Bank of England

Inflation Report Q&A
13th May 2015

Richard Edgar, ITV News: Governor, the Election result was a surprise to everyone. Was it a surprise to the Bank? And if it was, how have you adjusted your forecast for growth in the economy?

Mark Carney: Well, Richard, we forecast many things, but we don't forecast political outcomes; we take them as they come and then we adjust to the consequences of those decisions. So if the people - whether it's the people of Scotland, the people of the United Kingdom, people of Greece, etc.

The most important stance of policy in general, for monetary policy, over the monetary policy horizon, is the stance of fiscal policy. We take the stance of fiscal policy as given, and then we optimise monetary policy around that. This forecast is consistent with the most recent budget of the last government. As I indicated in my comments, there is persistent fiscal drag in this forecast, just as there has been over the last several years. That's one of the headwinds that weighs on the economy. It's one of the reasons why the path of Bank Rate, when it does rise, is likely to move at a gradual pace and to a limited extent.

The other point I would make in terms of overall policy is that there are a host of policies and decisions, both within the United Kingdom and abroad, that influence the productivity of this economy. And what you start to see in this forecast is the constraints of slower productivity, slower supply growth, on the pace of the expansion of the United Kingdom economy.

Larry Elliott, The Guardian: Can I just follow up on Richard's question? The last time the government came into power with a quite aggressive fiscal consolidation programme, five years ago, there was a marked fall in the growth rate of the economy over the subsequent two years. What's going to be different this time?

Mark Carney: Well, it depends on the path of fiscal policy, which depends on the decision of the government. As I said to the last question, we've incorporated the fiscal policy of the last government. The question is how the new government adjust policy and the extent to which those are adjustments within a broad fiscal envelope - in other words, different spending and tax priorities within a broad fiscal stance - or there is a shift in the actual fiscal stance.

As the monetary authority, we will take fiscal policy as given. We'll adjust our forecast with fiscal policies that are tabled in the House, not a series of comments that are made in the course of an election campaign. So we'll adjust when there is an actual budget.

Larry Elliott, The Guardian: The reason I ask is because there were £25bn worth of spending cuts in the Conservative Party Manifesto, £13bn worth of departmental cuts and £12bn worth of welfare cuts. And the Prime Minister has said explicitly that that manifesto will be implemented in full. So I'm quite surprised you're saying that you haven't taken that into account in your forecast.

Mark Carney: Well, Larry, there were - in all cases of all parties, but let's take the party that's forming the government - there were also spending commitments in their manifestos and in their comments. So the question is - which cuts are implemented, which spending commitments are put in place, any adjustments - any other adjustments to the overall fiscal stance? Instead of speculating on what might happen, one waits a relatively short period of time for the subsequent budget of the government, and adjusts accordingly.

I think what we know, sitting here, is that the broad stance of fiscal policy is restrictive, as it has been for the last several years and is likely to continue for the next several years. And that has a broad-brush consequence for the stance of monetary policy in order for us to achieve the inflation target.

But, I think you'll understand this, there's no point trying to assess in an incomplete manner what might happen in a relatively short period of time, when we will have all that information and can adjust our forecast accordingly.

David Smith, Sunday Times: Governor, I wonder if I could ask you to elaborate on your comments on the equilibrium interest rate. Were you saying that thinking on the MPC is evolving on what the equilibrium interest rate might be when the headwinds from the crisis drop out - in other words that the new norm may not be as different from the old norm? Or was it just a message to the markets that the markets don't seem to be taking on board what existing thinking was on the equilibrium interest rate?

Mark Carney: Well, let's break this into the equilibrium interest rate and markets, because there's two elements, and obviously ultimately they should come together, but there can be long periods of divergence.

First thing to say about the equilibrium interest rate - you know this, but I think it's useful to go through the context - is our view - and it was consistent with the stance of policy and it's consistent with the performance of the economy - was that that equilibrium rate went wildly negative during the course of the depths of the crisis and the immediate aftermath of the crisis, which is why my predecessors instituted a large quantitative easing programme, other asset purchase programmes, to get effective interest rates to a negative level - if I can use that shorthand - to get them below that equilibrium interest rate.

