

Treasury Committee

Oral evidence: Bank of England Monetary Policy Reports, HC 419

Wednesday 3 September 2025

Ordered by the House of Commons to be published on 3 September 2025.

[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Rachel Blake; Chris Coghlan; Bobby Dean; John Glen; John Grady; Lola McEvoy; Yuan Yang.

Questions 246-291

Witnesses

I: Andrew Bailey, Governor, Bank of England; Clare Lombardelli, Deputy Governor, Monetary Policy Committee, Bank of England; Megan Greene, External Member, Monetary Policy Committee, Bank of England; and Professor Alan Taylor, External Member, Monetary Policy Committee, Bank of England.

Written evidence from witnesses:

– [Annual Report to the Treasury Select Committee, Clare Lombardelli, dated 8 August 2025.](#)

– [Report to the Treasury Select Committee, Professor Alan Taylor, dated 19 August 2025.](#)

Examination of witnesses

Witnesses: Andrew Bailey, Clare Lombardelli, Megan Greene and Professor Alan Taylor.

Q246 Chair: Welcome to the Treasury Committee on Wednesday 3 September 2025. We are here with the Governor of the Bank of England and members of the Monetary Policy Committee to discuss their decision on interest rates back in August. This is one of our regular sessions with the Governor and his team.

I am delighted to welcome Professor Alan Taylor, who is an external member of the Monetary Policy Committee; Clare Lombardelli, who is the Deputy Governor and a member of the Monetary Policy Committee; Andrew Bailey, the Governor of the Bank of England; and Megan Greene, one of the external members of the Monetary Policy Committee.

We had an interesting decision last time. One small, technical thing is that you did not use your casting vote, Governor; you had a second round of votes. Can you tell us why you did it that way?

Andrew Bailey: I have brought the legislation along, actually. As you know, the first vote led to four members preferring to cut by 25 basis points, four members preferring to hold the rate, and one member preferring to cut by 50. The legislation says: "In the event of a tie, the chairman shall have a second casting vote" and, subject to that legislation, "the Committee shall determine its own procedure." The question, of course, is whether that was a tie.

I have two things to say on this. My view is that there was a very clear distribution of preference for a cut—five members preferred a cut; four did not. Obviously, we could have determined that it was a tie, and I could have used the casting vote, but I did not, for a couple of reasons. One is that I thought it was quite sensible to have a second round of voting, and to say that we would have a constrained vote, because in a sense we knew where the balance of preferences was. By the way, the casting vote has been used in the past—it has been used at least once—but it was used in a context where we had only eight members of the MPC, so it was possible to have an exact tie. Of course, it would also be possible to have a three-three-three tie, but I do not think we have ever had that.

I was also conscious that we were setting precedent. In this case, I personally was in the five who preferred a cut, but let us say that I had been one of the people preferring to hold. Had I used the casting vote, I would then have had a bit of a dilemma: I could have used it to back up my own original vote, but then the outcome would not necessarily have really reflected the balance of the distribution of votes, or I could have used it to achieve that, in which case I would have ended up voting both ways in the two votes. I think it was a better and clearer outcome to say, "Let's have a second vote."

Chair: It sounds like a logic problem, doesn't it?

Andrew Bailey: That was how we got there.

Q247 **Chair:** I wanted to get that procedural point out of the way, and obviously I want to come to members about their own decisions. Before I do that, big things have been happening across the Atlantic, with attacks on the Federal Reserve's independence. As the head of the independent Bank of England, do you have any thoughts or comments about the impact of that on the global economy?

Andrew Bailey: Yes. This is a very serious situation and I am very concerned. The Federal Reserve is obviously the central bank for the world's largest economy—its leading central bank. It has built up a very strong reputation for independence and for its decision making, so this is very concerning.

Let me comment on why it is concerning for me—the underpinning point, because this applies to all central banks. Monetary stability and financial stability, which are our two objectives, underpin the foundations of policy. One way of putting it is that if we do those things, we then enable you to go off and take decisions in the areas that are appropriate for Governments and Parliament to take decisions in, which involve things like distribution issues, knowing that the foundations are sound. That is important and was very strongly the view of the Government when the Bank was made independent, certainly in respect of monetary policy.

What we are now seeing is people saying, "Well, no, actually we should be able to trade off the foundations for those other decisions." I am afraid I think that is a very dangerous road to go down. The job of an independent central bank is to provide those foundations and to take independent decisions to do that, within the remits we are given by you. With sessions like this we are accountable to you. That is how it works and how it should work. I take the threats to that very seriously.

Q248 **Chair:** Have you had any conversations with your counterpart in the US?

Andrew Bailey: Yes, we talk regularly. I was at the Jackson Hole conference two weeks ago, and I will be seeing him in Basel this weekend. We talk regularly, as we do normally. We always talk regularly.

Q249 **John Grady:** To explain the independence of central banks in a way that my constituents would immediately grasp, is your position, "Be careful what you wish for, because if you lose the independence of central banks, ultimately you will face higher prices, higher mortgages and higher costs of borrowing for social housing and business"? Is that it in simple terms?

Andrew Bailey: That is correct, yes. There are costs to it.

Q250 **Chair:** As ever, we want to bring it back to the impact on our constituents. On the decision, Megan Greene and Clare Lombardelli, you both voted to hold interest rates and not to cut. Why did you take that position?



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Megan Greene: As you point out, I voted to hold the Bank rate in August. That was motivated by two main things: one is that I think the risk of higher inflation persistence has increased, and secondly, I think the risk of weaker demand has decreased, particularly since May when we first put out and fleshed out the scenarios.

On higher inflation persistence, household and business inflation expectations have been elevated for some time now. The Bank has done a bunch of research showing that sensitivity to inflation increases at a lower threshold than it might have previously because we have just come through a period of high inflation. That threshold is now around 3% to 4%. Our inflation forecast now tops out at 4%, which is at the very top of that band.

Much of the inflation news we have seen feeding through into our inflation forecast has been on food prices which, alongside energy prices, tend to be highly salient for setting inflation expectations. There is a risk that you could get higher household inflation expectations, which could feed through into the wage-setting process. There is also a risk that you could get higher business inflation expectations feeding through into the price-setting process. The Decision Maker Panel shows that firms are now much more sensitive to upside surprises in inflation than they were a few years ago, so there is some risk there. So I think the risk of higher inflation persistence is higher.

We have also seen that core inflation has flattened out for the past year. Higher-frequency measures of underlying services inflation have flattened out for the past year. We expect services inflation to stay at 5% through this year. So there are some signs that the disinflationary process is slowing down. We have also seen that a lot of the adjustment has come from sectors that are more interest-rate sensitive; that could indicate that some of the low-hanging fruit has already been picked and that the last mile might be a bit tougher.

On the demand side of things, we have looked at the relationship between the labour market and activity, and it has remained intact. We expect GDP growth to pick up, and underlying GDP growth in particular to pick up modestly from here. That suggests that any kind of labour market shakeout that I had been worried about before probably will not be coming. Employment intentions are still negative but are less negative than they had been previously. That comes from our agents and suggests that much of the adjustment in the labour market may have already occurred.

In May, I had been much more worried about trade policy uncertainty and the disinflationary implications of that on the UK economy. We have a bit less uncertainty now, so that has abated as well. I am more worried about higher inflation persistence and less worried about lower demand than I had been, so I saw it as appropriate to vote to hold the Bank rate.

Chair: Thank you.



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Clare Lombardelli: As you say, like Megan, I voted to maintain rates at 4.25%, similarly because of my view of the balance of risks to inflation as we see them now. I will try not to be too repetitive of what you have already heard, but I will talk a bit about inflation persistence and activity.

Inflation is currently at 3.8%; it was 3.6% when we voted. That is obviously too high. I would draw out a couple of points similar to Megan's. There is a question both about the headline path and about the composition. On the path, we have now had quite high inflation for people and for the costs for businesses for a number of years, since 2021. Apart from a brief period last year, it has been well above target. I think that length of time has an effect, as well as the threshold effect that Megan talked about, in terms of perceptions and experience.

The other thing I would draw out is the point about the composition, which I do think matters. In particular, we have been surprised by food price inflation, which is higher than we expected it to be. We expect it to continue to rise—on central estimates we have it going up to about 5.5% at the end of the year. That is obviously worrying in and of itself. Food is a necessary good, so this is extremely difficult for people. There is also this salience issue: people notice it more than other price rises, so we are very conscious that people will be alert to that. That is one reason why we spend a lot of time thinking about food inflation, and a lot of time talking to supermarkets and others about what they expect.

