

Treasury Committee

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

Tuesday 24 February 2026

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[Watch the meeting](#)

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

Questions 341-390

Witnesses

I: Andrew Bailey, Governor, Bank of England; Huw Pill, Chief Economist, Bank of England; Megan Greene, External Member, Monetary Policy Committee; Professor Alan Taylor, External Member, Monetary Policy Committee.

Written evidence from witnesses:

- [Andrew Bailey, Annual report to the Treasury Committee, dated 13 February 2026](#)
- [Huw Pill, Annual report to the Treasury Committee, dated 13 February 2026](#)
- [Megan Greene, Annual report to the Treasury Committee, dated 13 February 2026](#)

Examination of witnesses

Witnesses: Andrew Bailey, Huw Pill, Megan Greene and Professor Alan Taylor.

Q341 **Chair:** Welcome to the Treasury Committee on Tuesday 24 February 2026. Today, we have our regular meeting with members from the Monetary Policy Committee. Our witnesses are Andrew Bailey, Governor of the Bank of England; Professor Alan Taylor, who is an external member of the Monetary Policy Committee; Dr Huw Pill, who is the chief economist and executive director for monetary analysis at the Bank of England; and Megan Greene, who is also an external member of the Monetary Policy Committee.

Thank you all for your annual reports on your thinking behind the recent series of Bank rate decisions. We are going to go into that in detail in later questions. Governor, you have been a swing voter quite a number of times now. Could you talk through why you took that position? We have discussed this before but could you talk through why you took that position? Also, what would you need to see to vote for a further cut?

Andrew Bailey: The good news is that we are expecting inflation to come back to around the target sooner than we were expecting, certainly than when I was last here. It is now very reasonable to think that inflation will be around the target in the April number that is released in May. Partly that is due to measures in the Budget, particularly on energy prices, but there are other developments outside that framework as well.

That is obviously good news, but the task is for us to keep it there and to make sure it stays on target. Our horizon lies beyond that in terms of what it takes to keep inflation there, so we are looking very much at what I call the underlying picture on inflation. Again, there is good news: the pattern of disinflation has been continuing and, as I have said a number of times, there is scope for some further easing of policy most probably during the course of this year. That is what I would expect to see.

In terms of the decision that we took earlier this month, the issue for me was the evidence we needed to take a further step down. I felt it was premature at that stage to say that we had evidence of underlying inflation and how that is going to get reflected through into the position beyond the point at which it drops down around target. We are seeing some softening of the labour market, and I am sure we will come on to that. With this fall in headline inflation, the key question is whether that will be reflected through into expectations of inflation—as is normally the case—and how long that will take to feed through into, for instance, wage bargaining.

To be clear, we do not need to see that actually happen. If we all waited until that actually happened before voting for a further cut, we would be too late at that point, but the question for me for the next votes is, as I said in my paragraph in the minutes, whether I have seen enough further evidence to feel that there is confidence to take that step. We will see.



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We are still a little way off from the next meeting; at the moment, I would say it is a genuinely open question.

Q342 **Chair:** Professor Taylor, you have persistently voted to cut. Where do you see that going? You have said that 3% should now be in our sights; if we have slower cuts now, does that mean sharper cuts later? What is your view?

Professor Taylor: When I vote, I always think about the MPC's mandate, which is to return inflation to target. But we also have to think about the trade-off between pushing inflation back to target quickly, versus incurring too much output volatility. That consideration has been especially important after the large shocks post covid, and then the 2022 Russian invasion and the energy price shock. The economy was quite resilient at first. We were able to combat second-round effects by raising rates, and that was the right thing to do: the economy did not suffer the high sacrifice ratios of the 1980s. We were quite fortunate there, and it seemed as if a soft landing was possible. We were in that fortunate position because we had anchored inflation expectations, and that was a definite payoff from the mandate-based inflation-targeting regime that we have had with an independent central bank in place for 30 years, both in the UK and elsewhere.

However, I was always concerned that this resilience would not necessarily last forever in the face of restrictive monetary policy. It struck me about a year ago, probably throughout the last 12 to 18 months, that our resilience was starting to go away. That has shown up in the recent MPR forecasts. Over the course of the last year, the inflation forecast path has been cumulatively drifting down, and the unemployment path has been cumulatively drifting up. That reflected my outlook in the last 12 months that there were growing downside risks. Those seem to have materialised, and are showing up in 2026 and 2027, with a risk now of undershooting in our latest forecast. I saw that in the hard and soft data and in my agency visits around the country. The current forecast is in a place that manifests those risks and makes plain where we are on the normalisation path. That is why I have been dissenting over the last 12 months and in the most recent vote.

In terms of where we go next, I would agree with the Governor very strongly that we need to start seeing the final boxes being checked. We cannot wait until they have all been checked, but we need to see the new wages in 2026 coming in, hopefully in line with the agents' survey. That would be target consistent. That will then feed through into services price inflation and, as the Governor indicated, the mechanism would be that we would expect it to bring expectations down. That is what I am looking for, and then we will be on a course to neutral.

Q343 **Chair:** Megan Greene, you talk in your annual report about services price inflation, and about wanting to see that firms and households revise down their inflation expectations, because you have consistently voted for hold all the way through. We will be talking about the agency visits



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later, but you have done something like eight visits to the regions. Can you tell us not only why you voted to hold but how useful the agency visits have been in informing your view?

Megan Greene: As the Governor pointed out, we are expecting to hit our inflation target of 2% sooner than we had been expecting before, and that is welcome news. Embedded in our central forecast is a nifty hand-off where we hit our inflation target sooner, and wage growth and inflation expectations come off just as the impact of fiscal policy on inflation flips. Part of the reason why inflation would hit our target sooner is because of energy prices, including measures in the Budget, some of which will drop out a year from April.

That is a plausible and reasonable forecast, but I am a little worried about that hand-off not going as planned. I am looking at three things in particular to see whether that is happening. First, I am worried that our forward-looking wage indicators, particularly coming through in the agents' pay settlement survey and the DMP figures, suggest that wage growth has been coming off, but it might stop from here. That is a worry. The agents have pay settlements at 3.4% this year and the DMP has them at 3.6%, not far from where they are now, which is a concern. I want to see indications of wage growth continuing to come off in line with our forecast.

Secondly, as you point out, I am worried about inflation expectations; that goes for businesses and households, which are both part of the wage-setting process. Thirdly, for businesses, the DMP's year-ahead price expectations suggest that the disinflationary process might also be stalling.

Q344 **Chair:** Are you looking ahead, not just at what they are saying?

Megan Greene: Yes, I am looking ahead. I want to see those start to come off. Household inflation expectations have been high and actually ticked up in the latest figure, not down. I want to see household inflation expectations coming down. That should happen as inflation outturns come down, but we know that there is an asymmetry in how households and businesses set their expectations. They are more reactive to upside surprises than downside surprises in inflation, so I am a bit worried that it might take longer.

