HOUSE OF COMMONS

Treasury Committee

Oral evidence: Appointment of Professor Silvana Tenreyro to the Monetary Policy Committee, HC 472

Tuesday 17 October 2017

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Watch the meeting

Members present: Nicky Morgan (Chair); Rushanara Ali; Charlie Elphicke; Stewart Hosie; Mr Alister Jack; Alison McGovern; Catherine McKinnell; Kit Malthouse; John Mann; Wes Streeting.

Questions 1-32

Witnesses

I: Professor Silvana Tenreyro, Member of the Monetary Policy, Committee

Written evidence from witnesses:

- Professor Silvana Tenreyro CV
- Professor Silvana Tenreyro questionnaire

Examination of witness

Witness: Professor Silvana Tenreyro

Q1 **Chair:** Good morning, Professor Tenreyro. I apologise in advance if we pronounce your name incorrectly. You will have to give us a lesson at some point, so please feel free to correct us.

Professor Tenreyro: Not even my family can pronounce it well.

Q2 **Chair:** We thought we might stick with "professor", because we could not get that wrong. Thank you very much for being here this morning. Normally, we would ask people to appear before an appointment, but obviously that has not been possible in this circumstance, due to the Committee being formed and the General Election. I wanted to start with a couple of questions on the wider economy. At the beginning of the year, you predicted that economic growth for 2017 for the UK would be around 1.5%. Has your opinion changed?

Professor Tenreyro: Actually, economic growth in the past year has been 1.5%, so that has been spot on.

Q3 **Chair:** You have been spot on—excellent. In your answers to the questionnaire—thank you very much as well for filling in the questionnaire and also your CV—you discussed the "intertemporal substitution" effect, which explains that, when faced with a sharp currency depreciation, consumers may bring forward spending in expectation that prices are going to rise in the future. You thought that perhaps explained why the economy had been more resilient after the Brexit referendum vote. Are we now reaching the point where that substitution effect begins to wear off and people start perhaps spending in a different way or not spending at all?

Professor Tenreyro: We definitely are. Right after the referendum we saw a pick-up in the value of imported goods. People normally expect that depreciations lead to an expansion in net exports but, on impact, that might not happen for two reasons. One is that, for those goods the prices of which are determined internationally in foreign currency, mechanically depreciation means that the price of those goods increases, in terms of sterling. These are goods like commodities. If the demand is very inelastic downwards, because those are critical inputs in production, say, then the value of imported goods immediately picks up, mechanically.

For most goods, however, that pass-through is not immediate. That is what I was talking about in there. The pass-through from the depreciation into import prices and then from import prices into domestic prices is very slow. That creates a window of opportunity in which prices are temporarily low vis-à-vis the future, so importers will tend to bring forward purchases and stock those goods. Now, what we have seen is that there was a pick-up in the value of imported goods, a pick-up in the trade balance and in the deficit of the trade account. Since then, we have seen that effect waning as exports recover somewhat and the value of imports has started to wane.

Q4 **Chair:** Therefore, what do you, as a member of the MPC now, think the impact of that change is going to be or should be on monetary policy?

Professor Tenreyro: The whole depreciation of sterling had a direct impact on our inflation figures. As the pass-through went on, we have seen that reflected in the CPI. This created the exceptional circumstances of facing relatively above-average inflation, together with weak demand. In terms of the implications for the MPC or monetary policy, it made the trade-off difficult, because we had to weight to balance the return of inflation to target and the fact that demand was weak. The expectation is that the pressure from this sterling depreciation will start to wane in the coming months. In fact, the peak effect is projected for October, so that depreciation effect will disappear from the CPI and we will be back to normal in terms of the trade-off, without that depreciation effect.

Q5 **Chair:** Just finally from me before we move on, in answer to question 12 in the questionnaire, which was about the role that monetary policy should play as the UK economy adjusts to a new trading relationship with the EU, you talked about the role of monetary policy depending on "the nature of the adjustment. One element that is different at present is that the evolution of supply is more uncertain than usual". I wonder if you can just expand on what you meant by that.

Professor Tenreyro: The final shape that Brexit will take will affect many aspects of the UK economy, in particular the effective size of the economy, the degree of openness, the relative importance of different trading partners, particularly if there is trade diversion to new markets, the degree of competition in the economy, the size and skill composition of the labour force, the sectoral composition of the economy and so on. All these factors will affect the productive capacity or output potential of the British economy. In turn, these changes in the supply side or the output potential would trigger a demand adjustment by households, companies and financial markets. From an MPC perspective, monetary policy cannot really affect that new output potential. That will be a given—a conditioning variable that we will just take as a given.