With time, with repair of the financial system, that policy increasingly effective, and I would suggest that we're still in a position that the effective interest rate in the United Kingdom is below the equilibrium interest rates. That's why, in general, the economy is growing above our estimate of potential growth; that's why spare capacity is being used up; and that's why - over time - inflationary pressures will begin to build. That's a good thing; that's what we want. We want the economy moving back towards the equilibrium.

We think that many of the headwinds which kept the equilibrium rate down, which kept it effectively negative, are dissipating, but some of them are not being eliminated. Okay. So, the difficulties at the core of the financial system, those are largely going away - have largely gone away and are going away. Banks have recapitalised, they have more liquidity; you see it in credit surveys, you see it in access to credit for small and medium sized enterprises. Clearly for households, the access to credit - particularly secured credit - is at record low. Those are going away.

The weakness in foreign demand - the relevant foreign demand for the UK - has lessened, but it hasn't gone away, and we don't expect it to go away over the forecast horizon. We still have UK weighted foreign demand slightly less rapid than historical averages.

Fiscal, which we've talked about this morning, fiscal drag continues there over the forecast horizon, and again weighs on equilibrium interest rates. And I'd suggest as a last point, which is more of a prediction than a fact at present in markets, is that, with time, we will see higher intermediation spreads in financial markets. Some of the consequences of developments of liquidity in markets, some of which can be expected, is that those higher liquidity costs will be passed on to borrowers. And that will keep equilibrium interest rates lower than they were in the past.

So the sum of all that is we think that the rate is rising, that it will continue to rise over the forecast horizon, but it won't go back to historic levels. We can't give you - I won't be able to give you a precise point estimate either of where the rate is today, where it will be three years' time. We can tell something though about the behaviour of the economy, given the stance of policy. And the fact that in our view the economy is going to return to slightly above trend growth rates means that we do have a stimulative stance of policy, notwithstanding the strength of sterling and other factors. That's equilibrium interest rate.

Turning to financial markets, there's a variety of factors that influence bond rates in the UK. Some of it is an estimate of exactly what I've just been talking about; some of it is - much of it is a spillover from global bond market conditions. We've seen in the course of the last several months a marked influence of conditions in European bond markets that have weighed on yields in the United Kingdom. Some of that is reversing now, so I think it a poignant time - I'll finish here - is that you can't take a direct mapping from bond markets to where we think the equilibrium interest rate is.

Robert Peston, BBC: A couple of things, really. One was - given how unbelievably lacklustre productivity has been in terms of revival over the past few years, how worried should we be that you've downgraded your expectations for growth in productivity?

And has there been any work at the Bank of England to assess the possible impact on growth of business uncertainties created by the EU Referendum?

Mark Carney: Right. Let me take the last point. I'll introduce productivity, then I'll hand to Ben to supplement, if I may.

In terms of - let's call it political uncertainties in general, so uncertainty about the outcome of the Election, which would encapsulate potential referenda questions.

What we've persistently picked up in our agency visits, in our bilateral conversations with businesses, in broader surveys (you would have seen the same surveys), is that there was an awareness of this uncertainty, but what we were guided was that companies were not acting on that uncertainty. I should actually make that a double negative - they were not not acting on that uncertainty. So it hadn't influenced yet investment plans.

Now we think in the end, with revisions over time, that the data will broadly support that, so we do take that as probably being accurate. So we are looking at this and we'll continue to look at this very closely, because it could be an important determinant of the forecast. As, with time, there's greater clarity about the timing of a referendum, the question, the prospects - all those issues - as that starts to come into the public domain it will be relevant.

And turn to productivity. In terms of the shortfall, our marking down on productivity, I would emphasise a couple of things. One is that we have done more work on these so-called compositional effects, which - so it's the nature of jobs and it's the nature of people filling jobs. So some of these jobs are lower productivity, low-skilled, low productivity jobs - and we've had a disproportionate number of those. That's a cyclical phenomenon, that weighs on productivity. First point. And it's detailed a bit in the Report.

The second thing is you get people who are new to jobs, who are not productive as they are with time. And again, in an upturn, another cyclical factor; so those people will become more productive. And so some of that weight we think is going to come off the productivity performance of the statistics.