Q345 **Chair:** Were you referring in your report to people saving more and not spending money when things get better?

Megan Greene: That is one of the ways in which it plays out, but generally people notice a surprise in inflation when it goes up rather than when it goes down, which feeds through into their inflation expectations. It suggests that as inflation comes off it might take a bit longer to be incorporated into inflation expectations.

On the labour market side, which is at the centre of a downside risk of weaker demand, there are signs of the labour market stabilising. So even



as it has weakened and we have expected it to weaken, there are indications that unemployment is ticking up because of falls in inactivity rather than falls in employment growth. There is also a risk management aspect to my strategy that suggests that the cost of a policy error is greater if we end up in a world of higher inflation persistence rather than weaker demand.

Chair: It came through quite strongly in your report that you are looking at risk in that way.

Megan Greene: That's right. To quickly answer your question about the agents, the intelligence we gather on agency visits is incredibly useful—around inflection points in particular—because so much of our data is lagged. From what I have heard, firms have corroborated a story of generally weak growth and generally flat employment intentions.

Chair: I noticed you also visited a couple of schools.

Megan Greene: That's right.

Q346 **Chair:** Have the rest of you done that as well? Yes? That is good to hear. The next generation of economists is being well nurtured. Dr Pill, you have also been holding for a long while. Do you want to explain your rationale and where you think the glide path is going?

Huw Pill: Like Professor Taylor, I am very focused on meeting our mandate of 2% inflation. My assessment has three elements. First, the disinflation process towards that 2% target should remain intact. Like the Governor, I think that is good news. Part of that disinflation process is just the unwinding of the impacts of the big inflationary shocks we had from covid, the invasion and energy price rises, but there is a monetary policy component, which I will come back to in a moment.

Secondly, the disinflation process towards the 2% target is still incomplete. As Megan described, we need to maintain a forward-looking and medium-term oriented approach to running monetary policy, given the lags in transmission and the uncertainties we face. It is important that we are not beguiled by the achievement of 2% headline CPI inflation in the spring on the back of many one-off fiscal measures. In the past, we perhaps gave more weight to that than we should have. Therefore, in line with what Andrew said, I would maintain my focus on underlying developments in inflation. On my reckoning, underlying inflation in the middle of this year is somewhere between 2.5% and 3%, which is mechanically a result of the fact that we forecast inflation of 2% in the late spring but we know that half a percentage point or more will come from one-off Budget-related impacts. There is still work to do given our targets and our focus on underlying inflation.

Thirdly, despite the important part played by the unwinding of those inflationary shocks, monetary policy has also played a role in bringing inflation back towards the 2% target over the last few years. While that



monetary policy stance we have set is still restrictive—and I think it is restrictive—it continues to bear down on inflation. Bearing down on those underlying inflationary pressures remains necessary while we still have work to do.

In terms of the things I am looking for, I share quite a lot of the analysis that Megan has described, so I will not repeat it. But one example of the dynamics we are dealing with is that if we look at the pay settlements survey that is collected by the agents every year, we can see that in 2024 it was 5.4%, in 2025 it was 3.9%, and the expectation for 2026 was 3.4%. That is very much consistent with the disinflationary process remaining intact.

Let us focus on the end 2025 number and see how that has evolved. At the time, we were making decisions that, given the lags in policy, we would normally think were relevant for that horizon. This would have been in the summer of 2024, 18 months or so before. In fact, just when we were deciding collectively to begin that reduction in interest rates, the view given to us by the agents was that pay settlements would be somewhere between 2% and 4%—let's say 3%, which is in the middle. As we moved towards the autumn, they said it would be in the upper half of that range, so let's say 3.5%. At the time the survey was conducted after the Budget in the early part of 2025, the number came out at 3.7%, and then, as I have said, the out-turn at the end of last year was 3.9%.

While that overall disinflationary process has remained intact, it has been slower than we anticipated, which is precisely why we are continuing to see underlying inflation above target in the middle and second half of this year. That is the reason why we need to see more progress on the indicators of underlying inflation in order to proceed: services inflation, pay settlements, wage dynamics, and all the types of things Megan discussed. On balance, given where the current forecast is, I still see risks to the upside of achieving the inflation target, which points me in the direction of some caution in the further reduction in the Bank rate.

Q347 **Chair:** It is difficult to give a quick answer on some things, but how low do you think we can go? Professor Taylor, you have talked about 3% being the neutral level for the interest base rate. Do you see any reason to go below that?

Professor Taylor: The neutral rate has a theoretical or hypothetical definition, which is that if all the shocks—real and nominal—vanished or dissipated and the world was free of shocks, that is where we would end up. We know that such a world is never observed in reality, but, subject to that conditioning, that is where we would end up. Of course, there are upside and downside risks, as Huw Pill just mentioned; would we have to deviate from that? The answer is yes. If we had persistent inflation, it would have to be above that interest rate. If we had really negative growth, inflation undershoot or recession, we would have to go into accommodative territory below. No economic historian can sit before this Committee and say, "Recessions will never happen; inflation shocks will



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never happen again.” They will, so 3% is on average where we might expect to be.

Q348 **Chair:** We will go on to the political and global uncertainties that could have an impact on this later. Governor, the minutes of the MPC have noted that the market pricing of long-term interest rates is sloping upwards beyond predictions of what the bank base rate would be. Do you think markets are pricing in that political uncertainty?

Andrew Bailey: We are seeing this around the world, so that pattern in rate curves is common to quite a lot of people.

Chair: Do you mean the answer is yes?

Andrew Bailey: Let me explain: we are seeing what market practitioners would call a term premium, which means with the level of uncertainty being elevated, markets are demanding a higher return for essentially taking that uncertainty and taking it over longer durations going out.

You quote the market curve rightly. The interesting comparison is that if you look at the curve that market participants give us in the MaPS—the market participant survey that we publish at the time of every meeting, where we ask them what they think the actual rate will be—you will see that the curve is about 50 basis points lower. That reflects the fact that they are demanding this term premium, but when you ask them what the rates are actually going to be, they have a lower number, so that uptick is not in there. That reflects the term premium point.

Q349 **Chair:** Are you confident that we are on the glide path towards 2% inflation?

Andrew Bailey: We have all said that we expect inflation to be 2% or thereabouts in the late spring, and that is pretty much baked in given the things we know are coming through. We get annual base effects, which are things from last year unwinding. We know what the Budget measures are and we know what effect they are going to have.

Huw was talking about underlying inflation; if you look at the latest headline number that came out last week, it was pretty much exactly where we thought it was going to be. If you look under the lid, goods prices are a bit weaker. My view is that we are seeing some trade effects coming through in goods pricing from China—we will get on to that. Food prices were off a bit more than we expected but services prices, which Huw and Megan both pointed to, did not come off as much as we thought they would. If you put all those together, you end up pretty much in the same place.

Q350 **Dame Harriett Baldwin:** It is good to hear that inflation will be back at 2%, which I seem to recall it was back in mid-2024.

