House of Commons

Treasury Committee

Oral evidence: Reappointment of Andy Haldane to the Monetary Policy Committee, HC 620

Monday 20 July 2020

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[Watch the meeting]

Members present: Mel Stride (Chair); Rushanara Ali; Mr Steve Baker; Anthony Browne; Julie Marson; Siobhain McDonagh; Alison Thewliss.

Questions 1 - 24

Witness

I: Andy Haldane, Chief Economist, Monetary Policy Committee, Bank of England.

Examination of witness

Witness: Andy Haldane.

Q1 **Chair:** Andy Haldane has been appointed again to the Monetary Policy Committee. Andy, could you introduce yourself briefly to the Committee, please?

Andy Haldane: Thanks for having me along. This is my third reappointment to the Monetary Policy Committee. I am delighted to have the opportunity to put a tie on for the first time in four months.

Q2 **Chair:** A very nice tie it is too. Welcome to the Committee. You have been on the MPC for a while, as we know. What mistakes have you made? What would you have done differently, as you look back at your time on the committee?

Andy Haldane: Overall, I cannot think, over my six years on the committee, that there have been any egregious mistakes, I would hope. By and large, it has been a question of setting monetary policy at very accommodative levels such as to keep the economy growing, inflation around target and more or less that has been true up until, of course, the events of this year.

Have I learned a huge amount about the function of the economy over that time? Yes, I have, and the economy has as well. Of those learnings, I would say among the largest would be about the functioning of the labour market. If someone had told me six years ago that we would have seen, up until recently of course, that prolonged period of jobs boom without that causing some take-off in pay, I would have said that was strongly odds against, and yet that is indeed what has come to pass. That has been one of the reasons, of course, why inflation pressures have remained subdued.

I hope we have not made any whoppers, mistakes-wise, but have there been plenty of learnings about the jobs market and other stuff? Absolutely, yes.

Q3 **Chair:** "So far, so V"—is that still your view?

Andy Haldane: It is, yes.

Q4 **Chair:** Can you tell us, when we are hearing about all these jobs being lost left, right and centre, et cetera, what it is that makes you think we are still going to bounce back faster than just about everybody else imagines?

Andy Haldane: To be absolutely clear, "so far" was a description of what has happened. The "V" is a description of the past and not a prediction for the future. I was very careful about that in the speech. It is clear from the data that we have seen—not just the conventional, official data but from some of the newer, faster indicators—that the UK economy hit its floor around the middle of April. It started picking up from the middle of

April, initially slowly during April and May, and more rapidly during June and July. We are already three months into a recovery in activity in the economy; I will come back to jobs. I would say that, over the last 10 weeks or so, the economy has probably been growing on average by around 1% per week, which, if true—we will see in the fullness of time, when the official data comes out—would mean that roughly half of the roughly 25% fall in activity during March and April has been clawed back over the period since.

You see that recovery in all sorts of indicators, including most of the ones that we monitor, such as payments data, mobility data and surveys of various types. The housing and car markets have come back at real pace. I had a virtual agency visit to the north-east a week ago, and whether it was automobile manufacturers, housing market participants or recruitment agencies, they told a story of a very strong June and a very strong start to July. This plainly has been a recovery, and a pretty sharp one, as we would expect given the extent of the fall, in activity over the past three months, as has been the case globally, of course. In that sense, we have seen a bounce-back. So far it has been a V.

That, of course, does not tell us about where we might go next. We have, of course, still seen a daily diet of news about redundancies across industries. We are monitoring that very carefully, of course. Even on that front, back in May, the last time we published a monetary policy report, we put in that report an illustrative scenario of how the economy might look in the second quarter. That scenario had activity falling about 28% in the second quarter. We now think that might be closer to around 20%. That scenario had unemployment in the UK picking up to around 9% now. On the latest numbers, albeit just to May, that number was still slightly below 4%.

Now, the latest labour market numbers are questionable and are almost certainly understating the unemployment problem across the UK. If you look beyond the usual labour market surveys, towards some of the HMRC data on PAYE returns, they point towards a much more material fall-off in employment, perhaps of around 600,000 or so. That would put the employment rate around 6% rather than the sub-4% that the LFS data would have it. Nonetheless, that is still well shy of where we in May expected unemployment to be right now. By no means are we out of the woods on activity or jobs, but it is materially better than we would have expected two or three months ago.

