Treasury Committee

Oral evidence: Appointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking, Bank of England, HC 471

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 1-21

Witnesses

I: Sir Dave Ramsden, Deputy Governor for Markets and Banking, Bank of England

Written evidence from witnesses:

- Sir Dave Ramsden CV
- Sir Dave Ramsden questionnaire

Examination of witness

Witness: Sir Dave Ramsden

Q1 **Chair:** Good morning, Sir Dave. Thank you very much indeed for coming in. Normally we would be seeing you pre-appointment, but the matter of a general election rather got in the way. Thank you very much for coming in now. I know you have been in post for several weeks. Thank you also for filling in the questionnaire and for supplying your CV. I wanted to start, first of all, with the remit of your position as Deputy Governor for Markets and Banking. You have lots of experience in government, but no experience of working in private sector financial firms, so I just wondered if you had any thoughts on what the gaps are in your knowledge and understanding, as a result of not having that part of your background.

Sir Dave Ramsden: First of all, thank you very much for inviting me to come and talk to you today, as part of my appointment. As I set out in my questionnaire answers, although I do not have any direct experience of working in the private sector, in the last 10 years in my role as Chief Economic Adviser at the Treasury, I led the Treasury's engagement with the gilt markets. By that, I mean both on the buy side, as they are known—the investors in UK Government debt—and on the sell side, the gilt-edged market makers and intermediaries who make the market in that debt for the Government.

In leading that engagement, I had very extensive links with market participants. I should stress this was for successive Governments from 2009. My role was to really try to help them understand what the UK Government were doing and what its objectives were, but also to understand what their objectives were in the market and if they had any concerns. That gave me a really good understanding of how that particular market worked.

In addition to that, my accounting officer responsibilities for the exchange equalisation account meant that I was very aware of how forex markets were developing over that period. Although, as you are right to highlight and I highlighted, I do not have that direct experience, I think my wider work in the Treasury, for example the work I have done on productivity and the regional aspects of that, such as helping the then Chancellor to think about how to frame his ideas for the Northern Powerhouse and the Midlands Engine, gave me a very good understanding of what private sector companies need as part of the economic ecosystem. I was able to draw on particular experiences I had visiting, for example, BAE in Lancashire and quite a lot of firms around the country, both to inform my work in the real economy but also my lead responsibilities in my previous role in certain financial markets.

Q2 **Chair:** Are you confident that you will be able to understand the commercial impacts of decisions reached by the PRC?

Sir Dave Ramsden: I think so. Very early on in my time as Chief Economic Adviser, we were hit by the global financial crisis. My lead there was not on the actual interventions with the banks themselves, but I led from the Treasury end on the liquidity operations and on the fiscal implications of those. That gave me a pretty good insight into what could go wrong with banks and with the system more generally, and what could be the financial fiscal consequences. That was obviously a pretty steep learning curve and experience, getting to grips with commercial bank balance sheets, but that gave me an experience that I can certainly carry into my responsibilities on the PRC.

As I flagged in my questionnaire, I am six weeks in. In some parts of PRC and PRA business, for example getting a deeper understanding of the insurance sector, I have a steeper learning curve. Although my background is as a macroeconomist, I think I can bring more micro, bottom-up insights looking at individual institutions. I have attended three meetings of the PRC already and I feel that I have a skills mix and background that adds to the existing expertise, with the six non-executives and the other Bank executive members. I can add value. Obviously these are early days.

Q3 **Chair:** As Deputy Governor, you are also responsible or jointly accountable for the Bank's international strategy and oversight of its implementation, so I just wondered about your international experience dealing with international institutions.

