhingra: I am going to rephrase. I actually do not disagree with the OBR forecast, in the sense that most of the forecasts are somewhere in the order of 15% to 35%, roughly—broadly that number, depending on which assumptions you make. They still rely on the structure of the model that you have in mind.

If I wanted to give you a much more categorical, empirically driven number, that is where I am feeling that we are not there yet. When it comes to a model-based solution about whether we can give an idea about the scale and nature, what the magnitude of this Brexit impact would be, my sense there is that there is some effect that has already happened. We are going to have to wait a little bit longer to tease apart how much.

Q20 **Rushanara Ali:** I am going to pursue some more questions about the UK's exit from the EU. Do you think the Bank of England has had to pursue a more aggressive interest rate policy because of Brexit?

Dr Dhingra: My sense is not yet. Let me actually go further back in time to answer that question, because it is not just about the TCA—the trade and co-operation agreement; it is also a little bit before that, when the Brexit referendum happened. There was a loosening, which possibly contributed to reducing some of the negative impacts that were brought forward because of the very sharp drop in sterling that we saw. That is a judgment that I am making. I cannot say for certain that it was just the sterling depreciation, but that seemed to be the one that had the most impact at that point. Inflation rose as a result, because we rely on imported products.

The conventional wisdom would have been that we are going to now start exporting more, because our exports are going to be cheaper for the consumers buying abroad. That did not happen. That is not specific to the UK; that is much more broadly true, we know, in the world. The exporters are also the importers, because they are so integrated in global supply chains. Ex ante, we do not know which way the effect cuts.

My work with others at the CEP also showed that this had knock-on impacts on to real wage growth being slower in industries that were more affected by the depreciation versus other industries. That is broadly the evidence that is the best evidence that we have until now.

Right after the sterling depreciation, the Bank of England stepped in, saying that it was going to try to save the currency. My sense is that that loosening at that point possibly had some level of impact in terms of maintaining employment and activity at a higher level than we would have seen.

Q21 **Rushanara Ali:** So that we are clear, you are saying that the pre-TCA era could have made a contribution to interest rates, rather than the post-TCA era.

Dr Dhingra: There is less evidence post TCA. Pre TCA we have more evidence at the moment.

Rushanara Ali: That there was a connection with Brexit.

Dr Dhingra: That is fairly well documented at this point.

Q22 **Rushanara Ali:** On the point about the impact of the UK leaving the EU, how does not being a member of the EU impact on the current economic circumstances and particularly increases in the cost of living facing consumers? Have you done much work on looking at the comparators between us and other EU countries?

Dr Dhingra: We tried to do that kind of analysis, which is to say, "Can we look at what is happening in the European Union and what is happening in the UK, be able to wipe out some of the Covid impacts and then make a more categorical statement about 'Here is the impact coming from Brexit'?" When we actually started working with the data, we realised that, in terms of the way the sectoral patterns were, transport services seemed to be doing the worst. It did not seem to us like we could plausibly say that that was purely a Brexit impact. That of course had to do with Covid as well. That part is very hard to do.

The approach we took instead of that was to say, "We probably still have to go back to our models to be able to give an estimate of what the scale and magnitude of the changes coming from Brexit would be." Broadly speaking, if you want a number, our view is that it is not going to do massive structural change. We would not expect that Britain is suddenly going to become a manufacturing hub or we are going to move away from financial services in a very big way. These comparative advantage sectors tend to be very persistent and sticky. That has always been the experience of the UK.

As a result, where the changes would come would be as a drag on real wages and on productivity. That will happen over some period of time, because some of those trade barriers have not come into place yet. Over time, that is going to unfold. Roughly, the numbers we are looking at are somewhere between 1.3 and 1.8. They are a bit higher than our earlier estimates of a soft version of the Brexit scenario.

Q23 **Rushanara Ali:** Sorry—1.3 to 1.8 on what?

Dr Dhingra: Sorry, it is a 1.3% drop in productivity and 1.8% in real wages; it is roughly around there.