You have to balance that against the risk that underlying disinflation is continuing—it certainly has over the last year. For me, there is an open question, looking at the data, about whether that is slowing at this point or not. I think there are risks there.

Let me turn to activity. We spend a lot of time looking at underlying activity, rather than the more volatile month-to-month data. It is very clear that activity is sluggish in the UK economy. That is obviously a problem for prosperity and wellbeing. It is also a problem for inflation. The thing that matters when you think about inflation is what is driving it, and the balance between demand and supply. Megan has talked about some of the factors, particularly around demand, and we have to be very alive to the risks of demand deteriorating. I think there is a particular risk in the consumption-savings mix—perhaps we will come on to talk about that.

The other thing that I think is really important is that low activity is not necessarily an issue of demand; it could be an issue around supply. I think there is quite a strong case to worry about supply in the UK. We know there is a long-term challenge on productivity; we have seen that over a number of years. There is also evidence that the labour market is structurally changing, and that may be having an impact on supply. We are aware of issues with population, demography, health and retirement.

We also have a long-standing issue around private sector investment in the UK, which, of course, affects supply capacity. I make that point because if activity is more constrained by supply than demand, that is obviously putting more pressure on resources and has a different impact



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on inflation. I think it is slightly more complicated than just saying, "Because you have low activity, you must necessarily have a problem around demand." We have to think quite carefully about the balance between the two.

Taking all that together, I judged that maintaining a slightly higher level of restriction would put more downward pressure on inflation.

Q251 **Chair:** That is interesting. I will come to the Governor in a moment because, Governor, you have talked about the risk that disinflation momentum could slow as well. Before I do that, Professor Taylor, you voted for a cut of 50 basis points, and so you ended up shifting your vote. Can you explain your rationale, and why you voted the way you did in the end?

Professor Taylor: Yes, I voted to cut by 50 basis points. That was in the context of a view that formed in the last six months, since I was last here speaking to you. In the first part of the year there was a lack of clarity, both in the data and because of the uncertainty in the international situation, knowing that tariffs were coming. There was also the arrival of the predicted hump in inflation, which is now unfolding as we expected in our February forecast.

At that time, then, I felt like I needed to wait and see and have more clarity on what tariffs were going to do, on whether the labour market would continue cooling and on whether wage inflation would continue to come down. I think that became clearer as we got into May and June, particularly as we started to receive data on wage settlements. I still think that what we said a year or more ago about the crucial role of wage inflation feeding into services inflation was the key thing for the last mile of convergence to sustainable levels of inflation at target.

I think it is about the balance of risks, as has already been mentioned; it is just that I see the balance as being in the other direction compared with my colleagues. I am cognisant of expectations needing to be taken into consideration, and it is true that household inflation expectations are somewhat elevated, although not dramatically relative to their historical mean and standard deviation. On the other hand, financial market inflation expectations are more benign, and have actually been coming down more recently, and firm inflation expectations are in the middle.

Exactly what signal-to-noise ratio those different types of inflation expectations have is important to take into consideration. I think we need to watch inflation expectations, but for me they are not flashing red yet. If that is the main concern on the upside, on the downside for me it is more a constellation of risks, where multiple things could crystallise, both domestically and internationally, that I think are all in play.

I think wage inflation is coming down. We are seeing readings for this year that are in line with our agents' prediction. In their survey in January, they were predicting a number like 3.7%, and I think the current average in the settlements database is 3.6% for the calendar year 2025. As I think I mentioned in my previous testimony, going through the years—as we



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went through last year—those wage settlements tended to slow down as you went from January through to December. As you went through each successive month, the latest settlements were coming in lower than the earlier settlements.

When I last appeared, I speculated that that pattern might repeat this year, and that is what we are starting to see. As settlements are starting to come into the dataset for the latter half of this year, and particularly in the final quarter, we are starting to see settlements around 3%, 2% or even lower. That is also confirmed through more anecdotal evidence. When I go out with the agents and talk to businesses, I say, “What are you thinking of doing next year for your wage settlement?” And I ask the agents, “What have you been hearing about what they think will come next?” It is generally coming in in the low 3s, or thereabouts, and possibly lower, which suggests to me that we are completing that last mile of that trajectory.

The concern about inflation expectations has to be weighed against the actual incoming data on wages, because the most risky channel for the transmission of inflation expectations back into actual inflation is through wage bargaining. But given the softening in the labour market—we can come on to unemployment and the slack in the economy in due course—that risk of inflation feeding through wage bargaining is abating as the labour market softens. I will come on to the other risks in the constellation, but I wanted to emphasise the wage issue as the most important.

I think the hump is a difficulty—I knew that in May and June. I looked at the hump and said, “Alan, when are you going to maybe look a bit out of line? Well, it’s going to be when the hump reaches its peak,” which is around now. I have faith in the underlying disinflation process, but we now have a disturbance, which I do not think is a manifestation of persistence from last year or two years ago. We got a new set of shocks in January—administered prices, taxes, a little bit of an energy shock and now some food shocks—so I am trying to see through that, but this is the hardest time to do that.

On the tariff situation, we are now at the highest tariffs in the post-war period, or since the 1930s, in terms of what has happened with the new US policies. That is only just starting to manifest in what we are seeing in US data, and I think it will only trickle through into the rest of the world in the next year or two, as trading patterns rearrange. I am expecting—we are seeing this in some sectors, maybe autos—that a lot of cheaper goods that could not make it into the US market will start to wash up on our shores, or on European shores, therefore affecting us through intermediate products in their market that then filter into our prices. I think a lot of that is coming and will be loading into the 2026 economic conditions that we face.

All those worries are in the back of my mind. I think the tariff issue is a little bit undercooked in our baseline forecast, so there is a point of disagreement for me there. There is also a point of disagreement in terms



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of the current output gap, or the slack in the economy, which I think is a little bit worse than our current model is suggesting, because we are putting a lot of weight on the nominal block, whereas I think the rest of the signals are saying that the economy is a little bit weaker.

Lastly, I tend to think the neutral rate of interest is quite low, so I feel we have further to go to reach neutral. That leads me to think, therefore, that we are currently more restrictive, and that we are plenty restrictive enough to take the remaining underlying inflation out of the economy. I think we are seeing that in the way that wages are developing.

Overall I am more in the four-plus-one camp in terms of how many cuts per year—maybe four or five rather than four-minus, or four or three. I think that led me to my vote.

Q252 Chair: That was very comprehensive. Thank you very much.

Governor, we have talked before about the gentle trajectory towards the 2% target. There was a cut of 25 basis points. What was the reason for your decision?

Andrew Bailey: I will not repeat everything that has been said; I will just position myself around colleagues, if you do not mind. I agree with Megan, Clare and Alan that the risk on inflation has gone up. Where I differ a bit is that I am more concerned about the downside risk on the labour market. I think that there is more evidence of some weakness in the labour market coming through. The pay number came in under where we thought it would be, based on the May forecast, so I would put a bit more emphasis on that downside risk. That is context.

Policy, I think, remains restrictive. That is important. The question, as Alan was saying, is how to judge the hump. The causes of the hump are mainly not telling us about the underlying state of the economy, but it is inflation none the less. We cannot get away from that. The question is whether it is going to create persistence risk. Context matters here, and this is where my concern about the potential weakening of the labour market is relevant.

For me, the judgment was this: I thought it was appropriate, given the downside risk, that we did a further 25 basis points, but I also thought it was appropriate that we gave a message that focused on the inflation risk. What that really turns into is a judgment that, although we have taken a further step and although I think the path will continue to be downwards gradually over time, because policy is still restrictive, there is now considerably more doubt about exactly when and how quickly we can take those further steps. That is the message that I wanted to get across. Judging by what has happened since then, certainly to market pricing, I think that that message has landed.

Chair: Thank you all for your comprehensive answers. It is always helpful to flesh out the official minutes.

Q253 Chris Coghlan: From what you have all said, with the exception of



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Professor Taylor, if I am reading you correctly, I would say that it appears that perhaps growth and inflation risks have decoupled. I am curious about your views on whether the UK is stuck in stagflation.

Andrew Bailey: Stagflation is not a word that I tend to use, because it is not a word that has a very clear meaning. Let us take the two parts to it: inflation and growth. We have all talked about the inflation hump, so I will not repeat that. There is obviously an upturn in inflation. By the way, the hump is about 0.3 percentage points higher than we thought it would be, both in May and in February. That is the dimension of it.