We've decided, our judgement - we could be wrong - but that this effect is going to last a little longer than we thought previously. That was one of the things we took from the supply update.

But then you get to more fundamental, other determinants. We think that there's an element here of slowness in recycling capital from low productivity to high productivity firms. Some of that could be because of forbearance, partly because of the interest rate stance. Some of it is because of lower investment in the past, less capital deepening. And the question is whether there are other intangible factors that could be influencing, but Ben, come in on that.

Ben Broadbent: I think the Governor has just touched on all the main points. You're right, it's been disappointing, particularly over the last year or so during the recovery, the last two years when normally the cyclical pattern would be for productivity growth to pick up. And also for that reason, you know when you forecast, we're bound to be tremendously uncertain. And, as the Governor says, it's our biggest single uncertainty, probably, over the forecast.

I do take some encouragement from the work we've done over the last three months, if only at the margin, that it's reasonable to expect some growth, i.e. some pick-up in growth and productivity over the next two or three years. One, because of the importance we think of these compositional effects, which are likely to be temporary, and also I think there are some signs, if only tentative signs, of the increased churn in labour markets and also increased business formation, that might aid the kind of reallocation that the Governor was referring to.

Now these are no guarantees at all that productivity growth will pick up, but they make me at least take a little encouragement, and you know, I think it's reasonable to expect, therefore, some acceleration in productivity over the forecast period.

Chris Giles, Financial Times: Just to go on from productivity, I think roughly this will be the thirtieth Inflation Report in a row where the Bank of England has been disappointed with past productivity performance and then expected it to recover in the future. You know, there is the definition of insanity as expecting the same thing to happen again and again. What evidence is there that you're right this time, and what is the consequence that you might be wrong?

Mark Carney: Let me start with the second, and then I'll go back to the relatively sane Dr Broadbent.

I think the consequence - there's a couple of consequences you can anticipate. One is it goes ultimately to living standards, slower growth in living standards over time for everyone in this economy.

In terms of monetary policy, in an economy where we've had, as you know, a very large labour supply shock, but that labour supply shock's increasingly being used up. We think that spare capacity in the labour market, as I said in my opening comments, will be used up within the next year. The pace of growth and supply will be largely - not exclusively - but largely determined by productivity growth. And unless we get a one-to-one mapping of demand to supply, which is unlikely to happen, it could have a consequence for the timing of rate changes in order to deliver the inflation target.

Now, it's not clear as you move farther out the forecast horizon, it will have a material impact - it will have an impact on the ultimate path of rates, but it would tend to dampen the ultimate path of rates, but it could have an implication for the timing. But, Ben -

Ben Broadbent: I mean, the sane person of course would look not just at the last six or seven years, but the last hundred or so, during which productivity growth has been reasonably steady in most advanced economies. And the same person would also take account of the fact that it's not untypical to see slower productivity growth after financial crises, and this was a very large one.

So it has been very difficult, and we've sort of adjusted slowly to the reality. When you say what can we point to, I'll just mention what I said earlier. We don't have a complete understanding of why this happened, but I think there are some reasons to believe that - put it this way - positive growth of productivity over the next three years is more likely than negative productivity growth, and that's what the forecast implies.

So it's a difficult judgement, but I think it would be - if I can put it this way - wronger to look only at the last six or seven years as a guide to the future than to look at a longer period of time, and ask yourself what might be considered normal, once the effects of the financial crisis have ebbed away.

Ben Chu, The Independent: On the global bond market sell-off, which has been quite violent in recent weeks and has actually intensified since the Inflation Report was put to bed, I understand. You implied from your opening remarks and subsequent remarks that you seem relatively sanguine about that, that you think this a kind of natural price correction of a market that got ahead of itself. How confident are you about that analysis? And have I got that analysis right that that's your view?

Mark Carney: Well, I think I'm going to stick largely to what I said and to what the MPC discussed, which is that we observed that there had been, over the course of the past year, quite a marked flattening of the longer end of advanced economy bond yield curves. And in terms of fundamentals, it was not entirely clear why that had been the case; so it's not entirely surprising that they are moving back up.

