

Katie Martin

We'll start with Ed and then Mehreen.

Ed Conway

Hello. Ed Conway from Sky news.

As you mentioned, governor, there is a budget coming up later this month and everyone knows, and the Chancellor has signaled that there is going to be some fiscal contraction.

Obviously, we don't know what happens until the budget itself, but I just wonder, could you give us a sense of the extent to which that played a part, just the sense of this impending budget played any part in your decision or indeed the decision of the committee?

Andrew Bailey

Well, thanks, Ed. We only know one thing with certainty, that is, that there will be a budget on the 26th of November. Well, actually, the second thing with certainty, that will be before the next meeting of the MPC, so we will have an opportunity to consider the budget in the next round.

As I'm sure, because we've said it many times, we condition our view of the economy and our projections on announced fiscal policy. So, the projections that you've seen here and that are in the report are conditioned on the fiscal policy that was announced in March. It's not for us to speculate what's going to be in the budget. That's for the Chancellor to announce in the budget, and we'll then respond to it.

Katie Martin

Mehreen.

Mehreen Khan

Mehreen Khan from The Times. Just to follow up, the Chancellor made quite an unusual decision to do a pre-budget speech, which actually was a lot about monetary policy. She kept repeating her insistence that she wants to help you out in the fight against inflation through her fiscal policy.

Governor, given that you had the decisive vote, I'm interested in whether you didn't seem to have been convinced by her message, particularly given your assessment of the economy seems to be that actually the risks to inflation are a little bit less pressing, as you say in the report.

And finally, the other message the Chancellor had is that everyone in the UK needs to be in it together, we all need to play our part. Does the Bank of England also need to play its part in the situation the economy and the public finances are facing?

Andrew Bailey

Thanks, Mehreen. In no sense are we passing any judgement on what the Chancellor said this week. As I've said, our very, very clear convention is that we condition our view on what's been announced. So, we will do that.

And we have done that this time, and we will do that again next time. By the next time, there will be a new announcement. So, we will have new fiscal policy to assess and condition our view of the

economy on and that's what we will do. So, in no sense are we passing any judgement on what the Chancellor said this week, that should be very clear.

Katie Martin

Sam and then Dharshini, please.

Sam Fleming

Hi. Sam Fleming from the FT.

In your statement, in the minutes you allied yourself with a forward-looking Taylor rule in a similar market path, which points to two more cuts and things levelling out at 3.5%. Is it fair to say that therefore you now see 3.5% as a terminal rate for the bank? And could you give a sense of the debate and the range of views on the committee as to where the terminal rate would be?

And just another follow up on the budget. For you again, personally, would it have been quite a closer call for you now in terms of cutting rates immediately, if you didn't have the advantage of waiting until the budget had been held before and getting that on board before moving?

Andrew Bailey

Well, let me take that question first, and I'll come back to the question on terminal rates.

I think there's a very important point, which I think you'll pick up not only in my paragraph, but actually other paragraphs, which is - and I mentioned it in my opening remarks - we've had one inflation number which came in under our projection, that's obviously very welcome.

I think it does suggest, as I said in my comments earlier, that we've reached the peak, but my own view is and I think colleagues share this and in some measure that of course, we really do need to see more than one number to establish that is sort of in the picture, as it were. So, I will be looking very carefully at, as I just said, at the data that we will get before the December meeting. That will be a very important consideration for me. So yes, we will have a new fiscal policy by that stage to condition on but really importantly, we will also have more numbers.

And I'd emphasise that because we always have more new numbers obviously, but the point is that we are at quite an important moment here because we've had one set of inflation numbers, which I think can give us some encouragement, can point us in a direction, but we need to see more than that.

Coming back, your question, first of all, I think all of us chose our words very carefully. For me, the market curve at the moment does give a reasonable view of a sensible path. By the way, that's not always the case. Sometimes we've sat in this room and not been quite in that place. So, we can't guarantee you that will always be our view.

On the terminal rate question, I think it's probably quite clear also from comments not only in this set of minutes, but in other comments the committee, as members of the committee have made in speeches they've made, we do divide somewhat into two camps.

I don't want to overdraw it. There are those who, I think do take a view on r^* and on the so-called, if you call that the terminal rate. There are those and I'm in this group who don't actually, frankly, feel that there is enough confidence around any measure of an equilibrium terminal rate, and that when

we look at this question of restrictiveness, we're looking much more at the evidence on the sort of the change over time, as it were, in the path of restrictiveness rather than looking at the terminal rate.

