

Treasury Committee

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

Tuesday 9 December 2025

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[Watch the meeting](#)

Members present: Dame Meg Hillier (Chair); Dame Harriett Baldwin; Chris Coghlan; Bobby Dean; Jim Dickson; John Glen; John Grady; Dame Siobhain McDonagh; Luke Murphy; Yuan Yang.

Questions 292-340

Witnesses

I: Clare Lombardelli, Deputy Governor for Monetary Policy, Bank of England; Sir Dave Ramsden, Deputy Governor for Markets and Banking, Bank of England; Dr Swati Dhingra, External Member, Monetary Policy Committee, Bank of England; Dr Catherine Mann, External Member, Monetary Policy Committee, Bank of England.

Written evidence from witnesses:

- [Annual Report from Dr Catherine L. Mann, dated 24 November 2025](#)
- [Annual Report from Sir David Ramsden, dated 28 November 2025](#)

Examination of witnesses

Witnesses: Clare Lombardelli, Sir Dave Ramsden, Dr Swati Dhingra and Dr Catherine Mann.

Chair: Welcome to the Treasury Committee on Tuesday 9 December 2025. We are delighted to have in front of us witnesses from the Bank of England, and in particular the Monetary Policy Committee, for one of our regular sessions discussing monetary policy.

I am very pleased to welcome Dr Catherine Mann, an external member of the MPC; Dr Swati Dhingra, another external member of the MPC; Clare Lombardelli, deputy governor for monetary policy at the Bank of England—you are deputising for the Governor in this respect today, and I think it is worth saying that if there were ever an issue, you would chair the committee in the Governor's absence, so it is important that we have you here with that hat on as well—and Sir Dave Ramsden, deputy governor for markets and banking at the Bank of England. A warm welcome to you all. I will ask Bobby Dean MP to kick us off.

Q292 **Bobby Dean:** We will start with the interest rates decision. Usually we invite views from all of the panel, but of course this time you have given us an insight with your written statements, so we have a bit to go on. Sir Dave Ramsden, could I start with you? With your voting record against the majority decision, it is less difficult to predict a pattern in the way you want to go. This time you said that "the inflation hump has played out largely as expected." You also said, "Households' worries about the outlook may continue to keep the saving ratio elevated", and your decision was to cut by 25 basis points. Will you expand on those comments, please?

Sir Dave Ramsden: Thank you for the opportunity to expand on my vote and the reasons for it. What it comes down to is that, as of the November round, I looked at the forecasts we had put together and the risks around that, represented by the analysis we had done and the scenarios we had put together.

I place weight on our central projection and I see the risks around the central projection for inflation returning to target at the start of 2027 as pretty balanced, but as you have just flagged, I think the downside risks—that is, inflation coming in below target over that horizon—were more apparent compared with where they were in August. In particular, there was cumulative evidence of the labour market continuing to weaken, not sharply—incrementally—but clearly weakening.

Alongside that, there were concerns that demand in our forecast might turn out a little bit weaker. However, it is worth stressing that overall I saw the risks as balanced because—I mentioned this in my latest report to you—this time a year ago I was pretty confident about inflation coming down and, in particular, wages continuing to come down, but there were surprisingly high wages at the end of 2024 and in early 2025. Service inflation was also therefore stickier, because that has a very high



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employment wage content. I still do not rule out the worry around persistence, but when I put all that together, I was one of the four who voted in the minority for a 25 basis point cut.

Q293 Bobby Dean: Can I press you on one point? Your vote changed from September to November. A lot of the data points that you explained were probably in view in September as well. Was there anything that specifically tipped you over this time?

Sir Dave Ramsden: It is a good point. I guess it comes back to my general approach at the moment. Through this year, alongside pretty much everyone on the committee, I have been taking what we call the gradual and careful approach. For me, that means I am learning as we go through the year. In August, I saw the case for cutting, so I was one of the majority of five against the four who wanted to hold in August. In September, those upside risks around persistence in inflation were more apparent than they were by November. It is not a mechanistic thing; it is how you judge that balance of risks, and that is where I ended up on that journey from September to November.

Q294 Bobby Dean: Dr Mann, your record has pretty consistently been to vote to hold, except for that time in February when you said to go for a bigger cut; I think we spoke about that in the last session. But this time you were staying on hold. One thing was interesting: in your statement you talk about how administered prices could jump again, which I assume might allude to the Budget. Has your opinion changed since you cast this vote? Would you like to elaborate on the position at the time as well?

Dr Mann: Thank you for the opportunity to come and discuss our votes. Inflation persistence really has been my key view. In the November scenario, that was the one that I thought dominated. It was my central view. Of course, in that scenario we did not get to the 2% target within the forecast horizon. There are a number of underpinnings to that, which have to do with inflation expectations rising as opposed to falling, even though inflation itself has fallen.

I pay a lot of attention to the threshold effects, whereby behaviour in terms of price setting by firms is affected by a threshold of inflation at 3%. When I said that administered prices may rise again, it was on the back of the fact that those specific administered prices are often changed in April. Those are not just administered prices by Government; they are also administered prices by the private sector—insurance and telecommunications, for example—and those tend to be associated with the underlying inflation rate at the time. As a result, in thinking about my inflation scenario, which was to be more robust than the one in the central case, that suggested to me that those administered prices would jump again next year.

Q295 Bobby Dean: Just to press you, because you did have that 0.5% cut proposal back in February, do you feel close to making that decision again soon? Are you holding until you go for another big rate cut, or do you feel that you are probably going to stay in that balanced hold position for a



long time yet?

Dr Mann: Trade-off management over the course of this year has been increasingly difficult. By trade-off management, I mean making the distinction in relation to what would be the right vote if you only looked at inflation. If I were only looking at inflation, particularly the persistent scenario, it is clear that inflation has been inconsistent with a target of 2% on the monetary policy horizon. On the other hand, if you only looked at certain elements of the labour market, you would pursue a less restrictive monetary policy stance. That has been a feature of the entire year, and that management has been increasingly difficult.

As I look forward, we can identify, in an arithmetic sense, some changes coming through the Budget to administered prices, which will reveal a lower inflation rate as we do the arithmetic on how the Budget measures will affect headline inflation. From my standpoint, we have had behaviour changes associated with four years of inflation being above target-consistent 2%. Those behavioural changes come, as I say, through firms being reluctant to reduce prices even when sales are weak. We have household and business expectations rising as opposed to falling, even as inflation itself falls, so I see those behavioural changes as dominating the 0.5 percentage point arithmetic change in inflation over the course of next year, associated with some of the Budget items.

On the labour market side, it is without doubt that the private sector labour market has weakened. Employment numbers are negative. However, what we also observe is that public sector employment has increased, so the overall labour market situation is not as dire as is revealed by, for example, the DMP or the agents, which are primarily assessments of private sector economic activity.

We see this divergence between the public and the private sector in our output indicators as well, with a gap between what we call market sector output and GDP. That is an indication of the extent to which the public sector is an important ingredient in offsetting some of the weakness in the private sector. That trade-off management continues to be evident and is an important source of my analysis over the next year.

Q296 **Bobby Dean:** Dr Dhingra, you joined Dr Mann on the 0.5 proposal in February, but it is safe to say that you have taken a different view since then; you have argued for cuts at almost every meeting. This time, in your explanation, you say that “Disinflation remains clearly on track” and that the “Bank Rate should have been lower already to account for lags in its transmission to the real economy.” Could you expand on that? Could you touch on why you did not decide to go further if you feel the Bank rate is so clearly out of touch with the real economy?

Dr Dhingra: Over the many months that we have seen—pretty much all of this year—disinflation has been on track. I think where we ended up with an inflation hump had largely to do with two sources of inflation. One was coming from food price inflation, and of course I remain very concerned about that. I can talk about that in more detail.



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The second bit was through administered prices. That includes both where prices are set by the public sector and where prices are generally done on the basis of indexation. Once you take out those administered prices and we look at services inflation—which is much more within the control of where monetary policy can have effect and where things have been stickier in the past and is therefore a good metric for understanding inflation persistence—and you compare it absolutely side by side with the euro area, I think you get a very stark result from that. Administered prices, which is about 25% of the consumption basket when it comes to services inflation, is roughly at 6.5% in this country, while in the euro area it is at 2.5%.

The others, which are the 75% of purely market-based services, are at almost exactly the same level, which is 3.5% and 3.5%, or roughly around there—it bobs around a bit every month. That makes me think that this is not about inflation persistence; this has much more to do with the extra shocks that we have coming from the administered side.

Then, of course, there is the question of food price inflation. I was very concerned about food price inflation for the obvious reason that it impacts people. Quite often the way they gauge inflation is through the price of bread, butter and so on. People notice those things very clearly.