Q5 **Chair:** Can I ask this very briefly, not because I am not interested in what you are going to say at all—quite the opposite—but just to give others time? With the OBR's three scenarios—the central case, the better case and the worst case—we are looking forward now. Where do you land with those three? Do you think we might be fortunate enough to have the better case as the outcome?

Andy Haldane: The first thing to say is that we are in a position, and have been for some time, actually, where multiple paths for the economy are possible, and therefore doing that through scenarios, as the OBR did just last week, makes a lot of sense. Of course, I hope, as we all hope, that the scenario we land on is their upside scenario. Truth be told, to a significant extent, the path ahead of the economy will be shaped by three fundamental forces. The first, on which I have nothing useful to say, is the course of the virus. I leave that to epidemiologists, of course. The second will be the degree of, for want of a better word, animal spirits on the part of both businesses and households, in terms of their willingness to spend in the face of what is still a very significant cloud of uncertainty. Last but by no means least, of course, is the course of policy itself, both set by central banks, by the Bank of England, and the course of fiscal policy as set by the Government. There, of course, we have had relatively recently some further fiscal news from the Government that will hopefully, and very likely, increase the chances of some of those upside scenarios the OBR set out coming to pass.

Q6 **Rushanara Ali:** Good afternoon. I wanted to pick up one thing from your comments on the lessons learned over your tenure so far—this point about prolonged jobs growth and the wage pressure not being too severe. Is that the direction of travel you would like to continue to see or is it just an observation?

Andy Haldane: It was just an observation of the past. The labour market now, in many respects, could not be more different than it has been over the preceding 10 years, or certainly over the six years of my time on the committee. That was, on reflection, a halcyon period of continuous growth and jobs creation. Of course, we are in the opposite of that world right now. Whereas over that previous period we had been nudging down our estimate of the level of unemployment at which wage pressures picked up, down to around 4%, now we are in the reverse situation. We are asking ourselves whether the level of unemployment at which wage pressures might pick up has risen by dint of this crisis, which may have generated certainly very sharp sectoral shifts to the economy, but also prospective skills mismatches in the economy, the like of which may mean that wage pressures could re-emerge at higher levels of unemployment than in the past. That is an open question right now.

One learning from the past that is relevant to the present is that, when it comes to decisions over hiring or indeed firing by businesses, one quite desirable feature of the recent past is that firms have shown a much greater willingness to hang on to their staff even when demand has been relatively weak, because they recognise the costs of re-hiring them afterwards. We tend to think of investment as referring to physical stuff like machine, plants and the like; actually, businesses also view their staff as an investment. I hope that means there is a greater willingness and tolerance to hang on to staff and to rehire staff, particularly those returning furloughed staff, in the second half of this year.

Q7 **Rushanara Ali:** The reason I asked you this question is because there has been quite a lot of debate about wage inequality and the value placed on the kinds of work people do. We have seen a lot of frontline workers, who are not necessarily well paid, who have been at the forefront in this crisis and make an important contribution. There is a wider discussion to have, separately perhaps, about how inclusive our economy is, what we can learn from this crisis and how people are treated. You have referred to some of the positives in terms of employers.

Just in terms of your optimism—and I very much like an optimist—around the V-shaped response or V-shaped recovery, if you like, I am just going to press you further on the Chair's questions. Going forward, do you think the Government's interventions, in terms of the recent announcements as well as the whole package of measures that have been put in place, are sufficient to see a V-shaped recovery later on in the autumn, given what you have said about the unemployment rate being around 6%, if you accept the figures? I am asking you to predict the future, I'm afraid.

Andy Haldane: Oh dear. Let me say a word about looking ahead and the policy response we have seen so far. As Jonathan mentioned in the previous session, it is absolutely clear that the response, fiscal and monetary, domestically and globally, has been absolutely off the scale, and required, given the sharpness and severity of the contraction in the economy that we have seen. In fact, I would say right now, given the risk of longer-term scarring to the economy, the short run is the long run. That calls for a frontloading of the policy response, and a frontloading of the policy response is what we have had. I mentioned that, to a significant extent, we are masters of our own destiny when it comes to the economy. Policy is a key lever for putting us on the upside path, as distinct from some of those lower paths.