Sir Dave Ramsden: That has been updated over this year. With my appointment, and this was set out in the job description, unlike my predecessor I am not jointly responsible with Ben Broadbent for the international side. It is Jon Cunliffe and Ben Broadbent who lead on international. However, I am a member, with Jon Cunliffe, of one of the Basel committees, the committee for global financial stability, which is linked to the markets committee that my senior management on the Markets side of the Bank attend. Again, I can bring some of that global context. Obviously from my previous career, going back to when I led the work on whether the UK should join the euro, I have a pretty good understanding of particularly how the EU economy and the euro economy operate. It is Markets and Banking, but without the international bit that my predecessors had.

Q4 **Chair:** In talking about financial stability, throughout the course of this morning in evidence sessions we are obviously going to be talking a lot about Brexit and the impact on the economy. I wondered if you agreed with Mark Carney, who said, earlier this year, that Brexit is no longer the number one risk to financial stability.

Sir Dave Ramsden: I tried to set out my own position in the questionnaire. I flagged, in my answers to the questions on monetary policy, macro-prudential and micro-prudential, that I think Brexit is one of the key risks. I have not attempted to do a ranking, but the priority I gave to it shows how seriously I am taking it. I did not have scope in my questionnaire to cover all the financial stability risk at the moment. I majored on two particular tail risks that I saw, one from Brexit and one from the pricing of riskier assets. I still think there are very significant risks around the degree of indebtedness in China, which was the context that the Governor was talking about when he made his comments. I am sure we will come on to issues around household debt. I would not want to attempt a particular ranking. From my perspective in my questionnaire, I set out what I see as the key risks, writing this questionnaire to you in the last few weeks.

Q5 **Chair:** Do you have a view now, given your position six weeks in, on what an ideal outcome for the negotiations would be for the financial sector?

Sir Dave Ramsden: When you look at the work we are doing in the FPC, we are really focusing on the risks around disruptions to the working of the financial sector around leaving the EU. You saw that in the FPC record. We are focusing on those disruption risks. Obviously in terms then of looking ahead to the end state and the relationship that we have with the EU once we have left the EU, we work within the framing given to us by the Government, most recently by the Prime Minister in her Florence speech and her statement to the House of Commons. That is the context in which we are working in terms of the future relationship. Given the remit of the FPC to identify systemic risks and to look at how to best maintain and protect resilience, looking at those kinds of disruption-type factors makes sense.

Q6 **Chair:** Just briefly, before I start bringing in others, just on the FPC and the minutes that were published of the last meeting, it looked at the risks from a no-deal scenario and concluded that, basically, to fully mitigate those risks would require some form of bilateral agreement between the EU and the UK. In effect, the only solution to the risks arising from no deal is to have a deal. Is that how you see it?

Sir Dave Ramsden: Coming back to what the FPC has to do, it has to prepare for all eventualities. It would be failing in its job if it was not preparing for all eventualities. That is what the FPC did flagging the risks around continuity of contracts around 29 March 2019, around data sharing, looking at those thematic risks. You would need to find a way of managing them in a no-deal scenario. We were highlighting the particular things that firms cannot really sort out for themselves. What arrangements could you come to in order to sustain continuity of contracts, either in derivatives or insurance, to cover that period?

Q7 **Wes Streeting:** Good morning. I want to begin by asking about conflicts of interest. Firstly, do you think the non-executive directors were the right people to carry out the Bank's review of policies and procedures on conflicts? Secondly, what was your view on the outcome of their work?

Sir Dave Ramsden: This whole process was going on while I was applying for this role. I was not sighted on all the inputs into how the review was determined and how it was set up, until I had started at the Bank on 4 September and could look back. I have read the review and my understanding of how it was developed was that they used the Bank's Independent Evaluation Office to support the non-execs in doing the review. The Chair of Court recused himself—I think I have got that right—from being involved. If I have not got this right, I apologise, but it is relevant. The review was led by Brad Fried, who leads the Audit & Risk Committee. They brought in external support that was completely outside of the Bank. That seemed to me to be building in safeguards to ensure that they could take an objective view of the issues around conflicts that had arisen from my predecessor's appointment to this role.