Now, that's not a comment on day-to-day market moves and I think there are - in a broader context of the Bank's responsibilities - we take close interest in terms of the nature of market functioning - and some lessons that could be drawn from that. But in terms of broad direction the comment isn't much more than that. And I think that, in the environment of a sustained global expansion, curves at the extremes that we saw earlier this year, would unlikely be sustained in the fullness of time.

Scott Hamilton, Bloomberg News: Thanks for that. That was the very topic that I was going to ask about as well. I mean is it fundamentally driven, the bond market sell-off, or is it more technically driven?

Mark Carney: Well I mean that's a short-term question. You always have technicals overlaying these things; you know, we try to avoid being technical market commentators. What I would say is that the MPC's observation was fundamentally driven, as were my comments this morning in the opening statement.

Ed Conway, Sky News: Governor, there are lots of challenges that you've talked about in the past facing the UK economy. Obviously we've talked about productivity a lot of today, the housing crisis, the current account deficit. On the basis that we have a new government, a lot of people are focusing on the next five years. And on the basis that everyone likes a good list, what would be the top three challenges that are facing the UK economy, you know the government, but also just monetary policy over that next five years, would you say, if you had to narrow them down to three, if possible?

Mark Carney: So I heard you say - what are the top three challenges for the MPC given that it's monetary policy [laughter] within the remit of the MPC. Look, you know, our foremost challenge is to chart the path for monetary policy that returns inflation to target in a timely fashion and keeps it there.

So as I said in the opening comments, you know we have no inflation at present. There's a good chance that in the near term inflation will dip slightly below zero before picking up notably towards the end of the year, but picking up notably towards the end of the year is not the same as inflation going back to 2%. And so we do have to chart the path appropriate to do that. And we have to chart a part in the context of a global economy where there is divergent growth, divergent monetary policy, increased exchange rate volatility. So we have to manage that in an appropriate fashion.

In doing so, there are a couple of broader challenges for the UK, I would say three broader challenges for the UK, which will have some influence in the short, and certainly have more profound influences in the medium term for the country's economic prospects.

They include fiscal policy, the stance of fiscal policy and the timing of that, which to - I'll just refer to my earlier answers in terms of how we address that.

Productivity, fundamental we all know that that is the determinant of longer-term living standards, and the productivity performance has been poor. We're looking at - we're making a judgement about the pace of, to some extent, a cyclical upturn, but that is not a trend change in the productivity prospects of the country. That will be determined by monetary policy; it will be determined by others.

And just to be clear the Bank's responsibilities, whether it's price stability, or financial stability, or a well-functioning financial system, those are just foundations for productivity growth. They're not - you need to have all those things, but they aren't the real determinants of long-term productivity growth.

And I would say on the third broad challenge where we are engaged is to ensure that we have a resilient financial system that conducts its business with integrity, that is open, that is innovative and we continue to work to deliver that. We've made a lot of progress, but that work isn't done, isn't completed. And what needs to happen is some stocktake and potentially some adjustment to the various measures that have been put in place, actual and perspective, to ensure that they are self-reinforcing to accomplish those goals.

Phil Aldrick, The Times: There have been 49 rate cuts across the world so far this year, which looks awfully like competitive devaluation. At the same time, UK sterling has been rising; I think it's at a seven year high on the basket of currencies. And you've warned that this is potentially disinflationary, can have an impact on core inflation and therefore your decisions. So at what point does the currency become too strongly valued or feeds into your decisions on the projected path of rate cuts or rate rises, rather?

Mark Carney: Well I'll take the last bit of your question which is on the projected path of rates, the appropriate path of rates, it's relevant. It is relevant for the policy horizon. The experience in this economy has been that material exchange rate moves have persistent pass-through, through to inflation, and that that pass-through tends to extend not just to 6 and 12 months, but out to two and three year horizons, so over the relevant policy horizon. And in a world economy where growth is, as I said, steady not spectacular, that provides - that reality in terms of foreign demand for UK goods and services - that provides - that is a headwind. And it's a headwind that can be reinforced by persistent strength of the currency. So yes, we take it into account.

But the best way to fully answer that question is with a forecast, and of course the forecast takes into account not just the level of the currency, a market path of rates, but the factors that are determining demand and supply over the forecast horizon. And in our forecast we do see, as you would have noted, inflation getting back to target within the two-year horizon, with a slight overshoot at the end of the forecast.