Clare may like to comment.

Clare Lombardelli

Yes, happy to! We've set out quite a bit actually in the report in the risk sector. There's a chart 3.4 that shows you all the different ways that we look at this. Our analysis is that policy is still restrictive. There is, as Andrew says, a difference of views some members have raised in their paragraphs about it.

Determining how restrictive you are and the issues around terminal rate, obviously quite complicated, it's quite challenging. It gets more challenging as you lower rates. We've said that, but there's quite a lot of material in here that we've shown on this. And as Andrew says, the individual powers, I think, also give you a bit of a sense of how different people look at it.

There is a difference of view both about what the debates and discussions around what the levels may be, but also around these more sort of philosophical questions about, actually, how do you know, how do you try and work it out? How important is it to you in thinking about your policy?

And again, you can see that in the difference of views here, with it being a bigger issue for some people than for others.

Dave Ramsden

The only thing I was going to add, because again, as part of what we've done today, I'd agree with Andrew, this is a milestone in terms of responding to the Bernanke review, is that we are trying to be as open as we can about, for example, the various risks.

So, one is this point about, just how restrictive is the monetary policy stance? I mean, just to reinforce something, Claire just said, one thing that we've added this time, as you know, rather than just repeat the mantras about that there's a range of views on restrictiveness is that some of us do put more weight than others on these quantitative estimates. But there is something in the minutes in paragraph 12 where we say that, as bank rate approaches neutral, the contribution of monetary policy to underlying disinflation would become harder to discern, making the case for further policy easing more finely balanced.

So, this notion that, because we've been able to reduce the degree of restrictiveness, we would all agree that we're getting closer to the neutral rate or the terminal rate. So, that gives you some sense also, that the debate and the way we're thinking about this is inevitably going to evolve and change in the future.

Katie Martin

Dharshini, please.

Dharshini David

Thank you. Dharshini David BBC news.

Another budget one, I'm afraid, but in terms of last year's budget, because the MPC have been increasingly clear in your reports in recent months about the role that measures such as the increase in National Insurance, national Living Wage have played in increasing price pressures and wage pressures. To what extent has that contributed to hesitancy over the last year when it comes to the cutting of interest rates?

You've highlighted the risks in the stock markets in recent weeks and months, particularly when it comes to AI stocks. Now, those concerns have gathered pace somewhat over the last few weeks. Can you give us an update on your thinking there?

Andrew Bailey

I'll repeat something I know I've said before, but I think it's important and I can sort of update it a little bit. Of course, for us, the big question was how would the change in National Insurance contributions pass through? What was going to be the transmission of it? It's something we spend a lot of time on.

I mean, when I go around the country, I'm afraid I sort of, it's the first question that businesses get from me usually, which is, can you explain to me how you've responded to it? And we've set out in the past, there are a number of channels working through sort of margins, employment, wage settlements, investment to improve productivity of that takes rather longer and obviously prices.

I think I've said before in the early days, obviously, and they're not mutually exclusive, by the way, there was a sort of tendency to tick all boxes. I think over time, I would say that the two labour market stories have probably come a bit more to the front of the responses we get. So, I say, people who are not, employment is reduced. Now, by the way, I think that comes more through not hiring. We're not seeing much of a pick up in redundancy measures, for instance. But I think it comes more through the channel of not hiring.

And I think some others then say, well, actually, our wage settlement was lower than it would otherwise have been. That, by the way, is also affected by the interaction with the National Living Wage, because if you've got more people around the National Living Wage, that channel is not as open as it would be if you haven't. So that's a that's a relevant consideration. So, I think we've picked up some more of that, as I would certainly say so.

On the stock market AI question, I just say one thing about this. It obviously is something that we look at very carefully and, the next thing we'll produce is the next financial policy report. So, you'll be hearing more about that on the Financial Stability Report. The one thing I would say is this, because I think I've read a number of articles that have questioned this. It is, of course, perfectly possible and perfectly consistent that AI could be the next big mover in terms of productivity. So, it could be the next general-purpose technology.

My own view personally is, I think, more likely than not, it probably is. But we've still got quite a way to go to actually sort of see that demonstrated. At the same time, we could have a bubble, because obviously the markets are pricing the future stream of returns from this, and that's uncertain. And so, those two things are not inconsistent.

