

Witness Name: Dave Ramsden

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UK COVID-19 INQUIRY

WITNESS STATEMENT OF DAVE RAMSDEN, DEPUTY GOVERNOR, MARKETS AND BANKING, BANK OF ENGLAND

1. I, Dave Ramsden, make this statement as Deputy Governor, Markets and Banking (**DGMB**) at the Bank of England (**Bank**) in response to a Rule 9 request addressed to me, dated 10 July 2025, from the UK Covid-19 Inquiry (**the Inquiry**).
2. The Inquiry has asked me to respond to a series of questions and provide documentation relating to the Bank's remit and actions [for a period] during the Covid-19 pandemic. Many of those questions concern factual matters already dealt with in the corporate witness statement provided by Rhys Phillips (Inquiry Reference: M9/R9R/BOE1) to the Inquiry in response to an earlier Rule 9 request (**Rhys Phillips' statement**) and therefore I draw on the contents of that statement throughout this statement. The Inquiry has also asked for an account of my actions and my views on a number of matters. Where the Inquiry has asked for the Governor's views, I consider it is more appropriate for the Governor to respond.
3. This statement adopts the headings and sub-headings proposed by the Inquiry in the Rule 9 request of 10 July 2025 in line with the Inquiry's instructions and comprises the following sections:

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Part A: Roles and Responsibilities

4. I joined the Bank as DGMB on 4 September 2017. Before the Bank, I held a number of roles in the Civil Service, having joined initially in 1986, including as the Chief Economic Adviser to HM Treasury (**HMT**) and Head of the Government Economic Service from 2007 to 2017. Over this period, I was responsible for advising the UK Government on UK macroeconomic policy and was HMT’s representative at meetings of the Bank’s Monetary Policy Committee (**MPC**).
5. Between 1 January 2020 and 28 June 2022, as DGMB I had oversight of the Markets, Banking, Payments and Resolution directorates. Over this period, my responsibilities broadly encompassed: the implementation of monetary policy; the provision of liquidity insurance to the banking system; looking after the UK foreign exchange reserves and the Bank’s own reserves; balance sheet operations, the provision of expert market analysis and insight; facilitating payments (through the Real Time Gross Settlement system and CHAPS, the UK’s high value payment system); the operation of the Bank’s customer banking function including operating the gold vaults; implementing resolution policy domestically and working internationally to end “too big to fail”; and undertaking

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contingency planning for specific firms to ensure that if they do fail, they do so in an orderly manner.

6. I am a member of the Bank's Court of Directors (**Court**), the MPC, Financial Policy Committee (**FPC**) and the Prudential Regulation Committee (**PRC**), each of which is explained further below. My role in Court and the committees is performed in accordance with the statutory remit of each. Court has delegated to me certain responsibilities, including the discharge of statutory functions, while reserving certain key decisions to itself. My role and responsibilities during the pandemic did not differ from those at other times.

Part B: Organisation of the Bank of England

7. The Bank of England's mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability. As Rhys Phillips' statement explains the general structure of the Bank and the key committees, I largely repeat that content below as it applied at 31 December 2019 and for the period between 1 January 2020 and 28 June 2022 (the **Specified Period**). An organogram from 12 September 2019 reflects the general structure of the Bank as it also was as of 31 December 2019 [DR/1 – INQ000653300]. There were no important changes to the Bank's structures between 1 January 2020 and 28 June 2022, predominantly because the structure of the key committees is determined by statute. The Bank continued to perform its functions during this period and the structure of the Deputy Governorships did not need to be changed to respond to the pandemic (responsibility for Resolution moved from the Deputy Governor for Financial Stability to me on 3 February 2020 although this was not pandemic related).

Court

8. While specific policy responsibilities are reserved to the statutory policy committees, Court manages the affairs of the Bank as a company. Court's responsibilities include determining the Bank's objectives and strategy and ensuring the effective discharge of the Bank's functions and the most efficient use of its resources. Court delegates to the Governor the day-to-day management of the Bank, including the discharge of statutory functions, while reserving certain key decisions to itself. Court, consulting HMT, is required, at least every three years, to review and, if necessary, revise the Bank's strategy in relation to the Financial Stability Objective: to protect and enhance the

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financial stability of the United Kingdom. This function may be delegated, and Court has delegated this to the FPC.

The MPC: price stability

9. Parliament granted the Bank operational independence for setting UK monetary policy in the Bank of England Act 1998. The MPC was established with the responsibility for formulating monetary policy.
10. Section 13 of the Bank of England Act 1998 provides that the MPC is made up of nine members: the Governor, the three Deputy Governors for Monetary Policy, Financial Stability and Markets and Banking (my role), the Bank's Chief Economist and four external members appointed directly by the Chancellor. The legislation establishing the MPC provides for the appointment of external members so the MPC benefits from thinking and expertise from outside of the Bank. A representative from HMT also sits with the MPC at its meetings. The HMT representative can contribute to the discussion of policy issues but does not vote as part of the committee and attends to make sure that the MPC is fully briefed on fiscal policy developments and other aspects of the Government's economic policies, and that the Chancellor is kept fully informed about monetary policy.

The FPC and PRC: financial stability and micro-prudential regulation

11. Following the global financial crisis of 2007-2008, Parliament gave the Bank a Financial Stability Objective for the first time in the Banking Act 2009. Since 2013, the FPC, a committee of the Bank, has been responsible for the financial stability of the UK financial system as a whole – known as macro-prudential regulation. This contrasts with the Prudential Regulation Authority (**PRA**) which, via the PRC, has responsibility for the safety and soundness of individual supervised financial services institutions – known as micro-prudential regulation. I am a member of FPC and PRC and on occasions I chair PRC as the Governor's alternate.

The Governors and Chief Operating Officer

12. The Bank's Executive is led by the Governor, four Deputy Governors and a Chief Operating Officer (**COO**). The Governors are members of Court and the COO also attends meetings of Court. A brief summary of their roles during the Specified Period is set out below (and continues broadly to describe their current responsibilities).

The Governor

13. The Governor is responsible for the day-to-day running of the Bank and, as Chair of the MPC, the FPC, and the PRC, the Governor convened meetings of those committees and played a central role in coordinating and setting monetary and macro and micro-prudential policy throughout period of interest to the Inquiry. The Governor was responsible for setting the strategy of the Bank (subject to approval by Court) and, working closely with the Chancellor, the framework under which the Bank operates. The Governor is also the Bank's principal spokesperson.
14. At the start of the Specified Period, Mark Carney was Governor. He completed his term as Governor on 15 March 2020, and was replaced as Governor by Andrew Bailey, who began his term on 16 March 2020 and continued as Governor through the remainder of the Specified Period. Throughout this statement, general references to "the Governor" should be taken as referring to the office (held at the relevant time by either Governor Carney or Governor Bailey).

The Deputy Governors

15. Through the Specified Period, the Deputy Governor, Monetary Policy (**DGMP**), reported to the Governor and served as a member of the MPC, PRC and FPC, with responsibility for the Bank's research and analysis of the UK economy in support of MPC decisions, as well as responsibility for the provision and distribution of bank notes that are secure against the threat of counterfeiting.
16. The Deputy Governor, Financial Stability (**DGFS**), reported to the Governor and served as a member of the FPC, PRC and MPC, with responsibility for oversight of the Bank's functions in relation to financial stability risk assessment and macroprudential policy. DGFS also had responsibility for supervision and oversight of Financial Market Infrastructures (**FMI**). DGFS was jointly accountable for the Bank's international strategy and oversight of its implementation. Initially during the period referred to above DGFS had oversight of the operation of the Bank's resolution regime in addition to oversight of the Bank's sector-wide response framework; this responsibility moved to me as DGMB, on 3 February 2020, as stated above.

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Deputy Governor, Markets and Banking

17. As DGMB, I reported to the Governor and served as a member of the FPC, PRC and MPC, with responsibility for the Bank's Markets, Banking, Payments and Resolution Directorates. My responsibilities as DGMB are set out earlier in this statement (paragraph 5).

Deputy Governor, Prudential Regulation

18. The Deputy Governor, Prudential Regulation (**DGPR**), reported to the Governor and served as a member of the PRC and FPC, with operational responsibility for delivering the PRA's strategy. As CEO of the PRA, DGPR had responsibility for day-to-day management of the PRA.

COO

19. The COO reported to the Governor and had responsibility for the day-to-day management of the Bank including technology, information and physical security, human resources, property and procurement.

Operational changes

20. A key change for the Bank over the Specified Period was the shift from predominantly on-site working, initially to a split site shift system and hybrid working and then fully virtual working as required by the lockdown. The Bank planned carefully during the early months of 2020, in some cases introducing new systems and processes to support hybrid and virtual working. The Bank moved all of our market operations to full split site working from 9 March 2020, with the rest of the Bank following a few days later.

Part C: Early Signs of the Pandemic

The path of the virus and the likely impact on the economy in January and February 2020

21. My contemporaneous understanding in January and February 2020 of the path of the virus and its likely impact on the UK economy is documented in my Annual Report for the Treasury Select Committee (**TSC**), dated 19 February 2020, and in the oral evidence provided at the TSC hearing on 3 March, which I attended alongside the Governor and external members of the MPC, Michael Saunders and Silvana Tenreyro. My public commentary on the virus through that period, alongside the extent to which it was a

factor in my and my MPC colleagues' policy decisions at the January MPC decision, highlight how the Bank was monitoring the virus closely, but also the pace with which the potential impact of the virus on the UK economy escalated in those early months of 2020.