Rushanara Ali: That is really helpful.

Dr Dhingra: That is from the TCA.

Q24 **Rushanara Ali:** How would you say inflation in the UK differs from that of the eurozone and US? We talked about the fuel costs and so on. Leaving the common factors aside, what is different?

Dr Dhingra: We are fairly different from the eurozone, in the sense that we are looking much more like the US in some sense. Going forward, I am trying to think about where things might evolve to. I feel like I do not have a very certain view on how things would evolve in the US, so I will not give you a comparator view. I will instead speak more about the UK scenario.

I think energy will continue to be important for some more time. Some of that has spread to much more goods price inflation. That is what I was referring to with the output prices as well: it looks like there is more coming. I think those are the two things that are really going to be important as we go forward.

Q25 **Rushanara Ali:** Another point was about measurements. You talked about not being able to disentangle between what are Covid impacts and what the Brexit impact has been. We have had some data, pre Covid and post Covid, from your colleagues that the Brexit long-term impact on the economy is somewhere between 3.5% and 4%, in terms of the hit on output because of Brexit. At the time, we were told—I cannot remember exactly when—that it was about 1% hit on output because of the pandemic.

We have had a number of years now since we voted to leave the EU, and then the trade and co-operation agreement. Do you think that—this picks up on Kevin's point earlier—the not mentioning it is a bit of a convenient line to not make the distinction? The Bank has a lot of resources and these are two big shocks on our economy. We expect to know the answer to that fundamental question, so that policy makers, as well as the Bank, can come up with proposals that are credible and relevant to the UK's position and identify ways we can grow and have a different model post exit from the European Union.

Is there a case that there should be better forecasting, that the Bank and other forecasters should be tasked with spending time disentangling the effects of Brexit and Covid on the labour market and the economy at large and that a proper timeframe should be set? We have had quite a long time now. Is that something you are going to be pushing for, to improve on being able to answer that question robustly?

Dr Dhingra: Those are precisely the skills I bring. I think about the global economy. In some sense being a small, open economy and having had those large shocks has reminded us all that we are not alone in the world and we have to think about those.

Up until now, I have had fairly positive interactions, saying that they are keen on being able to use much more of the microdata that trade people are more used to working with than your traditional monetary economists. That would be a way in which I would be able to contribute as well. I hope that it happens. That would of course be one of the key policy as well as research interests for me.

Q26 **Chair:** Can I pick up on one thing you said there earlier, I think in relation to the effect of the Brexit referendum on the pound? I think that you used something like the expression "The Bank of England might step in to save the currency." What did you mean by that?

Dr Dhingra: Sorry, I should rephrase. There was a statement made at 8 am, when the market opened, that the Bank was going to step in to do something. I may have been rephrasing to call it saving the currency, so please forgive me.

Chair: It was just referring to the Bank's position at that time as you understood it.

Dr Dhingra: There was a broader statement. I can come back to you on what precisely the statement was.

Chair: That is fine. That is clear.

Anthony Browne: I just have one Brexit question, but then I am going to ask about forward guidance and quantitative easing.

Rushanara Ali: There is a revived interest in Brexit.

Q27 **Anthony Browne:** No, I do not want to talk about Brexit again. In 2019, you wrote that, from an economic perspective, the best policy would be to cancel Brexit. Do you still think so?

Dr Dhingra: In our new report, we do not even entertain that question, for the reason that this is a political decision. We are where we are. It is a matter of, if there are going to be negative economic consequences, possibly because of the reduced trade, which is what the Chair was referring to, then how do we best mitigate those.

At this point, we should be really focusing our attention on—this is what I have argued in the past as well, soon after the Brexit decision had been made—the fact that we need much more granular assessments of how things are panning out. That is something that we do not have. Even the OBR report has 10 broad sectors. It is very difficult to do any kind of really serious policy analysis if everything is so aggregate. That is really where the big push should be, not so much on now reopening some kind of debate that is done.