What is happening in food price inflation is that basically 10 items are driving our divergence from the euro area, and those 10 items are clearly not things that we grow. Chocolate is one of the primary ones. In that sense, I am more reassured by a lot of the work that has happened, both through my colleagues at LSE as well as through Bank staff, which is very clearly going down to the minor details of where these food price inflation shocks are coming from. Given that they are not broad-based, I am somewhat reassured that this is not going to translate immediately into something that causes more persistence.

Alongside all that is very weak consumption compared even with pre-pandemic levels, as well as more generally compared with our peers, largely driven by lower disposable incomes, along with the fact that labour market activity is starting to slow down. Against that backdrop, I do not see how these inflation expectations will immediately translate into further inflation.

That is why I think, given that our outlook is very much along these lines, that we will come back to target at this point somewhere around 2026 Q2 or Q3. I do not see a particular need to be so restrictive at this point, because it will take time to translate into real economic activity.

Q297 Chair: When you say back to target by Q2 and Q3 in 2026, is that 2%?

Dr Dhingra: About that: 2.5%, 2.4%, somewhere in that range.

Chair: So that would be quite rapid.

Dr Dhingra: A really good question is “Where are the risks here?” That is probably somewhat of an upside risk, because the services inflation drop



that we are expecting is quite high. I do not necessarily have a reason to doubt it, because the producer price indices are going in that direction—they were at 1.7% in the last reading that I saw. But I am always going to be worried about the commodity shocks that are taking place across the world. These global shocks have not been as virulent as we have seen them in the recent past, but of course that is a source of perpetual concern.

Q298 Bobby Dean: Ms Lombardelli, you voted in line with the majority. Could you reflect on your own decision, but also on the general discussion among the MPC on this occasion, and how you came to such a balanced decision?

Clare Lombardelli: Sure. As you say, I voted to hold in November, as the committee as a whole did, taking the votes together.

All of us are balancing risks. As you can hear today, different people put different weight on the upside and downside risks. I think all of us are expecting inflation to continue to fall from here. Actually, as Dave said, the forecast to date has, through this period of recent disinflation, been fairly good at predicting that, so I think we have put weight on that.

Everyone is balancing those risks—all of the committee are. You can see from the individual paragraphs that people are locating themselves within the framework of upside risk to inflation persistence. That could be because of one-off factors feeding through; Catherine has talked about that very eloquently. It could be because of some of the structural changes that we have seen in the economy. On the other side is the balance of risks to the downside, particularly around the weaker consumption that we are seeing; a few people have talked about that.

My personal view is that I am worried about both, but I worry more about the upside risks to inflation and some of the shorter-term factors that Catherine talked about. But I probably also put more weight on some of the structural factors that we are seeing. I am very worried that we are seeing more pressure on resources in the economy, and that obviously leads to price rises. I think you can see it in the labour market. It is interesting how we all interpret the labour market in different ways, but I am worried about the level of economic activity that we are seeing and that has been going on since the pandemic, and what that means for capacity constraints, and also supply chains investment.

I am also perhaps less convinced than others about how restrictive monetary policy is at the moment, as in how far we are from reaching the end of the cutting cycle. I am certainly less confident on that than some other people on the committee, which is why personally I voted to hold.

Q299 Bobby Dean: There was one more thing that struck me as unusual. You said that “a policy reversal would be costly for the MPC’s credibility.” Why does that matter and why did you choose to include that in your statement?



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Clare Lombardelli: We have cut rates five times now since the peak, so monetary policy is clearly becoming less restrictive and, whatever you think neutral might be, we are clearly closer to it than we were in August 2024.

As we approach that, or at least as it comes potentially into view—the Bank has said that we estimate somewhere between 2% and 4%; that is quite broad, but it gives you a bit of a sense—you are at least considering that point. I think it makes sense for us to think more about the consequences.

We have said that we are on a gradual downward path—we have been on this path for some time. My view is that as you approach your turning point off that path and you do not know where it is, you might slow down a bit to anticipate things and find your way a bit more.

On the point about credibility, this is a judgment. We might all take different views. What am I aiming to do here? You are trying to provide as much certainty and stability as you can for the economy, as the baseline from which agents across the economy—businesses or individuals—can make individual decisions. So I put weight on policy rates being more stable than perhaps other people might. I think it would be better if we could smoothly approach this point from above, rather than go down and come back up.

Q300 Bobby Dean: Is your fear that if you were to make a cut that a meeting or two later you felt you had to reverse, it could add policy uncertainty into the system and have all sorts of other impacts on the economy?

Clare Lombardelli: We will always all set rates and vote on what we think is the right policy, so I wouldn't say—

Bobby Dean: "It's never going to happen."

Clare Lombardelli: Exactly. We could reverse policy, and if it were the right thing to do, of course we would—but we would rather avoid it if we can.

Q301 John Glen: Could I turn to the Budget and the effects of the Budget? I think the monetary policy report published on 6 November refers to the uncertainty over the Budget, softening GDP growth and delaying investment. There has been a lot of commentary around the unusual nature of the run-up to the Budget. Would any of you wish to make any observations about that process? Ms Lombardelli and Sir Dave have had vast experience of the run-ups to Budgets. I am mindful of what you have just said, Ms Lombardelli, about the desirability of a stable context for some of your decisions. What are your reflections on what you saw this time?

Clare Lombardelli: There is always quite a lot of speculation in the run-up to Budgets. I have worked on an awful lot of them in a past life; Dave has too. There is always quite a lot of speculation and uncertainty. It is a big policymaking event, so lots of policies can change at that point.



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As we travelled around the country talking to our agents and our agency network, you could tell that people were unsure of what was going to be in the Budget. In some senses, that had an impact on what we were hearing about investment, for example. Obviously, the Budget having now happened, that has crystallised and has provided more certainty around some of those policy changes. People were unsure what would happen, but now they know what the policy is. We should see that creating a more stable environment.

Q302 John Glen: You have glided straight into the aftermath. What I am trying to get at is that, let's be honest, this was rather more unusual than previous Budgets. You said so in the report, and so does the commentary of CEOs and Andy Haldane, who is obviously an experienced individual who is known to you. Are you not saying that this was unusual at all, in comparison to what we have seen previously?

Sir Dave Ramsden: I would make a couple of points. You always get speculation in the run-up to Budgets.

John Glen: Of course. Nobody is disputing that.

Sir Dave Ramsden: I would make two points. First, people are quoting Andy Haldane. Obviously he used to work for us, but he is now chair of the British Chambers of Commerce, so you would expect him to comment from that perch now.

If it is useful to this Committee, given my responsibilities as deputy governor for markets and banking, what we are really focused on is market movements and market volatility. That is true all the time, particularly with geopolitical worries and other global issues, some of which were flagged last week by Clare and me with our FPC hats on.

Sticking to the MPC and focusing on our core market, the gilt market, there were moves in the run-up to the Budget. Some of those may have reflected some domestic factors, but there were also clearly global drivers. I got our staff to see whether movement in gilts in the three months up to the Budget had been any more volatile than in the rest of the year or than in the run-up to previous Budgets. We measured the 10-day rolling average of the difference between the high and low yield on each day. That volatility was actually lower than it had been ahead of other fiscal events in recent years.

John Glen: I accept that, but what about—

Sir Dave Ramsden: All I am saying is that volatility is a fact of life in the markets at the moment.

Q303 John Glen: Could I draw your attention, then, to the immediate few weeks before the Budget? What do you think could account for the movements seen around the Chancellor's scene setter on 4 November, and the stories in the press about the OBR forecast on 14 November? Do you recognise anything in the market behaviours that could be attributable to those two facts?



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Sir Dave Ramsden: It would be impossible to completely account for moves on any day. Certainly the moves on the 14th were reasonably large, but you have to see that in the context of what I have just said about more general volatility.

John Glen: So you do not think that the moves on the 14th, notwithstanding what you said about the overall pattern over three months, had anything to do with—

Sir Dave Ramsden: I did not say that; I just said that it would be very hard to do an absolutely detailed diagnostic to tell you exactly what moved when. From quite long experience, I know that you get volatility in the run-up not just to our fiscal events but to those in other countries. Overall, the critical thing is that markets were not that volatile, and more generally they continued to function and were orderly. From a financial stability perspective, there were no concerns, which of course there have been on previous occasions, not only in the UK but in other jurisdictions.

I am aware that letters have been written to Nikhil Rathi at the FCA, asking him to look at this from the more specific perspective of the responsibilities of the FCA, and he has replied to you with his view. All I can give you is my perspective.

John Glen: Which is to wait for somebody else.

Sir Dave Ramsden: All I can give you is my perspective on what I am worried about, which is whether markets are functioning, whether prices are being discovered and whether that core market for us is continuing to function, which it is.