The markets could overprice the returns, but the returns could still be substantial. So, we'll see, but we are watching the obviously the implications for financial stability. And then the pass through that

could happen into the broader economy as such as covered here in the monetary policy report. We of course will watch that very carefully.

Dave Ramsden

And just to reinforce that point on the reason we've also flagged this risk in the monetary policy report is because were that bubble to deflate or burst, that would represent a tightening in financial conditions that would weaken global demand and that would have spill-overs back to the UK, so it is relevant to us on the MPC as well as the FPC.

Katie Martin

Helia and then Phil Aldrick.

Helia Ebrahimi

Helia Ebrahimi Channel 4 news. You haven't cut interest rates today and clearly, Governor, you are the deciding factor. How do you explain wait and see to families at home who are struggling with mortgages and loans? If you say inflation has passed its peak.

Andrew Bailey

Well, I want to see more evidence that it's passed its peak. I hope and believe it has, but frankly, as I said before, in response to the earlier question, we've only seen one number so far. So, I want to see more evidence, that's why I've made this very clear. You can see it in quite a bit of the commentary, including my own paragraph, that this is an important factor.

The best way I can put this - these two big risks that I was talking about earlier have, in my view, become more balanced since we were last sitting here in August. I think that's the way to put it, but the best thing we can do for families, as you say, is get inflation back to the 2% target. That's not only the best thing we can do, it's the thing we must do.

And therefore, I'm encouraged that we've seen this one number. But I do want to see more of it.

Dave Ramsden

And inflation is at 3.8%. So that's a long way above the target. We're forecasting it will come back to 2% and that's conditioned on the market curve, but 3.8% is quite a long way above 2%.

Katie Martin

We'll go to Phil here and then Joel at the back.

Phil Aldrick

Thank you. Phil Aldrick at Bloomberg.

There were two scenarios in the report today. I just wondered why one of those scenarios wasn't a fiscal scenario, given that the most immediate issue on the horizon is the budget, which it seems very clear that there's going to be consolidation at that point and what that might mean for your reaction function.

And just on, you mentioned regulated prices, the Chancellor is looking at supposedly looking at regulated prices. If she took action on that, would you welcome it?

Andrew Bailey

I'll get Clare to come in on the scenario.

Just on your points about regulated prices, can I go back to something. Totally fair question Phil. I'll go back to something I said in my opening remarks? The important thing, of course on what we see in terms of regulated price increases next year. Because obviously, sorry to state the blindingly obvious, but inflation is an annual calculation. So we have these things called base effects where the effects drop out. The question of course is what comes next. And that will be very important.

And I think, that is a point that has been taken by the government. I think you can see this from some of the things they've said. And I think if you go back to the point, I think Dharshini was making about what the Chancellor has said, I do think that it is a point the government has taken about the impact that these things can have on inflation and therefore on policy setting and that's important.

I'll hand over to Clare on the scenarios.

Clare Lombadelli

Yes. Actually just on that, you can see the impact at the moment, the 3.8% number we're talking about, we think about 0.4% of that is these sorts of administered prices at the moment.

On the scenarios, we've chosen these quite clearly based on the fact that they are the biggest issues in thinking about inflation and setting monetary policy to get it back to the 2% target. So, there is this question about how do we think about this balance across the economy of the risk that inflation proves to be more persistent for various reasons, whether that's structural change because it's been higher for a longer period, could be all sorts of issues.

So that's one scenario that we have to think about and take very seriously and explore. On the other side, there was this sort of weaker demand scenario which could come, potentially through the labour market or could come through what we're seeing in consumption, where, again, we've seen consumption being weaker than we've expected for quite a period of time.

So, we've selected the scenarios based on the fact that they are the most relevant things for the policy committee in thinking about inflation. And as you can see from the way in which different members have set that out, that framework is one that everyone consistently using and puts different balances on those two sort of forces, as Andrew described them in terms of what's driving inflation potential.

Phil Aldrick

Do either of those reflect the potential fiscal outlook from the budget?

Clare Lombadelli

So, what we've done on the assumptions we have is, as Andrew said, what we do is we condition all of our work on the announced fiscal policy as it as it stands now. So that's the fiscal stance that was set out at the last budget.

Katie Martin

Joel and then Philip.