On the growth side, I come back to what Clare said. She made a really important point that the risk here is on the supply side. It is on potential growth; it is not so much on the demand. To get a sense of that, we think the potential growth rate of the economy is currently about 1.5%, and has been for some time. This is a description of most of the time since the financial crisis. It has not quite been that level, but that is a broad description of it. Prior to that, it was about 2.5%. That one-percentage-point reduction in the potential growth rate is significant not just for monetary policy, but for other areas of policy. It is very important. As Clare said, you can trace this back to productivity, which has been weak since that point about 15 years ago.

The other contribution to potential growth is the growth of the labour force over time. The increase in the average age of the population is very significant, which is a point that I talked about at Jackson Hole. We all know it is happening, but I do not think that it features enough in the discussion of the issues around policy. It is very significant.

As long as we have those two things restricting the potential growth rate, we have this tension that runs through policy. I say again that it is very important, as Clare said—it is not really for us—that the supply side issues are the focus of attention in policymaking more broadly.

Chris Coghlan: Does anyone else have any views on stagflation?

Clare Lombardelli: The only thing that I would add is that we are not in stagflation. This links to the original answer that the Governor gave in response to the independence question. Our target is 2%. We will get inflation sustainably back to 2%, and we will take the action needed to do that. As discussed, we have growth at 1.5%. That is growth; it is not as strong as we would all like it to be, but we are seeing growth, and we are taking action to bring inflation down.

Q254 **Chris Coghlan:** But financial market expectations of inflation are consistently higher than the expectations of the Bank. Does that ultimately undermine the credibility of the MPC?

Clare Lombardelli: The financial market expectations for inflation are well anchored, actually, around our target. That is an important thing, and it comes back to the point about credibility, which is a key part of the structure that we have in the UK. We are seeing those expectations anchored. When we look at inflation expectations—the short-term



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expectations of households and to a lesser extent businesses—we are seeing some movement there, but as Professor Taylor said, they are quite small by historical standards. But of course, because they are so important to the inflation formation process, we look at them really carefully.

Megan Greene: On a very basic level, if you look at our forecast, we have growth and underlying growth picking up from next year through the forecast period, and inflation coming down towards our target. We are not forecasting stagflation.

Q255 **Chris Coghlan:** There is a lot of concern in the news at the moment about high bond yields. I would be curious to know your views about why the UK currently has higher bond yields than France, even though France's debt-to-GDP ratio is higher and the French Government is at risk of collapse.

Andrew Bailey: We have quite a substantially higher short-term interest rate than France, because obviously France is anchored by the ECB's rate, which is 2% currently. That is an important point. Having said that, you have seen a steepening of yield curves across the whole developed world.

I will make two points on this. First, the underlying driver is global. Indeed, when you look at the steepening of UK yields, we are actually in about the middle of the pack. Germany and Japan have gone up considerably more than us, while the US has gone up less, so we are in the middle in that sense. France has steepened quite a bit more. Obviously, it has its own well-known issues. Going back to my answer to your previous question, of course this question about the potential growth rate, particularly in the context of fiscal policy, does bring the supply-side issues into sharp relief.

The second point is that it is important not to over-focus on the 30-year bond rate. Of course it is a number that gets quoted a lot, and it is quite a high number, but it is actually not a number that is being used at all for funding at the moment. Historically, the UK has used it, because it was a very sensible policy, which Clare was heavily involved in, to lengthen the maturity of the UK debt stock. There are real benefits to doing that. It was possible to do that structurally while schemes, particularly in the defined benefit pension world, were still growing and demanding those sorts of asset. They are mostly now mature schemes—this comes back to the ageing of the population. The structural demand for long-maturity bonds has gone down, and sensibly the Debt Management Office has shortened the profile of its issuance to reflect that. There is a danger that we get overly focused on long yields.

I will end with one fact. As I say, the Debt Management Office are the experts on this, but when you look at the cost of debt issuance in the course of this year, overall the actual cost is at least flat and is possibly slightly down. That is because the five-year rate, which is much more tied to our decisions, has gone down. There is a lot of rather—if you don't mind—dramatic commentary on this going on, but I would not exaggerate the 30-year bond rate.



Q256 Bobby Dean: I will start with a preliminary question. Professor Taylor, you mentioned where you think the neutral rate is, and you are at the low end. Could each of you give me a sense of whether you have a number in your head of what the neutral rate is, or whether you judge it as it goes? Is there any discrepancy between you as a panel?

Megan Greene: Trying to pinpoint where r^* is is a losing game. It is impossible to measure that specifically. We have put out a few boxes in monetary policy reports providing ranges. The important thing to note is that there are a lot of reasons to think that the neutral rate may have gone up over the past number of years. I think it is higher than it was. I could give you a number, but it would not mean much more than anybody else's number, which is to say not a huge amount.

I do think, though, that rather than coming up with a specific number for r^* and trying to judge how restrictive you are on that basis, there are other ways to measure how restrictive monetary policy might be. One way is looking at the monetary transition mechanism—how much of policy has come through and how much is still to come through—and observing how much monetary policy is bearing on the real economy. There are indications that we are still restrictive, but I am not convinced that we are meaningfully restrictive. We have been in a rate-cutting cycle for a year now. It cannot go on forever with us also being restrictive. I think we are getting closer, which is an obvious statement in many ways, because Bank rate is coming down.

Andrew Bailey: I can confidently predict that as you go down the line, you will realise there are quite important philosophical differences of view on this question as to whether we know what r^* is. I am actually pretty close to where Megan just described, so I will not repeat everything she said. I really agree with Megan: I use far more the approach of saying, "How restrictive are we, judging by the monetary transmission mechanism?" I think we are probably a bit more restrictive than Megan thinks we are.

To draw out one point, the mortgage market is obviously a very important part of that story. Of course, because we have switched to having a mortgage market, which has gone from a variable rate to sort of five to seven-year fixed rates, it means that the transmission mechanism takes longer, so this question about how restrictive we are does adjust over time. I think we said in the box that we are probably past peak restriction now. That is not surprising, because we have been cutting rates, but because of the lag, it takes longer to get to that peak point. I think we are past peak restriction. My difference with Megan is that I think we are a bit more restrictive than she does, but we are basically in the same philosophical camp, I think.

Clare Lombardelli: I would say I am in a very similar position to Megan. On the philosophical point, as the Governor and Megan have said, you can look at this in two ways: you can do the model-based analysis, or you can do an analysis of what the data and what we are actually seeing in the economy tell you together. We do both, to try to understand this and get



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as much information as we can. I tend to put more weight on the evidence of what is happening in the economy.

Personally, I think it is basically impossible to know what the neutral rate is, certainly in real time, at the point at which you are making your policies. There is a lot of uncertainty around this, but I think I would put myself closer to Megan, in that I would put myself at the upper end of the range that the Bank has set out. Analytically, we said that it was somewhere between 2% and 4%, but I think I am more likely to be in the upper half of that. It is very hard to know, but it is one of those issues that we debate, discuss and put a lot of effort into thinking about.

Q257 Bobby Dean: I was not expecting a number from each of you, to be honest, but it is interesting to hear that, because of what you said, Professor Taylor. The restriction has an impact on the economy too, as you know.

Andrew Bailey: Yes.

Bobby Dean: If you feel that we are too restrictive at the moment because we are too far away from where we need to end up being, you may feel that now is the time for more urgent action to get towards that place. Professor Taylor, could you elaborate on what you meant when you said that? Do you feel, because of the things you already described about how a lot of the inflation you think is driving it will dissipate over time, that now is the time to act faster? Could you elaborate on that?

Professor Taylor: Yes, that was very much part of my thinking. If I saw a greater weight of downside risks and I felt, based on my estimate of neutral, that we were more restrictive than maybe my colleagues did, I felt we had more space for an extra cut this year. I thought the extra cut was justified on insurance grounds when I saw that constellation of risks building. That contributed to my feeling that we had quite a bit of space left to run.

Q258 Bobby Dean: The other thing I have picked up from the discussion is that you have all talked about the supply side. Is that a signal to Government to do particular things as well? The tools you have are obviously quite blunt. You have the interest rate, and you have QE and QT as well. That is the armoury you've got when it comes to monetary policy. Is there anything you would like the Bank to have more control over? I am trying to understand whether you feel you have the tools you need to do your monetary job. I know that it will be hard for you to answer that question, but I would like to ask it.

