

Witness Name: Dr Ben
Broadbent

Statement No.: 1

Exhibits:

Dated:

UK COVID-19 INQUIRY

WITNESS STATEMENT OF DR BEN BROADBENT

I, Dr Benjamin Robert Hamond Broadbent, will say as follows: -

A brief outline of my background and my responsibilities at the Bank of England

1. After my undergraduate degree – Part I, physics, Part II economics – I worked as an economist at H M Treasury. I then went to Harvard University to do a PhD. I spent a brief (3½-year) period as an academic, as an Assistant Professor at Columbia University in New York. I then worked for ten years as an economist at Goldman Sachs in London. In 2011 I accepted a job as an external member of the Bank of England’s Monetary Policy Committee. I became Deputy Governor for Monetary Policy in 2014.
2. As a Deputy Governor I sat on the three main policy committees (the Monetary Policy Committee, Financial Policy Committee and Prudential Regulation Committee). With specific responsibility for monetary policy I also oversaw various divisions across the Bank: Monetary Analysis, Research and Statistics and Banknotes. I represented the Bank in various international fora (G7, Organisation for Economic Co-operation and Development and other international meetings).
3. In terms of personnel numbers, much of the Bank’s work is concerned with the regulation of individual banks (conducted by the Prudential Regulatory Authority). This was not my province though I did sit on the relevant policy Committee (the Prudential

Regulation Committee). Broadly speaking, the two other policy areas cover monetary policy (served by the Monetary Analysis division) and what is sometimes called macro-prudential policy (served by the Financial Services division, then run by Jon Cunliffe, with policy decisions in the hands of the Financial Policy Committee). I was more closely involved with the work going on in these areas. There was also an important interaction between the work for monetary policy and the Markets Division of the Bank, headed by my colleague Dave Ramsden. There were no substantive changes to this organisational structure during the pandemic.

Introduction

4. I am afraid I am unable to answer with any precision the more detailed, procedural questions asked of me (those concerning the precise timing and attendance at the various Monetary Policy Committee meetings, for example). I do not remember many of those details nor, having left the Bank over a year ago, do I have access to the relevant records. I have not provided anything here about the Covid Corporate Financing Facility in particular.
5. Having said that, I imagine that, if the Inquiry has asked similar questions of officials still at the Bank, it will already have received detailed answers with supporting documents. There are also published minutes of every Monetary Policy Committee meeting. So I hope my inability to add much is not of much consequence. Anything I consider to be such is included below.
6. Second, I wish at the outset to make an important point about the economic consequences of the pandemic and the lockdown. If you close down a good part of the economy, by preventing the movement of goods and people, a severe drop in output is unavoidable. It really does not make any difference, at least while the lockdown is in place, if interest rates are a little lower or if they are reduced one or two weeks earlier. I say this because I detect behind some of these questions a presumption (or at least a suggestion) that, had the Monetary Policy Committee learned earlier about the consequences of the lockdown, it might have softened or even prevented the economic downturns we saw in the spring of 2020 and again around the turn of that year. This is not the case.
7. To the extent it affects economic output, easing monetary policy operates by adding to spending and demand. It is possible that, had there been no lockdown – had the

pandemic been allowed to spread unimpeded, and without government assistance – its effects on demand would have been worse than those on supply and that, as “the only game in town”, monetary policy would have had a more meaningful impact on economic activity.

8. But its power in that respect is limited (a half-point cut in interest rates might add around ¼% to demand, after some months). And it is not clear that such a path (a severe pandemic but no lockdown) would ever have been feasible. Nor is it what actually happened. And in the presence of the lockdown, the economy simply was not in the position to deliver the extra supply that earlier or deeper easing in monetary policy might have delivered. Just to take one example, a cut in interest rates might encourage some households to spend more on home improvement. But if the builder is physically prevented from coming to your house and cannot get hold of the raw materials to begin with – and if, more generally, the ports are closed, the railways and roads inaccessible – that extra demand is irrelevant.
9. Third, I think the suggestion that the subsequent inflation was caused, or even much affected, by Asset Purchases (Quantitative Easing) is completely mistaken. I am relatively cautious (if that is the right word) about the impact of Quantitative Easing: I think it can play a very important role in offsetting liquidity in squeezes in markets – it is very effective at preventing what would otherwise be an unwarranted, illiquidity-induced tightening in financial conditions – but I do not believe that, in the absence of such conditions, it does as much to demand and inflation as many seem to believe. I will say something about this below.