Joel Hills

Joel Hills. ITV News. Governor. ITV viewers will take the view that strong pay growth is rather a good thing thank you very much. Could you just explain to them why the bank takes a different view?

And also, your deputy Governor said in a speech in May that she thought a sustainable rate of pay growth is around 3% or potentially a bit higher. How confident are you we will get there in the next few months?

Andrew Bailey

Well, I'll take the first part and Clare may want to comment on the second part because we have quite a few deputy Governors, but I think it was actually Clare you're talking about.

Pay growth as we say in almost every report and I was saying earlier, obviously is an important determinant of inflation - it feeds through. That said, of course one also would expect a relationship between realised inflation and wage bargaining going forwards. And that's why we put a lot of emphasis, as I mentioned earlier, on the question of inflation expectations and how those pass through.

Now, obviously inflation has come down substantially from where it was three years ago. And we've seen wage settlements adjust down over time, but the emphasis that we've put over in every report since then, on the question of persistence, is all about the question of to what extent there will be, continuing effects, this potential effect, working through things like expectations.

So, we will continue to look at it very carefully. What I would say is that we have been through a period where pay settlements were well above the level that all of our models were suggesting they would be. I think that may well be related to some evidence that we've had, over that period of time, a negative shock in terms of labour supply.

There's a lot of questions about how we measure it at the moment and the uncertainty around the data. What I would say is the evidence suggests: pay settlements are coming down, we seem to be likely to hit towards the end of this year, around about the level that our agents in the survey they did at the beginning of this year, sort of thought they would be. So, they do seem to be tracking downwards and where they go, henceforth will obviously continue, as always to be an important part of our, our considerations.

Clare Lombadelli

Let me pick up because that isn't quite what I said. What I did was I set out a set of basically ready reckoners on what sort of level of wages would be consistent with the inflation target. Depending on what you assume about productivity and what you assume about import prices. Actually, most of those estimates were higher than 3%. Wage growth is obviously something that we look at really carefully, it's 4.4% at the moment - that is higher than a target consistent number.

We expect it to be coming down, it's one of the bits of evidence that we're going to be looking at very closely. As it is in our current forecast, we do have it at 3% towards the end of the forecast, consistent with the target.

But it depends on what you assume about all these different variables and that's what I was talking through – just actually how do these ready reckoner's work. And what do you think about import prices and productivity and how that affects.

Joel Hills

What do you assume currently?

What's a sustainable rate of growth?

Clare Lombadelli

Well, as I say in the forecast that we have at the moment, towards the end of the forecast, it comes down to 3%. And that is where we also have inflation at 2% at that point. But as I say, that depends on a number of assumptions that are underpinning that forecast.

And of course we have some different scenarios that we've also looked at. So, it's a good example of why, you want to look at a whole range of things. We have quite a lot of discussion of this in the report because of it's important to us in terms of these underlying drivers of inflation.

Dave Ramsden

And it's worth saying that a key underlying assumption that means that 3%, which is what we're forecasting for Q2 2027, would be consistent, also with inflation returning to our target is that there will be some productivity growth, around about, I think probably moving up towards 1% or so, but that's how you can kind of make those two things consistent.

But there's uncertainty around productivity and is absolutely critical that there should be some productivity growth.

Clare Lombadelli

There's also uncertainty about import inflation at the moment as well. So it's not as straightforward as you might hope.

Katie Martin

Phillip and then Szu.

Philip Inman

Philip Inman from The Guardian. I wanted to take a slightly different tack, which is to look forward to next year when you seem to have a forecast for growth slowing, you have unemployment rising and yet, wouldn't it be reasonable for the public to think that you were more accommodative than you are planning to be?

You still have restrictive interest rates next year, when the economy is quite clearly suffering under your scenario before it recovers in 2027 and 2028. Why do you still hold that? Wouldn't the public think that it's reasonable for you to cut rates faster in that scenario?

Andrew Bailey

Well, in terms of judging the restrictiveness of policy, I think it comes back to the answer I gave to Sam's question earlier, which is, as we look forwards, there's question about how restrictive policy

will be at any given point in time. In my read of it, I always say, look, it depends on how the change in monetary conditions evolves, so I don't have a view on the terminal rate. I don't fall into that school, frankly, because I said earlier, just to be technical for a moment, the standard errors around those estimates are just too big.