Q28 **Anthony Browne:** Yes, indeed. The MPC has decided to flip quantitative easing into quantitative tightening, or, in layman's terms, from printing money to burning money. What are the risks you see with quantitative tightening? Do you think it will help to tackle inflation?

Dr Dhingra: I am most uncertain about that, and this is my reason for being uncertain about it: it is a largely untried policy across the developed world. What do we know about the previous quantitative easing episodes? We know that, for example, the first one of £200 billion, when quantitative easing happened, resulted in what you might consider a 1% increase in the long rates.[2] That seems like a fairly small number in terms of the impacts. If you look at the US numbers, they look even smaller. If you look at other episodes, they move around. We do not have a very good understanding of what the transmission mechanisms are. This is in general. The only thing we really know is that it reduces rates on longer-term assets. Beyond that, how it manifests itself is very situational.

I would be very worried about being able to backtrack from there and say, "Now we can reverse engineer what the impacts of QT would be," in the sense that it is much better to have a much more gradual approach. We keep learning as we move along. I believe this is something that the Bank is supposed to discuss in August. I am not party to those discussions yet, but I hope that will happen then.

Q29 **Anthony Browne:** Do you have any views on the impact of quantitative tightening on inflation, or is that also unknown?

Dr Dhingra: If it works like a reverse of QE, it should be like an increase in the Bank rate. What that equivalent number would be is really hard to pin down. The range is from zero to 1.25%; it is roughly there. It is too hard to pin that down. That is too big a range.

Q30 **Anthony Browne:** Once you are in post and you have more discussions with your colleagues in the Bank of England about the evidence of the impact of quantitative tightening, if it seems like it is the equivalent to raising interest rates, do you think there would be an argument for accelerating the quantitative tightening programme? Is that one of the things you would look at?

Dr Dhingra: It would be, but it would probably depend on what the market intelligence says. You do not want to immediately start getting all this liquidity out of the system very suddenly and very quickly. In that sense, a gradual approach is possibly the best. We know much more about other instruments of monetary policy. I know we are supposed to say that they are not unconventional anymore, but we still have much more limited knowledge about these.

Q31 **Anthony Browne:** It is step by step. That is quite pragmatic. My other question is about forward guidance. Mark Carney introduced that and had

[2] Note: Dr Swati Dhingra later clarified she meant to say "decrease"

a few slight accidents with it to start with, but the Bank of England still has it. I think it is probably broadly welcomed. In the May minutes of the FPC, it came out saying that most members of the committee judged that some degree of further tightening of monetary policy might still be appropriate in the coming months. Do you think the forward guidance is helpful? Do you think there are risks around it?

Dr Dhingra: Sorry—I missed a little bit in the middle, but please remind me in case I do not have you right. Overall, the broad view is that most central banks use it and they have been using it. They think it has provided them policy space by, basically, bringing forward some of the anticipated effects. In that sense, it has given headroom when the Bank rates are very low. That being said, there is a serious concern about how much it ends up providing clarity and, if people do not get the nuance of what is being communicated—

Anthony Browne: It causes confusion.

Dr Dhingra: Thank you. The trade-off here is clarity versus confusion. My sense would be that, if it went too far—"Here is the path of interest rates that every individual member is giving"—that is bound to create possibly more confusion. It is better to instead say, "Here is the data we are looking at." I would be happy to do that for myself, if you agree: "Here is the data we are looking at. Here is the underlying model. Here is the uncertainty attached to these estimates."

That is a much more fruitful exercise than being able to give individual rate paths, which then become much more debateable. The market actors do not know which particular estimate to pick or to go with. They do not know what the collective view would be. Maybe communicating very clearly what the future rate path would be, so that forecasters' expectations are aligned with what the Bank is doing, is possibly the best way forward.

Q32 **Anthony Browne:** It is basing it more in data, evidence and the arguments underneath it, rather than just making predictions. Clearly the rise in interest rates that everyone is expecting is going to have quite a big impact on households, particularly those with mortgages. Do you think the Bank should do more to warn households and businesses about the impacts of rising interest rates that you are expecting, or rather that there is an economic consensus that it is going to happen?