Do I know that enough has so far been done, despite a vast amount having been done? No one, hand on heart, can say that for sure. The key point from here, whether you are on the Monetary Policy Committee, the Financial Policy Committee or sitting within Government, is to respond to events as and when they play out. That could be developments in the world economy. It could be developments in the labour market. I am very confident that, when it comes to monetary policy, if further is needed to be done, further will be done.

Q8 **Rushanara Ali:** That is really helpful. In terms of the point you made about the three issues—about the virus and what happens later on, whether there could be a second wave, the implications of that, public spending, consumer confidence, business confidence and so on—the Resolution Foundation talked about another £200 billion being needed. What do you think needs to be happening later on in the year to see the economy recover fast and not have 1980s-style unemployment and prevent structural unemployment and so on? What else can be done? I appreciate you cannot stray too far into fiscal policy, but it would be helpful to get a sense of how we achieve that V-shaped recovery in the future. You are right to point out what you have, in terms of what has happened so far, but it would be really beneficial for us.

The final thing linked to this that I wanted to ask you about is youth unemployment. We have seen in the last financial crisis how young people were badly affected, and within a decade it is happening again. What are your thoughts on what we should be doing there and whether the kickstart programme, which is a welcome investment, is sufficient, or on what more needs to be done to prevent high youth unemployment?

Andy Haldane: I absolutely agree with you that risk No. 1 macroeconomically, from my perspective, would be those issues of unemployment, and youth unemployment in particular. They pose the single biggest threat to a sharp recovery in the economy. That is why I very much welcomed the announcements that the Chancellor made just the other week on that front.

I also echo what you said about the sharp differences in experience across different parts of the country. It is clear already that the unemployment burden has fallen disproportionately on those who are young, those who have fewest skills, and those who are paid the least. In some ways, those households and people are facing what I elsewhere have called double jeopardy right now. They are most exposed to the health risk, because they are least likely to be able to work from home, and they are facing the largest financial risk, because they tend to work in jobs in sectors that have been disproportionately affected by the crisis.

By and large, there are limits to what central banks can do to solve problems of that type. We can keep the cost of borrowing at incredibly low levels, and that we will do. That by itself, though, will not solve the sorts of sectoral issues, skills issues, unemployment issues, especially among the young, that you mentioned. Those really speak to fiscal tools, to Government tools, rather than central bank tools. I am not going to speculate on what those fiscal measures might be. You lose your central banking badge if you comment on fiscal policy, so I will avoid that. I have been reassured about the measures already taken. I am also reassured that, if more needs to be done on that front, it will be.

Q9 **Anthony Browne:** Thank you, Andy Haldane, for coming here this afternoon. I have a question, first of all, about debt and then some questions about interest rate policy. On debt, we obviously have a huge national debt now—100% of GDP. In the private sector, we have huge corporate debt, over £100 billion extra, some of which will not be repaid; there will probably be very high default rates. Are you worried about this level of national and corporate debt and the impact it will have on economic growth going forwards? What impact do you think it will have?

Andy Haldane: Starting with the corporate sector, we entered this Covid crisis, as Jonathan mentioned, with corporate debt, relative to, say, profits, at relatively normal-ish levels by historical standards. As companies have borrowed to bridge over that cashflow shortfall, we will see a very material pick-up in leverage over the course of this year, probably taking it back to around the sorts of levels we saw at the time of the global financial crisis.

You already touched upon TheCityUK work. Other work by the likes of McKinsey and Oliver Wyman suggests that there is an overleveraged debt overhang problem in parts of the UK corporate sector, particularly in those sectors hardest hit. That might be as much as a quarter of companies facing some of those overindebted problems.

Q10 **Anthony Browne:** Would that slow the recovery?

Andy Haldane: I think, and as you know, Anthony, from your experience at the BBA with the banks, that here is a likelihood that, left to its own devices, overleverage problems tend to cause people to deleverage slowly, as is the case with the banks, and that is a situation we need to avoid when it comes to the non-financial corporates. That will manifest itself as lower levels of investment and lower levels of hiring, neither of which is what we need right now from a recovery perspective. It is worth thinking about, as TheCityUK did this week, tackling those corporate debt overhang problems in a more systematic and comprehensive fashion, rather than dribbling it out over time. I welcome their ideas for how that might be done on a systematic and one-off, comprehensive basis.

At times in the past, I have looked at debt crises in other countries where having some vehicle that can act as an agency to oversee the reprofiling of debts can help to boost the fortunes not just of the debtor but of the creditor as well. For example, the Resolution Trust Corporation in the US in the 1980s did that loaves and fishes miracle following the thrifts crisis. I am taken by the idea that corporate debt needs to be tackled systematically and comprehensively if we are not to slow down that rate of recovery in business investment.