Early Signs of the Pandemic: Actions in January and February 2020

10. I do not, as I say, have much detailed recollection of the meetings at that time. Let me make a few relevant points as I see them.
11. First, with regard to the Monetary Policy Committee meeting at the end of January, I am not sure anybody – whether policymakers, investors or the wider public – fully grasped at that time how likely a lockdown had become or how severe the economic impact of the pandemic would turn out to be.
12. It is instructive to read the minutes of that meeting. They refer to the strength of global equity prices since the previous economic forecast in November. The same is true of the

minutes of the Federal Open Market Committee (the equivalent body to the Monetary Policy Committee) in the United States. My memory is that equity markets had begun to weaken in the days leading up to that meeting. But, broadly speaking, financial markets had not at that point anticipated the likelihood of lockdowns or – to any appreciable degree – the scale of the economic impact of the pandemic.

13. Even by mid-February I do not think market pricing was consistent with a strong (or, for that matter, any) expectation of the coming lockdowns. Nor – and I took a look at what the British press was reporting as the main news around that time – was there much public discussion of this issue. Even after the first Covid-related death in Europe, which I believe occurred on the 15th of that month, the spread of the virus received only minor coverage.
14. As it happens, it was around that time that I first learned of its seriousness. I had a telephone call, together with two people in the Monetary Analysis division, with an epidemiologist at Imperial College. He thought it likely that the virus was already spreading rapidly and that the British and other governments would have to impose lockdowns at some point. But even he thought these might last only 2-3 weeks. And even that was far from mainstream opinion at the time.
15. To summarise, I think it is very important not to use the benefit of hindsight in judging what was knowable in January and February of that year; it is equally important to understand the nature of the economic effects of lockdown. Even if policymakers had the foresight to see what was coming, I think it would have made very little difference to the scale of the downturn had the measures enacted in early March been put in place some weeks earlier.

The initial response

16. I am not in a position to give much detail on particular meetings, whether earlier in the year or in March 2020, and express my hope that the Inquiry has other sources of information about them.
17. Regarding the Governor's meeting with Peter Piot, for example, I do remember talking to him about what was said. I assume that he (the Governor) had asked for that meeting. I do not know whether Mark Carney also spoke to Chris Whitty or Patrick Vallance, though he might well have done.

18. I can say that, starting (I believe) in late March or early April, and then throughout the rest of the year, the Monetary Policy Committee benefited from regular briefings from the Chief Medical Officer. These were helpful: Professor Whitty was able to explain what the science had to say about the nature of the spread of the disease, the impact of lockdown on the spread, its possible seasonality and how coronaviruses had evolved in the past. Most helpfully he also kept the Monetary Policy Committee up to date on the progress of the vaccines. This gave the Monetary Policy Committee some assurance that its central conditioning assumption for the forecasts and projections it made in 2020 – namely that a vaccine would emerge and be administered during the course of 2021 – was reasonable. There were still enormous uncertainties about the impact of the pandemic – globally as well as nationally – even then. But these briefings were undoubtedly very helpful.
19. I had no direct contact with the government or HM Treasury in particular. At any time the Governor and Chancellor meet regularly and did so frequently through this period. I am sure he (and any other Governors having direct contact with the Treasury) offered whatever advice they thought appropriate or relevant.
20. Regarding the briefings on 2 March 2020, if memory serves, Bank economists briefed the Committees on the latest economic and financial developments and presented very early estimates on what the pandemic might do to consumer spending. I believe the Monetary Analysis division had also begun to think about the potential impact of a lockdown and – importantly – about how we might measure these effects “in real time”. Official economic data are published only after the event – labour market estimates, for example, come out 2½ months after the relevant period – and they often rely on surveys that might themselves be disrupted by the lockdown. So economists at the Bank began to think of alternative measures of economic activity (including, for example, information from credit and debit card spending, information about numbers traveling by road and rail and activity at the ports). I myself had a meeting in early March with a large online retailer, in the hope that it might be able to provide us real-time information about the size, composition and prices of consumer spending. (In the event, the firm was unwilling to do this because of concerns about anonymity.)
21. As for policy itself, the minutes of the meeting on 10 March make clear a number of points. First, as judged by the behaviour of equity prices, widespread concerns about the economic impact of the pandemic had only really begun to materialise in the last ten

days of February. Second, the Monetary Policy Committee judged correctly that the pandemic (and in particular the lockdown) would have impacts on both supply and demand in the economy. Third, therefore, the purpose of monetary easing was not to forestall these effects but to help ensure that they would not result in longer-lasting damage to the supply capacity of the economy.