Dr Dhingra: Yes, definitely. Communication is the only way that people would take the Bank credibly and the Bank would maintain its legitimacy. In terms of what is to be communicated, that would be a lot of clarity, in terms of a broad path of what is to come. As I said earlier, you do not want to go too much into where the nuances might be misinterpreted.

I have skills in that respect. I have done a lot of communication of economic policy in my various roles at the Royal Economic Society, as well as with the Centre for Economic Performance, and now we are hoping that we will also do more with the Royal Mint Museum on this front. The main aim of those activities is to be able to get more and more people engaged that this is not science that they cannot touch. This is very basic. They can think through these things on their own and it should be demystified.

Q33 **Emma Hardy:** Good afternoon. My questions are about house prices. Do you expect house prices to reduce significantly in response to interest rate rises?

Dr Dhingra: I am not an expert on house prices or housing in particular, but the numbers I have seen are a fairly broad range—4% is the one that I saw recently. If Bank rates go up to 1.5%, that would mean about 4%.

Emma Hardy: Sorry—4% what?

Dr Dhingra: I mean a 4% drop in house prices on average. I have also seen numbers that suggest 20%. I would need more information, but broadly this is how I would think about it at the moment. If the interest rates are increased, naturally that is going to mean some people who would have wanted to take on new mortgages are not going to be able to do that. That in turn is going to put some downward pressure on the housing market.

There are also, of course, those who already have housing loans and who might be thinking of re-mortgaging. With the interest rate slightly higher than when they saved and took their mortgage—somewhere post the global financial crisis—those people are probably now going to find it harder to re-mortgage at those same rates. There are somewhere around 3.5 million loans that were taken out at that point. How many of them are actually problematic in the sense that you might expect even a default is not my area, because that is going to be handled by the FPC or the PRC, whoever's remit that it. It is more a stability issue.

Q34 **Emma Hardy:** Do you think that house prices have to fall in order to counteract inflationary pressures?

Dr Dhingra: My economic geography colleagues would say not necessarily, because there is so much shortage of supply here. There is that extra £200 billion from household savings from the pandemic that is floating about in the system. That means that there is enough pressure on the upward side as well. I would need to do more homework to know precisely where that balance would end up.

In the longer run, if we think about it, this is something that many people within the geography department, as well as the economics department, have been writing about for years. There is a genuine shortage of supply. That has been a key factor in driving house prices up to the levels that they are at, particularly relative to earnings.

Q35 **Emma Hardy:** You think that house prices are not really going to make much difference to inflation either way. Is that correct?

Dr Dhingra: I do not know what the loan-to-values look like. I am not hazarding a guess on whether there is suddenly going to be a bunch of defaults. I would need to learn more about that.

Q36 **Emma Hardy:** In your questionnaire you have stated that "Movements in assets prices provide information about the economy," which is valuable when there is "heightened economic uncertainty". What sort of movements in asset prices will you look to guide you in decisions on the MPC?

Dr Dhingra: House prices is one of them, but, more broadly, for example, the Bank has even been investing in corporate bonds. Of course, there are all the various gilts that are out there of different maturity levels. All those contain information that help put the dots together, and that is the way I would approach it.

Q37 **Emma Hardy:** Finally, you said that you would look at all these different assets. How much of that is influenced by house prices? Are you looking at them all equally, or do you look and consider some more than others? How does that balance work out when you make your decisions?

Dr Dhingra: The house prices would be important if we are seriously going to be thinking about where the household responses are coming. For most households, that is a huge part of the wealth that they own. That has implications also for what happens intergenerationally. In that sense, that is probably going to be a key one to look at for what is happening on the consumer side.

That is also useful when thinking about construction, which is of course a big sector. Housing would probably be less important when we are thinking about bigger companies and what the responses there might be.

Q38 **Kevin Hollinrake:** What was the stat you quoted about interest rates and the 4% reduction in house prices? Could you quote that again?