So, what that means in practice is, that every time we meet, we have to rejudge this question in a sense as to how restrictive is policy and that's got quite interesting over time.

I'd give you the most obvious element of this question, which is mortgages. Because the mortgage market in this country has changed fundamentally in the last 15 years, it's gone from being a variable rate market to a fixed rate market.

That means that actually the transmission of monetary policy takes longer, comes through more slowly, comes through in part because obviously it depends on the balance of the mortgages that people have. And so, we have to keep coming back to this question as well. And this is a point I think Dave was making, to financial market conditions and rejudging this restrictiveness question. And as I think you can tell from the individual paragraphs, there are different views on the committee about just how restrictive policy is at the moment.

So, some of my colleagues would, I think, push back at you and say they don't think policy is particularly restrictive at the moment. I think that it is still restrictive. But as we said, as Clare was saying earlier, and I would agree, the degree of restriction is reducing, which sort of is consistent with cutting, obviously, and we will have to judge that question going forwards about how restrictive it continues to be meeting by meeting.

Clare Lombadelli

Can I add a point on growth, which I think is quite important, which is from an inflation perspective, it depends what's driving the weak growth that really matters and you can't necessarily assume that because growth is a bit weaker.

And actually, we do have growth sort of strengthening throughout the period – it rises a little bit towards the end but it's really important to think that, it depends what's driving the weak growth and whether that is about the level of demand on the economy or the level of supply.

And that has very different impacts for inflation, so, it's one of the ways we have to sort of think about this. You can't necessarily assume that weakness in activity is going to necessarily reduce inflationary pressure.

Andrew Bailey

That's right. I've said it in a number of speeches I've given recently that I think the biggest challenge we have in this country. By the way, we're not alone, I mean, we're in company here, is that the potential growth rate has fallen over the last 15 to 20 years.

Katie Martin

Szu and then John Paul.

Szu Ping Chan

Hi. Szu Chan, The Telegraph. Just following up on questions from Clare Dharshini and I think Phil.

Just stepping back a bit and looking at the last year, would you say government policy on things like the minimum wage, the National Insurance increase, packaging taxes have helped or hindered your fight against inflation? And in general, are government interventions to bear down on prices welcome or should policy makers stick to their knitting to allow you to stick to yours?

Andrew Bailey

Well, it's interesting. I think we first, in a sense, drew attention to what we tend to call this hump in inflation in the February inflation report nine months ago. And actually, when we look back at the February monetary policy report and of the shape of that hump, what Dave has made me a number of times, he's nodding! It looks actually rather like it does today.

We've had a few changes in between what we thought might happen, but it actually looks like that. And one of the reasons is that, as Clare was saying earlier, part of that is, is these so-called administered prices. Now they do have an impact and so, it is something that we've drawn attention to. And I think the second thing is that the pass through of National Insurance has not been that different to what we were expecting at the time. So those two things have more or less transmitted.

Now in terms of it's for government to decide its own policies, because government has all sorts of other public policy objectives. I mean, we're one public policy objective, and I use public policy broadly there, obviously, as a term and there are many other public policy objectives.

So, I'll give you an example in the administrative price ratio, part of that is water bills. Well fixing the water system is a public policy objective. It's not Bank of England's public policy objective, but it would not be for the Bank of England to go around saying no attention should be paid to fixing the water system.

That would not be a thing, a very sensible thing. So, we have to take account of these. I think we do have to draw attention to the effects of these, which we do, obviously, and then factor them into our outlook.

Katie Martin

John Paul and then Anna.

John-Paul Ford Rojas

Hello, John-Paul Ford Rojas from the Daily Mail.

A couple of things, please. First of all, households are worried about income tax going up, perhaps in the order of tens of billions of pounds. How much relief or reassurance can you give them, that were that to happen in the order of that, all else being equal, that that would provide an impulse to the bank to cut interest rates in December.

Secondly, with your regulatory hat on with car finance and the compensation scheme that's currently proposed by the FCA, you're the regulator also for banks. Banks are suggesting it would be disastrous and damage the economy. The FCA pushing back on that. Do you have a view on that issue, please?

Andrew Bailey

On the income tax question, I'm afraid I'm going to give the same answer. It's really, of course, for the government to decide what the budget's going to be. The Chancellor will announce it and we will

take it into account. The economic modelling for the budget, of course, is done by the OBR, not by us. And that's important. So, we will assess what is announced by the Chancellor in our next round, and that's the right way to do it. So, we're not giving a message on fiscal policy today because we'll wait and see what fiscal policy is.