What monetary policy can do and we are trying to do is stabilise demand around that new potential, so as to make sure that inflation expectations are well anchored and inflation can return to target if there is a disruption around the withdrawal. There might be price adjustments that will impinge on inflation; the size of those adjustments, of course, will depend on the final trade deal we reach.

Q6 **Rushanara Ali:** Professor, in your questionnaire, you gave an incomplete answer to question 10, on the grounds that individual MPC members' policy views are market-sensitive. You indicated that you looked forward to discussing your expectations for future policy votes in more detail in person, at your hearing today. Could you elaborate on these expectations for future interest rate rises and, in particular, how you expect the bank rate to change over the MPC forecast horizon?

Professor Tenreyro: Let me step back a little bit. Since I joined the MPC, we have faced an outlook of above-target inflation and sluggish growth. The pick-up in inflation, as I said, can be traced to the large sterling depreciation related to the referendum. We expect that effect to start waning over the coming months. On the domestic front, most measures of domestically generated inflation have been below target-consistent levels, though some of them have recently been revised up. This is consistent with a negative output gap, meaning activity is below its output potential. That is a picture of the activity.

On the labour market, we have seen very strong quantity indicators. The participation rate has been high and employment growth very robust. Unemployment is at a record low level. However, wage growth has been very weak, suggesting that there is still some slack in the economy, particularly in the labour market. Now, I do not think that slack can persist for too long. Eventually, companies will need to put up wages in order to retain workers or to attract new hires. This is in line with what we have been hearing. In a recent Bank visit to the East Midlands, many companies were saying that they face recruitment difficulties. They had to offer higher wage increases and better compensation packages to retain workers who had outside offers and also to attract new hires. That is also consistent with what we have heard or was reported by the agencies across the various regions and also recruitment surveys.

There is a question about why that slack lasted for so long. My view is that, first, the financial crisis and then Brexit have heightened a sense of uncertainty that made people willing to work more, even if at lower wages. That created an expansion in the labour supply for this precautionary saving motive. That expansion in labour supply has kept the wage increases contained.

Coming back to the outlook and my vote, on the international front, the context has been positive and the growth momentum is expected to continue. Together with the weak sterling, that should help our net exports. Now, with a negative output gap, weak wage growth and inflation temporarily above target, my view was that the policy stance in the past two rounds was appropriate. However, as that slack is reduced in the labour market and the output gap is starting to narrow, my view is that we are approaching a tipping point at which it would be necessary or justified to remove some of that stimulus.

My position now is that, if the data outturns are consistent with the picture I just described of an output gap going towards zero, I would be minded to vote for a bank rate increase in the coming months. However, that is very contingent, and I should be clear, on the data outturns. If the data undershoot and the indicators are not in line with those expectations, then I will wait until I see firmer evidence of that output gap being eroded.

Q7 **Rushanara Ali:** Thank you. That is really helpful, because you have answered a number of questions in one go. My second question is regarding the most recent interest rate vote. I hope I can pronounce his name correctly; Mr Vlieghe is quoted as saying, "This is an environment where a premature hike would be a bigger mistake than one that turns out to be slightly late". Given what you have said, would you say that his assessment is not correct?

Professor Tenreyro: What we have learned recently from many studies is that increases in the Fed funds rate—so the studies are more for the US—tend to be more effective, by which I mean more contractionary, than decreases. There is some asymmetry in there that would suggest that a premature increase that turns out to be a mistake will require a lot more cuts in the future, in order to recover that lost ground. I do not know if I am clear. There is some asymmetry in the effect of interest rates, in whether you are cutting or increasing the rate.

Q8 **Rushanara Ali:** Are the consequences equally bad? Are you saying the consequences will be bad either way, whether you have a premature increase or decrease? Is that your point?

Professor Tenreyro: No, I am saying that a premature increase might be very contractionary, more so than the equivalent decrease in the rate. If there is a mistake there, it can be costly.

Q9 **Rushanara Ali:** I have one final question, which is linked to expectations that have been set out by the Bank in favour of increasing rates over the years, and then have not been borne out. Is that problematic, in terms of the talking-up of likely interest rate increases, if that does not go ahead?