Dr Dhingra: That is from a newspaper two or three days ago. I can come back with the reference. It is that, if the Bank rates get to 1.5%, the expected drop in house prices is meant to be 4%—I am not 100% certain but I think over a two-year period.

Q39 **Kevin Hollinrake:** Could you share with us where you saw that? I have not seen that research.

Dr Dhingra: That is more an interview. It is not quite research. It is more of an interview in a newspaper article, but there is an excellent article today, which I have not yet had the time to read, because I was coming here.

Q40 **Kevin Hollinrake:** Who was interviewed?

Dr Dhingra: I think it was one of the real estate companies—I think I can give a better reference—which I have not read yet. It is likely to be better. The Economics Observatory has a piece today about housing. I saw it before coming; I did not have a chance to read it yet and absorb it.

Kevin Hollinrake: If you share it, that would be great. Thank you.

Q41 **Chair:** It would be useful to have that, given that we have ventilated it in this forum. There are people I know down the local pub that would have a view on house prices when interest rates go up, so let us get the detail on that.

Dr Dhingra: I have not written it so I am not to blame.

Chair: That is fine. We will get the detail on that.

Q42 **Dame Angela Eagle:** I wonder how much opinions at the local pub replicate the latest economic research. You do not have to answer that; it was a rhetorical question.

I wanted to ask about your experience—how you think you can help and what experience you bring to the MPC. How do you think your previous experience will help you in the work on the MPC. There have been various people who have commented that you do not appear to have much monetary policy experience.

Dr Dhingra: I do not think that I am an outright monetary person. In macroeconomics more recently, there has been much more reliance on using microdata to be able to think about what the granular impacts from macroeconomic policy changes would be, as well as to ensure that models are much better disciplined, because they are building from the bottom up. Those are things that I have of course done a lot, because international economics is where that started in a very big way. We had a data revolution much earlier.

I hope I will be able to bring insight in that my research skills go across theory, microdata and modelling, as well as large-scale quantitative policy impacts. In that sense, putting all four of those together is still something fairly new in economics. That is where I specialise, particularly looking at it from the point of view of very microeconomic impacts, as well as what might happen at a broader, global economy level. Those are the things I will bring. One thing that I have criticised our own research for a lot is that we do not do enough in terms of validating the models that we use, which are then later used for further forecasting, particularly to be able to think about what the policy impacts would be.

Q43 **Dame Angela Eagle:** Models are only as good as the information that is put into them or the assumptions that are made.

Dr Dhingra: Exactly, yes.

Dame Angela Eagle: There is a phrase that I will not repeat here because it is a bit rude, but you probably know what I mean.

Dr Dhingra: I agree with that and I hope we will get to a point where these models are much more robust, as well as the data that they are using being much more sound.

Q44 **Dame Angela Eagle:** I am interested that you feel that there is gain to be made in building models from the micro up to the macro and doing that, presumably, using econometrics and very practical models that churn out results. Do you think that method of doing things has left macroeconomic structures without evolution? You can spend too much time in the weeds and not see how what has happened in the world and the massive changes that are going on with global integration and a range of other things leaves our macro assumptions and macro models lagging behind. I have often thought that there has been a complete neglect of macroeconomics in the economics field for far too long.

Dr Dhingra: I can speak a little bit about that, in terms of questions that we have addressed. In terms of the global economy, two of the big issues that have come up are the various trade wars that have happened and the deglobalisation that came afterwards, through the pandemic as well as through other forces.

Where trade managed to do pretty well was to not make those models too complicated and to still have that very broad overview of what the moving pieces we should care about are and what the various channels are that are important to model. Then the microdata can be used to inform those. These are models where you can identify two or three statistics that you need to be able to give bigger-picture answers about what the welfare impacts of various policy changes could be.

That sort of approach in macro has been a little bit more limited, but now it is starting to really pick up. That is to say that people are looking much more at adding some richness, but without losing that broader structure, which is the aggregate economy itself.