22. This is far from the only time a special Monetary Policy Committee meeting has been convened. There were others after the 9/11 attacks for example, also after 7/7, more than one (I believe) during the financial crisis. The meeting will have been convened by the Governor, as Chair of the Monetary Policy Committee, and it would have been preceded by the usual presentation from economists in Monetary Analysis about the latest developments in the economy. The actions taken by the Monetary Policy Committee were not “informed by actions taken by the UK Government” although by then, according to my recollection, the general expectation (not just on the Monetary Policy Committee) was that a lockdown was imminent. The decisions taken by the Monetary Policy Committee complemented those of the Financial Policy Committee (to lower the countercyclical buffer): they were intended, as the minutes explain, to prevent the economic contraction from having more persistent effects on the supply capacity of the economy. They were not intended – nor could that have been – to prevent the contraction in activity that inevitably accompanied the lockdown.
23. I have been asked whether, “on reflection”, the MPC’s actions were the right ones. Taking this wording at face value – that the answer demands “reflection” and not “hindsight” – my answer is “yes”. Quantitative Easing was not conducted at that time because, in general, the Monetary Policy Committee preferred to change interest rates rather than use balance-sheet policy (and because the “lower bound” for Bank Rate was judged to be lower than it had been, partly thanks to policies such as the Term Funding Scheme and Funding for Lending Scheme). Judging whether any particular policy action achieved its goals is difficult. It requires an understanding of the counterfactual. In general, because there are so many other things happening at any given time (including, goodness knows, the spring of 2020), it is not possible to isolate the impact of any single policy decision. Those have to be judged over time, with a much larger sample. But I certainly believe it was the right decision at the time.
24. Concerning the remit letters sent by the Chancellor, Rishi Sunak, on 11 March 2020 it is important to understand the role of this letter as far as the MPC is concerned: it sets out

the policy objectives of the Monetary Policy Committee (in particular, the government's interpretation of "price stability", as demanded by the Bank of England Act). Invariably, these letters have set the primary objective of monetary policy as a 2% inflation target and, subject to that, for monetary policy to limit the impact of shocks (such as it can) and avoid undue volatility of output. It is a virtue of the system that these objectives do not change from year to year and these letters are not intended to prompt a specific response to the particular economic questions of the day.

25. Regarding the coordinated central bank action to enhance the provision of global US dollar liquidity, on 15 May 2020, it is important to understand what was happening to liquidity in financial markets – the ease with which investors would finance their positions – during the course of March. There is a lot to be read in the public record on this but, to cut a long story short, the violent moves in asset prices had resulted in very large "margin calls" – the requirement to make payments to cover declines in collateral values – on many derivatives. For many institutions, the only way to raise such cash at short notice was to sell government debt, including (in particular) US government debt. The Bank of England is able to increase the supply of sterling cash (i.e. reserve balances at the central bank), either by lending to banks or by buying assets such as government debt (Quantitative Easing). The more material provision of dollar liquidity was from the Fed's own QE. But for non-US central banks to provide dollars, it must be able to employ swap lines with the US Federal Reserve.
26. Since the previous meeting on 10 March, economic and financial conditions had worsened and, for reasons I explained, the price of government debt had also begun to decline, as liquidity-deprived institutions sought to raise cash. On the whole, the motive for easing monetary policy was as before – to attenuate the downside risks to demand and to minimise any long-lasting damage to the supply capacity of the economy. The particular need for Quantitative Easing, additionally, was to increase the supply of sterling cash to meet the increased liquidity needs of the financial system. It would not be accurate to say the Monetary Policy Committee was "responding to the path of the virus". It was responding to what it saw to be the impact of that spread on the financial conditions prevailing in the private sector. Without action of this sort, those conditions would have tightened materially, adding to downside risks to spending and the medium-term risks (even once the virus had abated) to economic activity. The

Contingent Term Repo Facility had the same objective: it is another way, short of purchasing assets, for the central bank to provide liquidity to the financial system.