Professor Tenreyro: In my understanding, those expectations were very contingent on the data. Sometimes they were taken out of context. In most of the statements, there was clarity that, if the economy followed a path consistent with certain expectations, then a measure would be taken. That did not materialise, which meant that the Bank did not really move. I think it is very important for the public and markets to understand that the Bank is not committing to a predetermined path for the rate. It is all contingent on the data outturns.

Q10 **Rushanara Ali:** Do you feel that that information is not being made clear enough, so that it creates some anxiety for those who are affected by increased or likely increased interest rates?

Professor Tenreyro: If you read the minutes and the policy statements, it is there, but sometimes it is not extracted.

Q11 **Rushanara Ali:** The media and the public do not necessarily read the policy statements. Could more be done to try to allay some of those repercussions?

Professor Tenreyro: That is correct.

Q12 **Catherine McKinnell:** I wanted to ask about the trade deficit. Why do you think that the devaluation of sterling has not led to a reduction in the trade deficit?

Professor Tenreyro: This relates to the previous question. Right after the referendum, the trade deficit increased significantly, mostly driven by an increase in the value of imported goods. Since then, actually the trade balance has been closing so, in that regard, it has been improving in line with what economic theory would tell you. Just to clarify, there have been recent revisions to the current account that have nothing to do with that path I described. Even in those revisions, you see that path of the current account deteriorating because of the trade balance deficit right after the referendum, but then converging back. The revisions in the data of the current account obey different reasons: because there was an underestimation of how much foreign ownership there was. There was a problem with the primary account, not with the trade deficit. That is a revision downwards for the whole curve, but not for the slope, which is the question that you are asking towards the trajectory of the trade deficit since the referendum. Since the referendum, the trade deficit has narrowed and, in fact, net exports have made a positive contribution to growth.

Q13 **Catherine McKinnell:** What measures could the Bank of England take, if any, to improve the outlook in terms of the trade deficit?

Professor Tenreyro: As I just said, this has been closing. I do not think I understand your question.

Catherine McKinnell: You do not think the Bank of England needs to take any action in terms of improving the outlook for the trade deficit.

Professor Tenreyro: It is improving. In fact, net exports have been contributing positively to GDP growth in the last vintages of data. That is happening.

Catherine McKinnell: You do not think the Bank of England needs to do anything.

Professor Tenreyro: The MPC has a very clear remit of hitting its inflation target and, subject to that, supporting growth and employment in the economy. That is the remit. That is what guides our decisions. There will be periods in which the deficit is negative, related to probably many other reasons. We have seen a narrowing of that deficit, but we are sticking to the remit.

Q14 **Catherine McKinnell:** You mentioned the exchange rates and they have been highly responsive to the Brexit negotiations. Do you see that as a challenge for monetary policymaking?

Professor Tenreyro: Certainly they are creating more volatility and more scope for volatility in inflation, as it gets passed through to prices. It is certainly more of a challenge and that is symptomatic of the uncertainty around the negotiations.

Q15 **Catherine McKinnell:** Is there anything in particular that you are able to do to mitigate the challenge, in terms of how you forward-plan for policy?

Professor Tenreyro: We cannot really affect the response of financial markets to the negotiations. This is something that we need to take as a given, in a way. Again, we are framed by the remit. Insofar as that does not affect inflation, employment and growth, we will have to live with that volatility.

Catherine McKinnell: You are not too concerned about the impact that exchange fluctuations are having.

Professor Tenreyro: I am concerned. It makes achieving the remit more difficult and more challenging, but there is nothing we can do about that intrinsic volatility. We have to live with it. To the extent that it affects inflation, we will act, but there is no direct action we can take to tame that.

Q16 **Charlie Elphicke:** Professor, good morning. Ian McCafferty has been saying that the Bank of England should consider unwinding quantitative easing earlier than planned. Do you agree?

Professor Tenreyro: That does not sound like what Ian McCafferty said. I think he said that there was a need to talk about the unwinding. The MPC, before I joined the Bank, made the decision that it would defer the unwinding until the interest rate had reached a point from which it could be materially lowered. That is a sensible judgment and a sensible decision. We want to recover the interest rate as the marginal instrument. It is very flexible and there is no co-ordination issue. It is the best monetary instrument that we could have.

Having said that, we are still far from the point at which we will start unwinding, given that the bank rate is so low. I definitely think it is important that we start talking about how to carry out that unwinding. I have my views, but other committee members might have others and so there is definitely scope to start the discussion, without necessarily taking any action in the near term.