Andrew Bailey: I am not in the market for more control. These issues, as I said earlier—this is really important—are not unique to one Government. They have been going on for some time, and John Glen and I have discussed them many times in the past.

I will come back to the points we have made before. There are two things. The productivity side is important, because productivity in this country has been weak now for quite a long time. Investment is an important part of



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that story. The things the Government is doing—and, by the way, that the previous Government was also doing, because there was no difference on things like pensions reform—are important. Things that were done on long-term investment in the past, which we were very involved in, are important, because they are the things that can create the ability to improve investment in the economy. That is one thing.

The second thing is the ageing of the population. Again, all developed countries are in the same place; there is nothing unique at all about the UK in this respect. It is important to have this issue thoroughly on the table and to make sure that it is well understood, not just in this building but more generally, because its importance as a structural headwind is critical. It is very important, not just in terms of the labour force but in terms of the cost of health and welfare.

Q259 Bobby Dean: Can I take it from that that you do not think that this demographic problem, an ageing society, is central enough to public discussion at the moment?

Andrew Bailey: Look, I am going to stop, because I am getting very near the edge of my remit.

Bobby Dean: I can tempt you.

Andrew Bailey: Of course you are very keen to get me on to that. Look, it is really important to explain the underlying issues here. They affect us, obviously, but it is not for us to take on responsibility for them.

Bobby Dean: Does any of the others want to add to that? No? I cannot tempt you outside your remit. That's fine.

Chair: I will now suspend the Committee, because we are expecting a vote.

Sitting suspended for a Division in the House.

On resuming—

Chair: Welcome back to the Treasury Select Committee on Wednesday 3 September 2025. We resume our session with the Monetary Policy Committee, with a particular focus on their August decision on interest rates. Ms Lola McEvoy MP will continue.

Q260 Lola McEvoy: Governor, we were talking about the increase in inflationary pressures. Will you elaborate on why the MPC still believes that the pressures are temporary, and on the differences between the pressures in 2021-22 and now?

Andrew Bailey: There are two parts to that. The first is what is causing them, and the second is the context in which they exist and where we think they go to. I would draw out a number of causes, in buckets. First, as we were saying before the break, there are what you might call administered prices—things like vehicle excise duty, water bills and bus fares—which, although they show inflation, because prices are going up,



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do not particularly tell us about the underlying state of the demand and supply in the economy.

A second group, which has emerged a bit more in recent months, is food, which is also a mixture of things. I would draw out a few things there, one of which is some global commodity prices—coffee, cocoa beans and beef are the three things we hear most about. Another one is labour costs. We should bear in mind that the food industry, in terms of both production and retailing, has a larger share of people on or around the national living wage, which has gone up more. If you look at the average weekly earnings data and use the breakdowns, you will see that the increase in wages in those sectors is higher. That is the food component. As we said earlier, food is important because it is salient, as we describe it. We all buy it regularly and we buy a lot of it, for good reason.

We have done administered prices and food, and then there is the question of wage pressures, which are now coming off, but obviously they have been higher. Those are the things I would draw out as causes.

You rightly asked why this is different from three or four years ago and, therefore, why we are saying, “We think, and our central forecast is, that this will come off, starting around the end of this year.” By the way, there are some signs with food that the commodity prices element is now beginning to come off, although we think overall food inflation will probably peak around the end of this year at just over 5%—I think that is the current number. It is 4-point-something per cent at the moment.

The context matters here, and as I said earlier the context is one of a weakening labour market situation. As a number of us were saying, underlying growth has been subdued, but in our central projection it is going to be around the potential growth rate—around the 1.5% level. There is some evidence of the labour market weakening at the moment. That context judgment is important. As I think Alan said earlier, we think an output gap is opening up. There are slightly different views among us about by how much, what the profile is and what causes it, but there is some evidence of slack in the economy. Those are the judgments that are key as to whether the hump will go away or create some persistence.

Q261 Lola McEvoy: Okay, but the general consensus is that the pressures we are facing today are not as severe as in 2021-22?

Andrew Bailey: They are not—thank goodness—because we are not seeing the same shocks. Let’s take the food price shock: food price inflation peaked at 19%. A lot of that was obviously the Ukrainian effect. Yes, we are seeing an increase in food prices, but we are not seeing that sort of effect.

Q262 Lola McEvoy: You mentioned GDP growth. How much do you think the global shocks in the last 18 months, compared with the forecasts—forecasting global shocks coming down the line is a very difficult job—have been a factor in your GDP predictions?



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Andrew Bailey: It is interesting. You probably detected from each of our answers to the initial question about why we voted as we did that we did not say a great deal about the international situation relative to the domestic situation. I think that was because—I can probably speak for my colleagues at this point—that although we take slightly different views on the domestic situation, we were all of the view that that was the driver of the decision.

Why is that, given that the global situation is so much in the news? There are a couple of reasons. One is that I do not think we are seeing inflationary pressures coming through from the tariff situation as of yet. We said back in May, and possibly at the hearing we had after May, that the impact of tariffs when you are on the receiving end of them is ambiguous from the point of view of inflation, because if the world economy starts to fragment and we get supply chain pressures, as we did after covid, that will be inflationary. If we get redirection of, let's say, Chinese exports—let's be blunt about it—so that we get more, that could be disinflationary. It can go both ways. We are not seeing a lot down that channel at the moment, but it is still relatively early days on that front, so we cannot say that is over by any means.

The other thing I would say—here I am going to do a bit of on the one hand and on the other, if you don't mind—is that tariff levels are currently lower than we thought they would be in May. Of course, they are still very fluid, as you can judge from the news. That is on the one hand. On the other hand, having said that, US tariff levels are at their highest since the second world war, so let us not underestimate the significance of this. It is not as big a part of the story, from the point of view of UK inflation, as probably we feared it might be, but we have to keep watching this very closely.

Q263 **Lola McEvoy:** Thank you, Governor. Ms Lombardelli, for two consecutive quarters, the Bank underestimated the near-term growth of the UK economy. Do you think the Bank is being pessimistic, or is it because of the lack of stability more generally across the global sphere?

Clare Lombardelli: I don't think we are being pessimistic. You are right, in that for Q1 and Q2, the numbers came in above what we expected. We spend a lot of time thinking about what is going on in the underlying position of the UK economy, because this data is quite volatile. If we take the Q2 number, it came in as 0.3%, but we expected it to be 0.1%. If you look at what those differences were, they were pharmaceuticals, health and some business-to-business services; these things move around through time. Does it tell you a lot about the underlying stuff? We don't think so, but we spend quite a lot of time looking at our forecasts and their accuracy. We look in particular at whether they are especially over-optimistic or under-optimistic. Are our errors on one side or the other? Broadly, they are balanced—we are as often above as we are below, if you like. That is important, because it allows you to check whether there is something systematic going on, in terms of getting this wrong.



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We are putting a lot more effort into our forecast evaluation in response to the Bernanke review, because this picks up on one of his recommendations about incrementalism and looking more fundamentally at your forecasts each time, so that you do not just compare this quarter to the last, but say over time, "Are there things going on?" When we look at that, we do not see systematic biases to one side or the other, which provides some reassurance, but it is always important to keep your eye on this and check what you are doing.

The other thing I would say is that we are not in the business of forecasting shocks to the economy. We kind of assume that there will not be a shock, because how could you scale that? How could you do that in a meaningful way? I am not surprised that we see errors. I would be very worried if we were seeing systematic errors in one direction or the other. That is why it is really important that we put some more resource into thinking about this, which is what we are now doing.

Andrew Bailey: In the last 10 quarters, I think we have been over in six and under in four. By the way, that is to the second decimal place. People say, "Shock, horror! You've made an error." Well, no—you will always make errors to that point. You do not get them precisely right.

Q264 **Dame Harriett Baldwin:** You have now been Governor for more than five years. It has been a torrid time, as we heard from Ms McEvoy, but overall, our constituents are spending on average 28% more for the same basket of goods than they were five years ago. The target cumulatively over five years would be just more than 10%. Looking back on that full five years—not just August—could you pinpoint what you think were the Monetary Policy Committee's worst judgment calls in that time?

Andrew Bailey: I can give you an answer that looks at the shocks that we have had.

Dame Harriett Baldwin: But gas prices are back to where they were before the invasion.