Actions taken throughout the pandemic

27. I want to make here a few important, high-level points about the distinction between monetary and other government policy and the respective roles of the institutions that conduct them.
28. Quite deliberately, they do not have the same objectives. By and large, in every developed economy, the task of monetary policy is first to stabilise inflation; if it has a role in stabilising activity or supporting wider government objectives, that is secondary to its principal, inflation-targeting task. At no point during the pandemic did I view the Monetary Policy Committee as taking “co-ordinated” action with the government.
29. Now, as it turned out, the pandemic unleashed significant inflationary effects during the course of 2021 (which – unrelatedly – were then exacerbated by Russia’s invasion of Ukraine the following year). It led to a very marked shift in spending, away from services and towards goods; at the same time, it materially impaired the global supply of goods, much of which came from East Asia. The result was very significant rises in the global price of many traded goods (and subsequently energy) and, as a result, equivalent parts of our own Consumer Price Index.
30. It is unlikely that inflation would have risen to the extent it did, or persisted as long, were it not for the invasion of Ukraine the following year. Around the same time (ironically), in the spring of 2022, the price of (non-energy) global traded goods began to stabilise: demand was beginning to renormalise and supply chains to re-open. The direct effects of the pandemic on inflation were beginning to abate.
31. Nevertheless I do think that these inflationary pressures might have merited earlier tightening of monetary policy; and I also think that inaccurate data (in particular about the furlough scheme) contributed to this delay. We could see some of these inflationary effects even before the end of 2020 and in early 2021 (I myself gave a speech about the shift in demand in February of that year; I remember talking to an Agency contact around that time about big jump in the price of computer chips and some other imported goods). But, at the same time, we had data suggesting that there were still very significant numbers of people – numbered in the millions, even in the summer of 2021 – whose jobs

were furloughed. If accurate, this amounted to a very large potential supply of labour that, at the end of the scheme, would be re-introduced.

32. This puzzled me at the time. I wondered publicly in a speech, later that year, why unemployment was falling before or faster than furlough numbers seemed to be doing so (I conjectured whether it was a question of “mismatch”: that the sectors and firms seeing the strongest recovery in demand were not those with significant numbers of furloughed employees). But, taken at face value, they were a reason to hold off from re-tightening monetary policy until we knew more about what would happen to furloughed workers. In the event, those data significantly overstated the numbers of people ready to re-enter the labour market. Some chose not to take another job; it is also possible that a significant number had already taken another job.
33. To be clear – and this is important – it would not have made a huge difference had the Monetary Policy Committee had a more accurate read on the labour market and had (say) monetary policy first been tightened in the summer of 2021, rather than November. Simulations suggest the peak rate of inflation, which in the event rose to more than 11% in the autumn of 2022, might at best have been ½% lower. Equally, I think it is reasonable to argue that monetary policy would have profited from a more accurate read of what was going on in the labour market.
34. Briefly on modelling, there was no real “epi-macro” modelling available in January 2020. Nor, in my view, did it prove to be that valuable. In particular, there was not enough focus on the significant impacts we saw on the composition of spending and on global supply chains (these were the things that fuelled the growing inflation in 2021). There was some focus on “long Covid” and more generally the decline in labour-market participation in 2022, as compared to the pre-pandemic period.

Quantitative Easing

35. Quantitative Easing is the purchase of assets (usually government debt) by the central bank, financed by the creation of reserves (commercial banks’ deposits at the central banks). It can be useful as a means of reducing interest rates at somewhat longer maturities than cuts in Bank Rate alone can achieve. The evidence suggests that is most effective when liquidity conditions in markets are impaired – when yields on assets are at risk of rising because of a rise in the demand for liquidity. This was most evident in March 2009, again in March 2020 and then during the LDI crisis in the autumn of 2022.

For this reason, I view the main purpose of Quantitative Easing in 2020 as a financial stability tool: it was designed to prevent what would otherwise have been a sharp tightening in financial conditions. The particular numbers chosen were derived from the Bank's estimates of what was necessary to contain the incipient rise in bond yields. But I do not believe that Quantitative Easing produced much easier financial conditions than would have prevailed in the absence of these liquidity conditions and I do not believe that Quantitative Easing played a significant part in the subsequent inflation. The Monetary Policy Committee understood this was a shock to both demand and supply (the minutes of the meeting on 10 March and subsequent meetings make that clear). In particular, the Monetary Policy Committee understood well that the furlough scheme had essentially withdrawn the supply of labour and forestalled the usual cyclical mechanism via which a downturn can become persistent and amplified (lower output means lower income, that means lower spending and a further decline in output). This was borne out in the summer of 2020: the lockdown was lifted and economic activity bounced back very quickly.