Dr Pill, you have mentioned the Budget at the end of last year a couple of times, but there was also the Budget in 2024. In the sessions after that



Budget, we asked the Governor what impact it might have on inflation. We were told that it was too early to tell and that it could play out through higher inflation, lower wage increases, some loss of employment, a squeeze on profit margins, or potentially a much slower increase in productivity. Now that some time has elapsed since the Budget in October 2024, does the Bank have a handle on how the economy has reacted to the changes that were announced in that Budget through those four or five different variables?

Huw Pill: We have been closely monitoring the impacts of the measures. In particular, I would flag the changes in national insurance contributions and changes in the national living wage. Strictly speaking, the latter was announced at the Budget; it was not part of the Budget.

As to the margins of adjustment that you listed, we asked at the time, through the decision-maker panel survey that Megan described, how firms were going to balance across those margins of adjustment. Most firms talked about employing some element of each of those margins of adjustment. We have subsequently seen that this has indeed been the case.

If you look at the path of headline consumer price inflation—the key indicator inflation on which our target is based—we have seen this infamous hump in inflation over the past 12 months or so, driven in large part by these phenomena. That reflects the fact that the higher costs imposed on firms were passed through into higher prices.

Q351 Dame Harriett Baldwin: Can you put a number on that in part?

Huw Pill: It was not the whole story; as has been discussed, we also had higher food prices. As you know, inflation peaked at 3.8%, and food prices made quite a significant contribution to that. Probably about half would be coming through these types of effects. But it is important to emphasise that—in somewhat loaded language—these were seen as transitory effects in the sense that they were one-offs.

As I described a moment ago, I personally focused on the underlying dynamics in inflation precisely because these one-off transitory effects—especially in a context where there is less tightness in the labour market than we saw in, say, 2022—are less likely to feed through to the more malign second-round effects of disturbing inflation expectations and so forth. That would be much more of a concern from a monetary policy point of view.

It is also fair to say that we have seen the other margins of adjustment being influenced, including attempts to lower wage dynamics and reduce labour costs overall. In that context we have also seen some downward pressure on employment. The combination of those things is playing out into that macroeconomic effect.

Q352 Dame Harriett Baldwin: If I hear you correctly—I am trying to express this in a way my constituents might find less economist speak—there was



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an impact on inflation, and you are saying that inflation went up, but you think about half of the increase was from the impact of the Budget. You think that wage increases have been less high than they would have been—did I hear that correctly? There has also been some loss of employment. Has the Bank put a number on the loss of employment?

Huw Pill: It is quite difficult to do that. Personally, I would not want to give—

Dame Harriett Baldwin: It has not been zero.

Huw Pill: No, it has not been zero.

Q353 **Dame Harriett Baldwin:** The Office for Budget Responsibility at the time forecast that 50,000 jobs would be lost. Has it been higher or lower than 50,000?

Huw Pill: I would not want to make a judgment either way.

Dame Harriett Baldwin: But that is your job.

Huw Pill: I am not sure that it is my job to make a judgment on employment; it is my job to get inflation to 2%. That is what we are here to do. I think there are a lot of other things going on and separating this specific element from those other things is quite difficult.

If I understand the agenda correctly, we will talk later about structural changes in the labour market. I am of the opinion that those structural changes in the labour market have been quite profound, but they are of a lower frequency.

Dame Harriett Baldwin: We will get on to that.

Huw Pill: They are less about what we have seen associated with specific measures at specific Budgets over the last 18 months; they are driven by wider developments in the economy, and those continue to influence the employment situation.

Q354 **Dame Harriett Baldwin:** Let me ask the question slightly differently. There are 150,000 fewer people on payrolls than there were at the time of the October 2024 Budget. How much of that impact was a reaction by employers to the measures in the Budget?

Huw Pill: Again, for the same reason, I do not think I can give a precise answer; there are many factors involved. Over the last 18 months or so—as has been discussed by others—we have seen an easing in the labour market, which is a cyclical downturn, accounting for part of that change. We have seen some long-lasting changes in the structure of the labour market that have also resulted in a decline in employment. Separating out the impact of those one or two measures is very difficult.

Q355 **Dame Harriett Baldwin:** What about the squeeze on profit margins and the potential improvement in productivity? Have you perceived any of



that in your data?

Huw Pill: Yes, we have. We get information from the decision-maker panel—as Megan described, a survey conducted by the Bank, on which we put quite a lot of emphasis and focus—and all those dimensions are mentioned by firms. Again, separating these things out is very difficult, especially in real time, but in some sectors profit margins have seen a squeeze. The forward-looking question is whether they will recover—which would tend to boost inflationary pressures—or this will be resolved in terms of squeezing future costs. It is something that still has to play out.

There are also clearly efforts to try to raise productivity. These are discussed to some extent in box C of the Monetary Policy Report. We have seen quite high levels of attempts to adopt AI in the UK corporate sector, and we published some work on that this week. There has also been an element of shedding labour that perhaps had been hoarded in the period following the end of furlough, when the labour market was very tight and there were intense difficulties in recruitment. The return to trying to retain labour was seen as high, which mechanically leads to a little recovery in productivity on a cyclical basis. On all those margins, firms are trying to adjust, as you would expect.

Q356 **Dame Harriett Baldwin:** Does any other member of the panel want to try to disentangle the way in which the economy reacted to the measures in the October 2024 Budget?

Andrew Bailey: To back up what Huw said, if we take this employment point and go back to hearings we had in the past when you were the Chair of this Committee, we talked then about the labour market being tighter than expected and labour being hoarded. It sounds rather pejorative but firms were retaining labour because they were worried that if they lost employees and wanted them back, they would find it difficult. On the basis of the evidence our staff are producing, that hoarding is unwinding; in other words, there is a reduction of labour. You can observe it, and the Budget measures fall during this period.-

Q357 **Chair:** When you say the hoarding is finishing, does that mean that firms are releasing people, but they are finding—

Andrew Bailey: It may also mean that they are not hiring. At the moment, we are not seeing a particular uptick in redundancies—it is a bit of a volatile number from month to month—but if you look over time, when we go around the country we pick up that firms are just not hiring. Obviously, that will have the same effect.

I very much agree with Huw that it is quite hard to apportion the causes. I understand the desire to do that—there is, as Huw said, an element of responding to the change in the cost of employment through this channel of employment—but giving any precise number is difficult. We can observe that there is dishoarding going on, but apportioning it is quite hard.



Q358 Dame Harriett Baldwin: Dr Pill, you mentioned a cyclical rise in unemployment and alluded to some work you have done on the structural change in unemployment, potentially due to companies trying to use artificial intelligence. Can you tell the Committee where you think we are in the cycle? Given that unemployment has breached 5% for the first time in a long time, is there a significant risk that in order to meet your monetary policy objectives unemployment is going to continue to rise?