Q304 **Luke Murphy:** Have you any observations or analysis on the movements in the gilt market since the Budget and how it has landed?

Sir Dave Ramsden: Obviously we monitor it, but I do not think it is our job to give a running commentary unless there is something really significant that might prompt us to intervene, for example, which we have not had to do for several years.

Look at what has happened to the 10-year gilt, which is the most comparable one internationally, since the start of this year: it has pretty much round-tripped. I have the numbers somewhere. I think it was 4.57% on 1 January 2025 and 4.53% on 8 December. It is four basis points lower, which is tiny in the scheme of things.

Meanwhile, as it turns out, some other jurisdictions have seen increases from a much lower base. It comes back to the point I was making to John Glen: other things are driving it. German yields, which are much lower than ours—2.36% at the start of this year—have gone up by 50 basis points, recognising that Germany is committing to fiscal expansion and spending more on infrastructure and defence, given the changing geopolitical environment. I would always put short-term movements in a broader context.

Q305 Dame Harriett Baldwin: Sir Dave, you obviously have a Bloomberg terminal in the Bank of England.

Sir Dave Ramsden: Quite a few.

Dame Harriett Baldwin: I can imagine. I am focused on that moment on the night of 13 November, when the *Financial Times* ran the story that income taxes would not be going up. The minute the gilt market opened on the morning of the 14th, the Bloomberg terminal said that UK gilts “plunged at the open”. “Plunge” is quite a strong word on a Bloomberg terminal. Very shortly after that, there was a briefing from the Treasury to the effect that the Office for Budget Responsibility forecasts would be better than expected, and that was the reason behind it. In those moments between that plunge at the open and the Treasury putting out a clarifying statement, which I believe is now subject to a leak inquiry, do you think that the gilt market was being traded fairly?

Sir Dave Ramsden: There was volatility in the gilt market.

Dame Harriett Baldwin: And that was just normal volatility?

Sir Dave Ramsden: No, I did not say that; I said that there was volatility. As you say, there was definitely a pick-up in yields and then they fell back.

We have seen previous such episodes; I remember one in July, when there was speculation about the Chancellor’s future and there was volatility on that day. What I am trying to say is that, in the context that this was always going to be an important Budget, it is not surprising that there was volatility in the run-up to it, on top of the more general volatility that we are seeing across jurisdictions. I would draw a distinction between what we saw then and what we saw in April after liberation day, for example, when we saw volatility turning into the risk of being disorderly.

Q306 Dame Harriett Baldwin: I just want to drill down into those moments. Is it fair that some person got that information sooner than the rest of the market? Were there participants in the market who were getting more information than others?

Sir Dave Ramsden: I am not going to comment or speculate; I honestly do not think that is my, or our, role. What I will say is that the market moves around and is volatile at times, in response either to speculation or to news and facts. That is just a fact of life in the gilt market, as it is in other Government bond markets.

Q307 John Glen: Can we turn to your assessment of the effects of the measures in the Budget? On near-time growth and inflation, what do you think about what you have heard from the Chancellor?

Clare Lombardelli: I will talk you through the analysis of the Budget that the Bank of England staff have done. I should say that the committee has not discussed this yet. In fact, as you know, we are about to start a new policy round tomorrow, so this is the staff’s initial work; it is not a committee view. They have mechanically put through the changes from

the Budget, and they have actually found very similar results to the OBR's analysis in its EFO.

For us, the biggest impact is the direct impact on inflation in the relatively near term. We think that it will reduce inflation by between 0.4% and 0.5% for a year, from the second quarter of 2026; the OBR has a very similar number. That is a purely mechanical effect of the changes in energy prices, fuel duty and, to a lesser extent, electric vehicles and rail. That will shift inflation, and that is by far the biggest impact for us.

We may come on to this, but there is a question about what you do with that. Economic theory will tell you that you look through a one-off effect, but as you have heard, and as we have talked about at this Committee before, there are questions about the impact of short-term effects on long-term expectations and the impacts of salience and threshold effects. We are very conscious—some of us have mentioned this—of whether you treat inflation symmetrically when it is high and when it is low. There is a whole separate debate that we might get into there, but the mechanical effect is that it will be lower: it will be lower for a year from the second quarter of next year.

You asked about growth.

John Glen: In the near term.

Clare Lombardelli: In the near term, that's right. The growth impacts are smaller. Within our forecast horizon—our forecasts are a bit shorter than the OBR's, because we look at when monetary policy will affect the economy—there is obviously a slightly looser fiscal policy and a bit more Government spending, which will push up on GDP in the short term.

The effects are quite small—I think it peaked at 0.2% in 2027—but there is an effect there. We do not think that that would have a big effect on inflation, but it is in there. We have not looked at the impact of that further out, because it is beyond our policy horizon.

The other thing I would say about growth is that you can disentangle these two effects—the near-term effect that you have talked about and the potential productivity—and that gives you the mechanical side of it. What we have not done yet is run it through our entire forecast infrastructure, which is a general equilibrium infrastructure, so there may be other effects. That is the initial staff view, and that is what the committee will be looking at and looking into.

John Glen: Thank you. May I bring in Dr Mann?

Dr Mann: I have two comments, bringing to bear the time I was chief economist at the OECD. I am considering not only the Bank staff's research, which I use all the time, but the research done on broader country experience.

The first point is backward-looking and is about the extent to which things can be reflected in the markets and in the behaviour of businesses and



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households when they are trying to make decisions. The duration of uncertainty regarding the Budget—and, I would argue, the policy prevarications and uncertainty—was detrimental to consumer confidence and to business investment. We heard this from our agents; we can see it happening in research. It is about the length of time for which uncertainty was at play, and the range of policy uncertainty—we can measure it in a couple of different ways. That is backward-looking as to the impact on the UK economy.

Looking forward, it is important to recognise that the fiscal stance for this whole year has been more expansionary than in the previous Budget. In our forecasts, where we have used announced fiscal policy, which is our standard operating procedure, we had a very big change in fiscal stance for our November forecast. I called into question that change in fiscal policy, because it was a big delta from a positive contribution to a negative. It was going from out-turns, which were more expansionary than had originally been projected in the Budget, to one where we had to switch to announced fiscal policy. Where we move in this new Budget is closer, in some sense, to what reality has been over the course of this year. That is an important observation in relation to what we might be looking at in our full forecast when we engage with that in February.

The last point, which I think is important to make, is that the nature of the backloaded consolidation in the fiscal stance means that it is very difficult to consolidate the fiscal position later in the horizon. Again, this is based on my experience and research from my OECD chief economist days. When we think about how economic agents—businesses and consumers—take account of that, we know that they are very much paying attention. They have a horizon that is even longer than our three-year horizon, and they will be thinking about that and perhaps be making some judgments about what they should be doing today. *[Interruption.]*

Sitting suspended for a Division in the House.

On resuming—

Chair: Welcome back to the Treasury Committee on Tuesday 9 December. Following a vote, we are resuming our session with the Bank of England. Dr Dhingra, over to you.

Dr Dhingra: I do not have much to add to Clare's view of what might happen to inflation and the Budget in terms of near-term activity. Instead, let me give a little more perspective on how I have taken this, given some of the issues that I have been thinking about. One of the concerns about administered prices is that we have to act on what is announced, as well as what gets indexed at the time that it does. What this Budget does, from my point of view, is to give us certainty that the administered prices will not take on a life of their own, and next year we will see a similar rise to what we have seen in previous years. That has been one thing that has diverged, compared with historical trends. In the past few years, we have seen higher pressure coming from administered prices, at least on services inflation. I think it is somewhat reassuring that that convergence is now



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going to start to happen. That would be the most salient part of what I think.

On the issue that my colleague Catherine raised about fiscal consolidation in later years always being harder to do, if we look at the historical record of different Governments, I am still not concerned about what that might do to our inflation target. The reason is that, on net, I think that those effects are still small enough compared with the direct impacts of the disinflation impacts coming from the Budget. Overall, the numbers are not large, but they are in the right direction.

Q308 Bobby Dean: I noticed this in the committee's discussions: "For most members, global developments had not played a large role in their policy deliberations at this meeting". The Financial Policy Committee has also discussed concerns about the risks of a financial bubble in the United States. There is also talk of potential trouble in private credit markets and, of course, the Warner Bros takeover is giving some people sentimental wobbles. Ms Lombardelli, will you expand on the FPC's concerns and whether those will feed into future rate decisions?

Clare Lombardelli: Last week, the FPC put out a range of information and talked about the risk from AI-driven growth in asset prices, particularly equity prices, and what are described as stretched valuations there. That is something that the committee felt was important to flag from a financial stability perspective.