36. The question was 'which was bigger?' and the Monetary Policy Committee judged at the time that the downside risks to demand were on balance more significant. If, with hindsight, one were to pick holes in the analysis, those would to my mind concern the global impacts of the pandemic: the huge shift in demand (away from services and towards goods) and the big impairment to supply chains that exacerbated its effects on goods prices. As I said earlier, I myself wrote about the shift in demand in the UK in early 2021 but did not consider sufficiently that it was being matched elsewhere (most prominently in the US). I have already referred to the importance of the furlough data.
37. Some commentators have suggested that monetary interventions were an inappropriate tool to respond to the crisis, or at least a less effective tool than fiscal interventions. Relatedly, some commentators have suggested that the Bank of England's role in responding to the pandemic should have been confined to one of 'market maker of last resort'. I would only comment that this is in some sense what Quantitative Easing does: it helps restore a liquid market in government debt. The difference is that a pure intervention of that sort (for example that in the autumn of 2022) would have been unwound sooner. The Quantitative Easing purchases in 2020 began to be unwound only in early 2022.

38. Some commentators have suggested that Quantitative Easing has led to increased economic scarring, particularly in the form of high rates of inflation. I strongly disagree. It is simply infeasible to believe that, in the absence of Quantitative Easing, but in the presence of the huge inflationary impacts of the pandemic and Russia's invasion of Ukraine, inflation would have remained serenely at 2%.
39. As I say, the pandemic and then the war led to extraordinary rises in the relative prices of goods and energy. This was inevitable. If the global supply of something declines, even as the global demand for it is rising rapidly, its relative price must go up. The CPI is (roughly) half goods and half services. If the relative price of the first is rising very steeply, the only way to maintain 2% growth in the aggregate would be for the second to experience steep declines. Policy would have to have been tight enough to have produced unprecedented drops in prices of domestic services and, to that end, nominal wages. That in turn would have necessitated a very large rise in the rate of unemployment – to more than 20% (according to standard estimates of the slope of the so-called “Phillips curve”).
40. Furthermore the double-digit rises in interest rates required to produce such a severe hit to demand would have to have been made 18-24 months in advance of the peak in inflation in the autumn of 2022: so long before these effects were apparent (further in advance of Russia's invasion) and probably around the time of the second lockdown in late 2020. It's worth pointing out that, in the month that inflation in the UK hit its peak of 11.5%, October 2022, inflation in Germany was 11.1%.
41. In sum, the suggestion that inflation would have stayed around target but for the additional QE is in my view specious.
42. I have been asked to what extent I consider that Quantitative Easing during the pandemic exacerbated pre-existing inequalities (for example by disproportionately benefitting those with wealth/assets). I also disagree strongly with this suggestion. There is very little evidence that Quantitative Easing exacerbates inequality (which, in the UK, has been remarkably stable over the past 35 years) and, during the years in which Quantitative Easing was employed, the growth of UK asset prices was lower than it had been previously, not higher. House prices rose in line with incomes and UK equity prices more weakly. Again I would be happy to discuss this further in oral evidence. In any

event, it is a well known principle that you cannot hit two independent objectives with one instrument. To aim at one, particularly something on which monetary policy has so little effect, would inevitably compromise the achievement of the other. Rightly, the primary objective of monetary policy is inflation.

43. I have been asked to what extent I consider there to have been a risk that through Quantitative Easing, the Bank of England may have been perceived to be directly financing HM Treasury's fiscal response to the pandemic and whether, in my view, the Bank of England took appropriate action to guard against any such risk. I think this was a concern. As I say, this is certainly not the reason the Monetary Policy Committee took the decisions it did. But I did feel sufficiently concerned about the perception that I gave a speech about "Monetary Finance" (what it is and what it is not) in September 2020 (Exhibit BB/01 INQ000659762). The central point I wanted to make is that the coincidence in time of Quantitative Easing and government borrowing tells you nothing about this question.

44. Quantitative tightening (reducing the size of the Asset Purchase Facility) began in March 2022, and is well documented in the minutes at that time. The Monetary Policy Committee sets out the year-ahead path of the Asset Purchase Facility every September.

Statement of Truth

I believe that the facts stated in this witness statement are true. I understand that proceedings may be brought against anyone who makes, or causes to be made, a false statement in a document verified by a statement of truth without an honest belief in its truth.

Signed: Personal Data _____

Dated: 12/11/2025 _____