Q17 **Charlie Elphicke:** You have your views, you just said if I heard you correctly. What are your views on this area in general?

Professor Tenreyro: My inclination would be to proceed very gradually and not to upset markets. This is an unusual experiment for monetary policy. My inclination, and again I am speaking for myself, would be to proceed gradually. Now, how gradually? The extreme of gradualism is something where you just let the gilts expire. In seven to eight years' time from now, half of the stock will be completely absorbed. There will be another half with longer maturity but, as a fraction of nominal GDP growth, it will fall quite quickly. Give it another five years and we are talking about a balance sheet of less than 5% or 6%. That is again the extreme of gradualism. If the economy shows much more resilience and we have a much more positive growth outlook, of course we can proceed at a faster pace, but I do not see any rush for that.

Q18 **Charlie Elphicke:** You would let it run off over time—to, as we might say, wither on the vine. Do you think there is a risk that quantitative easing is now a permanent feature of our monetary system? Once we have it, a lot of policymakers would quite like to keep it.

Professor Tenreyro: As I said, the interest rate is a much more flexible instrument. You can act immediately. There is no need to involve auctions. It is a much easier tool. I do not see a shift towards QE, unless of course exceptional circumstances put the rate at very low levels, at which you need to go back to QE. I do not see that sticking.

Q19 **Alison McGovern:** Very briefly on QE, if I may, you say it is used in exceptional circumstances. It feels like we have permanently exceptional circumstances at the moment. You have been quite clear about the tightness of the remit of the MPC, yet QE has got other effects and other consequences for our economy, for example on levels of wealth inequality in our country. I just wonder if you think that, in the analysis and the evaluation of QE, either the MPC or others ought to take a wide view on the consequences of QE.

Professor Tenreyro: The distributional effects of QE are not too different from the distributional effects of changes in the bank rate. At the core of the transmission mechanism of both QE and interest rate changes is an increase in asset prices and a reduction in borrowing costs. This increases demand and activity, and this leads to an increase in employment and lower unemployment.

In terms of the actual distributional consequences, by creating jobs, QE and expansionary monetary policy tend to improve the income of those at the bottom end of the distribution. In that sense, it reduces inequality. There are other distributional effects; it causes a redistribution from savers towards debtors. In terms of the effects on savers or creditors, in practice they tend to have other assets that compensate for this redistribution towards debtors. QE also tends to generate inflation, which has different incidence across different households. However, given the counterfactual, we are coming from such a deep crisis that inflationary pressures were not really strong, so we have had very low inflation rates, despite the huge monetary stimulus that was injected. Finally, it increases asset prices, so those with assets do win.

In terms of what is happening with inequality, if you consider what has happened since 2009 when the QE programme started, one of the measures of inequality, the Gini coefficient for income, has gone down.

The Gini coefficient for wealth has been completely flat. Just to be clear, the fact that the Gini does not move does not mean that there are no distributional effects within society. There are still distributional effects possible in there, but in terms of what we consider to be measures of inequality, they have not gone up. We have also seen an increase in the wages of those at the bottom deciles of the distribution, which is consistent with that. The share of income going to the top 1% has decreased somewhat. It is far from evident that QE has contributed to higher inequalities, certainly not according to what we have seen in the UK. In the US, there are some studies that look directly at these effects. There tend to be very small effects on inequality.

Q20 **Kit Malthouse:** Good morning. I just wanted to press you a little more on inflation. You obviously talked about the effect of the exchange rate and now you have mentioned QE. Is the underlying cause of inflation much more complex overall? You have now mentioned the exchange rate; you have mentioned QE. We have seen a deflationary effect from the internet and Chinese supply chains, particularly in clothing and shoes. Food is cheaper. We have seen a variation in the oil price—largely down—which has added to inflation. Among that is a massive increase in the money supply in the UK. Among all of that web of inflationary effects and deflationary effects, fundamentally at the base of it is money supply and monetary policy the overriding driver of inflation or not?

Professor Tenreyro: I tend to think that inflation rates are monetary phenomena that relate to monetary policy. Of course, there are other forces impinging on inflation rates. Technological progress, to the extent that it lowers prices, will be reflected in inflation. There is a whole debate on whether we are measuring our deflators well, in the sense of capturing these improvements in quality.

Kit Malthouse: Sorry—you said fundamentally you think it is a monetary phenomenon.

Professor Tenreyro: Yes.

Kit Malthouse: You agree with Milton Friedman, effectively. Was it Milton Friedman?