Thinking through how that would play into monetary policy and our considerations, if we were to see some sort of correction, there might be some spillover effects that come broadly through two channels: one effect is the US economy and US growth, because the UK is a very open economy and is affected by global demand; and the other and probably larger effect would be from a tightening in financial conditions that could come from that. Those are the sorts of ways in which monetary policy would look to those risks.

I would add, however, that monetary policy and financial stability are quite different, in the sense that when thinking about monetary policy, we are generally thinking about the centre of the distribution—what is likely to happen, and plausible scenarios around that—while from a financial stability perspective, we think much more about tail risks and whether we are resilient to those tail risks. It is worth making that distinction, not to say that those things are not important to the MPC. Were we to see some of those risks crystallise, that would have an impact on monetary policy, so we want at least to understand and think about those impacts, but what we are doing there is quite different in terms of risk space.

Bobby Dean: Sir Dave, you are also on the FPC. Would you like to come in?

Sir Dave Ramsden: To build on what Clare has said, in a sense it is the FPC's job to investigate and call out those risks. They are in the tails of the distribution, and I think it is fair to say that the tails of the distribution are



getting larger. Last week, the FPC said that financial stability risks were increasing through 2025. One of those risks is valuations in AI, particularly given when we look at how a lot of the investment is being financed. They are increasingly financed through borrowing, so the repercussions of a correction might mean that we have more loan defaults and so on.

You mentioned private credit. The FPC has been in the lead in calling out issues around private credit. It is going to be a focus for the system-wide exploratory scenario that we on the FPC announced last week. But then—I think we would all recognise this, and I mentioned it at the MPC press conference—some of those risks, were they to crystallise, would then impact on the MPC's considerations. That would almost certainly affect the central forecast through financial conditions tightening. If equity prices fall, financial conditions will tighten. We are a relatively small, open economy with a big financial sector, so if the US really suffered from that, that would affect us. That is the way to be thinking of it.

It is interesting when you then look about Bernanke—we might come on to this; we have been challenged on this—there is a question, “Should you run a scenario on those risks?” I noted from your discussion with the OBR last week that the OBR has run scenarios showing a big correction in equity prices. For us, at the moment, our scenarios are more around mechanisms playing out in the economy and changing the parameters around those mechanisms rather than, say, “What if we have a big correction in equity prices driven by AI?” I hope that is useful.

Q309 Yuan Yang: I note that the MPC has, for the first time, split a vote on quantitative tightening, which affects the pace at which the Bank sells Government bonds. Dr Mann, you stated in your decision that you are concerned about upward pressure on medium-term gilt yields. Could you explain what caused your concern?

Dr Mann: I addressed a number of issues associated with quantitative tightening in a speech in June at the 75th anniversary of the Federal Reserve Board¹, which is where I started my career; if you recall, I was there instead of here when I was last invited to address this Committee.

There is quite a bit on record in that speech. When I dissented from the committee vote, it was on two dimensions. One was on the amount of sales, and the second was on the tenors—in other words, the buckets between short, medium and long.

On the amount, my concern was that we are approaching the preferred minimum range of reserves—the PMRR—which is where banks are happy with the amount that they are holding. As we get closer to the PMRR, the dependence on the sterling market facilities increases, and I would prefer to approach that point with some care, particularly in an environment where there is volatility coming across borders from other parts of the

¹ The Bank of England later added that this was the 75th anniversary of the Federal Reserve Board's International Finance Division.



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world. That was why I voted for the £62 billion in sales rather than the £70 billion.

On the tenors, there were really two issues that were going on there. One, of course, is that the tenors is an executive decision. That was made in conjunction with the MPC's decision on the amount.

Q310 Yuan Yang: When you say that it is an executive decision, what do you mean by that?

Dr Mann: It is the executive at the Bank, not the MPC. My decision included a dissent on both amount and tenors. In my decision, I argued that the tenors should be equal weighted buckets. My view was twofold, really. One is that QT steepens the yield curve. It does have an effect, and our research does show that, but in my view, the research could be done in a way that emphasises the question about QT happening while we are in a loosening cycle, as opposed to QT during a tightening cycle. The research spans our entire period of time, and if we were to focus just on QT during the loosening cycle, it would have a bigger effect. That is a question about the research. It does steepen the yield curve, but the question is, "By how much?" I think it is more than our research suggests.

Q311 Yuan Yang: Do you think it is more than the Bank's estimate of 15 to 25 basis points?

Dr Mann: Yes.

Yuan Yang: How much more would you say—twice or three times?

Dr Mann: I have not done the research, so I cannot judge. But given the extent to which the coefficient on the research incorporates a tightening period—a holding period, which was quite long—as well as the loosening period, you would definitely have different elasticity and therefore a larger number. A change in Bank rate cannot offset that. That is the basic point: it tightens financial conditions, and I cannot offset that with a change in Bank rate, so even though I prefer to remain on a restrictive stance—that is why I voted to hold—I do not want to be more restrictive.

By managing the tenors with one third, one third and one third, my view is that I am managing the degree of restrictiveness in the part of the yield curve that is most important for the monetary policy transmission mechanism. Those are essentially the three reasons. One is the amount, because we are approaching the preferred minimum range of reserves. The second is the tenors, because of the extent to which Bank rate cannot offset tightening in the yield curve. Then by not emphasising the longer end, it avoids more restrictiveness than I would like to put into the system.

Q312 Yuan Yang: Dr Dhingra, as another external member of the MPC, do you agree with Dr Mann's position that the Bank's estimate of the impact of QT on yields is an underestimate?

Dr Dhingra: I would say that it is going to be almost impossible to pin that down, because of the way the Bank estimates are done. It is actually



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fairly sensible to say, "Here's what's happened to rates in the UK, and here's what's happened to other advanced economies." If we look at the difference between these two items during periods of quantitative tightening, that will give us a sense of how much tightening has actually happened as a result of quantitative tightening.

I like the research design. The problem is that that research design will always net out everybody else's tightening, which is also happening at the same time as ours. We are never going to be able to get a very tight estimate, because the actual tightening that has happened everywhere is quite large as well. That makes it really hard to tease apart the effects. Given that quantitative tightening is supposed to happen in the background, it is going to be almost impossible to detect these numbers correctly.

Yuan Yang: Sir Dave, do you want to come in?

Sir Dave Ramsden: I will just give a couple of observations from the perspective of one of the executive members. The MPC has consistently had three principles since we embarked on quantitative tightening. One is that we want Bank rate to be the active tool, so we do recognise the analysis, which we update regularly, on the cumulative impact of QT. The figures you have quoted are up to 25 basis points, which is much less than QE, reflecting the state-contingent nature of QE.

The second principle is that we do not want to do anything that is going to upset the functioning of markets. The third—this goes to the point that Swati was just making about being in the background—is that we want QT to be seen by the market, and to be gradual and predictable. That matters, because we were talking about volatility earlier. We try to minimise adding any additional volatility from this thing that we are doing in the background, and we have Bank rate as the main tool.

It was a split vote this time for the first time. It was seven-one-one, so there was a solid majority for £70 billion, but we always have a pretty lively discussion because this is challenging stuff and you have to look back. How did QE work? How do you think QT is working? It is state contingent. That state contingency really matters for this year, in an environment of increased volatility and increased geopolitical uncertainty. I think we were all very focused on the second principle: we did not want to do anything that would get in the way of market functioning.

Finally, although we did £70 billion, that still increased active sales compared with last year. Last year, we had £87 billion in maturities and £13 billion of active. This year, we are going to have £21 billion of active, so we are very much continuing with the QT programme. But the point of skewing is that it actually ends up in that long bucket, which is the 20 year-plus, we are going to do the same amount of sales in the long bucket as last year, even within a total of greater sales.

Chair: So there is more stability.



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Sir Dave Ramsden: Yes, there is more stability than would be apparent from the headline numbers.

Q313 **Yuan Yang:** Sir Dave, I have a question about your point about how QT is seen by market participants. In the early rounds of QT in 2022, you surveyed market participants for their estimates as to the impact, and you have stopped doing that. Is there a reason why you have stopped doing that?

Sir Dave Ramsden: I do not think we have stopped.

Yuan Yang: You did it twice in 2022, but you have not asked the same question since.

Sir Dave Ramsden: Yes, but we do the market participants survey for every MPC round, which gets market participants' expectations of what we are going to do, particularly when we are running up to our annual decision in September. Therefore, when we are thinking about what we are going to do, we are able to determine whether it is going to be a surprise to them.