Richard Barley,
Wall Street Journal: Governor, obviously we've seen a big pick-up in volatility in bond markets in recent days. Is there any concern that central banks, having acted to damp down volatility, are going to find it very difficult to control the reversal of that process? And how does the Bank think about that in terms of its policy decision going forwards?

Mark Carney: Yes. Well, our view is that as monetary policy normalises, we will see broad-brush increases in volatility, I'm not commenting about volatility relative to the last few days, but increases relative to longer moving averages that have been prevalent during a period where the major central banks were all at the zero lower bound. So we expected an increased in volatility in rate markets, in FX markets, in other asset classes. And also, as I said in response to an earlier question, some increase in intermediation spreads, so a combination of credit spreads and a charge for liquidity, because financial reform has pushed liquidity risk increasingly into private markets.

That reality has been masked, or dampened, to use your word, by the stance of central bank policy. But as policy normalises in some of the major economies we expect that to pick up; markets being markets some of that might get pulled forward.

It's one of the reasons, to repeat myself, it's one of the reasons why the path of rates is expected to be more gradual and ultimately rise to levels that are more limited. We will learn as we go along that process. So it has been incorporated into our thinking.

Paul Mason, Channel 4 News: It all begins to look a bit political, though, doesn't it, because you know inflation is zero, you do nothing. Lots of people on very low wages suddenly feel temporarily better because prices are falling and their wages are slightly rising. The government wins an election, you do nothing again. And you make a claim that the MPC is acting to return inflation to the target promptly by eliminating the slack in the economy. I mean promptly is not two years, is it? And there's nothing that you're doing that proactively eliminates the slack. You take no policy action again and again. And my worry is that it's kind of a mirror of the sort of pre-2008 days when we sat here and said to Mervyn King, why don't you act, you're two percentage points out from your target? And something came along, as you know.

Mark Carney: Well, Paul what's going to come along is that the level that - you know oil prices have dropped 40% year on year, the calendar is going to move over, that fall in oil prices will go away in terms of the calculation of inflation. Food prices have dropped just under 2%; again the same thing is our expectation. The impact of sterling starts to dissipate. Now there could be further moves on sterling but they start to dissipate.

So as we get to the end of this year, inflation is not going to be zero in our expectation, inflation is going to be above 1%, it's going to pick up notably. And so we have to act - and so that's why we're looking through this temporary low inflation.

I would also say that the British people are looking through this temporary low inflation. They're taking - they're not -

there's no sign of any behaviour that is consistent with a view, or any concern about widespread deflation, people are not delaying purchases - major purchases. In fact - I quoted the consumer confidence indicators - one of the reasons why consumer confidence is at a ten year high is people think this is a particularly good time to make major purchases.

So this is not a populus that's become risk adverse because of monetary developments. They recognise the sort of "enjoy while it lasts" point is begin incorporated. They also would feel, I would suggest, that wages - while they're low relative to historic averages - have begun to pick up, they've started to firm, and the most recent data at least is broadly consistent with that.

So we have to set policy over the relevant policy horizon; monetary policy doesn't have impact instantaneously. The lags in monetary policy tend to mean around 18 months, give or take, in terms of maximum impact and the impacts gradually build. So we're trying to calibrate policy so that inflation, as it goes up, in an economy where spare capacity is increasingly being used up - 200,000 jobs created in the last three months is just one example of that. As that spare capacity is being used up, cost pressures are increasing. We're calibrating policy in a way that we don't move up and straight through that 2% inflation target.

And in the judgement of the MPC, that means more likely than not that we are going to be raising interest rates and we're going to raise them, and to repeat myself, in a relatively limited and gradual fashion. It's a question of the timing and pace of rate increases in the judgement of the MPC, best collective judgement of the MPC, not in terms of providing some stimulus. We could provide stimulus, additional stimulus, if we wanted to, but our view is that's not necessary to have this economy move back to a more sustainable path.

Heather Stewart: Hi, your Chief Economist, Andy Haldane, gave a speech in March in which he suggested that rates might, or were as likely to have to fall in the near term as rise, partly because there was a risk that some of the factors that we've talked about in the labour market, for example, you know increased slack, high migration, weak bargaining power, might be structural rather than cyclical. And I noticed that the Report talks quite a bit about the divergence of views on the MPC.