On car finance, when we do the next event in here, it will be, as I said earlier, the Financial Stability Report. We will also be publishing the Bank stress test. I think I'm right in saying that. And so, we will obviously have taken all that into consideration for that, so you can look forward to that. I think it's early next month. Don't hold your breath though, for all month long. I wouldn't advise that literally.

Katie Martin

Anna and then Ryan.

Anna Wise

Hi. Anna Wise from Press Association. You say you're concerned about the high level of household saving. Can you explain what's driving this? Is it a long-term shift in behaviour and how much are you having to take that into account?

Andrew Bailey

I'll get Clare to come in on that. Of course, when we say concerned, I mean it is what it is. We obviously very interested, your question is a good one actually as to why is it, because that's relevant to our outlook.

Clare Lombardelli

As Andrew says when we say we're concerned about it, it's one of the factors that is feeding through, in our judgement on the level of demand in the economy and therefore inflation. Obviously, it's for households to choose how they want to behave.

We've spent quite a lot of time looking into this because consumption is such a big part of the UK economy. That's a really important driver of what we expect to happen. And in fact, we've got quite a detailed box on this in the report. It's unclear, we've done a huge amount of investigating into it. So, some things are quite obvious. So, interest rates are higher - that obviously incentivises savings in that drives some of the behaviour.

And there may be some of what we call precautionary motives. If you ask households why they're saving more, they do point to those sorts of things, not necessarily around the labour market, but in general more a response to uncertainty and risks.

The other thing that we've had a bit of a look at is this question of, are people trying to rebuild their wealth following some shocks? So, it could be a combination of things we've looked at it in quite a lot of detail, is one of the big drivers and you see it come out in what a lot of members are saying about the risks as they see around the economy. So, it's something that we're really focused on, as I say, consumption being over 60% of the economy, it's a big driver of demand.

Dave Ramsden

And just to add to that, we've actually tried to quantify in the downside scenario what would happen if savings doesn't fall back, which is what we've got in our central projection. As Clare was saying, those precautionary reasons. So, if you think about the mechanism is saving staying higher and then we've quantified the impact of that on consumption and GDP. So again, we're trying to not just describe the risks but also give a sense of what that alternative future might be the downside scenario, which some members put more weight on than others then in how they vote.

Katie Martin

Ryan and Ritika.

Ryan Sabey

Thank you. Ryan Sabey from The Sun. What is your message to households when it comes to food inflation, especially with global and domestic cost increases, sees that those prices remain elevated. How can you explain that outlook for the next year, 18 months or so?

Andrew Bailey

Well, again, I think in this story that we've had this hump in inflation over the course of this year. Food is another, as we said, another component of that. It's about another point four isn't it, I think. And we thought and I think we said this probably last time, that probably the peak would be around about the later part of this year.

Again, tentatively, that looks like it is the case, which is obviously good and helpful. The components of that, as we said before, a bit of a mixture. So, there's an element of global commodity prices, it's not spread across the board, it's quite concentrated in a few commodities, coffee is one of them for instance.

There's some labour costs undoubtedly in there and our contacts do mention the packaging tax as well that's another element of it. So, there's several components of it.

The other thing, and I think I mentioned this earlier in my remarks, interestingly, our staff has actually given us some interesting analysis on this. There's a lot of analysis that says food is particularly salient in the inflation basket for the obvious reason that in a sense, we all buy it very frequently i.e. every week. So, we tend to in our mental map, carry around the cost of food more than, say, a flat screen TV, which I'll only speak for myself, I don't buy very often.

So it is salient now. So therefore, there's a reasonably well-established view that actually therefore, in terms of forming inflation expectations, these things will weigh more heavily.

Our staff have actually presented some interesting analysis to us, suggesting that may not be the case. So, jury's out a bit on that one.

But it's really obvious, to your really good question. It's really important obviously for people because food is such an important part of the consumption basket. And can I say more so, because for those on lower incomes, food and energy, of course, are an even bigger part because they're the essentials of life. It is important that food inflation comes down.

Katie Martin

Ritika and the Mauricio.

Ritika Gupta

Ritika Gupta, CNBC. Governor, given the MPC sees a slack opening up in the economy, you've outlined a weakening demand or a weakening labour market, do you ultimately think that interest rates are going to have to go below neutral in order to close a negative output gap?