They were also able to look more widely and over a longer timeframe at how the approach to conflicts has developed. I can recall, speaking candidly, one of the people whom I appointed—sorry, whom I recommended to the Chancellor for appointment. I must remember my previous status as an adviser. I recommended this person to the Chancellor for appointment to the MPC, but that person was found to have a potential conflict that our process then had not exposed. We had already tightened up, but we clearly had not tightened up sufficiently in that area. Obviously in the circumstances it had to, but the whole non-executive report took a much more substantive approach, which will protect everyone, including me and the person doing my old job appointing—sorry, recommending appointments of—MPC people in the future to make sure we absolutely cover off these conflicts issues.

Q8 **Wes Streeting:** I am sure the record will capture your Freudian slip around your role in previous appointments to the MPC. It is your previous role that I wanted to draw on next. You arrived at the Bank with a very good reputation from the Treasury. To what extent could the Bank's independence be affected by the appointment of a senior Treasury official to your role?

Sir Dave Ramsden: It is a good challenge. The thing I tried to draw attention to in my questionnaire answer to you around why I thought I was suitable for the role—and I have had interactions with previous incarnations of this Committee in that role—is the way that, throughout my Treasury career, but particularly in the last 10 to 12 years, I have really tried to see, make and then sustain the case for independent institutions. Very briefly, to just give you a couple of examples chronologically, I took over from a colleague leading on the work that led to the Act that made the UK statistics system independent and set up the UK Statistics Authority. Going on to this point about sustaining its independence, back in 2015 I felt there were some issues around the way that the ONS was approaching economic statistics and the way it was future proofing and thinking about the future, so I recommended—to avoid another Freudian slip—to the then Chancellor that there was a good case for an independent review of the ONS's approach to economic statistics. That was with a view to strengthening the ONS's and UKSA's role.

Something I have really looked back on from my career at the TSC[1], and feel that I have made a contribution to, was to set up the OBR in 2010. I was a bit late in seeing the case for an independent fiscal body having sole executive responsibility for producing fiscal forecasts. Where to be honest, the UK and I personally had a lack of credibility in that area up

[1] Sir Dave Ramsden meant to refer to his career at HM Treasury

Comment [DA]: I think Dave meant to say HMT?

until that period. Let me get the timing of this right. In 2015 again—yes, that was a busy year—the Chancellor asked me to do a review of the OBR and whether it had contributed to credibility. I think you were involved in that discussion. I came up with some recommendations there to strengthen the OBR's resilience, to give it more money and to build out on its mandate to do more on fiscal risks. I was really pleased that one of the last things I saw when I left the Treasury was it had produced a 270-page or whatever fiscal risk report, which put the UK absolutely at the leading edge internationally. That was an independent body doing that. In risk management terms, what we had created with the OBR was a second line of defence on risk management. The Treasury should do the first line on fiscal risks, but having the OBR do the second line really strengthens the UK framework. They have shone a very bright light on some areas of fiscal risk for the UK.

Sorry—this is a long answer. Both of those things show that I do recognise the importance of independent institutions. I have tried to foster them and to encourage them, sometimes coming up with disagreements with my colleagues at the Treasury on that. I have stood my ground on things. Both that experience and those qualities should stand me in good stead at the Bank, in particular on the three committees. It is always worth remembering that the Bank is not independent; it is the three policy committees that have different forms of independence.

Q9 **Wes Streeting:** Finally then, I wonder if you might want to stand your ground on one piece of work that you are involved in at the Treasury, which is the subject of much ongoing discussion here: the document produced on the eve of the referendum about the economic risks in the immediate aftermath of a leave vote. Lots of colleagues who championed the leave cause would point to how events have unfolded since and say the Treasury has been left discredited, as a result of many of those predictions not coming to pass. Even some remain colleagues might say that, in overegging the pudding, we have now gone in completely the other direction and we are now ignoring the risks that were set out in that piece of work. Is it a piece of work that you stand by and take particular pride in from your time at the Treasury? What cautionary notes would you attach to it now?