Q11 **Anthony Browne:** You are suggesting that Government need to take the lead on that?

Andy Haldane: In the sense that many of the loans we are talking about have a wrapper, have a guarantee from Government, Government cannot be distanced from that. If I think of successful examples of doing this from other countries, however, the agencies tend to operate at arm's length from Government in carrying out that viability assessment and restructuring. Were it me designing that structure, that is the way I would do it this time as well.

Q12 **Anthony Browne:** On interest rate policy, for almost the entire time since the financial crisis, the base rate has been 0.5%. It went up for a little while, but it is now down to 0.1%. You have no ammunition left in the armoury, have you? What is the future of interest rate policy? The other alternative, obviously, is quantitative easing, but you voted against that at the last meeting. How can the MPC use what levers it has to influence future inflation? You have nothing left.

Andy Haldane: On the last of your points, the reason I voted against QE in June was not because I thought it was infeasible to do; tt is just that I did not think it was necessarily needed, given the very significant degree of monetary stimulus, and indeed fiscal stimulus, that is already in the system, given the state of the economy. As I made clear in my submission to the Committee, there plainly is less room for monetary manoeuvre as a result of this crisis, be that interest rates, further QE, or indeed further purchases of private sector assets, for example corporate bonds.

Less room for manoeuvre is not no monetary manoeuvre at all. We could do more QE; that remains open as an option. We could purchase more private sector assets; that remains open as an option. As you know, we have said publicly that we are reviewing the case for lowering interest rates further, below their current level of 0.1%, including prospectively into negative territory. Those are all options that are actively under review.

Q13 **Anthony Browne:** What would be the benefits of negative interest rates? Are you not entering deflationary territory then?

Andy Haldane: It is worth thinking about, if there were to be a further negative shock to the economy, for whatever reason and from whatever source, what contribution monetary policy could play in that environment to stimulate demand, get the economy on its feet and mitigate any further job losses in that context. Would a further lowering of the cost of borrowing to households and businesses help them to reduce their cashflow needs and perhaps encourage further borrowing prospectively? Yes, that is on the upside.

As you know extremely well, there are of course some prospective downsides of cutting rates, particularly into negative territory. I am thinking in particular of the squeeze that can impose on banks' net interest margins. Those were the reasons why we previously, prior to 2016, set the effective lower bound at 0.5%, rather than close to 0%. Those are the arguments on the upside and the downside we are now looking at, as ever very closely, as part of our review.

Q14 **Alison Thewliss:** I would like to ask some questions around the diversity of the MPC. The MPC consists of eight men and one woman. As you know, previous Chancellors have been criticised for their failure to appoint women. Given that the credibility and independence of the MPC is dependent on its ability to capture diverse and independent views, how do you view the importance of diversity?

Andy Haldane: As I have written about extensively over many years now, diversity is absolutely fundamental to everything we do in the public policy sphere. The Bank would very much be part of that. We have made a huge effort over a number of years now to improve the diversity among all the dimensions across the Bank. We have had some successes on that front. If you look across all the Bank's policy committees—that is to say not just the MPC, but the FPC, the PRC and our Court of Directors, which now is majority female—there is pretty much a 50:50 gender balance across all our major committees. As you point out, that is not true of our

MPC, and I would say there is much further to go on that front. There is a limit to how far we at the Bank can influence that. To a very significant extent, those are appointments made not by the Bank but of course by the Chancellor.

Q15 **Alison Thewliss:** Is there an issue of culture, perhaps: that the MPC is somehow less attractive than those other committees? If you are saying there is a greater representation of women on other committees, why is the MPC not seen as more attractive? What are you intending to do to make it more attractive?

Andy Haldane: I hope it is not seen as being less attractive to anyone, actually. It is crucially important that, across the MPC, we have people from as wide a range of backgrounds and experiences as possible. One of the reasons I spend, as you know, so much of my time outside of the Bank and round the country is precisely so I have that sense of the wider-angle lens on what different cohorts of society are thinking and feeling at various times. Especially at this time of uncertainty about the economy, in some ways diversity comes at an even greater premium now than in the past. That speaks to us as MPC members, doing what we can.