Andrew Bailey: It goes back to Clare's point about forecasting shocks. I will tell you which ones have surprised us and which ones caused me to reflect.

I became Governor just as covid was breaking out. I do not think any of us could have forecast covid itself. I would say the same about the Ukraine war: I do not think any of us could have forecast it sufficiently far in advance. The one that is interesting for me—which, by the way, not only did we not forecast, but I don't think anybody in the world of forecasting did, and it is important—comes back to what we were saying earlier. It is the fact that when you look back at the post-covid period, the UK appears—I say appears because of the problems with the data, but let's take it at face value—to have had a negative shock in labour supply.

Coming out of covid, it appears from the data that the UK has had a negative shock to labour supply. That puts us in an unusual position in comparison with other countries, and has been part of the inflation story,

because we have spent a lot of time on questions about wage increases, for instance. I have to be honest with you: I don't think I still really understand why the UK is in this unusual position, but it comes back to the point that we have been talking about: supply-side shocks. These shocks really are supply-side; they are not demand shocks. People say, "UK demand ran ahead post covid." No, it didn't. Frankly, the UK story on growth, consumption and investment is not suggestive of that. The one that I think really causes me to reflect, but I have to say we were all in the same boat on this one, is the negative labour supply shock.

Q265 Dame Harriett Baldwin: Turning to last year's Budget, which again surprised the economy in terms of its scale, you came to see us last November and you said that you had a neutral forecast in terms of how the economy might react to it. You wanted to see the evidence; you said it could feed through in higher inflation, fewer jobs, slower wage increases than otherwise, the squeeze on profit margins and an increase in productivity. Can you update the Committee on those five things? What do you now think were the main ways in which the economy adjusted to last year's Budget?

Andrew Bailey: First of all, it is still evolving, to be fair. It is not over. This was particularly on the national insurance contribution point. We set out the channels. When we talk to businesses, we still see that the response is not dominated by one channel. At the moment, the evidence that our agents get—this is not surprising—is that initially, more of it comes through in margins, but we are now seeing adjustments in the labour market, both in numbers and hours and in pay. I do not think any of that is surprising, and it does not contradict what we assumed last year, because all the other adjustments take time—adjusting your labour force takes a bit of time, and adjusting pay if you have pay increases that were lower than they would otherwise have been takes time. If that takes time, the first thing that takes the strain is the margin. I do not think that there is anything surprising about that. We are still seeing a mixture of effects. It is not out of line particularly with what we were expecting.

Q266 Dame Harriett Baldwin: I guess from the Monetary Policy Committee's point of view it would be the higher inflation. If you had seen the ability for businesses to pass on price rises to consumers exceeding your expectations, that would be a worry. Are you seeing any of that? How does it feed into the overall inflation expectations in the economy, which seem to have risen to more like 4%? People do not seem as confident as you are on the MPC that we will see inflation return to 2%. They seem to have embedded this 4% idea. Is the extent to which businesses have been able to pass on price rises to consumers in line with your expectations?

Andrew Bailey: It differs from sector to sector how much is being passed on, partly because of the state of demand, but partly also because in some parts of the economy, particularly those where a larger part of the labour force is at or around the living wage, one of the channels is closed down in terms of the ability to respond to it. Obviously, if you have staff on low pay levels and the living wage is the controlling variable, you cannot set the pay increase level lower than you otherwise would. Certainly when we



look at the breakdown by sector—I mentioned food earlier, and I think I could also mention some parts of the services sector—we are seeing higher wage increases because of the inability to pass it down through that channel, so it does differ from sector to sector.

On what people expect—Clare made this point earlier—short-term inflation expectations measures respond very closely to headline inflation. We know that and, by the way, I am not surprised by it; it is logical. You are therefore right that that tends to mean that people do not think that inflation is going to come down, because they are setting their expectations based on what it is today. It is obviously our job to set policy to return to target, as Clare said earlier. That is job, and we will do it. That is why policy is restrictive.

Q267 Dame Harriett Baldwin: Do you see any evidence that the public are losing trust in your ability to control inflation?

Andrew Bailey: As Alan said earlier, no. There are a number of different measures of expectation: there are the public, individuals, businesses and markets. The inflation expectations of markets, certainly, are anchored. They are anchored, in my view, consistent with the target. Businesses' expectations are in the middle, but they do show that they expect inflation to come back down again. As I said, with the public there tends to be a larger element of today's inflation rate influencing expectations; I understand that. What I therefore look at particularly is whether we are seeing public expectations moving even more than the current inflation level would suggest. We are not seeing that.

Q268 Dame Harriett Baldwin: Thank you. I have a quick question for Ms Lombardelli about the Bernanke review. You helpfully provided us with a very long written summary of where things have got to in implementing the Bernanke review. I am interested in the modelling side of things. You have added 30 staff to help with the changes to the models. How long do you see that project taking? Do you think that the models have correctly assessed the factors I just asked the Governor about and, more importantly, inflation expectations in the economy?

Clare Lombardelli: Thanks for asking that question. We are making good progress on the modelling and have actually completed some things. For example, we have updated the workhorse that we use for the central forecast, the DSGE model COMPASS. That has been re-estimated, and we have built in a much more sophisticated energy sector. That will pick up directly on some of what has happened over the last few years. We know that energy is a sector that has provided quite a lot of shocks and volatility, and those updates will help with that. That is an example of something that we have basically completed.

We are making good progress on our semi-structural model. With a lot of help from the ECB, we have shortcut the process of doing that, but it will take time. We are also building more statistical models, which are particularly helpful for some of the short-term inflation forecasting that we talked about, such as what we think is going to happen to the components



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of inflation over the next six months. We have further to go, quite a lot further. Building models takes quite a bit of time, particularly for some of the supply-side issues that we have talked about. It takes a bit of time to think about those. The economics profession, typically, has spent less time on those sorts of models, so we have further to go.

I anticipate that for some of that modelling, it is going to take a few years to have a wider suite online, but some of it is being used now. We have used the new COMPASS model in a few rounds already, and that is contributing to what we believe to be better forecasting. You will see it coming on over the next few years. The big change from the Bernanke review is a philosophical one about having a much broader range of analytical inputs. That might mean that we are building models that we are not using for the central forecast, but that we might apply to scenario analysis, or just to looking at some other variables in the economy. It is an evolving piece of work. I think it will take a few years, but we are already seeing some of the benefits of it.

Q269 Dame Harriett Baldwin: He wanted you to abolish the fan charts. The fan charts live on, so do the fan charts stay until you finish this modelling work?

Clare Lombardelli: Not necessarily. The fan charts raise a broader issue, which is this question, how should we use and think about uncertainty and communicate uncertainty? The fan chart is one way in which that has been done in the past; actually it is a very powerful visual representation of uncertainty. Dr Bernanke had two criticisms of them. One was that the way we were using them was not really as grounded in analytics as it should have been; and we have stopped, in a sense, making kind of ad hoc adjustments to the fan charts—well, not ad hoc, but we have stopped making adjustments that were less analytically based.

We have kept them in before now because we are still thinking about the best way to communicate uncertainty around a central path, and uncertainty more generally. There is a role for scenarios; there is a role for other ways of thinking about and talking about uncertainty. Until we have decided what we think is the best way to do that, we are still maintaining the fan chart. It provides an important demonstration of uncertainty. We always say, "Don't look at the central path—think about the distribution." It allows you to do that. We are basically thinking about this still. We haven't taken a final decision on what happens to the fan chart. We have taken an initial steer from Dr Bernanke—"If you are using it, use it in an analytically based way."

Q270 John Grady: Food price inflation matters a lot, obviously, to my constituents. We have talked about global commodity prices—coffee, cocoa and beef. Ms Lombardelli, what are the underlying causes of that inflation? What is pushing it?

Clare Lombardelli: We have looked at this quite a lot, both in terms of the analytics of the data but also talking to people across the sector, both production and sales. There are a few things going on here. For those



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goods that the Governor talked about, a lot of that is about, for example, the price of animal feed. It feeds into the cost of beef, butter and other dairy and farm products; we know that. There is some good news there, in the sense that that appears to be coming off, so we would ultimately expect that to feed through to lower prices, although as I say, we are expecting price inflation to go up before it comes down later this year, and unfortunately peak just before Christmas on our central expectation.

You have this question about things like animal feed and other agricultural crops—cocoa was mentioned. A lot of that is weather—it is driven by weather and harvests, and the timing of and abundance of those. That is the big driver of some of those agricultural products and, as I say, feed, and that then goes into others.