Sir Dave Ramsden: Just to frame it—and this comes back to my slip earlier—the role of officials, and I was leading officials on that work, is to provide advice for the Government of the day. All the work we did in the run-up to the referendum, as Jeremy Heywood has stressed, was done at pace given the time constraints that the process gave us. Focusing on the analysis of the immediate impacts, the Treasury Committee—you—in May 2016 did a report assessing the state of play of the evidence base out there. Your report almost coincided, so you probably did not have time to fully take on the immediate work, but you had been able to look at the work we did on the longer term impact. You did that work, and also the NAO did a useful report, largely factual, looking at that work.

I would draw three or four conclusions. I would not call them lessons; I would not go that far, but they are from me thinking about it. When we look back to what you were saying about how, within the debate, the work has been interpreted, we were using models that Charlie Bean, who was our adviser on that work in an independent capacity, said were the appropriate models to be using for that short-term work—VaR analysis of uncertainty and then putting that into a macroeconomic model. Effectively, we were doing "what if" counterfactual analysis. What if the UK leaves the EU compared with what if the UK stays?

You have to make assumptions. You are given some assumptions, like the Government policy at that time was that Article 50 would be triggered on 1 July 2016. You make other assumptions. We assumed a two-year horizon. We put a table in the document that showed there might be options - you might have a longer transition, but we framed all our economic analysis and we ran the economic models over a two-year horizon. Clearly we got some of the timing assumptions wrong. We made an assumption, because it was the stated policy at the time in the Monetary Policy Committee, that you could not anticipate what the monetary policy response would be. Some of our assumptions proved not to play out, when we found ourselves in that world of the counterfactual of leaving the EU, and then we made judgments within that.

I highlighted this in my answer to the question you asked me about what changed about the Bank of England's forecasts. The economy, early on after the referendum, continued to grow at the same rate as before. If you look at the Bank's forecast, the Bank forecast that in the year to Q2 2017 GDP would grow by 0.6%. It actually grew by 1.5%, but most of that difference was in the first two quarters. Now we have growth of 0.3% in GDP. The Bank's forecasts in August last year were that growth would be quite close to 0.3%, and that is a similar pattern to what we had in our pre-referendum analysis. We had a V-shape in GDP, and obviously what we have had I would say is more of a saucer shape, if you like—a gradual slowing-down. It is really important to remember that the OBR forecast is for continued growth. The MPC is assuming a smooth transition.

Clearly some things did not play out; other things did play out—to give you an example, the exchange rate. The exchange rate fell very much along the lines we had said in the pre-referendum Treasury work. Inflation went up. Interestingly, real wages have fallen relative to the counterfactual; I think it is fair to say, by more. We had a big fall in them, but they have fallen by more. Obviously something that did not play out was unemployment rising. What we have again seen in companies, back to how companies are behaving, is that companies are holding on to labour it would seem, but there is not very much capital investment. Again, the capital investment effect is one we saw.

I would argue that we got some of the channels and mechanisms for how leaving the EU would play out. I am not saying they were right, but you can certainly recognise them when looking at the economy now. Some aspects of it we clearly did not get right.

Q10 **Alison McGovern:** Very briefly just by way of follow-up, on the counterfactuals, have you undertaken any analysis of whether your Brexit prediction would have captured the situation more accurately if there had not been activism from the Bank?

Sir Dave Ramsden: We did not. Sorry, I am now talking about "we" as in when I was at the Treasury. The decision had been made to leave the EU. We had to pivot round to be completely focused on making the preparations for when Article 50 was triggered, starting to think in a much more detailed level across Government about what the issues were across the economy that would have to be looked at. The priority was to get that work programme absolutely up and running, rather than kind of rerunning. You can run endless macro scenarios for endless different counterfactuals and our focus was on the decision having been made to leave the EU, looking at the consequences of that not as a counterfactual but for the UK economy, so that we could minimise the risks in the longer term and maximise the opportunities from that.