I mentioned just a second ago my recent agency virtual visit to the north-east. I mentioned the upside of that, which is what I heard from housing market participants, automobile manufacturers and recruitment agencies. I did not mention that I bookended those meetings with one with charities across the north-east, and that painted a very different picture. Whoever is on the MPC, it is very important that we are attentive to the views of those people most severely affected by this crisis. That is why diversity matters most.

Q16 **Alison Thewliss:** In doing those outreach visits, are you considering the pipeline issue of attracting people in and looking for people with a diversity of views and backgrounds who might be future picks or take a future interest in joining the MPC?

Andy Haldane: Yes, I hope so, whether it is through those outreach efforts or through our educational programme. I am hoping that is demystifying some of the Bank of England, the MPC and the subject of economics. Parts of the gender issues on the MPC that you rightly mention are mirror-imaged in gender issues across the economics profession. We and I have been quite vocal in trying to do a much better job of creating the right talent pipeline, if you like, across the economics profession, so that we have a much richer field from which to pick future MPC members.

Q17 **Alison Thewliss:** In terms of the Women in Finance charter, what are you doing to make that real and to make that a living charter?

Andy Haldane: We have ourselves, and have had for a number of years now, a set of gender diversity targets for all the Bank, including for our senior management. When it comes to our supervision and regulation of the financial system, issues of diversity of the board, and indeed the firm, are among those that we look at when we are assessing the robustness and resilience of the firms we look after.

Q18 **Alison Thewliss:** Finally, I would like to ask about the other aspects of diversity. Since the MPC has been in existence, there have only been two BAME members. What more can be done to encourage more BAME economists on to the committee and to make sure those voices are heard?

Andy Haldane: There are many of the same issues I have mentioned in respect of gender. Just last week, I published a working paper with colleagues at the Bank estimating how large the pay gaps were along both the gender and the BAME dimensions. There are pay gaps for both. On the gender side, they have shrunk. On the BAME side, they have less evidently shrunk over the past two decades. I am absolutely clear in my mind that renewed efforts need to be made on the BAME side to improve representation across the whole of the Bank of England. Within that, I would certainly include our main policy committees, so that we have that diversity of expertise and background, which has, as I say, never been more needed than now.

Q19 **Siobhain McDonagh:** In your view, what are the similarities and differences between this crisis and the financial crisis of 2008-09?

Andy Haldane: They certainly share the feature that both are very sharp shocks to the economy and to jobs in the economy. They both clearly classify as economic crises, as well as a health crisis, in the latter case, of course.

Where they differ—I think we see this already, and Jonathan touched upon it—is that 10 or 12 years ago the financial sector was the source of the problem. It amplified the stress, in particular by constricting credit to households and businesses. This time, as Mark Carney said back in February or March, the hope was that financial services would be part of the solution rather than part of the problem. By and large, that has been the case over the period since. We have seen very extensive use made of bank lending to businesses in particular, often underpinned by Government guarantees. Probably more than 1 million businesses have been a recipient of loans from UK banks over the past few months. Without that, the situation, activity-wise and jobs-wise, would have been much worse than it actually has been. That would be one key difference now from then.

Another one that I think is relevant as we look forward from now is that, whereas the global financial crisis hit one sector particularly hard and then had knock-on effects to other sectors, this is a crisis that has struck pretty much every sector in the economy, to differing degrees of severity, but all have faced a real knock. In some cases, there is an open question about whether they will recover the levels of activity that were prevailing pre-Covid. That may mean there needs to be more of a reallocation of people, workers and capital from sectors that are struggling to recover to sectors that are thriving. That is what gives rise to this very knotty, difficult issue of unemployment, and youth unemployment in particular. That calls for a different set of solutions than was the case back in 2008-09. Then it was largely monetary policy riding to the rescue. This time, as we are already seeing, it will require monetary and fiscal working in tandem.

Q20 **Siobhain McDonagh:** How large do you think the shock to the banking system will be from this crisis?

Andy Haldane: We looked at this question in our financial stability report we published back in May. We conducted a stress test then based upon the scenario that we published in our monetary policy report. The good news from that was, despite this being a very sharp contraction of activity and a very significant rise in unemployment, none the less the recapitalisation of the UK banks over the preceding decade meant they were not only well equipped to withstand the losses from the crisis but, importantly, were also able to put their balance sheet to work in lending to businesses and households. Indeed, more than that, it was very important that the banks lent to businesses and households, because that would support the economy and actually reduce the numbers of losses that banks were facing. The good news is that those 10 years of hard work to restore the resilience of the banking system has paid off in the Covid crisis in cushioning the effects of the losses we have seen.