There is also an issue about changing global demand for those goods. We have looked quite carefully at who is consuming what and why. It is not the case that people in Britain eat more butter than the French and drink more coffee than the Italians—actually it is quite similar—but we are seeing some changes in demand globally for things like cocoa as coffee becomes more popular in parts of Asia, for example. That does change the demand. So it is a combination of demand and supply, but in particular for the goods that we have been talking about, actually weather patterns have had quite a big impact.

Q271 John Grady: What is driving the increase in the cost of animal feed? Is it energy costs?

Clare Lombardelli: A lot of it is the impact of the weather reducing the supply, basically.

Q272 John Grady: Thinking about the causes, weather takes you to climate change and so on, and what is going on in places like Spain. Changing global demand takes you to global economic growth, the rise of China and the ASEAN economies. None of those feel particularly temporary to me, so why are you confident that this is a temporary phenomenon?

Clare Lombardelli: Well, we are confident in saying this is our central expectation. Actually, we have some scenarios that look at more persistent inflation. But if you look at what is happening in these commodity prices at the moment—forward prices—you can see some of that coming off on the feed side, and these things are just volatile and they vary. People who are in the industry for these markets are expecting these prices to come off and so they expect some of these prices to go down, basically into next year. If there are other shocks—if we were to see another set of adverse weather patterns with an impact on supply—we might see them again. Similarly, we might not see that or, indeed, we might see the opposite. There have been some goods—for example, olive oil and sugar—where actually we have had much greater supply than expected and prices have come down. The combination is the reason.

Over the longer term—this comes back to some of the issues about supply that we were thinking about—there are of course always changes to productivity in these sectors. Some of these sectors are ones where



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technology and the application of technology will over time, though it is a much longer time horizon, have an impact on supply.

Andrew Bailey: It is just simple economics as well. If global demand for coffee goes up, you would expect, over time, global supply of coffee to go up, because there will be an incentive to grow coffee. I have to be honest: I don't know how long it takes to rear a coffee bush. There are not many in Glasgow, I am sure.

Q273 **John Grady:** We will see what we can do. On the prices of food, given these global factors, why is food inflation higher in the UK than in the eurozone? Do you have a view on that?

Clare Lombardelli: We had a chart on this in our August report. Actually, food prices have gone up in the eurozone as well. These are global commodities, as you say, and there is a very lively debate, if you spend much time in Europe, about the price of coffee at the moment. You do see that they are tracking.

There are a couple of things, though, that are different. As the Governor talked about, a large proportion of the workforce involved in food production is on or close to the national living wage. That has an impact. There is also quite a big difference in what is going on in the labour market in Europe versus the UK. We should be clear that there is a lot of variety across the labour market—the labour market in different parts of Europe is very different—but in general, there is more slack in the European labour market than there is in the UK. There is more labour supply, and that means wage pressures have been a bit less. There are a few other timing issues in particular, like some of the regulatory changes we have seen around packaging, although I think that is more timing, because again, the European Union are doing some of that, just to a slightly different timeframe.

Q274 **John Grady:** We talked earlier about not being in the business of forecasting shocks and about the Ukraine shock. One thing that does worry people is China and Taiwan. What impact would a major crisis in that context, given rare earths in China and semiconductors in Taiwan, have on inflation, and has the Bank turned its mind at all to that, Governor?

Andrew Bailey: It comes back to the point we were making earlier, which is that if it led to a breaking and disruption of supply chains—I would look there, frankly, in terms of predicting impact, if it were to happen—then yes, that would have an effect. We saw some of that during the covid disruption, although that was different. Taiwan is the world's largest producer of semiconductors, so that is very significant. We do follow these things, and we follow them wearing both our hats—both our monetary policy hat and our financial stability hat. To state the obvious, we have no ability to influence these things in terms of where they happen, but we do follow it very closely.

Q275 **John Grady:** Perhaps you could set out in writing how you follow it, and any thoughts you have on both fronts, because I do not want to take up



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too much time.

Andrew Bailey: Yes, we can do something. By the way, we do rely on Government quite a lot for this, because obviously they have the diplomatic network—

John Grady: Of course, and it is not so much the, “Will it happen?” because none of us know. It is, “What are the consequences?” and, “How prepared would the Bank be for that sort of eventuality?”

Andrew Bailey: Okay. I will do that.

Q276 **Rachel Blake:** Ms Lombardelli, the report highlighted a household savings ratio that was up to 11.6%, while in the July consumer confidence barometer, the savings index, which tracks people’s desire to save, rose to its highest level since November 2007. What is driving that behaviour?

Clare Lombardelli: One of the drivers is monetary policy. Interest rates have been higher. This is an intentional channel. It is one of the ways in which monetary policy works, which is that it makes savings relatively more attractive than otherwise, so people save more. That is one of the drivers. We know this because if you do surveys and ask people why they are saving more, some of them will say it is because of getting a higher return on those savings, so there is definitely that.

We also see some evidence—again, this is not a surprise—that in response to a series of large shocks that have had quite big impacts on people’s economic position, people have chosen to save more. In fact, I have in front of me the survey data, and one of the biggest increases has been in people saying they want to save more for emergencies. Now, that is not a huge surprise, given what has happened—covid, the cost of living and those sorts of issues. You would expect precautionary saving to rise, and you would expect a change in the incentives—a changing response, so a return to saving. It is those two.

We also look at this question in terms of thinking about the labour market. Have people increased their savings because they are worried about unemployment? The answer to that is that they haven’t, which is quite interesting. You would think that people would be more worried about unemployment. That would be a reason for them to increase their savings but they are not reporting—

Rachel Blake: They are not saying that.

Clare Lombardelli: They are not saying that. We are not seeing it. Well, they say it, but they don’t say it any more than they used to in the survey responses.

Q277 **Rachel Blake:** May I probe that caution point? You don’t have survey evidence to say that they are any more concerned about unemployment, but are you able to untangle whether the interest rates or generalised caution are driving the behaviour?



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Clare Lombardelli: I think it is a bit of both. I am looking at the data in front of me. I should say that this is survey data, so it gives you a good indication, but I am sure there are a lot of other things going on. It asks people to say the reasons, and they can say more than one. It is quite hard to unpick, but if you look at what has changed, there is definitely something about responding to higher interest rates. That is the biggest change, which you would expect because we have had quite a big change in interest rates from the start of the raising cycle. There is also this thing about emergencies. That is a smaller increase, but it is still quite a high level, so you have a bit of both going on there.

This is really important to us because one of the things that we have in our central forecast is an assumption that over time the savings rate will fall back more in line with its average level, so consumption will increase, and that supports demand in our forecast. That is one of the risks that we think about quite a lot. If we don't see that happening, is that a downside risk to demand? It is one of the many in the constellation that Professor Taylor talked about. It is something that a lot of people on the MPC think about. We are tracking it and keeping an eye on it.

Q278 **Rachel Blake:** Is the concern about shock from your data or your analysis to do with shocks such as covid or Ukraine—that kind of inflation—or are people anticipating more personal shocks and becoming more aware of those? Are people just becoming more financially aware through education? Do they know that there are good standard reasons to save, or is this a 21st-century phenomenon?

Clare Lombardelli: That is a good question. It is virtually impossible from the data to tell. It is really important. We sit there thinking about these shocks from a macro perspective and look at how they feed in, but of course to individual households and firms, they are incredibly personal. They care about their own finances, not necessarily about the fact that everyone else feels like that or what the driver is. We heard the numbers earlier about the increase in what people are spending on the same basket of goods. That will have an impact, and it brings home to people the economics in their personal balance sheet.

Q279 **Rachel Blake:** Thanks very much. Governor, the experience of borrowing is not the same for everybody, in terms of the types of product that they are turning to. We have seen, in a really positive sense in terms of stability, mortgage rates coming down, but we are also seeing personal loan rates stay quite high. What do you think that is about?

Andrew Bailey: You are talking about unsecured loans. It is an interesting one. We tend to look at the relationship between the personal unsecured loan rate and, usually, the swap rate, which will be either the two or five-year swap rates. You would obviously expect the unsecured loan rate to be above the swap rate, because you have credit risk in there. If you look at it over time, the wedge between the two is now back to where it was pre covid. Interestingly, it actually shrank as we were raising rates, so unsecured loan rates didn't go up as much as the swap curve went up. I can't give you a very well developed reason for why that wedge

came down and has now reverted to where it was. It might have something to do with demand for lending or with competition in the industry. I don't know—

Rachel Blake: So we do not know.