Andrew Bailey

Well, I'll bring Clare in. I think there's two parts to this I'd emphasise. One is what is the level of slack? The second is how does any given level of slack influence, wage and price formation? Tends to be called the Phillips Curve relationship. And those two things are both highly relevant.

Clare Lombardelli

Not necessarily is the point. To come back to this point that we have inflation at the moment that is 3.8% is higher than it should be and we're quite far from a target consistent level.

So, the slack is unfortunately needed to bring inflation back to target. It's not necessarily needed. It doesn't necessarily mean that interest rates have to go below the neutral level because we think we have some now? It's a very uncertain - it's very hard thing to judge and, we spent a lot of time thinking about it. But we do think there's slack in the economy now and that will widen slightly.

Katie Martin

Mauricio and then Joel at the back.

Mauricio Alencar

Hi, Mauricio Alencar of City AM. I just wonder with this decision today and the minutes in your report, what message you're sending to markets and to business confidence - is holding interest rates going to weigh down on business confidence given expectations of fiscal restraint at the budget and a lot of other geopolitical uncertainty at the moment. Thanks.

Andrew Bailey

Really good point.

So, let's try and boil it down a bit. We talked about two sorts of risks that we have. One is that higher inflation becomes embedded more. And the other one on the other side is going back to the previous question - is that we get this weaker demand story coming through. Going back to the earlier question, that, as Dave was saying, that consumption doesn't correct, saving rate doesn't correct. And those two things are what we're of steering between.

Now, I think those two risks have become more balanced than when we were sitting here. They were in my assessment when we were sitting here in August last. I do think we're now in a more balanced position. And I just use again the phrase that I used in my opening remarks. I think rates are on a gradual downward path, but the judgement about when and by how much is going to be very conditioned by how we see this balance of forces going on.

Katie Martin

Joel.

Joel Suss

Thank you. Joel Suss Financial times. I want to just come back to the terminal rates.

So, in this MPR, you've added simple policy rules as a way to illustrate how bank rate should evolve under the central projection in different scenarios, but of course, the simple policy rules require an estimate of the neutral rate, which you've said as 3%.

So, I just wonder how we should read that, especially in relation to the market rate of 3.5%, your own stated position of 3.5% seeming right at this point in time. Is 3% the default or average view of the committee? Should the committee be plugging in different estimates of the neutral rate? Thank you.

Andrew Bailey

There isn't an average view because as I said earlier, some members put more weight on estimating a terminal rate than others.

Clare Lombardelli

Yes. Look, let me pick this up.

Really pleased that people have spotted this policy rules material. I think it's a good innovation and it's something where we're trying to be a bit more transparent about the sorts of information that we look at as a committee. I wouldn't take from it anything about we're giving any sort of stereo indication about neutral rates. There's a very lively debate across the committee on this.

What these rules are really useful for is helping you think through how you think about policy, looking forward, what are the things that drive you? In some cases, you might think some rules are more appropriate. If, for example, you think that the forecast at 12-18 months is a good indication, you might put a bit more weight on the forward-looking rules.

If you think actually some of these equilibrium variables are a bit more uncertain, you might be more interested in your first difference. So, the idea really is we're showing you the sorts of things that we look at because they're part of the debate that we have.

We're not trying to either directly or indirectly send any signal about this much broader question of neutral rates, where we also discuss that very directly in the report. When we look at all the different ways you can look at it and what that might be.

Andrew Bailey

The only thing I'd add is that obviously this is an issue we faced and the way we've quite rightly taken the report. Obviously with the central projection we condition on the market path. Once we introduce scenarios, if we condition the scenarios on the market path, we'd be really suffering in apples and oranges problem, you'd rightly say to us, hang on a minute, that doesn't really work.

So, what are we going to condition them? And I think using rules in the way we have - not using a rule, as Claire said, but, more than one but not too many is the sensible way to do that, not

because we follow them, but because they're sensible conditioning assumptions and they give you a sense as to how we think about them.

Katie Martin

Michael and then Delphine.

Michael Race

Michael Race, BBC news. Regarding concerns about food costs and consumer spending habits and overall consumer spending sentiment rather. How concerned are you that the public are somewhat scarred by the inflation shocks that have gone in recent years, and what impact do you think that's going to have in the coming months or years?