Huw Pill: I do not think there is a mechanical link between higher unemployment and lower inflation; it depends very much on the drivers of movements in those two variables. We have talked on a previous occasion here about the fact that if you have positive developments in the supply side of the economy, you can have stronger growth and maybe stronger employment at a time when inflationary pressures are diminishing, whereas if you have negative developments on the demand side, that would tend to push up unemployment and at the same time diminish inflation. So the interaction or correlation between unemployment and inflation can go in opposite directions depending on what the underlying drivers are.

The point I was trying to make earlier is that the tax changes and changes in the national living wage are obviously one element, but they are not the most important element in an environment where many fundamental changes are going on in the economy that have been happening over quite a long period. We can go back to the onset of the financial crisis, which is now approaching 20 years ago, when we saw quite a big change—at least on the measured data—in the productivity dynamics of the UK economy. That has a big effect on the cost-effectiveness and demand for labour through time, and is really quite an important driver of the potential of the economy.

We have also gone through the experience of Brexit, which in my view has had quite significant structural impacts on the behaviour of the UK economy. Prior to our exit from the European Union we had a period of free movement, which allowed people from continental Europe to come and work in the UK. It created more flexibility in the UK labour market and imposed a discipline on behaviour in the UK labour market, because of the potential for people to arrive. They did not actually have to arrive to impose that discipline.

Post Brexit and subsequently, under different regimes, we have seen quite big changes in migration from non-EU member states, which has gone up a lot and come down a lot. As Andrew described a moment ago, through covid and lockdown, and given the implications of those two things for different parts of the labour force, we have also seen quite sharp changes in participation rates in the UK economy, generally on the negative side, but of late a little more positive.

Q359 Dame Harriett Baldwin: Cyclically, you think we are in an unhoarding—as you would put it—of labour. How far into that cycle are we?



Huw Pill: Cyclically, we are seeing weakness. For example, a good indicator in our thinking of the cyclical state of the labour market is the ratio between the vacancy rate, which is a measure of how many firms are looking for workers, and the unemployment rate, which is a measure of how many workers are available for work and which was very high by historical standards in the immediate aftermath of the lockdown. That was the period where the labour market was surprisingly tight relative to what was expected as we came out of lockdown. That was a moment where high rates of inflation were threatening to create these second-round dynamics, which could, and did to some extent, lead to persistently high rates of inflation.

Over the last year and a half to two years we have seen a significant fall in the ratio of vacancies to unemployment—a fall that takes it below what we would probably see as the equilibrium level based on historical behaviour.

Q360 **Dame Harriett Baldwin:** How far does the cycle have to go?

Huw Pill: This is the more optimistic aspect. On the latest data, the fall in the vacancy to unemployment ratio, which has been quite sharp, has now tended to stabilise. We have seen a rise in vacancies of late, and although unemployment has risen, that increase has been modest. The problems we have discussed on previous occasions with the labour force survey—from which the unemployment rate is derived—may mean that the data we have seen over the last few years is less reliable than it otherwise might have been. That might mean we will see better estimates of the level of unemployment now, but the changes from what we saw a few years ago to where we are now may not be very reliable.

The indicators like the workforce job survey or the payroll survey are beginning to flatten off. From my perspective, we are getting to a point where the labour market is showing signs of stabilisation.

Q361 **Dame Harriett Baldwin:** It is 5% now, so what is your forecast of where it will peak?

Huw Pill: The forecast that was published in the Monetary Policy Report, which is endorsed by the committee as a whole, is that we will see 5.25% in the second half of this year. It is not much of a rise from where we are.

Q362 **Dame Harriett Baldwin:** Obviously one of the standout concerns has been unemployment for young people. Again, is that consistent with what you would expect the labour market to be doing in this unhoarding phase, as you described it, or this part of the cycle? How much worse is employment going to become for young people?

Chair: You also mentioned the AI report; AI will replace employment.



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Huw Pill: I very much share your concern about unemployment, particularly for younger people. I have a daughter looking for a job, so this is an immediate experience for me personally.

Some of the changes we discussed earlier around tax and the national living wage have had a particular effect on those aged 16 to 18 and 18 to 21. As you know, that is because some of the special lower rates of the national living wage have been moved up to the normal rates on that margin. Similarly, changes in national insurance contributions have had an impact on the thresholds.

Dame Harriett Baldwin: It costs £4,000 more to employ a young person.

Huw Pill: Both those things have had a particular effect on young people. *[Interruption.]* Sorry, I'm getting the sunlight on me.

Andrew Bailey: We're all going to get it eventually; Alan and I are waiting.

Huw Pill: We see in the data that some changes have been particularly acute for that part of the labour market. Some of the deeper structural changes are difficult to manage, including the fact that many entry-level jobs are being affected by AI. The surveys we have seen thus far mention that many UK companies are taking up AI as a way to improve productivity. As yet, they do not report that this has resulted in a large reduction in the willingness or ability to employ labour. But on a forward basis, that remains an open question, of course.

There are also issues in that space about the echo or long-lasting effects coming out of covid. Someone's first job is an important part of being able to enter the labour market and be productive, as we have discussed in the past. The more difficult it is to find a job, the more it creates long-lasting effects such as physical and mental health issues, and so forth. Those issues have come to the fore post pandemic, and it is that margin that I would have most concern about.

Q363 **Chair:** We have skirted around the relationship between national insurance contributions—you mentioned that in a bit more detail, Dr Pill—and the impact on unemployment. Obviously, there is a political discussion going on about that and a neutral and technocratic assessment. You have carried out visits throughout the country; Professor Taylor, what is your take on the impact on unemployment? Have you picked up from agents that the NICs rise has had a big impact on people not recruiting? How does that flow through to unemployment? Can we have quick answers please? And apologies for the light, Dr Pill; we will make sure we do not use this room in the afternoon in future.

Professor Taylor: National insurance has been a recurring theme in the conversations I have had with businesses around the country in the last 12 months, but it is not the only theme. It came through very early on



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after the Budget, and I think the Government were taking measures to adjust. But it is important to emphasise in the context of the discussion that there were many other things on their minds—for example, global uncertainty and the restrictiveness of our monetary policy, which is part of the story.

Going back to the evolution of our forecast that I spoke about earlier, in February and May our staff forecasts tried to incorporate the effect of the 2024 Budget as best as it could. Those forecasts had unemployment peaking in maybe the high fours, but it is the revisions in November, and particularly now in February 2026, where we see the unemployment path moving up much more dramatically, and that is in line with what I said earlier. To me, those moves are more a manifestation of the continued global uncertainty, the continued level of restrictiveness, and the impact of our restrictiveness on the economy.

Chair: We will come on to the global stuff. Governor, can you reply on that point?

Andrew Bailey: I would emphasise that, in this respect, monetary policy is a blunt instrument. We cannot use monetary policy, and we should not use monetary policy to target—

Chair: We are also talking globally about these figures.

Andrew Bailey: You asked about what we observe going around the country, and I would just add the statistics to this. I think the young person's unemployment rate is around 16% now, which is high. It has gone up more rapidly than the overall level.