Q11 **Stewart Hosie:** I know Charlie Elphicke has some more detailed questions on QE and its unwinding, but I just have a couple of small ones. In your questionnaire, question 7, you say, "It is impossible to say in advance what the demand for the Bank's liabilities will be at a future point in time, so at this point I do not have a precise view of what the size of our balance sheet will be". In the last sentence of that long answer, you say, "Once the stock of asset purchases has begun to decline, the balance sheet will shrink. But because banks can be expected to have a greater demand for reserves for the purposes of prudent liquidity management, it is unlikely to return to pre-crisis proportions". Do you have some kind of quantum in terms of the additional capital required to be held to meet the commercial banks' liquidity obligations?

Sir Dave Ramsden: Sorry, could you repeat the question?

Stewart Hosie: How much extra capital does the central bank need to hold to fulfil the commercial banks' requirement to hold additional capital? What is the size of that?

Sir Dave Ramsden: That is a live issue in the sense that, compared with other central banks, the Bank of England has relatively low capital. As I set out in my answer, one key reason why the balance sheet has increased so much since its pre-crisis level of 7% of GDP is because of monetary and financial stability interventions like QE. I should be able to get this acronym right. The Bank's Asset Purchase Facility is separate from the Bank's balance sheet, and that is indemnified to the tune of up to £560 billion now since August. If the Bank was not indemnified for that, then you would be looking at a very different capital structure for the Bank of England, vastly greater than the relatively small capital that the Bank holds. That is what I argued in question 7 was the key driver of why the balance sheet has increased. The issue medium term will be, in terms of where the balance sheet ends up, the extent to which commercial banks wish to hold highly liquid assets and wish to keep reserves at the Bank of England and the form they want to keep them in.

Stewart Hosie: It is not a case, surely, about the banks wishing to hold. They are required to hold Additional Tier 1 Capital that forms part of the central bank balance sheet, because they hold it.

Sir Dave Ramsden: Yes, they are, but they can judge how much of that they want to hold in the form of central bank reserves. As we move, over time, away from the kind of key driver of the central bank's balance sheet being asset purchases to being driven more on the liabilities side from the commercial bank side, they will make a determination. I would expect, as you say, given liquidity requirements and things like that, as I set out in my answer, they are not going to want to go back to having reserves that would leave us with a balance sheet back at 7%. Where we end up between 7% and 27%, where the balance sheet currently is, is an open question. That is all I am saying.

Stewart Hosie: Let us go back to what you said earlier about the Asset Protection Scheme and the indemnity.

Sir Dave Ramsden: Sorry, the Asset Protection Scheme is another thing I was involved in. It is the Asset Purchase Facility.

Q12 **Stewart Hosie:** Forgive me—yes, the Asset Purchase Facility. The indemnity from the Treasury is for losses that arise as part of that Asset Purchase Facility. Profit has been made on the gilt purchases. Since 2012, the profits have been returned to the Treasury, so what would happen if the Bank started making a loss on the gilts it had purchased? What would the indemnity mean? If the cash flows were reversed, would the Treasury have to start paying the Bank?

Sir Dave Ramsden: Yes.

Q13 **Stewart Hosie:** Has any work been undertaken, any analysis, on the level of payment that might be required to be made from the Treasury to the Bank to fulfil that indemnity?

Sir Dave Ramsden: It depends. This is the kind of issue I was talking of earlier in the work that the OBR has done on fiscal risks. In their fiscal risk report, they have a whole chapter on balance sheet risks and they work through, in quite a lot of detail, how that would play out. This comes on to an important part of the governance of the APF, the Asset Purchase Facility. Since the package that was announced last August, we—when I say "we", I mean the Bank and the Treasury—have strengthened the oversight for the various risks in the APF, including the kind of market risk that you are talking about. The Bank of England has a capacity, within my part of the Bank, to do scenario analysis and risk analysis, under different constellations for yields in the future and bank rate. What could be the flows? The Treasury also has the capacity to think about that, but the OBR, as I have stressed, has really shone a light on that balance sheet risk. Again, these are scenarios, but lots of resources are put to this.