22. Early signs of the potential effects of the virus emerged in late-January as global asset prices began to be impacted. Financial markets are often the first sign of a distress and is something I, and my Bank policy committee colleagues, monitor closely in our roles. As I set out in my Annual Report to the TSC, by mid-February 2020 I was still viewing the new strain of coronavirus as a downside risk to the international growth outlook. But, by the time of the TSC hearing on 3 March the financial market impacts, and wider medical and health news had worsened substantially. As I said at that hearing, we were reassessing our view of the international growth outlook in real time and looking to understand the supply and demand impacts on the UK economy. One pertinent indicator I flagged, for instance, was the very rapid and significant fall in the Baltic dry measure of large shipping costs, highlighting the rapid deterioration in global freight activity.
23. I detail further below the progression of my own, and the Bank's, understanding of the potential impacts of the virus in those early stages. At a high level, the Bank's response closely mirrored the signals we were picking up in financial markets and economic data, and then more directly from medical briefings and advice as the extent of the virus and its potential impact on the economy rapidly escalated.

MPC Meeting in January 2020

24. The MPC meeting ending on 29 January 2020 took place at a very early stage in the wider spread of the virus. Indeed, the first confirmed UK cases were reported on 31 January, after the MPC meeting. That said, and as set out in the minutes of the MPC meeting [DR/2 INQ000614495], global asset prices had responded significantly to an outbreak of a new coronavirus strain in the days prior to the meeting, but it remained to be seen how materially this would affect global growth prospects.
25. My view at the time aligned with that public record. Within the MPC discussions I noted that increasing worries about the coronavirus outbreak in China and elsewhere had somewhat dampened recent optimism in global financial markets. And as part of the market update I provided to the committee for the 29 January meeting – which is one of my standing responsibilities as DGMB – I reiterated the point that in the days leading up to the meeting on 29 January the tone of financial markets had switched to more of a

risk-off setting, meaning risky asset prices were falling in value and safe assets, like gold, were generally rising. This reflected growing concerns about the economic impact of the coronavirus outbreak, which had overshadowed positive UK and European data releases, which were by nature more backwards looking.

Actions taken in January and February 2020

26. In response to the Inquiry's request for a chronology of actions taken by the Bank from 1 January 2020 to 29 February 2020 to prepare for the economic impact of the pandemic, I exhibit a chronology of the key measures taken by the Bank in responding to the pandemic [DR/3 – INQ000655657].

27. The Governor's opening statement at the TSC Hearing on 3 March 2020 [DR/4 – INQ000653613] provides a contemporaneous overview of the work the Bank was doing in the early stages of the virus, indicating that the Bank was monitoring the virus closely across all its functions, ensuring that contingency plans were in place with regular meetings under its Critical Incident Management Framework (**CIMF**) and that the MPC, FPC and PRC were considering economic and financial conditions in accordance with their respective remits and met individually and jointly to review a range of macroeconomic and financial system scenarios and their implications. The MPC was assessing the economic impact and considering the policy implications of various scenarios, including the extent to which supply disruptions had aggregate demand consequences via effects on cashflow, the cost and availability of finance, and confidence effects. The FPC was examining macro-financial impacts, including on market functioning and possible constraints on financing to businesses and households that might emerge. The PRC and FMI supervisors were reviewing firms' contingency plans, including assessing operational risks and the firms' ability to serve customers and markets. In addition, the Bank was reviewing its own operations and contingency plans to ensure payment systems, the sterling monetary framework (SMF) (through which the Bank operationalises monetary policy) and liquidity facilities remained operational and resilient. The Bank also increased its usual monitoring of key markets, including for UK Government debt. In addition, the Governor and the Chancellor were having regular discussions and Bank colleagues were in regular contact with counterparts at HMT and the FCA. The Bank was also in regular contact with international peers including at the G7, the G20 and the International Monetary Fund.

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28. In addition to the actions the Bank took, and I contributed to, as a member of the MPC, FPC and PRC, there were many actions I took in my role as DGMB. These included oversight of: our plans for split-site and fully virtual working for staff and our operations; and the execution of contingency plans for certain critical services including RTGS or real-time gross settlements and the SMF; as well as additional market monitoring and the production of management information. As noted in a speech on 4 June 2020 by Andrew Hauser, Executive Director for Markets, 'Seven moments in Spring: Covid-19, financial markets and the Bank of England's operations' [DR/5 - INQ000616108], the Bank moved to split site working for its market operations from 9 March 2020, after weeks of preparation in January and February. This was a significant change for the Bank, operating in this way was unprecedented. Chart 17 of the speech by Andrew Hauser shows the increase in Bank-wide audio and video calls and the fall in attendance at our Threadneedle Street office over the start of the Specified Period.
29. Whilst the circumstances driving the economic impact were novel, the fact that the economic impact resulted from a global pandemic, rather than any other form of civil emergency, made little difference to the Bank's readiness and ability to respond to the pandemic in January and February 2020. The Bank has reflected on the role it played and I do not consider that the pandemic exposed any obvious gaps in its framework in relation to its role and remit. While I cannot speak to the Governor's internal deliberations or personal assessments during January and February 2020, I can confirm that the Bank's institutional response was grounded in a robust framework and that the transition between governors was managed with close coordination and continuity.

Part D: The Initial Response to the Pandemic

The Bank's access to scientific expertise

30. The Inquiry has asked about a meeting between the Governor and Dr Peter Piot of the London School of Hygiene and Tropical Medicine (**LSHTM**) on 1 to 2 March 2020. I did not attend this meeting and am therefore not in a position to comment further on it. I am able to comment on the expertise the Bank had access to during the pandemic, as set out below.
31. Covid-19 had a direct impact (via health outcomes and social distancing) and indirect impact (via public policy responses) on economic developments. The Bank's ability to assess the trajectory of the pandemic was therefore an important factor in its

assessment of the wider economic outlook. In supporting these assessments, Bank staff engaged extensively throughout the period with experts on epidemiological modelling and monitoring, health policy interventions, and vaccine development. In addition to the meeting with Dr Piot referred to above, the Bank engaged with John Edmunds (of the LSHTM and the Scientific Advisory Group for Emergencies (SAGE)) who provided epidemiological briefings to Bank staff starting on Wednesday 4 March 2020. Professor Neil Ferguson (of Imperial College, London and SAGE) provided an analysis of a 'multiple lockdown' strategy for managing the pandemic and Professor Chris Whitty (the Chief Medical Officer) provided quarterly briefings to MPC and FPC members and Bank staff on epidemiological developments (an example of the briefings is exhibited as [DR/6 - INQ000616202]). As members of the MPC, FPC and PRC the Governor and I were recipients of the briefings provided by Bank staff reflecting their engagement with the relevant experts. As the impact of the emerging crisis became apparent, the Bank undertook a range of work to consider its impacts. Especially at the start of the pandemic the Bank relied on estimates and projections including ones based on a limited number of recent pandemics, and other potentially relevant events. By way of example in the discussions of potential Bank interventions in the first few days of March 2020 we considered the inflationary responses to selected, and what appeared to be, comparable situations, namely the SARS response in 2003, Swine Flu in 2009-2010, the Japanese earthquake and the Fukushima disaster in March 2011 and African Swine Fever in 2019 [DR/7 – INQ000650083].

Interactions with HMT

32. My principal engagement with HMT was with Clare Lombardelli, Chief Economic Advisor to HMT and my usual interlocutor on a range of issues. The Chief Economic Advisor to HMT and I saw each other and caught-up regularly at MPC-related meetings throughout the early part of the pandemic (and throughout the Specified Period). As an example, on Monday 2 March, we took stock of the Covid-19 situation including where our work on scenarios had got to and possible policy actions we might take (as the Governor subsequently set out for the TSC on 3 March 2020, as described in paragraph 27 above) and how we would be briefing the Bank's policy committees. My understanding is that Governor and the Chancellor met regularly throughout the Specified Period. There was also extensive engagement between Bank staff and HMT officials at working level, particularly in relation to the Covid Corporate Financing Facility (CCFF) and HMT representatives continued to attend the MPC and FPC as described above.

Chronology of Bank's meetings and actions in March 2020

33. In response to the Inquiry's request for a chronology of actions taken by the Bank from 1 March 2020 to 30 March 2020 to prepare for the economic impact of the pandemic and to initiate an economic response, I exhibit a chronology of the key measures taken by the Bank in responding to the pandemic [DR/3 – INQ000655657]. The Inquiry also asked for my contemporaneous understanding between 1 March and 15 March 2020 of the path of the virus and its likely impact on the UK economy. My responses to the Inquiry's questions on the Bank's Committees during that period, set out in the paragraphs below, provide responses to the question about my understanding.

Meeting of the MPC, FPC and PRC on 2 March 2020

34. As the impact of the emerging crisis became apparent, the Bank undertook a range of work to consider its impacts. The Bank's committees considered economic and financial conditions in accordance with their particular remits. On 2 March 2020, the FPC, MPC and PRC met jointly (in a hybrid format) for a briefing meeting. Andrew Bailey attended that meeting both in his capacity as Chief Executive of the Financial Conduct Authority (FCA), and therefore a member of FPC and PRC, and looking ahead to commencing his role as Governor on 16 March 2020. The meeting was convened by the Governor's office with the purpose of ensuring all Committee members had been fully briefed on the latest developments and the committees had the opportunity to discuss the latest information ahead of Tuesday 3 March 2020, when the Governor, myself and MPC colleagues gave evidence to the TSC.
35. The agenda covered the following topics: a business continuity update; a financial markets update; a supervisory update; an update on our scenarios work and their potential economic impacts; and a summary of potential policy tools.
36. The potential policy tools that could be announced and deployed immediately included: monetary policy tools (Bank Rate cut, additional quantitative easing (**QE**), including additional corporate bond purchases); liquidity tools, that were already in place; financial stability tools (e.g. a cut in the countercyclical capital buffer (**CCyB**)); and supervisory actions such as enhanced monitoring, stress tests and forbearance. Tools that could be announced immediately, but needed a gap before deployment, included a Bank Rate cut and Term Funding Scheme (**TFS**) which could be enacted if deemed necessary (it was thought at the time that the TFS could operate four to six weeks after announcement).