It is also interesting that, at the moment, the regional pattern of unemployment is quite unusual in the history of this country—I think I am right in saying that London has the highest rate of unemployment among the regions. That is unusual in British history. I was in Belfast last week - Northern Ireland is a completely different economy in this respect.

As Huw was saying, you have to be careful—particularly when you get down to the wider effects—to look at both the unemployment rate and the inactivity rate. If you take Northern Ireland, for example, it has a much lower unemployment rate, but it does not have a lower inactivity rate. We can share the intelligence we get when we go around the country, but monetary policy is a blunt instrument. It is not an instrument that we could use to target these things.

Megan Greene: When we ask companies on the decision-maker panel how they have already responded to it, it seems that the biggest margin has actually been margin compression. So there is a question, as Huw mentioned, about whether firms try to recoup that, given that it has been eating into their margins. Headcount comes up—it is the second biggest issue. When our agents go around and talk to firms, they have been



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telling us since at least September, I believe, that firms say the adjustment has largely occurred now.

Chair: It has been absorbed into their numbers.

Megan Greene: That's right.

I have a quick point to make on AI. There is a challenge with surveys: almost every firm I talk to during my agency visits emphatically says it is incorporating AI into its work. But when you ask details about what AI it is using, it turns out it is not AI at all but automation. Some survey data therefore needs to be taken with a grain of salt, because we all have different definitions of what AI is.

Q364 **John Glen:** A few weeks ago, Lord Jim O'Neill suggested that the changes in national insurance and the national living wage were perhaps causing employers to think about the value of additional labour capacity, and there were potentially some signs that it was addressing the productivity challenge we faced. Have any of you reflected on his reflections? Do you have anything to endorse that observation? It is quite material to the economy, so when will we see data on that?

Andrew Bailey: It is right to say that we are beginning to see signs of some uptick in productivity, and we have built a bit of this into our forecast. The question Jim O'Neill's comment goes to is: what is causing it? You can broadly tell two stories there—and by the way, you can have both. First is the story that Megan was just referring to, on investment to improve productivity, and the other is shedding labour to improve productivity. There is also another story that follows the second of those, which is firms that were, in a sense, struggling at low productivity rate exiting, which will in aggregate increase productivity as well. It is quite possible that we are seeing both of them going on.

I endorse what Megan said about firms saying they are investing in AI. When I go into firms, I find you never quite know what you are going to see in investment levels when you walk in. On the face of it we are not seeing in the UK what the US is seeing, but the evidence, such as it is, suggests we are probably ahead of a number of other economies. But Jim O'Neill is right that the dishoarding of labour may well come through in somewhat higher productivity.

Q365 **Catherine West:** On regional levels of unemployment, both the general rate and for young people, what assessment have the experts here made of what works in terms of Government interventions? It is still early days for this Government, but there is an effort around apprenticeships and those sorts of more dirigiste approaches to youth unemployment. Is there any evidence from going around the country as to which of these approaches is effective? Or does the data not really give us much to go on?

Andrew Bailey: That is a question to ask the Treasury and others in Government, really. I will give you one reflection on apprentices, because



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the Bank of England operates an apprentice scheme. I can only speak as one employer, but we like it and we think it is a very good thing to do; it has worked well for us and we are going to continue it.

Q366 Catherine West: In terms of the other regional elements of unemployment, you have mentioned London, but are there other regions where there may be older industries that are now no longer providing jobs, and that sort of thing? Have any reflections come out of the surveys and visits on where there might be other pockets of deep unemployment, in respect of young people specifically or the general population?

Andrew Bailey: Huw gave the very correct health warning on the labour force survey, but if you look at that survey over time, you see this trend in inactivity at both ends of the age distribution. It is called NEET—not in employment, education or training—for younger people, and that is evident in the inactivity numbers. Again, I am afraid monetary policy is not the tool, but it is obviously concerning if young people are not in the labour force.

Q367 Catherine West: In relation to how the surveys are validated, and what margin of confidence we can have in them, going out and talking to employers and so on sounds very good, but nobody today has raised the cost of power and energy for companies, for example, whereas that has had a big write-up in the papers this week. When the surveys are done, how is the data captured, and how confident can we be in the results?

Huw Pill: That is a very good point. I also go on regional visits and talk to our contacts through the agency network in various ways. There are great benefits to that, but there is a danger of being over-reliant on an anecdote that is convincing to you in real time, so you need to manage that a bit. It is important that we complement that relatively small sample of going to talk to five people in Coventry—as I did two weeks ago—with the agents asking questions in an increasingly quantitative and systematic way. We are also using AI techniques and natural language processing techniques internally to convert interviews or discussions into quantitative data that can then be compared through time and across regions in a more systematic way with a much bigger sample. There is a lot of effort within the Bank to use new technologies to try to address your problem.

More importantly, we do not rely just on our agency input, which is complemented by the decision-maker panel, as Megan has emphasised. That is an online survey of about 7,000 key decision makers in firms across the UK that has been running for the best part of a decade, so there is quite a lot of statistical analysis validating the results. Of course, we are always on the lookout for outliers or kind of rogue respondents.

There are a lot of other surveys run by both the Bank on the consumer household side and by many others: the PMI survey that looks at corporates, the CBI-run surveys, Lloyds Bank-run surveys, many others run surveys into the household sector, and we saw the British Retail



Consortium survey today. These surveys are all cross-checked against one another, the official data, and other sources of data.

There are a lot of attempts to combine the information in a very comprehensive way before we draw very strong results. One challenge at the moment is that indicators that might purport to measure quite similar things often give us different perspectives—for example, the labour force survey relative to the information we have on payrolls coming out of HMRC. The challenge for us is to reconcile these things, and that is a big part of our work.

Professor Alan Taylor: If there is a silver lining to the problems of the official statistics and ONS, it is that the staff have worked tirelessly to try to come up with alternative ways of taking the survey data and other time-series data, and I have seen this in the last 18 months on the committee. They are applying appropriate statistical techniques to filter the data and see where we are getting signal and where we are getting noise, whether they are telling us a story that is historically consistent with the official data, and to what extent that can provide a guide to us when the official statistics may not be reliable. Hopefully we will now be back to having both the official statistics and these additional measures, so something good has come out of it.

Chair: Yes—this Committee has been watching the labour force statistics closely.

Q368 **John Glen:** Professor Pill, the Monetary Policy Report's analysis says that 40% of UK workers are employed using bargaining firms that pay collectively and react more slowly to inflation, so you have a situation where a significant portion of the workforce are people who are keeping the expectation higher. You said you draw different implications from the analysis; would you like to explain that to us? Perhaps your colleagues might want to come in afterwards to offer a complementary perspective so we can get a grip on the range of views.

Huw Pill: I do not want to go on about this for too long, but it is quite important to just clarify what box B of the Monetary Policy Report does. This is an exercise that tries to use modern, AI-type statistical techniques and a very detailed data set, firm by firm, called the ASHE data set, which has been available annually for the last 20 years, to try to classify firms into certain groups, reflecting how those firms set about behaving when they set wages.