Q21 **Siobhain McDonagh:** Would you accept that the banks were the villains of the last crisis, but could be the heroes of this crisis? In that case, would you think that, with the issue of people who have applied for mortgage holidays and been told this would not affect their credit rating only to find that is happening now, banks are perhaps creeping back to being the baddies?

Andy Haldane: I will avoid the labels, but plainly it was the case that financial services were an amplifier and indeed a source of stress 10 or 12 years ago, and the banks have been a dampener of stress during the course of the crisis so far. That is through their lending activities, which I have just mentioned, but also, very importantly, as you hinted at, the extension of forbearance, mortgage and repayment holidays of various types. That has been crucial for alleviating some stress and will remain as such in the period ahead. My hope would be that that spirit of social purpose and solidarity, not just within financial services but across the whole economy, will continue into the second half of this year and indeed beyond.

Q22 **Mr Baker:** I must refer again to my shareholding in Glint Pay. Andy, you said something very interesting and striking earlier. If I wrote it down correctly, it was, “We can keep the cost of borrowing at incredibly low levels, and that we will do”. Are you aware that there is a theory of the trade cycle that suggests that this policy of trying to live forever on artificially low credit causes the boom-bust cycle?

Andy Haldane: I am aware of that theory.

Q23 **Mr Baker:** What view have you formed on that theory?

Andy Haldane: You may even have pointed it towards me at previous hearings. We have to be absolutely mindful of any of the unintended consequences of any of our policy actions, including setting interest rates at the very low levels they are currently. That is, of course, part of what has been a global phenomenon over very many decades now, in fact over very many centuries. If you plot a line, as we actually have in some of our research, of the path of global real interest rates, on some measures they have been falling for 800 years now, with a further leg down over the course of this year.

Does that create incentives to take risks? Does that create incentives to build up stockpiles of debt that could become unsustainable? Yes, both those incentives exist right now. Just at the moment, I would say those risks are ones worth taking for the sake of keeping businesses afloat and keeping workers in jobs. Therefore, I am very content about the course that policy has taken so far. But absolutely, as we emerge and recover from this crisis, we need to watch very carefully to ensure that does not encourage excessive risk-taking or the excessive taking on of debts by either companies or households. We all know that, left for too long, they can sow the seeds of the next crisis. We will be mindful of that on the MPC and our colleagues on the FPC will be mindful of that as well.

Q24 **Mr Baker:** I was amazed to discover over the weekend that even Ludwig von Mises at one point supported money creation on utilitarian grounds, so I think he would have agreed with you on that point. We are very short of time, so can I just ask what view you have formed, if any, on the currently cool idea that is going around of nominal GDP targeting?

Andy Haldane: I have some von Mises just above me on the shelf here, Steve.

Mr Baker: I cannot tell you how relieved I am to hear that.

Andy Haldane: The first thing to say here is that, certainly from a personal perspective, I do not necessarily think this would be a propitious time to be thinking about changing the nominal anchor for monetary policy. There is quite enough uncertainty in the economy anyway, and uncertainty about the course of policy in the economy, without necessarily making dramatic changes right now. That would be a personal view.

As for the case for money GDP targeting, at times in the past I have looked at this pretty closely. The current regime that we have, which is one of not just inflation targeting but flexible inflation targeting, allows us to achieve many if not all of the benefits that can anyway be achieved by targeting of money GDP. When we have needed to use that flexibility, we have done so. After the global financial crisis, when inflation picked up above target, we did not tighten policy. We loosened policy to support demand. When we had the Brexit referendum and inflation picked up above target, we did not tighten policy. We loosened policy to support demand. In both cases, that was very similar to the response we would have seen had we been targeting money GDP.

I suspect the differences between what we are currently doing, flexible inflation targeting, and money GDP targeting are more apparent in theory than they are in practice. I would go further and say that inflation targeting done flexibly gives you extra degrees of freedom relative to money GDP targeting. All in, that would make me constructively a little sceptical of the case for shifting to that right now.

Mr Baker: Thank you very much. We are very short of time but that is fascinating evidence as always.

Chair: Andy, thank you very much for appearing again before our Committee. We appreciate that. Thank you.