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Finally, potential policy tools that would need time to develop included a commercial paper facility, working capital scheme, and a funding scheme targeted at multiple sectors with bespoke terms for each.

37. Following the meeting of the MPC, FPC and PRC on 2 March 2020 the Bank's work escalated in response to both the epidemiological briefings, which as noted above, started on 4 March 2020, and other market indicators and intelligence. Andrew Hauser's speech 'Seven moments in Spring: Covid-19, financial markets and the Bank of England's operations' [DR/5 - INQ000616108] sets out the disorderly conditions that were observed in US Treasury bond markets from 4 March 2020 and the start of the so-called 'dash for cash', which subsequently spread to UK gilt markets later in the month.

Special meeting of MPC on 10 March 2020

38. The Governor convened a special meeting of the MPC on 10 March 2020 (it met on 9 March 2020 to agree its indicative policy decision and on 10 March 2020 to confirm its final policy decision) to consider the monetary policy response to the economic shocks emerging from the pandemic.
39. In advance of the meeting an exceptional briefing session took place on 9 March 2020 for MPC and FPC members and representatives from HMT. I exhibit the briefing slides at [DR/7 - INQ000650083]. The briefing by Bank staff covered recent developments, including monetary and financial conditions; the international economy; and current economic conditions. In preparation, Bank staff had been briefed extensively by health experts who had been advising the Government. The briefing provided the committees with a detailed analysis of the Covid-19 central scenario which drew on the epidemiological assessment and advice regarding likely public health interventions and their impact on labour supply and consumption, with the key challenge for economic policy being to provide support to the corporate sector to cope until the virus has passed later in the year. The briefing was roughly divided along three themes, (1) the spread of the virus, health responses and the effects of supply, (2) behavioural and demand responses, and (3) macroeconomic policy responses.
40. At its meeting on the 9 March, the FPC decided to reduce the CCyB from 1% to 0%. This decision was announced on 11 March 2020, as part of a comprehensive package of measures (see below) and was effective immediately, releasing £23bn of capital, which could support up to £190bn of bank lending to businesses.

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41. The minutes of the special meeting of the MPC on 10 March 2020 reflect that, in addition to me, the following MPC members were present: the Governor, DGMP, DGFS, the Bank's Chief Economist, the external MPC members and the Chief Economic Advisor to the HMT, in her role as HMT representative, Andrew Bailey and the Chair of Court attended as observers. A number of members of staff were also present.
42. The timing of the announcements following the meeting was intentional and carefully thought out. The MPC considered that in the extraordinary circumstances, it would be most beneficial for the Bank's actions to be announced at the same time as those of HMT to ensure that they would collectively have the maximum impact. Such an approach remained consistent with the MPC's independent responsibilities, and its secondary objective to support the government's economic policy.
43. Ahead of the Budget on 11 March 2020, and in line with usual practice, HMT's representative briefed the MPC on the measures to be announced. It was therefore known that the Budget would include a package targeted directly at addressing the challenges likely to be associated with the spread of Covid-19 within the United Kingdom. This would include: extra spending on the NHS; changes to Statutory Sick Pay rules; changes to the timing of welfare payments; and other measures for businesses including Time to Pay and relief on business rates.
44. As set out in the minutes of the MPC meeting on 10 March 2020 [DR/8 - INQ000616213], since the MPC's meeting ending on 29 January 2020 the spread of Covid-19, and the measures that were likely to be needed to contain the virus, had evolved rapidly with significant impacts now expected on economic activity. A range of sharp asset price movements since the MPC's previous meeting were consistent with a marked deterioration in risk appetite and the outlook for global and UK growth. For example, major equity indices had fallen sharply over the period since the MPC's January meeting and some of the daily moves had been very large by historical standards. The S&P 500 equity index (USA) was down by 12%, the Eurostoxx (EU) by 21%, the FTSE All Share (UK) by 20% and the MSCI emerging market equities index by 12%.
45. The MPC considered a range of information including: emerging epidemiological evidence on the potential spread of Covid-19; the evidence available so far on its economic impact; and channels through which the disease was likely to affect the UK economy. The committee was then able to consider the appropriate monetary policy

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response, taking into regard the actions of other Bank policy committees and the response of the UK Government.

46. Whilst official activity data and surveys released since the MPC's previous meeting had generally been in line with, or marginally stronger than, the January MPR projections, these data related to the period before the escalation of concerns about the impact of the pandemic. At this time there was little evidence available of the actual impact of the pandemic on the UK economy. However, some respondents to February business surveys had highlighted extended supplier delivery times and the reduction in export demand for their products; and intelligence from the Bank's Agents suggested that demand in some sectors was beginning to be affected.
47. Although the magnitude of the shock from the pandemic was highly uncertain, the MPC judged it likely that activity would weaken materially over the coming months due to shocks affecting both supply and demand in the economy.
48. Even with significant policy measures pursued by the UK Government and the Bank, the MPC judged that there was likely to be a material near-term weakening of activity which, if left unaddressed, could lead to longer lasting impacts on the economy. It was judged that any temporary weakness in activity would probably reflect a greater fall in demand than in supply, opening up a wider margin of spare capacity in the economy for a period. As the Governor set out in his public statement with Andrew Bailey on 11 March, the Bank's role was to help UK business and households manage through an economic shock that could prove large and sharp but should be temporary. The comprehensive package of measures aimed to help UK households and businesses bridge across the economic disruption caused by Covid-19, help to keep firms in business and people in jobs and help prevent a temporary disruption from causing longer-lasting economic harm. All the Bank's policy committees acted simultaneously on the 11 March 2020, working in concert with HMT, to maximise the effectiveness of the Bank's response – all the decisions of all the policy committees were unanimous.
49. The MPC voted unanimously in favour of the following propositions, which were announced as part of a comprehensive and timely package, alongside actions by the FPC and PRC, on 11 March 2020:
 - a. Bank Rate should be reduced by 50 basis points to 0.25%;
 - b. The Bank of England should introduce a Term Funding scheme with additional incentives for Small and Medium-sized Enterprises (TFSME), financed by the

- issuance of central bank reserves, that would: help reinforce the transmission of the reduction in Bank Rate; provide participants with a cost-effective funding backstop; and incentivise banks to provide credit to bridge economic disruption, particularly to SMEs by providing an additional five pounds of funding for every pound of positive net lending to them;
- c. The Bank of England should maintain the stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion;
 - d. The Bank of England should maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion.
50. In the press conference on 11 March 2020, the Governor and Andrew Bailey talked to the significance of the package announced. The reduction in the CCyB to 0% released up to £190bn of corporate credit lending capacity, equivalent to thirteen times net lending to the entire corporate sector in the economy in the previous year. The Governor explained that there was additional room in all the committees' instruments, with the MPC able to go to Bank Rate of close to but slightly above 0% and with QE and asset purchases part of the bank's toolkit.

Letters from the Chancellor on 11 March 2020

51. I have been asked for my views on why the remit letters issued on 11 March 2020 to the FPC and MPC made no mention of the pandemic. I am not aware of the Chancellor's considerations as to the content of the letters. However, the statutory framework for the remit letters is focused on economic policy and financial stability, therefore to the extent that the Bank or its committees were expected to play a role, as in fact they did, in maintaining stability as a result of the pandemic, this would have been implied and would not have needed to be pre-specified in a remit letter.
52. The FPC welcomed the remit and recommendations letter sent by the Chancellor on 11 March 2020. The country was experiencing unprecedented economic disruption related to Covid-19 and consistent with its remit, the FPC had taken action to respond to the financial stability risks associated with the economic disruption resulting from Covid, including reducing the CCyB from 1% to 0%, as announced on 11 March and mentioned above [DR/9 – INQ000653301].

Announcement in relation to US dollar liquidity on 15 March 2020

53. I have been asked to comment on the co-ordinated central bank action taken on 15 March 2020 to enhance the provision of US dollar liquidity globally. Andrew Hauser's speech 'Seven moments in Spring: Covid-19, financial markets and the Bank of England's operations' [DR/5 - INQ000616108] outlines the events leading up to the action, including the deterioration in financial markets in the preceding days, which the Bank was monitoring closely, as set out in the 11 March announcement. The coordinated action was informed by relevant market indicators of US dollar funding stress, market intelligence, and supervisory knowledge of banks' foreign currency funding pressures. It was communicated publicly via a press release published on 15 March 2020 [DR/10 - INQ000616255] and a Market Notice on the 16 March 2020 [DR/11 - INQ000616257].
54. The Bank of Canada, the Bank, the Bank of Japan, the European Central Bank (ECB), the United States Federal Reserve, and the Swiss National Bank agreed to lower the pricing on the standing U.S. dollar liquidity swap arrangements by 25 basis points, so that the new rate was the U.S. dollar overnight index swap (OIS) rate plus 25 basis points. In line with this, the Bank began offering US dollar repo operations with an 84-day maturity, in addition to the 1-week maturity operations already offered, during the week commencing 16 March 2020.
55. The swap lines are available standing facilities and serve as an important liquidity backstop to ease strains in global funding markets for US dollars, thereby helping to mitigate the effects of such strains on the supply of credit to households and businesses, both domestically and abroad. The coordinated action made use of the reciprocal swap line network that was put in place in 2011, as described in a News Release dated 30 November 2011 – coordinated central bank action to address pressures in global money markets [DR/12 - INQ000616256].
56. The effectiveness of the measure was kept under review. The Bank continued to review market data and market intelligence for signs of funding market stress, consistent with its responsibility.
57. In April 2021, it was announced that the 84-day US dollar repo operation would cease from 1 July 2021. This decision was taken based on market conditions, jointly by the

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Bank of Canada, the Bank, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank. The 7-day operation remains.