Andrew Bailey

Well, it's a very important consideration. It's laying behind a lot of the thinking we've done on this question about persistence of inflation, that would the public feel well, once it's in in the system, it will stay in the system?

Actually, I would say the big inflation we had three years ago, the numbers came down quite rapidly. That didn't surprise me because, a lot of those shocks were very specific shocks to do with Covid supply chains and to do with Ukraine, for instance, the impact on energy prices and food prices again.

But it is a very important consideration for us because it comes back to this point about how expectations are formed, what the influence is. And that's very important for us because of course, it's a very important factor in shaping how we set policy, because we have to respond to that.

Clare Lombadelli

I'll just add on that. Inflation was very high. It was very difficult for people. You would expect that, therefore, to have changed the way people think about their own finances, the economy. And we have to think about that in terms of what will that mean for how behaviour may or may not change. And so, always when you have a shock that's quite far outside what you're used to, it can change some of those relationships.

And so that's one of the things we really have to think about and think about what will happen for inflation in the economy going forward and how best do we understand that. And again, that's why some of the scenarios and some of the things that we've presented here try to get into some of those questions.

Michael Race

Reading the agents report, it's quite clear sentiment is very flat. I mean, are you generally thinking that this is going to have an impact over a sustained period of time?

Dave Ramsden

I would come in on that as well, because we are still having to deal with the consequences of all these shocks over recent years. And so this scarring can both be in terms of perceptions of inflation, but to your point about activity being flat as the agents have described it, we also talk in the box on

consumption that Clare was referring to earlier about the potential scarring effects on consumption from the high inflation, that it may lead to a more precautionary approach. So, these kind of complexities are playing out across different parts of the economy.

Katie Martin

Go ahead Delphine and then last one from Francine.

Delphine Strauss

We've had lots of talk from policy makers over the last couple of years about a crisis of economic inactivity and joblessness, and it was interesting to see in your analysis that you think participation is actually pretty much bang in line with what you were expecting before the pandemic. Is that because things have improved recently, or was there a massive misdiagnosis?

Andrew Bailey

There are levels of uncertainty and levels of uncertainty. I think the uncertainty in this area is very high. I think you can see from what we've published, you've got two different official measures which actually give you very different paths of how this thing has evolved.

So I have to be honest with you, I speak for myself now in form of my own judgements, I am reserving a lot of judgement on this question. We've said before, it's the hardest thing to measure. It's harder to measure than many other bits of the labour market.

So given that uncertainty, given the fact that we've got two official measures which do tell different stories about the path, I'm certainly reserving judgement on this question.

Dave Ramsden

Not least because the improvement has happened very recently. So, we've kind of got back to that pre-COVID level in the latest data, and it seems to be more apparent amongst female participation than amongst men.

So, you can tell stories that explain it, but it is a very recent development. Hence why Andrew and the rest of us, to varying degrees, are saying, well this is the participation puzzle may be starting to resolve itself, but we need more evidence.

Katie Martin

Last one. Francine.

Francine Lacqua

Thank you so much, Francine from Bloomberg. Governor, how do you think the neutral rate has actually evolved over the last decade?

Andrew Bailey

Well, having said, of course, that I don't have a neutral rate I think that's a slightly different question.

So, I think that if you look at the long run neutral rate, then it's influenced by much more, big global factors and the things that influence the ageing population, because we all save more as we get older, that's the sort of life cycle hypothesis.

And so, if you have a population that is on average ageing, that will probably increase the stock of saving relative to investment. That would push the long run neutral rate down.

Now if we get, of course, a pick-up in investment demand, which you're probably seeing at the moment more in the US economy than you are in other economies, then that would correct that if you like. So, if you look at something like the AI investment boom in the US, then you'd say that might be something of a correcting factor.

And so, these are global trends somewhat, so that might go the other way. But that's the sort of framework. It's the saving investment balance, the impact of productivity change to the extent that's driven by innovation and investment that tend to be the longer run driving factors in those calculations.

Dave Ramsden

It's probably fair if I can just add that most. We've talked about a range of estimates for the neutral rate between 2% and 4% before most analysis would suggest that to the points that Andrew's making plus if you add in say fiscal, you might say that the neutral rate has gone up a bit compared with five years ago. But that doesn't really help you at all with where it is in that range of 2% to 4%.

Katie Martin

Thanks very much, everyone.