Andrew Bailey: What we do know is that, although it looks like it has gone up, the wedge to the market rate has actually reverted to where it was—its pre-covid average.

Rachel Blake: This is chart 2.5, so the wedge is staying about the same, but it just happens to be a bit—

Andrew Bailey: Well, the point is that it didn't stay the same. It has reverted to where it was. It looks like it is back into its more historical position.

Megan Greene: There is typically a lag between when the two or five-year swap rate comes down and when personal loan rates come down, so part of it could also just be the traditional, typical lag.

Rachel Blake: There must be data on whether demand has gone up for personal loans, so that could inform this.

Andrew Bailey: We can send you that data. We will have a look around and see if we can get any more data to illustrate that. We can certainly send you the data that we have just been talking about and illustrate it.

Rachel Blake: That would be helpful; thank you.

Q280 **John Glen:** The monetary policy report says that labour market conditions continue to weaken. I would like to try and focus on what determines your evaluations of what is happening in the labour market. Lots of assertions are made about national insurance increases or concerns about the Employment Rights Bill leading to an anticipation of increased costs. Can you tell us about how you attribute, using data—so that we can understand what that weakening looks like? We heard in your opening statements that there is a range of views about your future projections, and I will come to Professor Taylor about his view of the labour market. What I am anxious to understand is how to cut through the politics and get to the heart of what is actually happening.

Andrew Bailey: First of all, of course, we have to actually establish what the overall picture is. That has not been easy because, obviously, there are well-known problems and questions over the labour force survey.

John Glen: My colleague Yuan will ask about that.

Andrew Bailey: Our staff spend a lot of time compiling—and we publish them in the report—other data sources, some of which are official HMRC-type data, for instance, which is very good. We use surveys; there are a number of surveys that we can use to try to get at the overall picture. I should say that the earnings data are rather better than the quantity data, we think, at the moment. That was not always true in the past, by the



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way, but it is at the moment. Then you have a very good question—going back to Dame Harriett’s question, actually—about how you form a view on what the underlying causes of this are. We rely on our agents a lot at this point—

John Glen: The network of people across the country who talk to businesses.

Andrew Bailey: Yes. They have a panel—a very large panel—of contacts, which we always try to keep balanced in a representative, sectoral and firm-size way. They input to us at every monetary policy meeting and give us their latest set. The other thing I would say is that each of us goes around the country with the agents and sits down with firms and groups of firms and talks to them. I can certainly speak for myself: it is very high on my list of questions to anybody I go and visit, because it is a very important question.

Q281 **John Glen:** Professor Taylor, you have quite a distinct view of the situation in the labour market—a slightly divergent view, perhaps. Given what the Governor just said about the data points that you all access and the wide lot of qualitative data on expectations, your assessment is slightly different. I think you say that a slow loosening of the labour market can suddenly turn into a rapid deterioration that is much harder to arrest. Could you say a bit more about how you see the likely trajectory in the labour market?

Professor Taylor: I think it is about risks. The statement about how you can have that non-linear break point, and suddenly the labour market can accelerate in a downturn, comes from economic history—not just of the UK but the US and other countries. It is a point that is shared across the MPC; it is about how big a probability, or how big a risk, that represents at this point in time. When we discuss this, it is not like some of us believe that that is true and some of us do not; it is just a question of how proximate that risk is.

For me, and maybe for the rest of the committee, I share the view of the central forecast that over the last 12 months unemployment has been, and will be, on an upward trajectory. I do not think I disagree with the slope. I probably disagree with where we are right now—the starting point. I think we are slightly worse than the forecast statement.

The reason for that is that if I look at the models, the nominal block in the model is saying that, given where inflation is, we should attribute the relatively high inflation to demand perhaps being elevated. But all the other models, based on the real side—on output and employment—tend to say that the output gap is a bit worse and the economy has more slack in it. I am inclined to put more weight on those indicators than on the nominal block, because we said, in another part of our thinking, that we have to have an inflation persistence judgment in there, because in a sense the connection between the output gap and inflation is perhaps not playing out right now in line with our historical models. That says to me,



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"Okay, I need to re-weight my signal-to-noise ratio over here and pay more attention to the real indicators."

Some of the official data, such as HMRC versus the labour force survey, are disagreeing in a way. LFS may say it is not that weak, but HMRC numbers have been suggesting that it is maybe a bit weaker. It is a matter of inclination. It is just about saying that we are starting right now from a point where we are a little bit weaker, which means the risk gets a bit more proximate.

John Glen: Thank you. I will hand over to my colleague Yuan Yang, who wants to take forward the data points that we are all interested in.

Chair: We are all fascinated. We are a nerdy group of people in this room, so we are all excited about that. Yuan Yang is indeed next.

Q282 **Yuan Yang:** Governor, you slightly pre-empted my question about the ONS, which the Committee has discussed in depth. To what extent does the ONS's new plan for economic statistics address the concerns that you have raised before with this Committee? What are the biggest remaining gaps?

Andrew Bailey: First of all, we very much welcome the report by Sir Robert Devereux. I think Clare was involved inputting to it directly from the Bank's perspective. We are very supportive of it, and I also welcome the ONS measured and sensible response. The plan on what they are going to do emerges out of that. I have to say, we have given them one of our best senior staff—well, not given them, but they have gone to work there. I am very pleased, because we want to support them, although it was also a choice that that person made, which is good. We now have to get behind it and make sure that they can and do deliver it.

We talk to our counterparts in other central banks. The world of statistics is not straightforward. There have been a lot of changes in structure, the way people answer the phone, the way people live. In many countries, statistics agencies are saying that it is becoming more difficult. So we have to support the ONS, but the Devereux report gives them a way forward, and I am very pleased about that. It is right that they are really putting in extra resource at a senior level to lead this. We will support them through it; that is a commitment that we should and will make.

Q283 **Yuan Yang:** Thank you, Governor. This is an open question to anyone on the panel: while the ONS is getting its house in order, and while it will take time to feed through to the transformed labour force survey, are there other datasets out there that could enhance your decision making, if you were to access them? What difference would they make?

Megan Greene: As you know, we already look at a host of different series, particularly on the labour market, to get a clear picture of what is going on. We do not just rely on ONS data; we look at other series as well. Covid was a turning point for many economists in finding new real-time sources of that kind of information, so we already look at that.



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I would say generally, if I were to make a plea for data, that to my mind one of the biggest questions we have is around consumption in the UK, because it has not rebounded as you might have expected. The savings rate has remained really high. We do expect consumption to come in and the savings rate to fall, but that is a vulnerability in our forecasts. Understanding the UK consumer better would be really helpful. A lot of data series exist in the private sector—credit card companies and the banks have a lot of data on balances. Getting access to some of that data in an anonymised fashion, so that we have a sense of what people are spending money on and when, would be really helpful.

Yuan Yang: Thank you. Would anyone else like to add to that?

Professor Taylor: I fully support that. When we are now trying to fill gaps, we have to take data from many different sources, amalgamate, and think about the signal-to-noise ratio and how we can get an estimate of what is happening to the labour force or consumption, but that process is only as good as the data that we put in in the first place. If we can get access to more accurate granular data of the kind that Megan Greene just mentioned, that would be very helpful.

Yuan Yang: Thank you. I think the Committee has heard your plea for more access to commercial data.

Q284 **Chair:** Ms Lombardelli, with all the work you are doing with Bernanke and changing the modelling, are you looking at other datasets? Is there any barrier to getting that information?

Clare Lombardelli: When you take a step back, you see that we are in a very interesting time in the world of data. Obviously, the gold standard is to have national statistics that are reliable and timely. The ONS has a programme to get back to delivering that, which we fully support and want.

As Megan and Alan have said, there are other sources of data that are really useful. As we see technology changing in this space, a huge amount of data will be available. AI will be able to deliver access to much larger data sources and draw insights from them much more easily. We are thinking very carefully about how to do that as we implement the changes that we are making anyway, through the Bernanke review, to the structures of how we do analysis. There is a real opportunity for us to do them together—more so than in a lot of organisations, because we will be making structural changes to the way we do our analysis and to our technology.

As I have said, a big part of the Bernanke review will be about the heavy lifting on the underlying platforms: how you manage data, how you manage information, how you run your modelling and all those things. We have a really good opportunity to ensure that we reform ourselves and take advantage of technological advances that will enable more data and better insights from the data, but also feed it straight through to our analysis. So the answer is yes, and frankly it is a great opportunity.