58. The enhancements to the provision of liquidity via the standing US dollar liquidity swap line arrangements were important in preserving global financial stability. Even when take-up of the facility was more limited, it provided an important backstop to US dollar funding markets, boosting market participants' confidence to continue the supply of credit. The measures were straightforward to implement as they made use of existing, regularly tested, processes.

Transition from Governor Carney to Governor Bailey on 16 March 2020

59. I have been asked to explain what arrangements were put in place for Governor Carney to leave his role, whether Governor Bailey faced any challenges in managing the economic response to the pandemic by coming into post on 16 March 2020 and the measures put in place to ensure an effective transition. From my perspective, and given my responsibilities, it was important that we had a specific date for the transition that we could: communicate to all those with an interest, including market participants; plan for; and which provided clear governance. Given Governor Bailey's longstanding experience and knowledge of all aspects of the Bank's work I was confident that Governor Bailey was fully up-to-speed on all the relevant issues he would face from 16 March. Furthermore, Governor Bailey was involved in relevant policy committee meetings (including the special MPC meeting on 10 March 2020) and announcements (including enhancement to the swap lines previously mentions) before formally taking on the role of Governor.
60. On 16 March 2020 when Governor Bailey's term as Governor began, the Bank had fully implemented split-site working. I was the other member of Court present in Threadneedle Street that week, according to the established rota. I, therefore, supported Governor Bailey on any specific formalities required to take on his role. I noted no disruption in the Bank's response to the pandemic arising from the transition from one Governor to his successor. In relation to the particular challenges faced by Governor Bailey and other measures to ensure an effective transition, I consider that the Governor is better placed to answer these questions.

Special meeting of the MPC on 19 March 2020

61. As set out in the minutes published on 26 March 2020 [DR/13 - INQ000616218], between the MPC's special meetings ending on 10 March and on 19 March, there had been a significant further tightening in financial conditions and a deterioration in market functioning, both globally and in the United Kingdom, subsequently known as the 'dash for cash'.
62. Risky asset prices had continued to fall sharply. Earlier in March, this had been accompanied by declines in government bond yields. During the period leading up to 19 March, however, those yields had risen sharply, even as prices of risky assets had continued to decline. Measures of liquidity in government bond markets had deteriorated markedly. There had been additional demand for short-term assets, US dollar liquidity in particular. At the time of the MPC's special meeting on 19 March, major global equity indices had been around 10 to 20% lower than at the time of the special meeting ending on 10 March. Advanced economy government bond yields, which typically fall when risk appetite weakens in a risk-off phase, had increased sharply in the period between the special meetings ending on 10 and on 19 March. Ten-year government bond yields had picked up by around 40 to 50 basis points in the United States, the euro area and the United Kingdom. US Treasury markets, which were normally highly liquid, had seen significant volatility, with a notable widening in bid-offer spreads. Conditions in foreign exchange swap markets had become stressed. Conditions in the UK gilt market had deteriorated notably and gilt yields had risen sharply in the run-up to the special meeting on 19 March. Coupled with the falls in risky asset prices, there had been a material tightening in UK financial conditions, despite sterling having fallen sharply. UK banks' funding costs had picked up further, broadly in line with their international peers. Spreads in wholesale unsecured funding markets, which were now largely closed, had exceeded their post-EU referendum peak. Bank CDS spreads and option-adjusted spreads on UK banks' additional Tier 1 issuance had also risen further, and major UK banks' equity prices had fallen again.
63. The Governor convened a special MPC meeting on 19 March 2020, less than 24 hours after the onset of critical market stress, under the provisions of paragraph 10(2) of Schedule 3 to the Bank of England Act 1998, so that the MPC could consider the response of monetary policy to the economic shock being caused by the pandemic.

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64. In addition to me, the following members of the Committee were present: Governor Bailey (Chair), DGMP, DGFS, the Bank's Chief Economist, the external MPC members and the Chief Economic Advisor to the HMT, as HMT representative. A number of Bank staff were also present. By this time the Bank had operationalised split working i.e. shifts of staff working onsite and remotely, in line with our contingency plans. I attended the meeting in-person with the Governor as per the agreed rota, whereas most MPC members joined the meeting virtually.
65. The Committee meeting focused on: recent dislocations in financial markets; the consequent tightening in financial conditions; and the scope of any additional monetary policy response, having regard for the actions of the Bank of England and UK Government since the MPC's previous special meeting. The MPC judged that a further package of measures was warranted to meet its statutory objectives. It therefore voted unanimously to increase the Bank of England's holdings of UK government bonds and sterling non-financial investment-grade corporate bonds by £200 billion to a total of £645 billion, financed by the issuance of central bank reserves, and to reduce Bank Rate by 15 basis points to 0.1%. The Committee also voted unanimously that the Bank of England should enlarge the TFSME scheme, financed by the issuance of central bank reserves. The MPC agreed to announce its policy decision immediately following the end of the special meeting.
66. Monetary policy was aimed at guarding against an unwarranted tightening in financial conditions and, more broadly, supporting businesses and households through the crisis and limiting any lasting damage to the economy. As the minutes set out, UK survey data had now begun to reflect the impact of the spread of Covid-19. For instance, the IHS Markit Purchasing Managers' Index™ (PMI) flash composite output and expectation indices – which are commonly-used indicators of global economic health based on surveys of business executives – had fallen very sharply to all-time lows.
67. The latest indicators at that time also pointed to a marked deterioration in labour market conditions. The IHS Markit flash composite employment index fell to a level that was consistent with a fall in employment. Around 90% of recruiters responding to a Recruitment and Employment Confederation (REC) survey conducted on 13 March thought that Covid-19 would have an adverse impact on hiring activities in the short-term. In the March IHS Markit Household Finance Index™ survey (intended to accurately anticipate changing consumer behaviour), the job security perceptions index had fallen to its lowest level for over eight years. The Department for Work and Pensions

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had reported a marked rise in claims for Universal Credit, and internet searches for terms relating to unemployment and redundancy had picked up sharply.

68. Given lags in official data, Bank staff had been monitoring closely other timely indicators of activity. These had indicated sharp falls in consumer spending. Restaurant bookings, spending in cinemas and footfall in the hospitality sector had all fallen substantially as a result of social distancing. The Bank started using the CHAPS index, subsequently developed by the Office for National Statistics (**ONS**), as a real-time indicator of credit and debit card spending. The Bank's Agents reported that the fall in output had become much more widespread since the MPC's special meeting ending on 10 March 2020. Activity was seen to be falling rapidly in many sectors due to a combination of economic uncertainty, supply-chain disruption, travel restrictions and social distancing.
69. The MPC had been briefed ahead of HMT's announcement, on the 17 March 2020, of the creation of the CCFF and had welcomed the introduction of the new facility. Alongside the introduction of the CCFF on 17 March, the Chancellor had also announced additional measures, including: increasing the amount that businesses could borrow through the Coronavirus Business Interruption Loan Scheme from £1.2 million to £5 million, and ensuring businesses could access the first six months of that finance interest-free; and providing £20 billion of business rates support and grant funding to help the most-affected companies manage their cashflows. The additional actions of the MPC were complementary to those taken by the UK Government, such as the Coronavirus Job Retention Scheme. The MPC's actions also complemented the package of measures announced by the Bank and PRA on the 20 March 2020 to alleviate the operational burden of covid-19 on PRA regulated firms and Financial Market Infrastructures (FMIs).

Other significant meetings in March and April 2020

70. I have been asked what other significant meetings I attended during the period of 1 March to 30 April 2020. In relation to the Bank's economic response to the pandemic, the significant meetings I attended were those of the Bank's statutory committees at which decisions were made to shape the Bank's response and I exhibit at [DR/3 - INQ000655657] a chronology of the statutory meetings I attended. In April 2020, and in my role as an executive of the Bank, I attended the first of a series of regular, separate conference calls with the CEOs of UK Banks, the CEOs of International Banks and Asset Managers. These were not decision-making meetings but rather were an

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opportunity for the Bank and the industry to keep each other apprised of developments relating to the pandemic.

Activation of the Contingent Term Repo Facility

71. I have been asked to provide a high-level explanation of the decision to activate the Contingent Term Repo Facility (**CTRF**). This facility was designed and operated by the Bank's Markets Directorate, one of my areas of responsibility.
72. The CTRF is a flexible market-wide facility that, when activated, allows participants to borrow central bank reserves (cash) in exchange for other, less liquid assets (collateral). The Bank's lending facilities support financial stability by reducing the cost of disruption to critical financial services. Under the CTRF, the Bank could provide liquidity secured against the full range of eligible collateral at any time, term and price the Bank chooses. The CTRF could be activated in stressed situations to allow the Bank to offer different terms than the other Sterling Monetary Framework facilities (including variable term or frequency of auctions).
73. The CTRF was activated on 24 March 2020 in a Market Notice [DR/14 - INQ000616249] and was originally run as a weekly auction with a 3-month term (in addition to the weekly ILTR auction with a 6-month term). On the 30 March 2020 the Bank announced it would offer a third weekly auction with a 1-month term. A news release published on the same day the CTRF was launched provided more details on the measure, noting that the facility was designed to help alleviate frictions observed in money markets in recent weeks, both globally and domestically, as a result of the economic shock caused by the outbreak of Covid-19. More details can be found in the document exhibited at [DR/15 - INQ000616250]. The decision to activate the CTRF was taken per the Bank's existing governance arrangements which falls to the Governor (and can be delegated to his deputy).
74. This measure complemented other efforts by both the Bank and HMT by increasing liquidity to the UK banking sector – reducing the potential need for banks and building societies to sell assets to meet liabilities as they fell due. The CTRF was broadly effective in achieving its aims – it lent out over £11bn of reserves during the period in which it was stood up.