Professor Tenreyro: Not just him, but yes.

Q21 **Kit Malthouse:** That is interesting, because the Bank of England Governor has denied that connection to us in the past, in this room. You think he is wrong on that.

Professor Tenreyro: As I said, many other factors can affect inflation. I am not denying that. Technological progress is one of them, and opening to trade.

Q22 **Kit Malthouse:** Do you think, in effect, the approach of the Bank of England over the last few years has instituted an internal devaluation? Do you think the fact they have flooded the market with cheap money has created a sense of internal devaluation of our currency, which might have contributed to a slow, but nonetheless inexorable, inflationary effect?

Professor Tenreyro: The depreciation that can be caused by monetary policy if anything causes inflationary pressures that lead to higher inflation rates, not lower. Monetary policy has been supporting inflation, and part of the remit is bringing it back to target.

Q23 **Kit Malthouse:** As my colleague said, it feels like we are in permanently exceptional circumstances at the moment. Is that actually not the case? Do you think we have reached a new normal?

Professor Tenreyro: We are not in the new normal yet. We do not know what that new normal will be, so there is still some uncertainty as to what will happen in the coming years. You have to accept that the financial crisis has been exceptional. We had not had a crisis in decades.

Kit Malthouse: It is now a decade ago though, right?

Professor Tenreyro: It is now a decade, yes. It has been a very deep and protracted crisis.

Q24 **Kit Malthouse:** For instance, you wrote in your questionnaire that there are indications we might have reached a permanent state of low interest rates in the UK. Historically, the general expectation was that we would average around 5%. Do you think that kind of average expectation rate is now lower or should be lower?

Professor Tenreyro: I mentioned in my questionnaire that there are many global forces that have been driving down real interest rates. One is an enormous amount of demand for safe assets from emerging markets, which has led to an increase in the price of safe assets or, equivalently, a decrease in rates. There has been a productivity slowdown as well, impinging on the interest rate, and a sense of tail events also taking more prominence.

Q25 **Kit Malthouse:** Does all of that make you think that the equilibrium rate for the economy is now lower than it previously was?

Professor Tenreyro: That is correct.

Q26 **Kit Malthouse:** Where would you set that target?

Professor Tenreyro: There is uncertainty as to what productivity growth is and will be. I mentioned in my questionnaire that there is a lot of academic work going on trying to measure productivity well. If you asked me now for a guess—and it would be just a guess, you would need to put a big set of errors on that—

Kit Malthouse: This is economics; it is all a guess, right?

Professor Tenreyro: Not all of it is. There is some thinking behind that.

Kit Malthouse: I did an economics degree, just so you know. There was a remarkable amount of guessing.

Professor Tenreyro: The estimates from the New York Fed are putting the real interest rate at around 1%. That is obviously lower than historical standards but, if you go much further back in time, that was true 100 years ago.

Q27 **Kit Malthouse:** The reason I ask is because, interestingly, on your stellar CV, at the top of your published papers is this paper you wrote last year called *Pushing on a String*, about US monetary policy being less powerful in a recession, presumably because of the consequences of the crash. We have not had a recession for 10 years, but we have not had a cyclical recession for some time. If what you say is correct, do you think that the Bank's ability to deal with and cope with a recession in the future has been reduced?

Professor Tenreyro: We were not looking at quantitative easing in that paper. What we said is that changes in the Fed funds rate have had a bigger impact in the US economy during expansions. That is not to say that they have been totally effective in recessions and we do explain some of the reasons why that might have been. One of the reasons was the response of fiscal policy that was acting against the fiscal stimulus during recessions. There is no reason for that to happen. That is a peculiarity of how fiscal policy and monetary policy worked in the US over the period we analysed. I do not think this undermines the power of interest rates. Obviously when you are close to the lower bound, the margins of adjustment are much more limited. That is why, during the crisis, monetary policy has had to resort to quantitative easing. Overall, I would not say that monetary policy is not powerful in general. It is a relative statement.

Q28 **Kit Malthouse:** I have one final question. Do you think that, over time, the growth of non-banking actors in the credit market will diminish the power of monetary policy, such that market interest rates effectively set themselves? If you look at some of the crowd funders that are out there at the moment, providing credit into the small business market, as they expand, this effectively becomes a free market of money unconstrained by the ability of the Bank to set the primary rate at which the large lenders borrow at the moment. Is that going to diminish the power of monetary policy? It is relatively small now.