We have also just done another of our surveys. Catherine mentioned the PMRR—the preferred minimum range of reserves. We are asking what the demand for reserves is going to be. That is an important point in my feeling comfortable with the £70 billion. Currently, that range, in the latest estimate, is £375 billion to £540 billion of reserves. The current level of reserves is around £650 billion, so we are well above the top of that range. We are getting towards it. We have indicators. Catherine mentioned that we can look at the usage of our facilities, but actually the amount of reserves we are draining at the moment is not being replaced one for one by the use of our facilities. The ratio is something like 0.65, which makes me more confident that we have got a way to go to that point of inflection.

Q314 **Yuan Yang:** To go back to the point about market participants' views, in 2022 you asked them to estimate their sense of the impact of active QT on gilt yields. Since then, you have stopped asking them that question through the formal process of the survey, but certainly this year, and I think in previous years, investors have written in publications such as the *FT* and Reuters criticising the pace of active sales and saying that it has an impact on the market. I am sure those might be some of the more outspoken investors. Would it not be better for the Bank to get a broader view of the whole set of investors through your previous survey questions?

Sir Dave Ramsden: All I would say is that there is a whole range of commentators' views. The DMO has been doing a lot more issuance, obviously, because it has to finance the Government's borrowing. Markets have actually—I would not go as far as to say that they have praised us; I do not think they ever praise us—said that we have been responsive in our approach to QT this year, and I have not seen any systematic analysis that suggests that our estimates of QT are on the low side. We will look at whether a representative survey could usefully add to our information set, but it would have to be a representative survey. You usually find that the



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people with the most interesting views will find their way into the *FT* and other places, but they are not necessarily the most representative.

Yuan Yang: I am very familiar with that.

Sir Dave Ramsden: I know you are, and we are on the receiving end.

Clare Lombardelli: Obviously, a lot of people have a lot of views about QT and QE. We have to think of QT from a monetary policy perspective, and our objectives are about monetary policy. Not everyone commenting on it is coming at it from that perspective; they may be coming at it from other market-based perspectives, and it is just worth bearing in mind that we have wider responsibilities.

Q315 **Chris Coghlan:** I would like to follow up on Yuan Yang's point. When the Governor was in front of the Committee, we heard that from a finance theory point of view, it should be irrelevant whether you sell the gilts now or pay the interest on the losses over the life of the gilts, but surely that is not the case, because if you realise the losses now on sale, you do not know who the counterparty is and you cannot tax them. In theory, if the Government held the gilts to maturity, they would know who was holding the reserves, so in theory they could get the profits back via taxation.

Sir Dave Ramsden: All I think the Governor was trying to do—it is the way we look at this and the way we present the results quarterly—was to be transparent and contribute to the debate that this Committee started a couple of years ago with your incredibly useful inquiry into QT. We are just setting out in that report that, if you take the net present value under different assumptions, the lifetime losses are not that different.

You can then go into all kinds of questions about what certain things the Government might have done at certain times. I was at the Treasury, for example, not only when QE was launched, but when the then Chancellor decided that the proceeds—as they were in those times—would be swept back to the Treasury. Those calculations then became public, and at that time the Chancellor of the Exchequer said that the money would be kept separately and used for certain purposes, which I am not sure happened.

All I can say is that we are looking at this from a cash-flow perspective. In this quarterly report—and there was an exchange of letters between the Governor and the Chancellor on this—we have also introduced this new calculation, which is again only a partial one. Going back to the point that Clare just made about QT, it is even more important with QE to remember that this was about trying to get inflation back to target and stabilise the economy in some dire economic times.

Q316 **Chris Coghlan:** The overall fiscal cost of QE and QT at current market interest rates is approximately—on our numbers—£120 billion. Obviously, that was in the 2010s. That is a very significant sum, looking at the NPV of it as a whole for us to pay.

Sir Dave Ramsden: Remember that all these estimates are incredibly uncertain because they are conditioned on certain assumptions. You are



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absolutely right—it is good to see our quarterly report being used—that it would be £120 billion based on current market rates; £60 billion would be the bottom end of the range if you take our previous estimate of the neutral interest rate, so if you imagine that the Bank rate comes down. So we have that range. We have introduced, for this report, a new estimate of the savings on debt issuance, and that range is £50 billion to £125 billion. Even those two offsetting factors do not give you the whole picture, but they do start to show that it is not just about cash flows.

Q317 Chris Coghlan: Is the £125 billion included in that—the £120 billion?

Sir Dave Ramsden: No, it is not. It is a different calculation that goes in the other direction.

Q318 Chris Coghlan: Was that number published because of the political pressure the Bank was coming under on the cost of this?

Sir Dave Ramsden: No. To be honest, it comes back to the increasing scrutiny; I mentioned the inquiry you did two years ago, which raised the level of investigation and debate on these issues. You are right about the cash-flow numbers and the political economy around that. Ideas such as not paying Bank rate on reserves remuneration are in the public debate, although, interestingly, your report in 2024 ruled that out; you said you did not approve. We wanted to counter a sense that that is the only number out there with this new analysis. We are trying to add to the debate.

Chris Coghlan: You are absolutely right. The taxpayer was making £20 billion a year or so prior to 2022, but for the Government at the time, that money disappeared. That is a sunk cost or a sunk benefit.

Sir Dave Ramsden: Well, it disappeared from 2009.

Q319 Chris Coghlan: Yes, mysteriously. Right now, as taxpayers we are paying a £20 billion-a-year cost—that is a very significant amount. Do you feel it is being handled in the correct way?

Sir Dave Ramsden: For the estimates, the cash flow this year is more like £9.6 billion or so, but your point is a more substantive one. The facts and analysis are really important, and there are caveats on both estimates of the ranges—the £60 billion to £120 billion—and the new calculations we have provided, which are based on assumptions.

We are not saying any of this is definitive, but we are trying to inform a debate on this. Most importantly, what we are trying to do with QT is to stop a ratcheting-up in our balance sheet. We are reducing it back down because we may well want to use QE in certain circumstances as the Monetary Policy Committee, but there needs to be an open debate about that, which is what your inquiry was really focused on.

Chair: And it is partly what we are discussing today.

Q320 Chris Coghlan: Final question: why is the Fed doing this differently?



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Sir Dave Ramsden: I probably should not go into a lot of detail on this. The different central banks have different approaches to normalising their balance sheets. The one that we have taken is a bit more like the ECB's. We are moving to a demand-led approach where we are removing the assets on our balance sheet and replacing that with lending. In order to get liquidity in the system, rather than buying assets, we have our STR, which is running at nearly £100 billion a week, and we have our indexed long-term repo. Those lending operations are adding up to £150 billion or £160 billion at the moment. That is similar to what the ECB is doing.

This comes back to the discussion we were just having about the notion of the PMRR and what the demand is for reserves—the ultimate liquid asset, if you like—against the supply that we provide. We are taking a demand-led approach with a demand-driven repo-led balance sheet. The Fed is sticking to what they are calling an ample reserves approach, which is not the abundance that we all had when we were doing QE. They think they have got back towards ample, and that is why they have stopped QT and have even said they might start doing QE. As I think you know, again from your inquiry, the Fed also has different methods for accounting for and financing the assets that they hold on their balance sheet. They can keep their seigniorage; we cannot, so we cannot create the deferred asset in the way they can. I hope that is useful.

Chris Coghlan: Does anyone else wish to comment?

Dr Mann: The only point that I would add is that the Federal Reserve had a very different composition of assets on their balance sheet. Our balance sheet held very long-term assets; if you have short ones, you can do a lot more with them. That is just a different strategy.

Q321 **John Grady:** I wanted to follow up briefly on a small point, Dr Mann. You explained that the committee does not get to vote on the tenors, but you expressed your views very clearly. Is it your position that the committee should get to vote on the tenors?

Dr Mann: A decision was made more than a year ago that that was a bifurcation of responsibilities.

John Grady: That is the decision, but are you content with that decision or do you think it should be revisited in the future?

Dr Mann: When I joined this committee in September 2021, one of the questions was: to what extent do you see a division of responsibilities between financial policy—financial stability—and monetary policy? I said at the time that I did not see a bright line between those two. I continue to believe that, which is why I did a speech on quantitative tightening, because in many respects, it had been viewed as a financial stability issue and not a monetary policy issue. My view is that two are intertwined through financial conditions, and once we allow the policy choices to affect financial conditions, it is in my lane.

Q322 **John Grady:** Thank you. Ms Lombardelli, could you set out in writing to the Committee the reason for the bifurcation, because I do not think it



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should detain us any longer now?

Clare Lombardelli: We certainly can.

Q323 **Yuan Yang:** Sir Dave, I understand that value for money from the taxpayer's perspective is not part of your consideration in terms of the principles of running of the QT programme, but as one last yes/no question to finish off this round: when you sell long-term gilts at relatively high yields—in other words, low prices—do you agree that, purely from the point of view of the cost to the taxpayer, taxpayers would be better off holding long-terms to maturity rather than selling at the yields and prices right now?