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75. However, the CTRF (like all SMF facilities) was only available to SMF participants (banks and building societies). An increase in the net demand for liquidity from Non-Bank Financial Institutions (NBFIs) during March 2020, as described in the Financial Stability Paper No. 47 published on 25 June 2021 [DR/16 - INQ000616211], combined with banks' inability or unwillingness to increase intermediation and on-lend to NBFIs, added to the stress.
76. The final CTRF operation was on 26 June 2020. Market conditions had significantly improved by this point. The facility had seen little usage since it was first launched, with no usage for over 2 months by the time the facility was stood down.
77. As part of the lessons learnt from the pandemic and other episodes of market stress, the Bank has subsequently developed the Contingent Non-Bank Financial Institution Repo facility to address severe dysfunction in the gilt market that threatens UK financial stability arising from shocks that temporarily increase NBFIs' demand for liquidity – by lending to eligible insurance companies, pension funds and Liability Driven Investment funds. A description of the Contingent Non-Bank Financial Institution Repo facility is published on the Bank's website [DR/17 - INQ000616251].

Part E: Actions Taken Throughout the Pandemic

Key measures taken by the Bank (aside from QE)

78. In part D above I set out the chronology of meetings and actions taken in the initial response to the pandemic. In the following paragraphs I describe the key measures or tools deployed by the Bank throughout the pandemic, aside from QE which I discuss in detail later in this statement.

Changes in Bank Rate

79. Bank Rate is the interest rate the Bank pays on deposits placed with it overnight by eligible firms such as commercial banks, which influences other interest rates in the UK economy.
80. The chronology exhibited at [DR/3 - INQ000655657] sets out the changes to Bank Rate during the Specified Period. As noted above there were special meetings of the MPC held on 10 March 2020 and 19 March 2020, the minutes of which I exhibit at [DR/8 - INQ000616213] and [DR/13 - INQ000616218].

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81. During the period in which Bank Rate was being lowered, the objective was to support economic activity by reducing the borrowing costs facing UK companies and households and to encourage spending and investment. The MPC balanced this against ensuring that annual CPI inflation remained in line with its remit to achieve 2% on a sustainable basis in the medium-term.
82. The MPC has a preference to use Bank Rate as its active policy tool when adjusting the stance of monetary policy in most circumstances. A particular strength of this approach is that the MPC has greater certainty around how changes in Bank Rate affect the economy compared with its other policy tools. Changes in Bank Rate are also operationally easier and quicker to implement.
83. However, there is a limit to how much Bank Rate can be lowered before further cuts become ineffective in providing stimulus to the economy. This limit is referred to as the Effective Lower Bound (**ELB**). The MPC lowered Bank Rate from 0.75% to 0.1% via two reductions in March 2020, which was considered at the time to be the ELB. To help address this limitation, the MPC voted to introduce the TFSME (described below) and to begin a programme of asset purchases (QE) as described later in this statement.

TFSME

84. To maintain the monetary transmission mechanism as Bank Rate approached the ELB, the Bank launched the TFSME, which was designed to help reinforce the transmission of the reduction in Bank Rate to the real economy by providing participants with a cost-effective source of funding over an extended period of up to four years.
85. A particular strength of the design was that the TFSME provided funding for an extended term intended to match typical lending profiles, including further extensions to support Bounce Back Loan Scheme (**BBLs**) loans being made by banks under the Government's scheme. The design of the TFSME also incentivised banks to provide credit to customers to bridge temporary economic disruption, by offering additional funding to UK banks and building societies that increased lending, especially to SMEs (a group expected to be highly vulnerable to the Covid shock).
86. There was significant uptake of the TFSME by banks and building societies peaking at around £193bn. Credit generally continued to flow to the real economy, and to SMEs in particular, despite significant economic uncertainty. Indeed, there was an increase in the rate of growth of bank lending to corporates, including SMEs, during this period. As

outlined in the February 2021 MPR [DR/18 - INQ000616244], over 2020 as a whole, bank lending growth was particularly high for SMEs with annual growth reaching over 25% in December, the highest since the series began in 2012. However, it is very difficult to disentangle the relative contribution of the TFSME towards this annual growth versus the contribution from other interventions (including those of the Government).

87. A potential weakness of such an approach in relation to term funding schemes, such as the TFSME, is that they can have direct implications for the allocation of credit, potentially leading to distortions compared to a market-based allocation. To mitigate this the design of the TFSME included a clear exit strategy, with a limited window for drawdowns and fixed maturity drawings, to ensure it would not become a permanent fixture. The TFSME has since begun to wind down, consistent with the four year term a majority of drawings are maturing in 2025.

Expansion of Asset Purchase Facility (APF) (gilt lending facility)

88. The Bank routinely makes a proportion of the gilts purchased via the APF available to the DMO for on-lending to the market, as outlined in a joint statement by the Bank and the DMO dated 6 August 2009 [DR/19 - INQ000616252].
89. In April 2020, the Bank more than doubled the total percentage of the APF's gilt holdings made available for lending to the DMO each day. This action was publicly confirmed on 22 April 2020 in a Statement on increase to APF gilt lending limits [DR/20 - INQ000616253].
90. The purpose of this action was to mitigate operational frictions and ensure that gilt collateral absorbed by the APF through new purchases continued to be available to support other market operations by firms and the DMO.
91. Gilt lending arrangements are agreed between the Bank, the Bank of England Asset Purchase Facility Fund Limited (**BEAPFF** - the Bank subsidiary which operates the APF) and the DMO. The extension of this long-standing practice was able to be implemented quickly and in response to evolving market conditions. Extending the limit brought no increased financial risk to the APF or Bank, as gilt lending with the DMO is fully collateralised. The extension of the facility allowed DMO borrowing from the APF to increase in line with the DMO's demand. That in turn allowed the DMO to continue to undertake its market activities and supported broader gilt market functioning.

Ways & Means (W&M) facility

92. The W&M facility functions as the Government's effective overdraft at the Bank. Historically, the W&M facility account played a daily role in the Government's cash management when it was executed by the Bank. When the DMO took on responsibility for the Government's cash management in 2000, the need for daily use of W&M facility fell out of regular usage. However, the facility remains available and has been used on a small number of occasions since 2000. The facility was most significantly used during the global financial crisis, with a balance reaching up to £19.9bn in 2008.
93. As part of the response to the pandemic, HMT and the Bank announced their agreement to temporarily extend the use of the W&M facility on 9 April 2020 [DR/21 - INQ000616090]. This temporary extension of the facility offered a short-term source of additional liquidity to the Government, if needed, to smooth cash flows and support the orderly functioning of markets, through the period of Covid-19 disruption. Any drawings were to be repaid as soon as possible before the end of 2020.
94. Ultimately, the temporary W&M facility extension was not used, but it played an important role in reassuring markets over the Government's ability to meet its financing requirements without exceeding short-term market capacity. As an extension to an existing arrangement this could be implemented rapidly and sized as appropriate to the circumstances.
95. If not managed and communicated carefully, an arrangement of this type could have weakened the separation between monetary and fiscal policy. As described in [DR/22–INQ000653639], this potential weakness was mitigated through a clear and well-understood approach, with a clear repayment path for any W&M balance and a strong emphasis on the short-term nature of the measure in public communication. This would have been reinforced by timely transparency through existing weekly publication of the balance on the facility.

Supervisory and prudential policy measures taken by the PRA

96. The PRA, in its capacity as the prudential regulator of individual institutions, such as banks, building societies and insurance companies (in this section 'firms'), and the PRC (which I was a member of), decided on a range of measures in response to the economic circumstances presented by the pandemic.

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97. The key measures included measures that were targeted at aiding firms in applying existing rules in a proportionate way given the exceptional circumstances of the pandemic. These included, for example:
- a. Guidance on the application of accounting standards and capital requirements during the pandemic, highlighting the flexibility within the frameworks. The guidance supported a well-balanced approach to considering the risks inherent in firms' lending activities, particularly where breaches of loan covenants were directly due to the pandemic rather than the solvency or liquidity of the borrower; and
 - b. Guidance that insurance firms could use the flexibility within the Solvency II regulatory regime to increase the size of existing transitional relief measures to reflect reductions in interest rates during the pandemic period.
98. Other measures taken by the PRA amended rules to avoid unintended consequences in the context of the economic impact of the pandemic, for example:
- a. Adjustments to capital requirements for firms' activities in traded markets, such as market-making in equities or bonds, to limit increases in requirements during to the extreme volatility in the early stages of the pandemic. The PRA also accelerated the introduction of a rule change planned for 1 January 2023 that provided a less conservative treatment for market-making activity in the leverage ratio framework, helping to support market functioning; and
 - b. Adjustments to firms' Pillar 2A capital requirements, which are set periodically by the PRA and add capital requirements for risks that firms are exposed to which are not covered under Pillar 1, to set them as a fixed nominal amount, removing the risk of them increasing during the stress period.
99. These measures helped to support firms' safety and soundness and their ability to continue to provide finance to support the real economy. The PRA also extended the Financial Services Compensation Scheme (**FSCS**) Temporary High Balance coverage to address a concern that some depositors with temporary high balances might not have been aware of the need to split large balances over different institutions in order to maintain FSCS coverage. The PRA were also concerned about the ability of depositors in vulnerable situations to open accounts at a time when access to local branches may be unavailable to them.

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100. In addition to the measures above, the PRA engaged with insurers and the six large UK banks on their dividend and share buy-back plans for 2020 and issued public statements welcoming subsequent decisions by boards to suspend dividend payments and buy-backs to preserve capital to help them to continue to support the economy.
101. All the measures were broadly targeted at aiding firms in applying existing rules in a proportionate way given the exceptional circumstances of the pandemic, or at amending rules, to avoid unintended consequences in the context of the economic impact of the pandemic. In both cases, the objective of the measures was to support institutions' safety and soundness and their ability to continue to provide finance to support the real economy.