That work, which is in some sense a black box statistical exercise, has then been cross-checked with the input from the DMP and the agency network to understand whether what this black box statistical exercise spits out somehow chimes with the lived experience of our agents going to firms. This has been a project that has been running for about six months, and it is trying to understand how firms set wages, which is an absolutely key thing, as was reflected in the discussion we had earlier,



when you are aiming to achieve the 2% inflation target and so on. It may be a key thing in general, but it is particularly key in that context.

There are four groups. One group is labelled the bargaining group, and it is important to emphasise that it is not that everyone in that bargaining group somehow has a collective bargaining arrangement, but that they behave in a way where the firm engages in a bargaining-type interaction with its workforce when setting wages. A characteristic of that is that wages tend to respond to firm-level and macroeconomic data in a slightly lagging but more persistent way. This is what might be imparting greater persistence to the inflation in the aftermath of the big shocks we saw with the covid pandemic, the invasion, the impact on energy prices and so forth a few years ago.

That might help to explain why inflation has come down more slowly than expected. It might also help to explain why pay settlements and wage dynamics have tended to be stronger than expected on the basis of the models that the Bank had in place, which were estimated on the much more benign period from the late 1990s up until the financial crisis, and so forth. That is the sort of starting point of what box B shows.

My perspective on this—we talked about this a moment ago—is that the results show that about 40% of the firms in the sample behave in this bargaining way. If you incorporate that information you can explain about a third of the otherwise unexplained strength and persistence of wage dynamics in the aftermath of these big shocks. It explains a substantial part, but not everything. From what you are saying, the 40% crucially does not seem to have changed that much over the period in which this analysis has been done, from 2008 to the present day.

The key point here is that there have been a number of structural changes to the labour market, which may have resulted in more persistence in inflation. That concerns me as we go forward; maybe we will come back to that.

I should emphasise that I have been a sponsor of and enthusiast for the analysis, which is very strong and is a good example of Bank staff using modern statistical techniques to explore data in a novel and innovative way to try to inform key questions that the MPC has to discuss. I am very enthusiastic about this work; hopefully we can develop it further and embrace some of the data from HMRC and so forth that we talked about a moment ago. But the key point, and where I disagree with this analysis, is that I do not think you can conclude, on the basis that that 40% share has been relatively stable over this sample, that there has been no change in the structure of the labour market. My view is that there has been a change in the structure of the labour market; the burden of proof is to prove that this has not been the case, and I do not find this to be compelling evidence.

Q369 John Glen: Professor Taylor, do you want to comment? Do you have a different view?



Professor Taylor: I do not have a dramatically different view. As Huw said, it is an annual survey and it is very good for retrospectively understanding the past and whether the dynamics of membership in these groups change a lot. But right at the moment in real time for policymaking, a once-a-year survey is not going to help me in the next six months or at each meeting.

The most important thing is to look at spot wages and settlements as they are coming in; we get that update every month. We can then cross-check it against what the agents say they were expecting. I was doing that month by month with my team throughout 2025. We saw those wage settlements coming down from high threes to mid threes to low threes, and that gave me increasing confidence. If we see those numbers keep printing in 2026 in that range or lower, we know that the disinflation process for wages is continuing. To me, that is the big story that has been happening over the last two or three years, not whether there has been some movement between these bins.

Q370 **John Glen:** I am trying to understand the range of perspectives, not to draw out differences for the sake of it. How do we weigh up the differences, and what is going right or wrong in terms of the data points that you are dealing with? You make a judgment and publicise your decisions, but most people watching this will find it—as we do—quite complicated to break down. What are you saying about expectations of inflation going forward? Are you saying that the reality is now much lower, settlements are lower than the lag suggests, and therefore we need to deal with that reality more than worry about what the data might show us in time?

Professor Taylor: There are two linked points here. One is about wages, which we were just talking about. If there was excessive persistence or some structural change, we would not even have got as far as seeing settlements in the low threes right now, but we have reached that point. Going forward, we expect even more slack in the labour market, given our forecast, and therefore maybe even more downward pressure, or at least negative pay drift in terms of showing up in the AWE number. That all says to me that it really is intact.

As the Governor said earlier, we are checking off the last few boxes here, and expectations might be the last box to tick, but the staff have a model of how expectations react to lagged out-turns, and if that proceeds as normal we would expect the lower inflation coming down the pipe in 2026 to pull down on expectations. We will be watching for that.

John Glen: Does anyone else want to say anything on this subject?

Andrew Bailey: I agree with Huw that it is great work. It probably helps to explain why we have had this pattern of wage settlements coming in above where our standard models would suggest they would. I differ a bit from Huw; in the context of a weakening labour market, I am not sure how strong a signal I would take from it going forward. How it is going to



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behave henceforth will be interesting to see but, as Huw said, it is a good example of how we are developing the tools as the technology develops.

John Glen: Huw, did you want to add something?

Chair: Be very brief, Dr Pill.

Huw Pill: The tools are great, and if we can use the monthly HMRC data so that we can increase the previous—

Chair: More data, more data, more data.

Huw Pill: This goes back to something Megan said at the beginning, I want to emphasise that it is true from various sources that pay settlement data is lower than it was last year or the year before; that is the notion of disinflation being intact. It is also true that if you look at the latest movements in that data—the IDR data on settlements, to give a concrete example—the latest data is going up, not down. That is where you have to be a little cautious, and why I am more on the cautious side relative to where Professor Taylor is. I see elements of stalling—which may be too strong a word, but flattening out, or something like that—in some of the underlying inflation dynamics. That is the reason why I am on the more cautious side of moving further with interest rates at this point.

Chair: Megan Greene, you are nodding—are you agreeing?

Megan Greene: Yes. As I set out in my opening comments, I agree with that.

Q371 **Luke Murphy:** To extend the discussion slightly to something you have alluded to but have not gone into in much detail, Dr Pill, in combination with this new modelling, you also view other changes around immigration, tax and regulation as a cumulative effect. The quote in the *FT* was that “We should worry more” about wage pressures as a result of that reduction in flexibility in the labour market, in your view. Beyond the modelling point, to what degree do others on the panel agree or disagree with the sentiment that we should be worrying far more about wage pressures because of the changes in flexibility in the labour market that Dr Pill has identified? Does Professor Taylor want to comment on that?

Professor Taylor: Yes. I would reiterate my previous point that in the spot settlements we have seen for the last six months or so wages have been coming in in the low threes. That wage pressure has been pulled down by the cooling of the economy. Wages have had to naturally catch up in terms of the real wage level relative to where they were five years ago given the inflation shock, so some of that is natural catch-up. I would agree with Huw Pill. If we see wages printing in the monthly data in 2026 going up, as that most recent print did, and if that were a persistent pattern, you would have to think again; you might have to pause.