I wonder if you could just, we can't ask him ourselves because he's not here, but can you tell us a little bit more about the divergence of views and explain why you think some of these factors we've talked about are short term and cyclical and not structural changes?

Mark Carney: Well, I mean the convention, as you probably know, is that we represent the MPC when we come to this press conference. Now we - partly for reasons of your question, but more broadly - we're changing the format as of August I believe, when we will publish alongside this the minutes so that we don't have to go through this theatre, but we are in the theatre and I have to go through the theatre and respect the format.

Look, the judgement of the Committee is that - and we took a comprehensive assessment of spare capacity in the economy - if you do a bottom up estimate through the labour market and spare capacity in firms, you end up with a number around 0.3 at present in the second quarter. If you do broader estimates using filters on the economy, looking at broader price trends, wage residuals, other factors, judgement, you end up with a higher number.

But after a long discussion, a reasoned discussion, our judgement is it's around a half, which is not a big number. It's not a big number in an economy that we think is growing above potential, and it's a degree of spare capacity that is used up over the forecast horizon. And I think we're quite comfortable with that assessment and quite comfortable that, with time, these pressures will build up.

Now there are some - let me make one last point on the outlook for inflation - it's in the report but just to reinforce it - is as it was the case in February we think there's some possibility - we all think there's some possibility - that wage expectations could be softer for longer. In other words, the wage bargaining process doesn't lead to a pick-up consistent with the fundamentals in the labour market as quickly as would be expected.

And I'll simplify it just down to - people haven't seen big wage increases for quite some time; they get used to it; it lasts longer. But this is an economy with unemployment falling steadily, with the number of additional people willing to work and even work more hours reducing steadily with time.

Heather Stewart: So that's not your central forecast?

Mark Carney: That's the central forecast; that is our central forecast.

Heather Stewart: The central forecast doesn't include this idea that wage - ?

Mark Carney: Oh no, but it's in the Fan.

Szu Chan, Daily Telegraph: Just a follow up on the previous two questions. So your central assessment is that slack is absorbed next year. Last year when slack was about 1% to 1.5% Charlie Bean said you'd probably want to tighten policy before it was fully absorbed. Does that statement still stand or do the many moving parts of your forecast change that?

Mark Carney: You've got to look at it in the whole. Other things always change, the persistence, the strength of headwinds change and currency has moved a lot in the last year, other factors have changed. You have to take that into account.

We have a forecast with a relatively gentle market path that brings inflation back to target within that two-year horizon, but just within that two-year horizon.

Mike Bird, Business Insider: It's just another question about those cuts to the productivity forecast. In the Quarterly Bulletin last year the Bank talked about the 12 percentage point explicable shortfall in productivity since the crisis, and suggested about half of that was down to these long-term persistent - things like impaired resource allocation. I was wondering - do the cuts change that analysis of the shortfall so far in any way?

And just on page 25, you mentioned that the total factor productivity has grown more slowly in the United Kingdom. Outside of North Sea oil and the financial sector, is there any explanation for that?

Mark Carney: Yeah, I'll bounce to you. Sorry, I hesitated and didn't quite finish my answer to Szu.

The important thing in terms of - there is no mechanical rule between the output gap and the stance of policy. What we have to be - one of the things we have to be careful about, and it goes ultimately back to equilibrium, interest rate and headwinds, is not to get into a situation where the gap is closing, and we think the gap is going to close, there is an adjustment of policy and then the gap doesn't close because there's an adjustment of policy. I mean it's a very obvious point. But there is a - we will determine the appropriate path for policy but there's not going to be a mechanical link between the two, and it would - well, I'll leave it at that. It's all productivity all the time.

Ben Broadbent: Yeah, I mean, you know, one of the examples of weak productivity frankly is the frustratingly limited understanding we have of the causes of the last few years, despite vast amounts of effort to gain that understanding.