Policy measures taken by the Bank as Resolution Authority

102. The Bank as Resolution Authority, which is part of my Deputy Governorship, worked closely with the PRA throughout the pandemic to ensure delivery of a co-ordinated response. Resolution is how the Bank manages the failure of a bank, building society or central counterparty. It is used to minimise the impact of a firm failing on its depositors or customers, but also on the financial system and public finances (by avoiding the need for a 'bailout' as was seen during the global financial crisis). The Bank announced its resolution policy measures to alleviate operational burdens on PRA-regulated firms in response to the Covid-19 outbreak, in a co-ordinated press release with the PRA on 7 May 2020 [DR/23 - INQ000616196].

FMI Supervision and Policy Measures

103. The Bank also took two key measures in relation to FMI:
- a. Alongside the PRA, in March 2020 the Bank announced a package of measures to alleviate the operational burden of the pandemic on PRA-regulated firms and FMIs to help them continue providing critical functions to the UK economy [DR/24 - INQ000616195]. This included, among other things, extending the deadline for responding to the Bank's consultations on operational resilience and the holding of the first meeting of the Financial Services Regulatory Initiatives Forum in April 2020 to help co-ordinate the operational demands of regulatory initiatives on firms and FMIs [DR/25 - INQ000616132].

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104. The Bank wrote to UK FMIs in June 2020 to stress its expectation that FMIs' boards should pay close attention to the risks and potential financial demands arising from the pandemic when considering distributions to shareholders or making decisions on variable remuneration, and should discuss any proposed distributions to shareholders with the Bank in advance [DR/26 - INQ000616133]. This decision was made to ensure that FMIs maintained sufficient financial resources to maintain the services provided to the wider UK financial system and to absorb potential losses.

FPC - The release of the UK CCyB

105. The CCyB was introduced following the GFC (as part of the Basel III agreement in 2010) as a tool to address systemic risks posed by financial cycles. The UK CCyB rate is set each quarter by the FPC and enables the capital requirements of the UK banking system to be adjusted to the FPC's judgement as to the changing scale of risk of losses on UK exposures over the course of the financial cycle.

106. By increasing the CCyB when vulnerabilities are judged to be building up, the FPC ensures banks have an additional cushion of capital with which to absorb potential losses, enhancing their resilience and helping to ensure the stable provision of financial services. The FPC can release this buffer in a stress, meaning that banks can keep lending to UK households and businesses. This means that banks absorb rather than amplify shocks, and banks can be part of the solution to any stress, rather than contributing to the problem.

107. When the FPC met on 9 March 2020 it considered the appropriate setting of the UK CCyB rate. I exhibit the minutes of the meeting at [DR/27 - INQ000616248]. The FPC considered that although the situation was developing rapidly, there was enough information to warrant a timely response to reduce any pressure on banks' ability to support the provision of financial services, including the supply of credit to UK households and businesses. On this basis, the FPC reduced the UK CCyB rate to 0% with immediate effect. The rate had been 1% and had been due to reach 2% by December 2020.

108. The FPC noted that the cut would increase further the ability of banks to supply the credit needed to bridge a potentially challenging period. Cutting the CCyB rate to 0% rather than continuing with the increase to 2% was anticipated to release £23bn of

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capital. This was estimated to be able to support up to £190bn of business lending capacity, or thirteen times banks' net lending to the UK business sector in 2019.

109. This cut reinforced the FPC's stated expectation that all elements of the substantial capital and liquidity buffers that had been built up by banks could be drawn on, as necessary to support the economy.
110. The FPC continued to review the appropriate setting of the UK CCyB in the quarters that followed. In December 2020, the FPC decided to update its guidance, noting that it now expected to maintain a UK CCyB rate of 0% until at least December 2021.
111. In December 2021, the FPC judged that vulnerabilities that could amplify economic shocks had reverted to a standard level overall, as was the case just before the pandemic. This would be consistent with the UK CCyB rate returning to its neutral level in the region of 2%. However, there continued to be uncertainty about the evolution of the pandemic and the economic outlook that could have meant the economy required more support from the financial system. The FPC determined that there were therefore benefits to increasing the UK CCyB rate by a smaller step initially – 1% – in 2021 Q4, with a view to moving to 2% in 2022 Q2, absent a material change in the outlook.
112. On that basis, the FPC increased the UK CCyB rate from 0% to 1%. The FPC noted that, if the UK economic recovery proceeded broadly in line with the MPC's central projections in the November 2021 Monetary Policy Report (**MPR**) [DR/28 - INQ000616224], and absent a material change in the outlook for UK financial stability, the FPC would expect to increase the rate further to 2% in 2022 Q2. This increase to 2% was subsequently agreed at the FPC's meeting on 16 June 2022, the minutes of which I exhibit at [DR/29 - INQ000616135].
113. There is some evidence that releasing the CCyB during the pandemic led to increased lending by banks. A cross-country study undertaken by the Bank for International Settlements (**BIS**) indicates a positive effect on loan growth for banks that were subject to a CCyB release [DR/30– INQ000653329]. In staff working paper number 1011, 'Creditable capital: macroprudential regulation and bank lending in stress', Mathur et al (2022) find that UK banks receiving greater capital relief from the cut to the UK CCyB during the pandemic maintained more stable capital ratios, lending provision and risk taking capacity [DR/31 – INQ000653330]. It should be noted that, isolating the impact of the CCyB release, or any specific measure, is difficult as was actions were part of a

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package of multiple measures aimed to mitigate the impact of the pandemic on the financial system and wider economy.

Covid Corporate Financing Facility (CCFF)

114. The CCFF was announced by HMT on 17 March 2020. Discussions between the Bank and HMT about the design of the scheme began on 15 March 2020. The Chancellor wrote to the Governor on that date asking the Bank of England to operate the facility on behalf of HMT, as HMT's operating agent in lending markets. The Bank ran this facility on behalf of HMT who were the ultimate risk owners of the scheme. The Bank agreed to operate the CCFF given the need to help UK businesses bridge the economic disruption likely to be associated with Covid-19 and because the Bank had experience operating commercial paper schemes in the past.
115. The CCFF opened to applications on 23 March 2020 with the first commercial paper – an unsecured, short-term debt instrument issued by a company – purchased on 25 March 2020. The CCFF was set up to provide funding to businesses making a material contribution to the UK economy that could demonstrate they were in sound financial health prior to the shock. It sought to help businesses across a range of sectors to pay wages and suppliers, even while experiencing severe disruption to cashflows. It did this by purchasing commercial paper of up to one year maturity – i.e. final repayment is due after one year.
116. The CCFF provided a significant level of support to the UK economy during the Covid-19 crisis: over 230 companies were approved to borrow £90bn via the CCFF, and those companies accounted for an estimated 2.5 million UK jobs. Overall, the CCFF lent over £37bn to 107 different companies between March 2020 and March 2021, with a peak stock of lending in the scheme of over £20bn in May 2020.
117. As acknowledged by the then Economic Secretary (John Glen MP) on behalf of the Chancellor in his letter to the Governor dated 24 March 2022, part of what made the CCFF a success was the speed at which it was set up, meaning companies could receive the liquidity support that they needed at pace [DR/32 - INQ000616136].
118. The CCFF helped to alleviate pressures on companies' cash flows created by the economic disruption caused by the pandemic. By lending to large companies directly, the CCFF protected the space for commercial banks to lend to a wider population of

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companies, complementing other Bank and UK Government schemes launched at the onset of the Covid-19 crisis.

119. Overall, the Bank views the CCFF as being effective. It achieved its objective to rapidly provide liquidity support to eligible firms, and provided businesses across a range of sectors active in the UK with certainty that they had a credible backstop liquidity line in place to continue meeting their regular payments, even while experiencing severe disruption to cashflows.
120. The CCFF was undoubtedly challenging to design and implement in such a short timeframe, but this was required due to the unprecedented nature of the shock.

Overall package

121. I have also been asked about the strengths and weaknesses of the full suite of measures taken by the Bank. The package of policy measures taken by the Bank was a comprehensive approach encompassing all of its statutory functions.

Engagement with HMT

122. Given the nature of the relationship between the Bank and HMT officials speak regularly on a range of topics both at working level and at more senior levels. The Bank's engagement with HMT during the pandemic was no different. This was particularly the case in relation to the CCFF where HMT was the ultimate risk owner and, accordingly, took key policy decisions.
123. The PRA maintained regular engagement and dialogue with HMT, through existing channels of communication and escalation on a bilateral basis and via the Authorities' Response Framework (**ARF**), which was – and remains – a formal way for the Bank (including the PRA), the FCA and HMT to work together to respond to an incident whilst ensuring all three authorities consider any impacts to their own statutory objectives. The ARF is used when there is an incident or threat that could cause a major disruption to financial services [DR/33 - INQ000616151]. It was invoked in February 2020 to coordinate the authorities' response to the pandemic and closed in February 2021 [DR/34 - INQ000649887].
124. Additionally, both the MPC and the FPC benefitted from the presence of a non-voting HMT representative during their meetings, which helped to ensure that the MPC and

FPC were briefed on fiscal policy developments and other aspects of the Government's economic policies, and that the Chancellor was duly informed about monetary policy and financial stability. This also helped ensure actions were consistent and complementary.

125. The Bank and its policy committees took decisions independently and with regard to our objectives, as is proper. Looking back, we could only have achieved what we did, in terms of the pace, scale and aggression of the Bank's action, if we were credibly independent. However, it was important that decisions we took in pursuit of our objectives were made with knowledge of what others were doing, and that our actions were reinforced by – and in turn helped to reinforce – decisions taken by others during a period of profound and unprecedented national crisis. One example of where the Bank's approach was complementary to HMT's was on the 11 March 2020 where we aligned our communications with HMT to maximise the effectiveness of the Bank's response (paragraphs 42 and 48 above). Another example is the Bank's proactive communications relating to the government's W&M facility (paragraph 93 above).