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The longer term issue – and I think Huw and I would agree completely on this – is what is long-term productivity? The view we have of what is long-term, sustainable nominal wage growth depends on our productivity assumption, which is 1%. That matters for everything in the economy in terms of wellbeing and living standards over the longer run. The really key question for me in terms of the sustainability of inflation remaining at target not just in 2026, but in 2027 and beyond, is whether we are going to see those upturns in productivity. To me, that is really the whole ballgame.

Q372 John Grady: Governor, the Budget announced various measures that Bank staff estimate will reduce inflation by 0.5 percentage points in April. Do you and the panel see those measures as having a longer-lasting effect on inflation and interest rates in the medium term?

Andrew Bailey: That draws on things we have said. We are looking beyond that. The question is whether those measures that bring inflation down to around target will then feed through into expectations and into wage bargaining. That is the key thing and will be influenced by a lot of other things, particularly the state of the labour market. An important aspect of this is whether this contribution from these measures in the Budget will have that effect. Huw is absolutely right: we have to look through that and say that underlying inflation is not a target at the moment.

The question is whether this combination of what is going on in the labour market and any contribution from these measures in terms of the effect they have on people's expectations of inflation going forwards will have a beneficial effect. As I said in my opening response to the Chair's question, that will be key for me in terms of judging.

Q373 John Grady: Ms Greene, you gave an interesting speech in Glasgow—a great place to give a speech, I say—but one of the points you made was about the supply side and monetary policy being a relatively blunt demand-side management tool. When we look at the Budget, does it then point to a wider point that Government need to be more attentive in general to the effect of their policies on inflation and we are putting too much weight on monetary policy in addressing inflation?

Megan Greene: Generations of economists have only learned to think about the economy through the demand side, so Government and central bankers should all think more about the supply side of the economy. Our job is to get inflation to the 2% target. It is not up to me to tell the Government what their job is.

We should all be considering supply shocks, least of all because we have had a few over the past couple of years. We are going to continue to have supply shocks going forward if you consider the implications of things like climate change and economic statecraft—which seems to be here to stay—and both represent negative supply shocks for the economy, so we all need to consider them.



Q374 **John Grady:** You are being quite shy about pointing at others who need to take action. Would you say that Government and others would do well to consider potential supply shocks such as climate change, and address them with a view to mitigating the risk of inflation?

Megan Greene: All economists should think more about supply shocks. The traditional view is to look right through them; maybe that has not served us that well as economists over the past couple of years, and we should learn those lessons.

Q375 **John Grady:** On the back of a Budget that tackled inflation by reducing it slightly, do you think there is more for Government to do in thinking about the impact of their policies on inflation, Governor?

Andrew Bailey: I would always say that Governments need to consider the impact of their decisions on the price level. But our job is to take those measures into account and essentially come up with our judgment on monetary policy. We will always do that. Megan is right: we are seeing more and bigger supply shocks. They are tougher to handle in any policy framework because we cannot address them directly, but it is our job to do the best we can with them, and we will do that, wherever they come from.

Professor Taylor: I agree with Megan and the Governor, and would add that there is a need to consider supply shocks and other sources of inflation. It is not always or everywhere a monetary phenomenon, despite what we read in the textbooks. If you look back over the last 70 years, the big shocks that have completely messed up inflation targeting were oil, energy and gas shocks. Energy prices are exogenous to this country; we take the world prices given. Those are the two big events that have really knocked us off course, so that is food for thought.

Q376 **Catherine West:** Is it the view of the panel that the covid stimulus has worked its way through now? There was some commentary at the time that some companies were carrying on artificially due to some of the covid loans. Although I understand that some of those covid loans were on a 10-year basis, has it become apparent in the survey data that that phenomenon has finished? Is there any of that that is still to be worked through and therefore has an impact on productivity?

Andrew Bailey: Some of the small firm loans and loans that were smaller have, but I have to be honest that it is not a feature that particularly figures in our discussions. The point of productivity goes back to what I said in response to Mr Glen's question, which was that you can get an increase in productivity by less productive firms coming out, as it were; that is a contribution that can happen. It is possible that those loans—which do not get me wrong were done for good reasons at a very different time to now—may have prolonged the life of some firms, and that can have an effect on productivity. But I do not want that in any sense to be a criticism of that policy, because it was done for very good reasons at the time.



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Chair: It is interesting that it is not materially noticed because it was the small firms.

Andrew Bailey: Yes.

Q377 **Jim Dickson:** I have a couple of questions about the global outlook, particularly looking at events in the US. We now have a presidential nominee for the new chairman of the Federal Reserve, coming after a long period in which, to put it politely, the President of the US has attempted to cajole the Federal Reserve into cutting rates probably more quickly than it perhaps wished to. We have a nominee who is very much the President's nominee, obviously subject to Senate approval. Are you of the view that this particular nominee will uphold the independence of the Fed, which we know is very important not only to the US economy but to the world economy?

Andrew Bailey: I have known Kevin Warsh for a long time, because he was a governor of the Fed during the financial crisis period, and our paths have crossed a lot ever since. It is a good nomination, as I have said before in the press conference we held. Kevin should speak for himself, obviously, but from what I know, he is a strong believer in central bank independence.

Q378 **Jim Dickson:** He appears to be on record as being very critical of the way in which the Fed has operated for the last 10-plus years. He is talking about potentially overhauling some of its approach and remit. Would you see that as a possible risk around interest rates in the US being subject to political pressure, or will it be done independently?

Andrew Bailey: I really am very clear that I do not intervene and make comments on other people's monetary policy, so I will leave it at saying that I welcome Kevin's appointment. He is a very experienced central banker.

Q379 **Jim Dickson:** Ms Greene, you have been on record as saying that if we see further significant rate cuts by the Fed, it could affect our own assumptions about inflation. Would you see further rate cuts perhaps more quickly than might otherwise have been the case as a result of there being a new chairman? Would you see that as something you will have to take into account as part of your role as a member of the MPC?

Megan Greene: Based on market pricing, the markets are expecting further rate cuts from the US and have been for a while. My speech really focused on surprise rate cuts that were not already baked into market pricing. If we were to be surprised by the Fed and have additional surprise rate cuts, that could feed through to the UK economy, both through trade and, more importantly, financial conditions and could, on balance, push inflation up. It is something we should consider. It is not affecting my policy views at all at the moment because it would not be right to base policy decisions on a risk that another central bank might surprise us. It is something worth thinking about should that risk arise.



Q380 Jim Dickson: Governor, you recently said that some of the expected shocks to the world economy that were perhaps a result of the round of tariffs we saw last year—the tariff increases by the US—had not come to pass as factors that you really needed to take huge account of in the work of the MPC. Do you still believe that to be the case? Are you looking at the latest round of tariffs that the President has chosen to levy as a result of him losing his powers to levy the previous tariffs?

Andrew Bailey: I get up every morning and wonder.

Jim Dickson: Do you think that is important?