Q45 **Dame Angela Eagle:** Do you think that the macroeconomic theory is now beginning to keep pace with developments, or is it still frozen in the aspic of Keynes?

Dr Dhingra: That is true in my field as well. I am not just saying that for macroeconomics. We have not had the credibility revolution that, say, some fields like labour economics have had. Labour economics has managed to do that on issues that are of paramount public importance. For instance, when people used to look at the aggregate data, they would typically find that unemployment rises when minimum wages increase. The much more granular data has started to show that in fact that is no longer a relationship that is true. If anything, in the case of the UK, there has not been large-scale unemployment that has followed minimum wage increases.

More importantly, we have been worrying about inequality for so long, and this is one lever that has managed to address some of that inequality at the bottom end of the distribution. Of course, it cannot go up very high, but it can do it at the very low end. This is, of course, not my own research. I wish I had written these papers, but they are my colleagues', who worked on it for years.

Q46 **Dame Angela Eagle:** A lot of your experience is in international economics. What do you think your experience there would bring to the Monetary Policy Committee, especially since we have cut ourselves off, effectively, from our nearest trading neighbours and we are seeing some quite substantial shocks, in terms of international trade, as a result of that disjunction, if I could call it that?

Dr Dhingra: I can give you a couple of examples where it would matter. Let me talk about the more recent shocks that have happened. I will talk about all three. As far as the energy price shock is concerned, a large part of how energy prices evolve is through arbitration across different markets across fairly broad geographical areas. The supply chains there are critical to understand what is going to happen to prices within the domestic economy. The global economy is typically not modelled in any kind of sophisticated way in most of monetary theory, so, in that sense, that is one thing I would bring to it.

Let me give you the second example with Brexit. We have had enough of a discussion, so I will not go too much into that. What that impact is, in terms of inflation and depreciation, matters directly for monetary policy. I am not even talking yet about the structural issues about productivity and wages and how openness might contribute to it.

The third shock we just had, of course, is a global pandemic. It also led to huge global supply chain disruptions. Our models are not picking up what those global supply chains are doing. This is, again, something that I have worked directly on with the CBI, to be able to understand what the impacts were on firms as they were happening and with real-time data during the Covid pandemic.

Q47 **Dame Angela Eagle:** Finally, you are joining the Monetary Policy Committee. It is there to decide independently on what the interest rate should be and how monetary policy should be conducted going forwards, yet we have had such a very long period of infinitesimal interest rates. The lever you have is almost like pushing on a piece of string. How powerful do you think the Monetary Policy Committee is, given that the interest rate has been so far down to its lower band? Are you joining the Monetary Policy Committee just as its power to do anything is waning?

Dr Dhingra: Joining the Monetary Policy Committee at this point is not for the faint-hearted, and I am not that. Clearly, I understand how much people might be upset right now with the cost of living crisis going on. That is a serious concern. The levers are still there. There is an almost £900 billion balance sheet out there with the Bank of England, through the quantitative easing programmes that have happened. The Bank rate is of course an important tool, which could have very significant impacts, not just on inflation but on employment and economic activity.

Q48 **Dame Angela Eagle:** It might cause a recession if you take it up too high.

Dr Dhingra: Yes, precisely. I would be able to bring a whole array of evidence. I am not talking just of the empirical and econometric side of it, or the quantitative modelling. It is even from regional visits, talking to people and being able to glean some of that information, which is only in pubs and not in our statistics, to be able to contribute to those crucial decisions.

I still think that there are many crucial decisions and they can make a huge difference to people's lives. I grew up in India. There was chronic inflation. It typically hurt people very much at the bottom end of the distribution, and particularly women. I want to make sure that I can contribute on that count in the country where I live.

Chair: Swati, that is the end of this session. Thank you very much for appearing before us. I hope that it was not too terrifying. Thank you very much for all your answers, which have been very helpful. We will now go into private session and produce our report, but I think it is fair to say from all the Committee that we wish you all the very best for the future. Thank you very much for coming.