Sir Dave Ramsden: I think you have to look at it in the wider context, so I cannot give you a yes/no answer to that.

Yuan Yang: Sure, but what if you were not looking at it in the wider context, but in that specific context?

Sir Dave Ramsden: It is my job to look at it in the wider context. It comes back to the fact that we are looking at a range of considerations here, both on monetary policy and financial stability.

Q324 **Dame Harriett Baldwin:** My question is about the Bernanke review; I understand that you are in charge of its implementation, Ms Lombardelli. The review was initiated and completed by Dr Bernanke after the court was concerned about the way that the Bank dealt with the very severe inflation that we experienced in this country after Russia's illegal invasion of Ukraine. I wondered, given press reports about redundancies at the Bank linked to this review and investment in your computer systems, if you could summarise where you have got to in terms of implementing those recommendations.

Clare Lombardelli: Thanks for the opportunity to talk about this. The Bernanke review is a pretty fundamental reform programme for how we support monetary policy making. There are various aspects to that. A big chunk of it is the investments in capabilities that you talked about. That refers particularly to our technology—things like a new data platform, which has been ongoing as it takes a long time to bring these new technologies in.

We are progressing that, and we will be live testing from this spring, which means we will be using it to, for example, construct the forecast. Staff will be able to play with that in the new environment, so we are seeing some progress with that technology. We always said it would take a few years overall to deliver this level of infrastructure change. It is the largest infrastructure change in monetary policy making we have had since the committee was set up, but it is progressing really well—it is on time and on budget, in terms of how we are implementing it.

The infrastructure is just one part of a wider reform programme. Another part is around the analytical inputs we will use for monetary policy making. You have seen some of that in what we published around scenarios, but we want to go much further in that sense. We have more

specific pieces of analysis, as you will have seen from the boxes that we published in November. We are using those directly, not funnelling them all through the forecast, which was the approach that Dr Bernanke was quite critical of.

We are building a much wider range of models, including statistical models and structural models. He was particularly concerned about models for the supply side, for example, so we are building that. Again, it takes time, but we are making good progress there. For example, in November you saw, the downside scenario that we had, which used a different modelling technique.

We published a lot more work around, for example, policy rules, which allows you to distinguish between systematic changes to policy versus judgments and those kinds of thing. We published in November quite a reformed comms package, which you will have spotted. That was, again, part of this reform programme, and it was much more transparent about how we voted and why we voted. As I say, there was much more direct analysis of the economy. It was not just a forecast-based approach; there were more sophisticated scenarios. We want to go a lot further on that, but all of that is happening.

On the link to the cost of the Budget on the Bank, the Bernanke investment is one form of the types of investment that the Bank is undertaking. The Bank is undertaking a series of investments, dealing with some of our technology challenges. A consequence of that is that we are all having to breathe in a bit on the staffing side to make space for that investment, because we are managing this budget.

Q325 Dame Harriett Baldwin: What sort of roles are being made redundant?

Clare Lombardelli: We have announced a voluntary, mutually agreed scheme. That is for staff who might be interested to come forward if they would like to, and we would then consider that. It will vary by business area, depending on what the business need is and those sorts of issues, so there is not a certain sort of staff member that we will be making redundant. We will be looking across the entire Bank. It is open to all staff.

Sir Dave Ramsden: It is mutually agreed resignation. We think this is absolutely the right thing to start with so that it can be voluntary and people can decide if it is an option that works for them. As Clare is stressing, this applies right across the Bank and is helping to support us in making the critical investments right across the Bank systems.

We are now funded by a levy, as you know, for most of our operations. We do not think that that should increase by more than inflation. Given that we think we need to do around £100 million of investment a year across all our systems, that is how we are doing it. That comes after the huge investment we made on RTGS, but that was actually outside this ringfenced budget. We are taking the approach of RTGS to all these different systems that we have—

Q326 Dame Harriett Baldwin: This is the real-time gross settlement system,

yes?

Sir Dave Ramsden: Yes. The point is that the RTGS was 30 years out of date. What Dr Bernanke came in and saw was that our systems supporting the forecast and the data were 20 or 30 years old as well.

Q327 **Dame Harriett Baldwin:** Ms Lombardelli, the way the story reads is that you are putting a lot of money into new computers and databases and that that is being funded by a voluntary redundancy programme. Is that a fair characterisation?

Clare Lombardelli: I would say no, actually, in that we are putting a lot of money into our infrastructure across the piece. To suggest that this is all about the data and infrastructure in Dr Bernanke's review would be a bit misleading. This is about the Bank's overall investment in its infrastructure—some of the things that are very below the radar but that allow us to operate all the things that the Bank does across financial and monetary systems. It is for those sorts of investments. We are putting more money into those, which means that we are having to take an approach to our budget and manage it. We take value for money very, very seriously. As Dave says, it is a voluntary resignation scheme.

Q328 **Dame Harriett Baldwin:** Okay. I am sure we will be coming back to this.

I have one last question for Sir Dave Ramsden, which is linked to the FPC's decision to relax bank capital by 13%. As Yuan Yang was asking what the equivalent impact of quantitative tightening is in terms of percentage monetary tightening, could you summarise what assessment the FPC made of the impact of the bank capital relaxation? Is that a monetary policy relaxation as well?

Sir Dave Ramsden: Well, we will see—hopefully.

Dame Harriett Baldwin: We will see? That sounds like you don't know; you are putting your finger in the air.

Sir Dave Ramsden: No, it comes back to a word that Catherine used earlier—behaviour: the behaviour of the lenders and the behaviour of the borrowers. Will there be the demand for this increased supply? We have created conditions for further growth in lending; that is what the FPC has done.

Q329 **Dame Harriett Baldwin:** Do you want to have a stab at estimating what the monetary policy equivalent impact of that relaxation would be?

Sir Dave Ramsden: Not in real time at this Committee. I would have to come back to you on that.

Chair: Good try, Dame Harriett.

Q330 **John Grady:** I have a couple of questions for Dr Dhingra, following your interesting Knoop lecture in November. I want to test a couple of propositions with you. Is it your position that at the moment, there may be a bit too much emphasis on monetary policy—if you answer quickly, we can come back to it another time—and not enough emphasis on the other



tools to combat and deal with inflation?

Dr Dhingra: I think that has generally been true in the episode that we have come out of—the great moderation. The toolkits—the policy toolkit and the analytical toolkit—are not really designed for the modern world any more, where supply shocks and global shocks have become much more important. I do not think we are expecting that to somehow change dramatically any time in the near future and that we will go back to that time after the financial crisis. In that sense, yes, we are not thinking enough about the different tools that can come to bear.

This is something where, over the last inflation episode when people have done a very broad, cross-country analysis of what tools have worked, there have been some cases, for example Switzerland or Taiwan, where they managed to get inflation down and much more moderate by quickly putting in place energy price subsidies and other sorts of support for consumers. Of course, that totally backfired in Bolivia, where immediately having fiscal sustainability, or the lack of it, meant that inflation really shot up later.

These are honest conversations that we need to be having about what the right supply-side policies are that need to be in place. That will ensure that when these kinds of really big episodes happen, this is not something that is left to monetary policy tools or that we need to do very quickly, which our tools cannot do.

Q331 **John Grady:** It must follow from what you say that we need to either make other tools, such as anti-trust and competition law or supply side reforms, more effective, or develop new tools to address issues such as the pervasive feature of your evidence today—the issue with administered pricing, where vast amounts of things in the economy go up at RPI or CPI almost thoughtlessly. Ultimately, that is where it takes us to, isn't it?

Dr Dhingra: I think we were surprised by how important a role index prices made to this particular inflation hump that we have seen. The lesson from that will be to ask whether or not that is the appropriate pricing mechanism when you have to deal with regulated prices. I do not have a great answer for what that right answer is, but this is definitely something we will have to think about.

Q332 **John Grady:** I have a question for Ms Lombardelli. The costs of the Bank of England to society relative to the costs of inflation to society are tiny. I think that what Dr Dhingra's evidence and what other commentators would say is that, frankly, we do not understand enough about inflation. We need to understand quite a bit more about it, particularly in this new environment. Is it sensible to carry out redundancies and to consider keeping your costs to inflation rises only? Would it not be a better investment to spend some money on the Bank?

Clare Lombardelli: Let us be clear: we are looking to increase the effectiveness of the Bank of England in meeting its mandates. All these reforms—the Bernanke reforms and other reforms—are about increasing our effectiveness, increasing our understanding and increasing the quality



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of the analysis that we do, in order to help us to deliver our statutory objectives.