Andrew Bailey: The comments I made a couple of weeks ago reflected the fact that the world economy last year, both in terms of activity and trade, was more robust than we feared it would be. I offered a number of reasons why that appeared to be the case. Some of the actual action is not as large as the initial announcements, and it has not quite followed through to its full effect. Having said that, let us be clear that the US effective tariff rate is at its highest since the second world war, so this is not trivial. But it is a fact that they have not been as large as originally announced.

Similarly, there is no question that there have been adjustments in world trade. You can see this most obviously in Chinese trade. Chinese trade to the US has fallen, but Chinese trade globally has not. We have had another big thing going on particularly in the US, which is AI, so there has been an offsetting positive effect in the US from AI, and obviously all that has gone with that. Financial markets have been more benign than one might have feared; a lot of that is to do with the first three reasons I have given. As I said in a speech I gave in Saudi Arabia a couple of weeks ago, markets have also reached a point where they do not respond as much to initial announcements as you might expect, because they are then waiting to see what the actual outcome is.

Q381 Jim Dickson: On the evidence of the past year, would you anticipate the new round of tariffs playing a big part in the thinking of the MPC going forward?

Andrew Bailey: We have to watch this very carefully. Our staff spend a lot of time on this. It is interesting to look at what has been announced in the last few days. Of course, you take what has been announced and ask whether it is 10—is it 15? I am not really sure.

Our initial staff analysis of that from the point of view of the UK is that it seems to represent a smallish increase in the effective tariff rate in the UK. But what is probably more important is that because the UK started at a low level, this shift to a more common tariff level brings other people's tariffs down relative to where we are. There is a bit of a shift going on there, relatively speaking, which obviously is not to our advantage. But the effects of that may not be that great; I do not want to over-dramatise that. It is the relative mix of tariffs. We will see.



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Q382 **John Grady:** Governor, people who work with the Bank or at the Bank have access to highly sensitive information that could be misused and wrongfully disclosed. Against that background, are you confident that the Bank's systems and processes are as good as possible to prevent the wrongful disclosure of sensitive Bank information?

Andrew Bailey: I can assure you we take it extremely seriously - We handle a lot of sensitive information across all our functions. The MPC is one of them, but all our regulatory functions have large amounts of this information. We have very strong systems and processes in place, so I can assure you that we take it very seriously.

Q383 **John Grady:** I am glad to hear you take it seriously, but my question was: are they as good as possible to prevent wrongful disclosure, and are you confident about that?

Andrew Bailey: We have looked at all the recent events that have happened and said, "How do our systems and processes stand up relative to those?" The answer is that they stand up well, but we all have to learn from everything that goes on around us. Frankly, when you look at things like cyber risk, it is a constantly shifting picture—the risk is constantly there and evolving. As a CEO, the main thing that I say to all my colleagues is that we can never be complacent about the position that we are in.

Q384 **John Grady:** How often do you review your security systems, information security systems, and processes?

Andrew Bailey: We review them almost constantly because of the evolving nature of the risks. When the OBR incident happened I immediately said to my colleagues, "Will you please review our practices against what we understand to have gone on in this case?" I believe that to be good practice.

Q385 **John Grady:** How about external validation? How often do you externally validate your processes, systems and everything else?

Andrew Bailey: We are audited, and we have external auditors.

John Grady: Are they professional auditors in IT security?

Chair: Would the National Audit Office do it?

Andrew Bailey: We have a combination of the National Audit Office and Ernst & Young.

Q386 **John Grady:** What about the culture in the Bank? Do you think everyone within the Bank is absolutely clear about the importance of keeping information confidential?

Andrew Bailey: We have a very strong record and a very strong culture on this front. It is really heavily drilled into the organisation. Every institution and organisation has to stay constantly on its toes on this stuff.



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Q387 **John Grady:** Do people feel comfortable expressing concerns, however important the person about whom they are concerned may be?

Andrew Bailey: I have tried to instil that culture in the Bank since I have been Governor. A very strong theme for me is that we must have a culture in which people feel they can say what they think. You get feedback all the time, which I take very seriously, but I have tried to instil a culture. When I became Governor, I clearly stated that I want the Bank to be human and humble in how it approaches things, because I do not want an organisation where the culture is so hierarchical that people do not feel they can say what they think.

Q388 **John Grady:** The cultural point is very important. Professor Taylor and Ms Greene, would you concur that the culture of the Bank is open from that perspective, as seen by people external to the Bank?

Professor Taylor: Yes.

Megan Greene: Yes, I would.

Q389 **John Glen:** A couple of weeks ago we had the permanent secretary to the Treasury come in and reflect on the leak inquiry. It would be fair to characterise his response as saying, "Well, we tried hard, we did not quite get to it, but we are going to have closed loops going forward in the preparation of Budgets, and we need to be clear about the interaction with the OBR." Are there any lessons you draw from that pre-Budget episode in terms of wanting to instil a culture where people can be open in expressing their views? How do you avoid the chilling effect of creating closed circles of analysis, which means that you do not benefit from people's full expertise?

Andrew Bailey: We are here as the MPC, so I will give an example of how the MPC works. We are very strict as we go through the process. We have more staff who participate in the meetings with us when we are being briefed and when we are discussing the forecast. When we get down to the voting process and the minute writing process—the final part of it—we reduce the number of staff involved very heavily, because those are the pieces that are most market sensitive. That is one of the ways we do it.

We were obviously close observers of the incident you referred to. I had quite a bit of experience with that when I was at the FCA, because they are obviously responsible for market integrity. There is a very tough decision at the point when the thing has got out, but to a limited number of people. Do you then pull it back, or do you say, "No, some people have got it so, frankly, the right thing to do is to put it out to everybody, because otherwise some people have inside information and others have not"? That is a tough call, and I know that it is going to be reviewed.

Q390 **Chair:** Hopefully it would not happen, but what is your policy on that in the Bank?



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Andrew Bailey: Going back to my time at the FCA, we would tend to say that the right thing to do at that point is to publish.

Chair: That seems to have been the pattern.

Andrew Bailey: Yes. When we had firms that got into that situation we would certainly always then say, "Look, you have just got to get it out there."

Chair: Thank you very much indeed. It has been an interesting session. It is always useful to hear directly from MPC members and, through the written annual reports—for which I thank you—your reasons behind your decisions on votes on interest rates. We heard today very clearly what the trade-offs are that you individually make and then come together collectively on, and whatever decisions are made at future meetings, the target of 2% inflation is in sight.

We considered the developments in unemployment, learned about unhoarding, which I am sure is going to set the world alight as a new bit of vocabulary for a lot of people. I am sure we will be keeping a close eye on the serious issues around the impact of national insurance, the minimum wage and employment among young people.

We examined the remaining sources of persistence in wage growth and inflation and how the global economy has been affected, particularly by US tariffs and other wider global factors. It came up a lot that we are still dealing with the global shocks of recent years—they take a long time to dissipate. I thank our witnesses, Megan Greene and Professor Alan Taylor, who are independent members of the MPC, and Dr Huw Pill and Andrew Bailey from the Bank. Thank you very much indeed.