Communications with financial institutions and the general public during the pandemic

126. The Bank utilised its established channels of communication, including website publications, news releases, and accompanying social media posts (for example, [DR/23-INQ000616196], [DR/35 – INQ000616194], [DR/36 – INQ000616008] and [DR/37 – INQ000653339]). Press conferences - conducted virtually from March 2020 to November 2021 - alongside media interviews and regular engagements with journalists, ensured the consistent and timely dissemination of information to the widest possible audience. A salient example here was the publication of MPC decisions and publications during that period, where the Bank was able to communicate effectively with the media, and thereby the public, with minimal disruption, owing to the swift adoption of virtual working practices. Speeches continued to be delivered virtually and were disseminated to media in the usual manner, with publication on the Bank's website. This framework proved resilient and effective throughout the period, maintaining transparency and accessibility despite the operational challenges to staff. During the pandemic period we also continued with our public outreach programme, which pivoted from face-to-face to online delivery. During the period from March 2020 to March 2021 we held 14 of our Citizens' Forum events, which included a Q&A session hosted by the Governor, open to any member of the public to attend [DR/38 – INQ000653340].

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127. In respect of its market operations, the Bank employed its established approach of communicating material changes via formal market notices. These are published on the Bank's website and announced to market participants simultaneously via the wire services, in the same manner used to announce MPC decisions. This approach ensures that information is communicated rapidly and to all market participants at the same time. The wire services are also used to make day to day operational announcements, for the same reasons. The Bank also operates a relationship management framework for its direct counterparties and undertakes broader market intelligence activity, which provide routes for feedback or questions of clarification. This approach is highly effective at reaching the specialist audience for whom these communications are intended and remained so during the pandemic, despite a large increase in the volume of activity required.
128. The Bank continued its usual regular liaison with FMIs and also published its usual FMI Annual report in December 2020 to provide a general public message on the state of the sector – this was an efficient means of providing a general update to interested stakeholders. The Bank also used targeted communication with supervised firms – for example the dividend letter went direct to the firms alongside regulatory engagement to ensure firms understood the change and its drivers. As with the rest of the Bank – speeches during this period also gave information to a wider audience.
129. As already mentioned, throughout the pandemic I attended calls with financial institutions, industry bodies and other stakeholders to explain the Bank's activities and receive insight into the challenges people were facing. The Bank's Agents also continued their detailed engagement with local businesses around the country.
130. One example of a challenge was during the second quarter of 2020 when activity in the economy was falling by 20%. In the May 2020 Monetary Policy Report, recognising the uncertainties at the time, the MPC constructed a plausible illustrative economic scenario, instead of our usual forecast.
131. Overall, although there will always be lessons to be learnt, my assessment is that the Bank communicated effectively and appropriately with financial institutions and the general public regarding actions it took in response to the pandemic.

The Bank's consultation with outside experts

132. As set out previously, Bank staff engaged with a range of outside experts during the pandemic, this included experts on epidemiological modelling/monitoring, public health policy interventions, and vaccine development/roll out. Covid had a direct (via health outcomes and social distancing) and indirect (via public policy responses) bearing on economic developments and so our ability to assess the trajectory of the pandemic was an important factor contributing to our assessment of the wider economic outlook.
133. Bank staff drew on external expertise to provide information to policy committees. For example, in March 2020 of the FPC, the MPC and the PRC were briefed by Bank staff on recent developments, including the current monetary and financial conditions, as well as the global and domestic economic conditions. In preparation, Bank staff had been briefed extensively by health experts who had been advising the Government. John Edmunds (LSHTM and SAGE) provided epidemiological projections and briefings for Bank staff starting on Wednesday 4 March 2020; Neil Ferguson (Imperial College, London & SAGE) shared analysis of a 'multiple lockdown' strategy for managing the pandemic; and Chief Medical Officer Professor Chris Whitty provided a quarterly briefing to MPC and FPC members and Bank staff on epidemiological developments.
134. At the same time, Bank staff also increased their engagement efforts with counterparts in other central banks and international organisations. This included conversations with counterparts from the Federal Reserve, European Central Bank, Bank for International Settlements (**BIS**) and the International Monetary Fund (**IMF**) to share information on the progression of Covid-19 and public health, fiscal and monetary policy measures in the UK and rest of the world, as well as comparing approaches to modelling and monitoring the economic effects. These conversations ensured efficient information sharing across institutions and allowed for quality assurance of analysis via peer comparisons.
135. Bank staff also engaged with external academics and researchers throughout the pandemic. Key insights from new research were summarised and used to inform views on the outlook and policy decisions. For example, a 'Covid-19 Research Deep-Dive' series was produced by colleagues in the Bank's Research Hub to disseminate key insights from external research to Bank staff and policymakers.
136. Overall, although there will always be lessons to be learnt, I consider that the Bank consulted effectively with outside experts during the pandemic.

Data used by the Bank in formulating an effective economic response to the pandemic

137. I have been asked about the amount and type of data that the Bank had access to and how this enabled the Bank to formulate an effective economic response to the pandemic. Bank staff had access to a wide range of established data sources, during the pandemic, which supported our assessment of markets, monetary policy, financial stability and the firms we supervise. The Bank also considered new data sources, as required and as outlined below, generally driven by the unprecedented nature of the situation. These broad sources of data supported the Bank in its response to the pandemic.

Data sources informing the Bank's markets operations

138. The Bank uses multiple financial market data sources to track the evolution of market prices and trading conditions. The Bank uses private sector data providers and has a number of dashboards that draw together a variety of relevant indicators across markets including government debt, derivatives, FX and money markets [DR/39 - INQ000616097]. These dashboards give the Bank a useful snapshot of, for example, whether UK metrics have moved sharply in a historical context; whether these moves are large relative to other markets; how each market is functioning; and what level of “noise” the Bank is seeing in the data.

Data sources used for monetary policy analysis

139. The MPC's work during the period benefitted from a wide range of data sources – some long-standing and others more novel. Access and availability of data improved as the pandemic evolved. For example, given the nature of the shock, new data on the progression of the pandemic in the UK, the public policy responses under consideration, and the associated epidemiological projections were made available initially to only a restricted group of Bank staff.

140. Epidemiological data were increasingly made available publicly, and Bank staff made use of Public Health England/Health Protection Agency data on Covid-19 transmission and progress on vaccination throughout the later stages of the pandemic. Our ability to assess the trajectory of the pandemic was an important factor in our assessment of the wider economic outlook, and therefore the appropriate economic response. Timely and

accurate epidemiological data would therefore remain important in responding effectively to any future pandemic.

141. The Bank's near-term economic assessment also benefitted from new data sources given that the speed and magnitude of changes in the economy could not be monitored effectively using traditional sources alone. That included the development of a new set of faster indicators supplemented with information from the Bank's Agency network, job retentions, the Decision Maker Panel survey, the Office for National Statistics' (ONS) Business Impact of Covid Survey, and HMRC data on the Coronavirus Job Retention Scheme. As mentioned earlier, one example is the Bank's use of the CHAPS index, developed by the Office for National Statistics (ONS) during the pandemic, as a real-time indicator of credit and debit card spending.
142. Beyond the near-term economic assessment, the MPC were interested in understanding how different groups were affected and implications for how the economy might evolve in the future. Alongside established surveys, the Bank commissioned Ipsos Mori to conduct a survey of households, collecting their views on the impact of the pandemic on employment, furloughing, income, spending, saving and financial distress. This survey ran from March 2020 to March 2021; after that, more established surveys had been expanded to cover questions on the impact of the pandemic on households. Bespoke surveys of firms and households can be particularly helpful in understanding, and responding to, unprecedented shocks provided they can be operationalised quickly.
143. However, faster indicators are by no means sufficient to replace timely, accurate official statistics. Official statistics suffered during the pandemic given the use of in-person surveys and a longer lag to publication. This was a particular issue for the Labour Force Survey which increased the uncertainty in information relating to the labour market – a key risk in assessing how the economy would evolve at the end of the Job Retention Scheme. Better quality and more timely information on the labour market would be useful in the event of future pandemic, but also more generally. The Bank is engaged with the ONS on ongoing work on the Transformed Labour Force Survey, while continuing to make extensive use of alternative labour market indicators.

Data sources informing the Bank's financial stability work

144. Bank staff had access to a considerable amount of established data sources to help our assessment of financial stability risks in the real economy; UK banking sector; and the system of market-based finance during this period. The Bank's use of the data

described in this regard can be seen in the analysis and charts published in the FPC's Financial Stability Reports during this period, for example the Financial Stability Report published on 11 December 2020 [DR/40 - INQ000616210].

145. The FPC routinely considered the data and forecasts published by the MPC in their quarterly MPRs to help it assess economic conditions facing UK households and businesses and the UK financial sector (for example, in relation to the outlook for unemployment or economic activity).
146. To assess the resilience of UK households, the FPC used data on the share of households with high mortgage and consumer credit debt-servicing ratios (**DSRs**) – how much of a household's income is used to pay back mortgage and consumer credit debts – at the onset of the pandemic (as measured using data from the Understanding Society and NMG Consulting surveys and the ONS's Wealth and Assets Survey), and considered projections created by Bank staff for those DSRs based on economic forecasts and scenarios presented in MPRs. The FPC had access to data on mortgage and consumer credit arrears, defaults and insolvencies and it considered measures of housing market activity and prices, and the proportion of households taking out payment holidays.
147. To assess the resilience of UK corporates, the FPC considered various measures of distress including interest coverage ratios (calculated by dividing corporates' earnings before interest and tax by their interest expense), corporate insolvencies, corporate bond credit spreads – the difference in yield between a corporate bond and a government bond ('gilt') of equivalent maturities – and the number of downgrades to corporate credit ratings (all from regular data sources that the FPC used prior to the pandemic). To assess the potential impact of the pandemic and measures taken to contain it on cash-flows of UK corporates, Bank staff used accounting information collected from Companies House and listed company filings for the latest available financial year. It also considered the extent to which corporates might be able to meet those deficits by reviewing data on UK banks' net lending to corporates, and corporate bond and equity issuance by UK corporates. As the pandemic progressed, Bank staff also gained access to Credit Ratings Agency SME current account data. This allowed Bank staff to broaden its analysis of corporate financial health.
148. The Bank supplemented desk-based analysis of data with direct insights from industry through the Bank's Residential and Commercial Property Forums. People working in the

sector lead these discussions and make up the majority of attendees, with meetings hosted virtually by the Financial Stability Strategy and Risk Executive Director during the pandemic, and in-person in normal times. The forums monitor developments and assess underlying structural risks in the residential and commercial property sectors respectively, seeking to identify market risks that could evolve into broader financial stability risks and obstacles to economic growth in the UK. Both forums inform the work the FPC does to maintain UK financial stability.