Q285 **Chair:** What powers do you have to require data? Presumably you can get any Government data.

Clare Lombardelli: There are barriers that we face. There are restrictions around commercial data—we do not own it, it is of value to people in the private sector and they might not want to give it to us. There are issues around that.

Q286 **Chair:** When you say “issues”, do you mean they will not give it to you, or that you have to pay for it?

Clare Lombardelli: There is a cost to it. The production of data is a business, and data is increasingly valuable in the economy. One thing that happened fairly recently on GDP is that the value of data was put into the economy. You can see the value of that. That will only increase over time as we all see the value of having more information. If you look at tech companies and at some of the investments in technology that some banks are making, for example, it is because they see the commercial value of that data. We are a public sector organisation: there are limits to what we should be paying for data and to what we can pay for data. We have to deliver value for money. There is a set of issues around that, and there are also issues around confidentiality and personalisation that need to be thought about.

Data is not free. We have to navigate this, so we are thinking carefully about it and looking at other ways to get more data in a way that is cost-effective and genuinely useful. There is an awful lot of data out there that would not be that useful. You could spend hours trying to extract the signal from the noise, so we have to be quite focused on what is valuable to us and what can tell us something useful.

Andrew Bailey: The data has to evolve to reflect how the economy changes and how society changes. I would highlight two points. Clare has mentioned one of them, which is the rise of so-called intangibles in the economy—things like data, which are not bricks and mortar or machinery. Properly capturing the value of data and the value of IT is important, because otherwise we will end up in a situation where the economy is actually growing but we are not capturing it.

The second thing—we saw this a little bit with the last inflation number—is what we call dynamic pricing. Actually, 3.8% was what we are expecting, so it was not a surprise to us, but the services number had a big airfare component. We have all had this experience: these days if you book a hotel, buy an airfare or book a concert ticket, you are subject to dynamic pricing. The price varies from hour to hour, because that is how they sell the things. The question for us is whether that is introducing more volatility.

Q287 **Yuan Yang:** Are there precedents or forms of data sharing that we could learn from other central banks or national statistical bodies where there is access, and which the Committee or the Government should look at?



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Clare Lombardelli: Other countries definitely use admin data more than we do, because they have greater access to admin data built into their systems. Understandably, we have a lot of restrictions, particularly around privacy and data sharing. In some other countries, that is used more, across the public sector. There would be benefits to us; I think there would also be huge benefits to other parts of the public sector if this information could be used. That is one area where I would definitely say more could be done.

Obviously other countries also think much more about some of these questions around dynamic pricing—you see a lot more of it in other countries as well. Actually, what is happening to pricing is changing rapidly, again in response to technology, particularly in some more emerging economies or economies that use more technology in a lot of their pricing platforms. There are differences and we can learn from some other countries.

Q288 **Chris Coghlan:** Governor, the OBR implies that stopping QT could create £18 billion a year of extra fiscal headroom for the Chancellor and save us all significant taxes as taxpayers. Do you agree? I understand that considering fiscal issues is outside the remit of the Bank of England, but you are about to set QT for the rest of the year. Would you consider suspending QT given current market conditions, given that, I believe, the ECB and the Fed have done so?

Andrew Bailey: Let me say two or three things on that. First, let me reassure you that the decision we are going to take in the next few weeks is an open decision. I want to be very clear on that: there is nothing closed about that decision.

On the point about the cost of QT, I think I have made this point before, but I will make it again. I am afraid I have to push back on that point, because either you get the cost through the carry cost of the bonds—in other words, because the coupon of the bonds, or the interest rate on the bonds, is lower than the current official rate—or you get it on the discount of selling, and if markets are efficient, those two things equalise. The cost can come through at different points in time, but they equalise over time. So just to clear, there isn't a pot of gold out there that isn't there if you do one thing, but is there if you do another thing. That is a very important point to bear in mind.

The third point I will make is this—I may have made it in the Lords before, but I will make it again. In terms of the increase in bond yields—I do not think that QT is the cause of this, by the way; there is a strong global element to it—what I would say is that, yes, in this open decision we are going to take, the interaction of that effect with our decision is something that we will obviously look at very seriously. I have said that before and will say it again.

Q289 **Chris Coghlan:** That is why I specifically mentioned the fiscal rules. If you suspended the sale now, that would create an extra £18 billion of headroom under the fiscal rules, and of course maybe that would come

through later under—

Andrew Bailey: I do not think the fiscal rules work that simply, but I am not the expert on the fiscal rules. Obviously the fiscal rules look over time; they are not a snapshot-in-time thing.

Q290 **Yuan Yang:** Governor, in your recent monetary policy report you have a section describing how Bank staff have updated their analysis of the effects of QT on gilt yields, which, as my colleague Chris Coghlan mentioned, impacts the cost of borrowing for the Government. It concerns me that your Bank estimate now suggests that there will be £16 billion in lifetime costs, which is a revised estimate, and you call that a modest increase. To my constituents, I do not think that £16 billion would be considered modest. It would fund, for example, an entire Elizabeth line or 40 new hospitals. Our constituents would consider that to be Government spending on quite a large scale, so could you describe the process behind the choice of that label, and also the updating of those estimates?

Andrew Bailey: Our staff—as they do every year—as we prepare for the decision we are going to take shortly, do what they think is an estimate of the impact of QT in terms of yields. I think that they have moved the range from 10-to-20 basis points to 15-to-25 basis points. That is the change in their estimate of the range. By the way, these things are all approximate, but that is their estimate.

This is over the lifetime of the portfolio, which is a long-lived portfolio. I agree with you that that headline number is not small. Not many will dispute that number, but it comes from an estimate of a lifetime cost, and that is a long lifetime.

There is another thing that I would say on that front, which we are working on this at the moment because it is in the letter that I wrote to Richard Tice, which I copied to the Committee. There is another element to this, which we will have a go at estimating, because it is important. We are talking here not about the cost-benefit of quantitative easing and quantitative tightening, because you would have to do a whole-economy modelling exercise, which is very complicated. This is about the cost of debt servicing and the cost of gilts, as it were.

The numbers that get published through this are partial, and for the following reason: the Government got a benefit from QE programmes, because of the fact that they lowered the cost of debt issuance. It was particularly important to the UK because the UK has been issuing much longer dated debt. That benefit then lasts for the life of that longer dated debt. That is an important thing to capture because it is a benefit that is embedded in the cost of debt servicing. To estimate that cost, you have to do some sort of counterfactual exercise in which you say, “What would it have been had that not happened?” We are working on that, because I am conscious that we have a slightly one-sided view of the world at the moment in those debt servicing cost numbers.

Yuan Yang: I think we all understand that it is not in the power of the Bank or of the MPC to travel back in time. That is not the counterfactual

that I was trying to consider.

Andrew Bailey: The benefit is coming through now. It will be here now and for years to come.

Q291 **Yuan Yang:** The decision that the MPC is facing later this month is about active versus passive quantitative tightening. The MPR piece that you linked to in that report suggests that the costs of active QT as opposed to passive QT could be upwards of £60 billion. I would not choose the adjective “modest” for that—

Andrew Bailey: No, no—

Yuan Yang: What would you choose to describe that?

Andrew Bailey: As I said earlier, in an efficient market, these two things should be the same over time. I really do push back on that number.

Chair: Thank you very much indeed. The issue of quantitative easing and tightening was a big discussion at the end of a hot afternoon, and perhaps not the time to get into it in enormous detail, but we will return to it because, for a start, you have your decision coming up soon. That will give us something to talk about next time we see you, Governor.

I thank our witnesses for their time. We had a very interesting discussion; in particular, we heard the Governor’s concerns about the independence of the Federal Reserve. We are grateful that we have an independent Bank of England. We are here to challenge you, but your independence is important. We discussed the three-way split on the MPC’s views on interest rates, and how the Governor navigated that, having a second-round vote for the first time. We also discussed the significance of the rising 30-year gilt yield, which was just included, and we explored the long-term outlook for interest rates, the impact of an ageing demography and how international tariff developments are effecting the UK. It was quite a wide-ranging session.

As ever, we thank the Governor of the Bank of England Andrew Bailey, Deputy Governor Clare Lombardelli, Professor Alan Taylor, an independent member of the MPC, and Megan Greene, similarly an independent member. Thank you for your time.