There is absolutely no sense here that we are cutting back the effectiveness of the Bank of England; we would not do that. We are completely focused on delivering our statutory objectives, which in the case of monetary policy is the 2% inflation target. We think we can do that more effectively by developing other tools and techniques, and that is the reform programme that we are undertaking.

Q333 Luke Murphy: I will ask questions about the labour market. Employment and unemployment are faring worse than the central projection in the MPR. Ms Lombardelli, are you concerned about the downside risks for both activity and employment?

Clare Lombardelli: I am very concerned about the labour market. However, I would characterise it slightly differently from how you have described it.

We are definitely seeing a loosening, as Dr Mann said, in the private sector labour market. We are definitely seeing higher levels of vacancies and increasing unemployment, which is of course a concern. It comes from a period of having a very tight labour market—historically tight—not that long ago. Of course, that is a downside risk that we focus on. There is a lot of analysis. There are probably quite different views across the committee on it.

For me personally, I am more worried about the supply side of the labour market, if I am honest. I am much more worried about economic inactivity. What is going on there? What are the structural changes that we have seen after the shocks that we have just had, whether that is covid or energy prices, but particularly covid?

We have seen some really big changes—structural changes, I think—in the labour market around who is working. There is also some really quite striking data about what is going on with young people, for example, that I think we need to understand.

I would not characterise this as just asking, “Are we seeing a fall-off in the demand for labour?” We need to think about the demand for labour very carefully and understand it very carefully, but we also need to look at some of these supply issues as well; and of course, the interaction of the two has a very different impact on inflation.

Q334 Luke Murphy: You mentioned the pandemic and young people. Has the Bank made an assessment of what the drivers of that economic activity are?

Clare Lombardelli: We look a lot at economic inactivity and we actually published a box in the November MPR that went into some of the detail about this, particularly around some of these structural changes, and asked the question: “Have we seen a recovery in economic activity?”



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If you look at some of the data, it looks like the headline numbers may have returned. However, we also published quite a lot of information about the composition of those numbers and you can see some really striking things going on across gender, for example, where you are seeing much stronger employment of women and much stronger economic activity by women. That was on an upward trend anyway, with things such as the increasing pension age, and just through changes in society. It may also be the case that some of the things that we have seen during covid and the move in some industries to more flexible working, for example, benefit women more than men.

Obviously, we have also seen a very large increase in employment in the health and social care sectors, which is predominantly employment of women, and a bit more in some other service sectors. So, you have got that going on.

The flipside of that is what is happening with male economic activity, which is quite worrying, because we are seeing lower rates. You can see that particularly in some of the survey evidence, which suggests that ill health is an issue. That is worth thinking about and looking at.

When you break this down by gender and age, you also see an issue with young people; we have seen some quite big increases in the number of young people who are unemployed, or the number who are NEET. Again, some of that may relate to trends that we have seen over recent years. There is an awful lot going on in the labour market, and we spend a lot of time looking at it. We look at both quantities, which I have just talked about, and wages. I think we have talked to the Committee about the pricing side a lot, but your question was more on the quantity side, so hopefully I have picked that up.

The other way in which we have to think about this is the impact of some of these compositional changes on productivity, which is a really important factor for supply capacity and the economy. Absolutely, it is something that we look at in great detail.

Sir Dave Ramsden: I share Clare's concerns about the supply side. I mention in my latest report to you that it is one of the things that is constraining the speed limit, or the rate at which the economy can grow without getting above target inflation.

I guess this is one of the things that informs why Clare and I are in slightly different positions in our risk assessments. For me, the demand risks are more apparent. I talk in my report to you about the first stage of the labour market loosening. If you can imagine a Beveridge curve, which is the curve of unemployment against vacancies, we were moving down the steep bit of it, where the labour market was loosening because vacancies were reducing. Now, we seem to be into the flatter part, where the labour market is loosening because unemployment is going up, and there is an increase in the job separation rate—in other words, people are being let go from work into unemployment.



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On the nominal side, I draw the Committee's attention to a set of charts that show that the wage forecast has been under-shooting this year. Our short-term wage forecast has actually consistently come in lower, which, from an inflation point of view, is encouraging, given all the discussion that we were having about risks around inflation. Also, for me, it is another indication that, notwithstanding the supply-side issues, demand is weakening and the labour market is becoming more contestable. There are more applicants for every job, which means that wage pressures are easing. However, I see that the concern on the demand side is increasing.

Q335 Luke Murphy: Is there any particular policy to which you would attribute that slowdown?

Sir Dave Ramsden: We were discussing this earlier, but from my perspective monetary policy is the main tool for slowing the economy. It is slowing the economy, which is having an impact. Also, particularly for smaller companies, we did some analysis of cash flow. I think that smaller companies, including a lot of charities that I talk to through the Bank's community forums, are really struggling to hold on, and they now cannot afford to hold on to their staff. They are having liquidity issues, and they are having to let people go. Having weathered a number of years in which they were able to hold on to staff, they cannot do that any more. Those would be the kind of factors.

Dr Mann: When we think about labour market supply and demand, we really need to look at a couple of different factors. In general, I agree with the comments that have already been made, but I think there are two things that we need to outline, one of which is on the demand side.

Consumer demand for products or goods and services generates demand for workers. One of the things that we have observed, through some of the most modern research—quite a bit is being done at the Bank—is that volatility in inflation is contributing to consumers holding larger savings buffers, because they do not know exactly how far their pay cheque is going to go. High inflation and volatile inflation is generating lower consumption. In some sense, we have to be restrictive in monetary policy to bring high inflation and volatile inflation back down to a position where consumers feel comfortable with their spending habits. That is on the demand side of labour.

Other relevant factors for the demand side of labour, which is quite important as we look at our decision maker panel—when we survey what factors are relevant for you in making your decisions to hire labour—are national insurance and the accumulated effect of the national living wage. Both of those bear importantly on a certain segment of businesses.

I have called it the pig in the python. It is being digested by firms. They are digesting these costs through a number of different channels. They can reduce their margins. They can try to replace their labour with terminals and all that kind of stuff, if you go into any restaurant. But basically half of them say, "We have to reduce employment. We have to reduce headcount." Until those aspects are digested, to find an equilibrium

of the appropriate size of the labour force for each company, we will have some problems—particularly on the private sector side.

Q336 Luke Murphy: Since the pandemic, Governments have been trying to solve a unique participation crisis, so-called, in the UK, but your latest report suggests that it has now returned to the pre-pandemic trend. We know that ONS data in this area is not particularly reliable, so is the crisis over or was it never really there?

Clare Lombardelli: You are right in one sense. We have a chart—I think it is F1 in the box that we have on this—that shows, as I talked about before, economic activity returning to some sort of trend. Personally, when I read that, I am not hugely reassured by it because I think you have to question what that trend was. I think you can question the data a bit, as you say. As I talked about before, I think underlying that headline number there are quite a lot of worrying things going on, when you look at the population, particularly men of working age and particularly young people. There may be different things driving those effects. I do not want to deny that the headline data has definitely improved, and it is quite a sharp upward shift. If correct, that is obviously hugely beneficial, but I think there is still reason to worry in this space.

Q337 Luke Murphy: Are the underlying things that you are pointing to, and that we discussed a moment ago, unique to the UK?

Clare Lombardelli: Yes and no. We do appear to have a unique issue around the implication of ill health for economic activity. We spend a lot of time looking across countries to try to get a sense of what is going on here. If you look at our survey data, people do report that, so there does seem to be something going on there.

On the challenges around young people, the UK stands out a bit less there, but we still have much higher youth unemployment than, for example, the OECD average. I am afraid it is not a rosy picture for the UK.

Q338 Jim Dickson: Looking at the effect of the Budget on inflation, you said earlier that you thought the effect of the cost of living measures in the Budget—for instance, the reduction in energy bills and the freeze on rail fares—might be between 0.4% and 0.5% in terms of inflation from Q2 next year. Is it fair to say that you had not, and presumably could not, have factored those things into previous thinking about the direction of inflation? Therefore, do you anticipate that those cost of living measures—welcome to our constituents—may have the additional effect of influencing the decision of members of the Monetary Policy Committee on interest rates going forward?

Clare Lombardelli: It is 0.43%, for the aficionado who is interested in the numbers. It is a very good question. To be clear, we do not know what is in the Budget before the Budget happens. The committee did not know when we took the decision in November what that would be, so in that sense this is new information that the committee will consider, and all of us will think about it in our own ways.



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It comes to the question of how much you are affected by a one-off, one-year, short-term impact on inflation. Different people might take different views on that. It is more complicated than the theory would suggest in the current environment. Economic theory tells you that you look through these one-off things because actually we are targeting a horizon beyond, and people will look through them as well in forming their expectations.