Q14 **Stewart Hosie:** Indeed they are. I do not want to do too many questions on the counterfactual, but you have accepted that it is possible that the indemnity would mean the Treasury paying the Bank. What would the public and market reaction be to that? More important than any technical analysis, how would you suggest the Bank handled an adverse public or market reaction to that indemnity being called upon?

Sir Dave Ramsden: This really takes me back to where I started in answering questions from the Chair. Ever since we embarked on QE in March 2009, it was pretty much around that time that my engagement with the gilts market started. Up until 2008, there was not so much of a need to explain what was going on. The UK had low debt to GDP on the fiscal side. The financial crisis obviously changed all of that. The Bank introduced QE and the Treasury introduced the indemnity alongside that. Ever since then, in the kind of engagement and communications I have been having with the markets, which you ask about, we have been explaining that we are very conscious of the risks around QE, in terms of future risks if bank rate and yields rose. That was obviously a focus in 2012, as you say, when the surplus on the cash flow at that point started to be transferred back to the Treasury.

For me, this is why it is incredibly important that all policy advisers and policymakers in the UK can talk credibly about the UK's economic and fiscal position, its strengths as well as the risks. If there were a loss of confidence in the UK—I will come on to the public in a minute—in the markets, you would see yields going up very sharply. You might well see the exchange rate falling. You might well see bank rate having to rise. They are some of the features we—"we" as in the Bank—were looking at in this year's stress test exercise. Once you start to be in that kind of world, you could have very significant fiscal consequences, over and above the direct economic ones. For example, because of the way that QE has operated up until now, £70 billion plus of cash flow has been transferred to the Treasury.

Looking ahead, were those kinds of risks to crystallise, as I have said, you could see the position reversing, which is why policymakers and advisers have to keep stressing why the UK has strong institutions and why it has a credible approach to policy across monetary, fiscal and financial. I see that to be part of my role now at the Bank of England, alongside the other Governors and other staff, just as it was at the Treasury. At the moment when you look at the gilt market, 10-year yields are about 1.3%, so there are no signs of those fears emerging. I would want you to feel that we are very cognisant of the risks, and particularly but not just the financial risks.

Finally, on the public position, this is an interesting point. It is incumbent on policymakers to try to explain what is going on in all these very complicated balance sheet arrangements and to try to get across, in simple terms, why this is happening. The key thing I would argue to remember about QE is that from 2009 onwards—and sorry to go back to the counterfactual—as I set out in my response to your questionnaire, and I think this is the consensus view, the evidence is that GDP would have been lower and unemployment would have been higher without QE. There are future potential risks that we now have to be alive to. Where would be in the alternative world, where we had not done QE, where the recession had been more prolonged and the fiscal position had deteriorated even more? We have 10-year yields at about 1.3%, which I have always thought was a reasonable summary measure of how we are seen in the markets.

Chair: Thank you very much. Alister, we are going to move on. Time is marching on, so we are going to cover monetary policy and associated matters related swiftly, I think, Alister.

Q15 **Mr Jack:** Thank you, Chairman. Sir Dave, I am going to be very brief with my questions and I want you to be very brief with your answers, please. At the 13 September MPC meeting, you voted to maintain the bank rate at 0.25%. Can you just set out briefly the rationale behind that decision?

Sir Dave Ramsden: Yes, I will set out two aspects. One is that I voted to maintain bank rate at 0.25%. The other aspect that is relevant is that a majority of MPC members saw a case for removing some monetary stimulus in, the phrase was, "the coming months". I was not in that majority and I mention that because it is relevant to my assessment. Really, in the run-up to the referendum and since the referendum, the MPC has made very clear that the way it is thinking about the economy as the economy develops, but also the impact of Brexit as it unfolds, is looking at the effects on demand, supply and from the exchange rate. I tried to pick all of those up in my answers to your questions.