One thing I'd point out with regards to, as it were, the lost level that you referred to, is that our forecast - and it relates partly to what Chris said earlier - I would regard in some ways as relatively cautious. It certainly involves no catch-up at all of that lost level. We're forecasting simply a return and even then only a gradual return; one that would imply a rise in that shortfall relative to the pre-crisis trend, a gradual rise back to pre-crisis rates of growth. In fact they don't even quite get there by the end of the forecast period.

Now I said we'd put in a lot of effort and don't have a very complete understanding. I think we have some - we have some - and I mentioned earlier that productivity is often weaker after recessions characterised by financial crises. We think we have pockets of understanding where things have happened. As I say, we have little bits of evidence that we've uncovered through the work in the last three months to suggest that it's reasonable to expect some pick-up in growth.

But as I say, in terms of the level of shortfall, we expect none of that to be regained over this period of time at least. And in that sense, I would regard it as a relatively cautious prediction, albeit one that - as Chris points out - that's been wrong before now.

Mark Carney: A few times.

Ben Broadbent: A few times, yeah.

Catherine Boyle, CNBC: One area of the economy that seems to have been affected by the election result already seems to have been the housing market. I mean, you know, you can barely sort of get hold of an estate agent in London this week because they all seem to be out kind of selling houses or buying champagne, you know, doing the hula, who knows.

What kind of big price surges are we going to have to see before that might affect your decision on rate rises?

Mark Carney: Well the - we don't target house prices with monetary policy. Our target is consumer price inflation. And so activity - the influence of activity in the housing market is relevant to the extent to which it influences broader activity and the path for inflation.

We're in a situation where actually one of the reasons for a slightly lower growth profile over the forecast, so GDP ends up about half a percentage point lower than we had expected in February, is less activity in housing. So housing has been softer so, you know, we'll take it into account if it moves. But one thing we won't do is swing monetary policy around from targeting CPI inflation, which is our remit, to targeting house prices.

Harry Daniel: Just a question back towards the MPC's consensual view. Has it differed from the last Inflation Report in terms of - you have two members that were looking or on the edge really and had pulled back from calling for a rate hike to coming into the group? Is there, not conflicts, but are the differences widening or is it more consensual now than the last Inflation Report?

Mark Carney: Well it's - again we get the details revealed in the minutes, but why don't I just ask Minouche to say a word in terms of our central view of the path of policy, so you can hear it from someone else other than me.

Minouche Shafik: I mean I think in this round, the consensus view was that the most likely move is up not down, and I think that was a consensus view this time, whereas as you implied, in the past it was not so clear. So I think I would take that as an indicator of the MPC's current thinking.

Harry Daniel: So the whole body is moving towards more of a, you know, central view now, as opposed to last time?

Minouche Shafik: Well, I think all I'd say is that we agreed the next move is more likely to be up rather than down.

Harry Daniel: Yeah, okay, thank you.

Mario Blascack: Governor what about the MPC in April who suggest in the minutes that the sterling pass-through effect to CPI will be faster and stronger?

Mark Carney: Well you're taxing my memory of exactly what we said in the minutes, but I think that was a possibility as opposed to - I mean, there is no evidence that the pass-through effect is faster. So that we're seeing right now - you know, that we're seeing that, that we're seeing faster pass-through and therefore the pass-through will come off more quickly.

I would add further that since those minutes - well I'll go back to relative to the February Inflation Report to close of business yesterday, we've seen a 4% increase in the effective exchange rate of sterling. So even - we'll have to try to determine what's happening with past pass-through but we have some future pass-through if these types of moves persist, which we'll have to address.

Duncan Weldon, Newsnight: Governor, I understand you don't want to give a running commentary on the bond market, but you said at the start that monetary policy remains stimulatory and that's certainly true. But if we look at the markets over the past month, the past weeks, the past day, even this morning, 10-year gilt yields are up by about 40 basis points in the last month, sterling has moved to a seven year high trade weighted, market expectations of the first rate rise have moved forward. So although monetary policy remains stimulatory, monetary conditions are less stimulatory than they were just a month ago. How much further do these sort of moves have to occur before that starts to materially impact your forecasts and the MPC's thinking?

Mark Carney: Well, Duncan, a couple of things have to happen. One it's a question on persistence and it's a question of why they move, all the other factors. So other factors in terms of foreign demand, in terms of domestic demand, the evolution of supply. All the things we've been discussing and that's why we do quarterly forecasts, because one wants to accumulate changes and make an assessment at that point.