This comes to some of the issues that Dr Mann was talking about. Actually, people's experience of inflation changes how they may respond. As we have heard, a lot of work has been done at the Bank on two particular effects. One is those things that are more salient to people and whether people are noticing certain sorts of inflation—energy would be a really strong example of that. Those are very visible cost of living reductions in that space. You might think that those things will be more salient than average inflation to people. There is also the point about thresholds, which Dr Catherine Mann mentioned, whereby we know when it reaches a certain level, and is volatile, then that has a bigger impact.

I say all this because some of us were concerned and said that we could not look through some of those shocks on the way up. I think there is a very interesting question about whether you can look through them on the way down. You need to be open-minded here and treat things symmetrically, but there are a set of interesting issues that get into behavioural economics, about how people should think about those things and how consumers and households will respond. That might affect how we all think about our response to this 0.4% or 0.5% off inflation next year.

Sir Dave Ramsden: I have included some of those short-term inflation forecasts in my report to you. Another thing that economists often say is "other things being equal." The Budget will have this levels effect if it plays out behaviourally as suggested from Q2. You then have the administered prices, and we do not know what is going to happen with all those come next April. You also have energy prices, as Clare has just said, and there are reports in the *FT* talking about whether there is a glut of energy. We will condition our short and longer-term forecasts, but then you have these two other key things.

The first is food, which we got wrong this year, for reasonable reasons. It turned out that there was more inflation in food than we were expecting this time last year. Secondly, you have big uncertainty around services inflation, which is 50% of the consumption basket. What will happen to wages and how will that feed through, all the questions around the labour market. There are a lot of moving parts, and the Budget is one of them. It is new news, so it is important—but this time last year we were not expecting the hump in inflation which Swati has talked about to emerge to the extent it did.

Based on the forecasts that we published about a month ago, we do not have any kind of hump, and we have inflation below 3% by next spring—getting it back to target. However, we will have to take in all those factors,

starting in the December round, and then doing so more systematically with the February forecast.

Q339 **Chair:** Dr Dhingra, you had quite strong views on food the last time we spoke. Is there anything you want to add about food inflation in relation to this inflation hump?

Dr Dhingra: The broad indications that are coming from the output prices of food—which are what the producers charge each other—are that they look like they have passed their peak now. If you look at import prices, there is still a lot of volatility. I would not really say one thing or the other very strongly at the moment. I am encouraged that we do not look terribly different from some of our neighbours, such as Ireland. It does not look like this is a UK-specific problem about something we are doing wrong. Instead, it seems to be a more regional phenomenon.

Dr Mann: There is one issue that we have not brought up—beyond occasional references to global issues—where there is more work to be done in terms of our evaluation. The issue is that, on the one hand, core goods prices are increasing at the domestic level and that is not consistent with achieving 2% inflation in the medium term because goods prices need to be running close to flat to be consistent with that target. Instead, domestic prices of goods are rising at about 1.8%.² On the other hand, import prices have started to moderate on the back of sterling appreciation and some of the spillover from the diversion of Chinese products to other places, including to our docks, because of the US tariff burdens. That has not happened a lot and actually less than I would have thought—but it is there.

There is a bit of a gap between what is happening at the dock and what is happening on the shelf. That brings us back to understanding the domestic components of wages and other costs on products compared to the global effects.

Chair: Employee costs, fuel, logistics, transport costs, warehousing and so on.

Dr Mann: Right. Dr Dhingra and Mr Grady both mentioned competition. There are a number of factors in the domestic distribution and transport market that we do not control, but which have implications for the transmission of inflation through the economy and therefore for our decision making.

Q340 **John Grady:** I thought I would finish on a gentle topic. This Committee was interrupted for a vote on the single market, so I thought we could have a wee chat about Brexit to finish us off.

Professor Dhingra, in recent speeches you have cited a published paper on Brexit that says that it has reduced UK GDP by 6% to 8%, which is a lot; that reduced investment by 12% to 18%, which will have a prospective

² The Bank of England later added that core goods inflation rose about 1.8% in June 2025, and by around 1.5% in the latest data from October 2025.



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hit, because we lose out on the returns from that investment; and reduced productivity, which we are struggling with, by 3% to 4%. Do you think the Bank's projections are understating the impacts of Brexit?

Dr Dhingra: Let me start by thanking you, because I sometimes wonder if anybody reads these speeches that we put a lot of time and effort into writing. It is really good to hear some questions directly about them.

Chair: If we were not reading them, you would be in a difficult place—we are the people who should be reading them.

Dr Dhingra: I wish my students were!

John Grady: We have an excellent team who draw these things to my attention, so you should thank them too.

Chair: Our bedtime reading.

Dr Dhingra: I cited an article, which has now had a lot of publicity in the media, by Philip Bunn at the Bank, as well as Nick Bloom and others who also participated in setting up the decision maker panel. This is data that is largely coming from the decision maker panel. It is also looking at some of the macro estimates.

Let me say what we have been doing until now, and I will be very honest about where I have been wrong. We have been coming up with model-based estimates and trying to give projections of where we think the impacts are going to come from. Of course, these are large policy changes that have happened, whether it is Brexit or trade fragmentation more broadly through the Trump Administration's policies. The model-based projections can go that far, but cannot really tell us explicitly what the different channels that could be affected are. We have not seen something like this happen in the last 40 years or so.

In that sense, what the speech tried to do was think about the different ways in which trade fragmentation would have an impact on the UK economy. First, I looked at three of these sorts of episode. One was about what happened with Brexit, and the actual impacts that there have been; another was about the Trump Administration's first trade war and its impacts; and the final one was about the other global shocks that have really mattered.

To give you the spoiler first, the ones that really, really matter when it comes to our inflation target are still commodity price shocks. If you go back to the 1960s, the times when the UK has seen high inflation episodes are precisely the times when there have been big global commodity shocks. In principle, the supply-side policies that you brought up earlier are still fundamental to how we think about inflation.

But it is not just inflation that matters from our point of view for monetary policy. It is also productivity and trade that contribute to that, as well as investments—it is all of these things. The 3.5% that the Bank has—it is roughly in that ballpark—is fairly close to what the OBR has for the Brexit



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impacts on productivity. Those do take into account the decision maker panel estimates. What is different is that the estimates are at the upper end of the range.

I am really, really encouraged by the healthy debate that is happening in the media about the effects. Early, there used to be very entrenched positions. Emotions run very high in the Brexit debate, understandably so, but at some point we have to step back and ask what the five years of evidence have told us. How much can we say is a Brexit effect, and how much is a covid effect?

Where I had been wrong was in not thinking that the sterling depreciation would have the real economic impacts that it had. There was a period of three years when real wages almost stagnated. That was the result both of the import prices that were coming directly to consumers and of the business prices that many businesses that are reliant on imports, both in goods and services, had to face.

The second thing I was wrong about was trade effects. I thought that a large part of the effects from Brexit would come from the trade side. We had anticipated that number over a 10-year period. Now, of course we are not at the end of the 10-year period, but I am not going to give myself a clean chit on that one. We thought that the numbers would be in the range of about 15%; they are actually somewhere around 5%.

What actually worries me is this. I do not necessarily think that the upper-end estimates are the precise numbers that you should be thinking about; they are qualitative, in the sense that they come from the decision maker panel. They are what businesses are telling us has happened to them, which need not tally exactly with what we are trying to measure in the national income statistics. In that sense, they have shown us that business investment has been impacted. Think of what that means for the longer term: these effects will start to accumulate. I am not surprised that those numbers are big—they are what businesses are telling us, so they are not precisely what we are trying to measure in the actual economy—but I am troubled by the fact that the investment effects suggest that there is more accumulation to come. I am really glad that people like Martin Wolf and Ryan Bourne, in *The Times*, have written articles about that. They are on different sides of the issue, but they are having a serious conversation about what the actual impacts are that we can try to measure in a serious way.

Chair: I thank our witnesses very much indeed. This is always a fascinating session.

We have heard that the steady glide path to 2% inflation is still the plan. You have a rate-setting meeting next week, your final one before Christmas, so we will all watch closely to see how that goes. We had a long discussion about quantitative easing and quantitative tightening, which is a fascinating subject for a lot of us on the Committee; I hope that we did not lose too many people. We had a really interesting discussion about issues in the labour market, particularly the increase in women's



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employment and the very worrying trends specific to the UK, including the impact of poor health on employment. There is a lot of food for thought for you as you make your decision on rate setting next week.

I wish you all a good festive season. Thank you for your time. The transcript of the session will be available on the website uncorrected in the next couple of days. Thank you to our colleagues at *Hansard*, and thank you to Bow Tie for the broadcasting.