Just to give you the very summarised position, I still think that there is some slack in the economy—not a lot but still some slack in the economy. On 13 September, with the data we had then, demand had been very weak in Q2, as I recall. Business investment on the vintage of data we had then had not risen, although subsequently it has been revised up. Consumption was weak. There were some signs of stronger demand in August, but demand was pretty subdued.

On the supply side, as I flagged in one of my answers to you, I do have a concern about productivity growth, rather as the OBR has just flagged, but I still felt that the balance between supply and demand meant that there was some spare capacity. Also, the relationship between spare capacity and wages in the labour market seemed not that strong to me. In the past, you would have expected the small degree of spare capacity we have to have triggered stronger wage growth, but basic pay, in the latest data that we have, is about 2.1% on a year earlier. It is picking up on shorter time horizons. Inflation expectations are anchored, as far as we can tell. Domestically generated inflation measures are consistent with the MPC's inflation target. On that basis, I voted with six other members for no increase in bank rate.

From my own assessment, and remember this was my first ever MPC meeting as a voter, I was not in a position where I was part of that majority that thought that the way that the degree of slack was diminishing and the way the trade-off between slack and higher inflation was disappearing were sufficient to give that signal. That was my position in September. Just to stress though, I am going to approach each MPC meeting as it comes, particularly for me the November meeting. It will be my first forecast round. Also, there will be very important new data. There will be the labour market numbers tomorrow. We have had the inflation number today and will have GDP next week. I will take each meeting as it comes, but that is where I was.

Q16 **Mr Jack:** You have answered two or three questions, so I am going to cut to just one final question. There have been warnings from some members of the MPC, for quite a long time now, about an imminent rate rise. Frankly, does that not erode the seriousness with which the public and business can take these consistent messages that then never come to fruition? In a nutshell, are they crying wolf too often?

Sir Dave Ramsden: I can only comment on the September decision that I was part of.

Q17 **Mr Jack:** As a principle, members of the MPC have consistently been talking of an imminent rate rise, which over a number of years now has not materialised. In fact, it has gone down. Possibly with hindsight you would say the reduction to 0.25%, in view of the Brexit vote, may have been the wrong decision. My question to you is: are these members of the MPC who keep pontificating about a rate rise not undermining the MPC's credibility by crying wolf?

Sir Dave Ramsden: I do not think they are undermining credibility, no. I have been a Treasury representative on many meetings of the MPC, and I have observed them always assessing the economy as they see it, at the time of the decision that they make in their meetings. In the one where I joined them in being a decision-maker for the first time, we very clearly set out how all nine of us, in September, thought that the markets, at that point, were actually under-pricing the number of rate rises over the forecast horizon. We sent that signal clearly. A majority of members felt that the degree of spare capacity was eroding sufficiently quickly that the trade-off between growth being below trend and high inflation—we have inflation at 3% on this morning's numbers—was diminishing. They included in the minutes that point that there may need to be a removal of stimulus. They saw the case for a removal of stimulus if these conditions continued in the coming months, and I completely respect their position.

Q18 **Charlie Elphicke:** Sir Dave, Ian McCafferty says it is time to start unwinding quantitative easing. Do you agree?

Sir Dave Ramsden: That is not what Ian McCafferty said at all in a recent speech. I cannot remember his exact words, but what he stressed was the position that the MPC has had for some time. It will not start to consider unwinding QE until bank rate has risen to a level from which it can be materially cut. Then he went on to encourage there to be analysis so that, in a sense, you can look ahead. It is back to thinking ahead to how things might play out. He thought there was a case for looking at, for example, whether the unwinding of QE would be symmetric to going into QE. How context-specific would it be to the economy? Remember, I said that we launched QE in March 2009, when the economy was in a very different place.