Professor Tenreyro: Yes, it is relatively small. As it grows, it will trigger a reaction. There is no reason that they should not be supervised in the same way as the banking sector. I do not want to talk about financial regulation. That is not my area.

Kit Malthouse: I was going to say they will be very pleased to hear that.

Professor Tenreyro: That will trigger a response and adjustment to the financial stability framework that will restore the power of monetary policy over that non-regulated sector.

Q29 **Wes Streeting:** Even a cursory glance at your CV takes some time. It is quite extensive, so there is no doubt about the experience you bring to the committee. It does throw up a rather different question, which is if you have time to fit in your role as an external member, alongside all of those other roles that you currently have, whether your role in academia, but also the range of panels and boards that you sit on.

Professor Tenreyro: I stepped down from many of those panels and committees before or right after accepting this role. At the moment, my main other commitment is with the LSE. I can definitely handle it. I am used to working long hours and I do not see a constraint coming from that. There are obviously many complementarities between the research I do, which is appreciated by the LSE, and my work at the Bank.

Q30 **Wes Streeting:** I can certainly see the benefits of that active academic engagement alongside your work. I noticed in your application the reference to the reduction in your time commitment to academia to make this feasible. One issue that was put to the Committee was the issue of the ERC Consolidator Grant, which you were awarded in 2015, which requires at least 50% of the principal investigator's time for the duration of the grant. Obviously the MPC requires 60% of your time, so you do not have to be a member of the Treasury Committee or a member of the MPC to work out that is slightly more than 100%. I am sure even the most talented person would struggle to balance that. Can I just clarify that, in terms of those kinds of ongoing contractual commitments, the reduction in your time commitment with the LSE means that you can effectively juggle both roles?

Professor Tenreyro: I am obviously adjusting the ERC commitment. That has been worked out already. The arrangement is that all my time at the LSE will be spent on the research project I am undertaking for ERC, so I will be doing research full-time while I am at the LSE. That will be in line with the commitment that will be adjusted for my ERC grant.

Q31 **Wes Streeting:** Thank you—that is reassuring. One of the sensitivities the Committee often picks up with the Governor and with other committee members is the ever-present risk of groupthink within the MPC. You said in your questionnaire that, as part of your role as an external member, you want to bring in a different perspective and challenge the thinking of other committee members, which is welcome. A cynic might say that, having built your postgraduate career around Harvard and the LSE, your skill set and background are impressive but fairly traditional, by the standard of economists. How do you envisage bringing that kind of independence, new perspective and fresh thinking to the MPC?

Professor Tenreyro: I would not say I am the typical committee member. I grew up in a developing country subject to many crises, with many long spells of high unemployment, high inflation rates and hyperinflation episodes. I have been very aware of how bad macroeconomic management can impinge on individuals, societies and how it can be devastating for institutions and the legal order. My formative years have been very important in why I decided to study economics, and I will be carrying with me that baggage, if you want, and that experience.

In terms of my academic background, it is very different again from some of the other members of the committee. I have spent much more time in academia. My teaching, research and training have all centred on the development of analytical skills to look at the data, to work on forecasting and estimation exercises, and to develop quantitative models to do policy and positive analysis. I feel I am strong on my analytical skills and, on top of that, I have worked for other central banks, so I bring a more international perspective. I worked at the Fed for two years. I also spent three years as an external member of the Bank of Mauritius, so I think I can bring a different perspective to the committee, even though, yes, I did go to Harvard and, yes, I am at LSE. I think I come from a different place.

Q32 **Wes Streeting:** Thank you very much. Finally, but no less importantly, you said in your questionnaire you do not have any business or financial connections, or other commitments, that might give rise to a conflict of interest. Do you have any personal or family relationships that might give rise to a conflict of interest and are you confident you are in compliance with the Bank's conflict-of-interest policy in general?

Professor Tenreyro: Of course I was very aware of the problem, the issue, so I went over it in excruciating detail with John Footman, the Secretary at the Bank, to make sure there was no conflict of interest or appearance of conflict of interest. In going through the whole list of connections, the process did identify one issue, which was that my husband, who is also an academic at LSE, was in the investment committee at the LSE. He stepped down from that as soon as I was offered the position. Other than that, there was nothing else that was flagged.

Chair: Thank you very much indeed, Professor Tenreyro. Thank you very much indeed for your evidence this morning. We are very appreciative of your time. Committee members, we are going to hear from the Governor next. We are going to suspend until 11.10 just to allow a changeover and, for those who need it, a comfort break.