But if you look just broadly, the broadest brush in terms of global bond markets, even with the moves upwards, it's only partial retracement of moves over the course of the past year. There's nothing magical about where rates were this time last year, but it's only partial retracement. But then more broadly real interest rates are still flat to negative for quite some time.

So in an environment - they're quite comfortable that as consistent with our forecast, that the stance, the overall stance of monetary policy, is stimulative and appropriately so, given that there's still spare capacity in this economy and given that there are these other headwinds that will continue to weigh on this economy and therefore on inflation.

Jenny Scott: We've only got a couple of minutes left. Anyone who hasn't had a chance to ask a question yet?

Jeremy Warner, Daily Telegraph: Governor, do you think that European policymakers are right to be as sanguine as they seem to be about the possibility of a Greek default and exit from the eurozone? Still over FX -

Mark Carney: Yeah, well let me say this about European - European policymakers are making heroic efforts to avoid that situation and they, alongside the IMF, are working very diligently, creatively, innovatively and I would suggest relentlessly to try to avoid that, in a way that's sustainable and in a way that's appropriate. So I don't think there's any complacency and they're doing that for the right reasons.

That said - maybe this just reinforces that they're doing this for the right reasons - our assessment, which is embedded in this Inflation Report, is that an intensification of the Greek crisis would have an impact on global growth and would have a modest impact on UK growth. But when we look at the range of possibilities it's a modest impact on UK growth.

There is a slight downside skew to our growth forecast, and that's the product of things being quite different than they were two, three years ago in terms of the real, the financial linkages, the confidence linkages, the improvement in fundamentals in core Europe, the change in the toolkit, the enhancement of the toolkit of the ECB and the demonstrated willingness of the ECB to use its tool. So all those factors come together to mitigate - we think would mitigate some of the spill-overs from what would be a very undesirable event, but they do mitigate the ultimate impact.

Let me just maybe finish with this on that question. We're not complacent about it either. We spend a tremendous amount of time, when asked, when appropriate, to provide perspective, to provide help, to think through, to contingency plan, to try to move this situation forward, but our best collective judgement in terms of the impact is embedded in this report.

William Keegan, The Observer:	Mr Governor, you've talked about slow growth and slow productivity growth but not no growth. Can one take it that you dismiss the fears of a number of prominent economists that we're entering an era of secular stagnation?
Mark Carney:	Well it's a big question on which to end, because secular stagnation means many different things to different people. One element, one interpretation, one of the early interpretations - and I spoke about this about a year and a half ago - is that it is effectively talking about a liquidity trap, which goes back to this question of the equilibrium interest rates. I think the performance in the UK, and dare I say in the US, is showing that the prospects of emerging from a liquidity trap, a combination of policies over years has created that prospect of emerging from a liquidity trap. The other sort of common parlance and I think the spirit of your question of secular stagnation is an era of permanently lower potential growth, productivity growth. And that's - I would distinguish that from what we're talking about in terms of the path of monetary policy and the relevant horizon for monetary policy. When we speak of headwinds against this economy, which weigh down on the equilibrium interest rate, they're distinct from a question of - in the medium term is the consequence of a variety of factors going to mean that the world economy is just going to grow at a slower rate for quite some time because ultimately total factor productivity and other productivity is not going to grow at the same rate? I would say the jury is very much out on that. My personal view is that - is twofold. One, I'm sceptical of that, in the fullness of time, I'm sceptical of that for many reasons, but one of them is just the nature of broader scientific progress and ultimately the mapping of those developments whether it's in nanotechnology, biotechnology, genomics and on and

on and on - the mapping of that to ultimate discoveries that can be put into place.

But then much more fundamentally, you have a series of countries, the UK included, that are not at the productive frontier. We still have a fairly large level gap that we can make up over time, relative to the most productive economies. So even if those most productive economies stop coming up with new ideas and ways to move things forward, we've got a period of catch up that, even in the longer term, could keep us busy for quite some time, and with the right suite of policies can improve productivity growth materially. Thank you.

Jenny Scott: Thanks very much everyone.

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