Q19 **Charlie Elphicke:** I understand. Can I just pause you there? When do you think the MPC should consider unwinding QE? What is your personal opinion?

Sir Dave Ramsden: You would be very worried if I told you that I had contributed or had been part of their guidance in 2015, because that would imply that the Treasury had a role. I should stress I had absolutely no part in that but, coming into the Bank and now being a decision-maker for the last six weeks, I think that guidance makes sense, as it stands. My recollection is that was what Ian was also saying. Bank rate remains the marginal instrument and there are good reasons for that. We understand how bank rate operates through many cycles, so that remains the marginal instrument. That was the guidance that the MPC gave in September, and the guidance that we gave two years ago—sorry, they gave, which I feel comfortable with now, having joined the Bank—is that we will not think about unwinding QE until the bank rate can be materially cut from the level it has reached. That is a higher level from the level it is at now.

Q20 **Charlie Elphicke:** There is one last thing. I received an email last evening saying that, as a very senior Treasury mandarin, they questioned how you could be truly independent from the Bank of England. They also pointed out your oversight of the Brexit analysis, which has become known as a "project fear" analysis in some circles and said your analysis seems to have been incorrect. What do you have to say to people who will put that point of view?

Sir Dave Ramsden: In answer to Wes Streeting's question, I covered some of this. Some of the things that we put into our scenario analysis did not come about, but some of the mechanisms did, perhaps over different timeframes. In all the analysis I have done, whether it was on the euro, where you will no doubt remember the Treasury recommended that the UK should not join the EU[2], or on Brexit, my analysis has been framed by the evidence. That is the same approach as the Bank of England takes. From that experience of that pre-referendum analysis, as I said, the TSC made some salient points, and indeed the NAO did, about how, with the benefit of how things were playing out, we perhaps could have put more emphasis on a wider range of scenarios and on the uncertainty about the outcomes. We could have changed our communication in terms of the way we presented ranges or numbers that made them look like forecasts.

I recognise that there were issues with the analysis. I think the fact that I have 31 years of doing evidence-based analysis, I have been through a lot of different exercises and learned a lot from those things equips me to make a contribution as a Deputy Governor at the Bank of England. I can assure you of my independence, in terms of the way I will approach my advice and, on all three committees, my judgments and my votes.

Chair: Thank you. We explored some of that earlier on as well, so thank you. John, you have one final question.

Comment [DA]: This should say Euro but Dave said EU

[2] Sir Dave meant to say euro not EU

Q21 **John Mann:** Are there no women capable of doing your job?

Sir Dave Ramsden: There are definitely women capable of doing my job, of doing the Governor's job and of doing my old job at the Treasury. If I might say, something I have talked about consistently in my public statements is that there is a real issue with the gender balance in economics. It is two-thirds male, one-third female. The problems go all the way back to schools, why girls do not do A-level economics and why young women do not go to study economics at university. Even despite those things that we need to work on—and "we" means all of us collectively, the Treasury, the Government Economic Service and the Bank—it would genuinely be interesting to look at how many women economist expert witnesses you have called over the years. I remember a time in 2005 when I was called here, when I came after three expert witnesses you had, Martin Weale, Ben Broadbent and David Miles. They have all now been on the MPC.

We are all part of a wider issue that also goes to the culture of economics. There is a live debate in the US at the moment about the behaviours of economists that plays into this, which may be deterring women from applying. Obviously my current job does not need to be done by an economist. I happened to get it as an economist. It could be done by people with other backgrounds. A women economist could do my job. I suspect you have a far higher percentage of women doing law than economics and, if you have a legal background, you could do my job. You would obviously have to do it a bit differently from me and learn up in different areas. It is part of a wider issue, but I am absolutely confident that a woman could do my job. Indeed, Minouche did and Charlotte had started doing my job.

Chair: Thank you very much indeed. That is an appropriate place to end given our next witness before the Committee. Sir Dave, thank you very much indeed for your time this morning. It was much appreciated.