149. The FPC assessed conditions in the non-bank financial sector during this period through a range of data including: risky asset prices (as measured using equity indices and corporate bond spreads); prices of (or yields on) advanced-economy government bonds; measures of market volatility (the Cboe Volatility Index® (VIX) and Merrill Lynch Option Volatility Estimate (MOVE) index); and measures of market liquidity (bid-offer spreads on UK gilts; and gilt repo rates collected by the Bank). It also monitored selling pressures from non-bank financial institutions using data on margin calls faced by pension funds, insurers and investment funds on their derivatives positions (as reported by UK CCPs in their supervisory returns); and redemptions from money market funds and open-ended funds (using data collected by commercial data providers, the FCA and through data-sharing agreements with regulators in the EU).
150. In terms of improvements, I note that businesses report their accounts to Companies House with a lag, and smaller firms typically file abridged accounts. More timely reporting and more detailed information on smaller firms would have enabled better modelling, and access to data from the ONS Interdepartmental Business Register (IDBR) – a comprehensive list of UK businesses used by government for statistical purposes – would have enabled a more granular analysis of the likely impact of the pandemic on employment and investment. This was not possible as it would have required amendments to legislation. In the absence of IDBR data from ONS, Business Population Estimates on turnover and employment were used.
151. A Financial Stability paper on the role of non-bank financial intermediaries in the 'dash for cash' in sterling markets (published in June 2021) provides further information on the data sources used by Bank staff to analyse the role of non-bank financial institutions (NBFIs) during the Covid-19 shock (see Annex: Data sources used in this paper in the document exhibited at [DR/16 - INQ000616211]). The paper also discussed where the analysis could have been improved by bridging gaps in the collection of relevant data on NBFIs (for example, through collecting more granular data on NBFIs asset holdings and

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transactions). The Bank, with other authorities, is working to fill data gaps to build a better understanding of the system of market-based finance.

Data sources informing the Bank's and PRA's regulatory and supervisory work

152. The Bank had access to a significant amount of regulatory and supervisory data to help the FPC and the PRA assess the resilience of UK banks during this period. For example, they reviewed quarterly data on UK banks' capital ratios; stock of liquid asset buffers; profitability and various measures of asset quality. The insights from these datasets was supplemented by various forms of stress testing of UK banks during this period. The PRA also collated data daily (and later, weekly) credit, liquidity, counterparty credit risk and updates from the largest banks. The PRA also engaged with firms extensively on the operational and credit impacts of the pandemic. Firms were also asked about their return to office plans and positions. For smaller banks, the data was reviewed and analysed on a weekly basis.

Epi-Macro Modelling

153. I have been asked a set of questions on epi-macro modelling and the extent of the Bank's epi-macro modelling capabilities before, during and since the pandemic. Epi-macro models combine insights from macroeconomics and epidemiological models. They aim to provide insights into how the health and economic effects of a virus are likely to interact, as well as on the economic costs and benefits of different containment policies. A speech by MPC member Silvana Tenreyro on 15 July 2020 [DR/41 - INQ000615999] sets out the Bank's work on epi-macro modelling in 2020, and the insights we could gain through the use of such models.
154. Given the unprecedented nature of the pandemic, a specific epi-macro model was not part of the Bank's modelling toolkit as of 1 January 2020. The Bank had a number of highly technically skilled economists who were able to engage with epi-macro modelling quickly.
155. In March 2020, Bank staff had calibrated a simple epidemiological model using Italian data to help quantify the likely evolution of the epidemic over the coming weeks [DR/42 - INQ000650086]. By May 2020 staff had developed a Heterogeneous Agent SIR-Macro model to study the evolution of a pandemic while taking into account its economic consequences, calibrated to UK data [DR/43 - INQ000650087]. Alongside those produced in the Bank, Bank staff engaged with external academics and researchers to

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draw key insights from new models developed externally during the pandemic. For example, a 'Covid-19 Research Deep-Dive' series was produced by colleagues in the Bank's Research Hub to disseminate key insights from external research to Bank staff and policymakers.

156. At the start of the pandemic economic outcomes were governed by lockdowns, limiting the usefulness of such models. It was only when lockdowns were lifted that so-called 'voluntary social distancing' and the interaction between health and spending behaviour became more relevant. In addition, the very specific nature of restrictions in place at different stages of the pandemic were difficult to capture in a model, and therefore staff judgements at a disaggregated level were required alongside model insights to prepare the May 2020 scenario and subsequent forecasts over 2020 and 2021.
157. There were also specific challenges in developing and utilising epi-macro models in practice. A key uncertainty facing economic modellers was the role of behavioural aspects of households' and firms' responses to a pandemic on an unprecedented scale in modern times. Past data on which to calibrate such models was extremely limited and the behavioural responses were also unstable, as households and firms adapted to the pandemic over time. Epi-macro models could therefore tell you something about the mechanisms at play but less so about the likely size of effects and dynamics over time.
158. The lessons learned on modelling approaches during the pandemic, and data gathered from the Covid-19 experience mean the Bank is in a better position in the event of a future pandemic. But many of the challenges will remain, even if epi-macro modelling capability is improved and the literature well-established. The response to a future pandemic would therefore continue to require bespoke approaches.
159. More broadly, the Bank is undertaking a transformation programme of economic forecasting following the Bernanke review [DR/44 - INQ000653350]. This includes investment in the Bank's modelling capacity to ensure the modelling toolkit is robust to the future economy.

Long Covid

160. I have been asked about the extent to which data on the economic impact of Long Covid featured in modelling undertaken by the Bank, particularly in relation to the long-term impact of the pandemic on the UK economy. This comes under the issue of economic

‘scarring’, which refers to the longer-lasting effects of downturns, beyond the initial impacts of the original shock.

161. Two speeches I gave through the period, in November 2020 [DR/45 - INQ000616020] and July 2021 [DR/46 - INQ000616172] provide contemporaneous insights into the work the Bank was doing to understand the long-term impacts and potential scarring effects of the pandemic on the economy.
162. My November 2020 speech set out the analytical framework the MPC developed to think about how the UK had been affected by the shock of the pandemic, the changes it made to behaviours – in what we buy, what we make and how we work – and the potential longer-term impacts. This was also set out in the “In Focus” section of the November 2020 MPR [DR/47 - INQ000616238]. At that time the MPC’s assumption was that the long-term effects of Covid were likely to reduce the supply capacity of the economy by around 1¾%.
163. Our understanding of the degree of economic scarring evolved over time. By the May 2021 MPR, we had revised down our estimate of the persistent effects from Covid on the supply capacity of the UK economy to around 1¼%, in part because of the extension to the Job Retention Scheme. As part of this evolution, the work the Bank was doing to understand the long-term health consequences included the MPC’s discussion of the risk that the fall in labour participation rates for working-age adults might prove more persistent as first set out in the August 2021 MPR round [DR/48 - INQ000616246] and at subsequent annual ‘supply stocktakes’ and corresponding Monetary Policy Reports (an example is exhibited at [DR/49 - INQ000653353]).
164. On the specific issue of Long Covid, public understanding developed over time as evidence accumulated. The Chief Medical Officer, Professor Chris Whitty, provided expert advice to Bank staff and policymakers on the nature and potential consequences of Long Covid, helping to inform staff assessments on the long-term consequences for labour participation, summarised in the document exhibited at [DR/49 - INQ000653353]. Policymakers took into consideration the risk that Long Covid might weigh on labour participation for a more prolonged period (reflected, for example, in my July 2021 speech [DR/46 - INQ000616172]).

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Equality impact of the Bank's decisions

Public Sector Equality Duty (PSED)

165. The Bank is subject to the PSED in respect of its public functions. The PSED is contained in Section 149 of the Equality Act 2010 (**EA 2010**). The PSED requires the Bank to have “due regard” to the following objectives when discharging its public functions:
- a. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the EA 2010;
 - b. the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and
 - c. the need to foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
166. Court, MPC, FPC and the PRC are briefed on the PSED where relevant to the matters being considered by them.
167. Examples of how the Bank takes into consideration its PSED obligations are set out below.

MPC

168. The MPC is tasked with setting monetary policy and meeting the Government's target of keeping inflation at 2%. The distributional impact of monetary policy is difficult to measure with precision but analysis by staff suggests that the overall effect of monetary policy, including QE, on standard measures of income and wealth inequality (which may reflect the position of individuals sharing particular protected characteristics under the EA 2010) has been small.
169. A considerable amount of Bank analysis, speeches and testimonies have covered the topic of the equality impacts of monetary policy tools both preceding and following the pandemic. Prominent examples include staff analysis on “The distributional impact of monetary policy easing in the UK between 2008 and 2014” [DR/51 – INQ000616170], where Bank staff analysis had found the impact of monetary policy on wealth and income inequality to have been limited. The Bank of England's response to the House of

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Lords' Economic Affairs Committee report on QE [DR/52 – INQ000616171] also concludes that broad indicators of income equality such as the Gini coefficient have been broadly stable since 2009 and that there has been a limited impact from measures on income equality including from QE.

FPC

170. By striving to manage and mitigate risks to UK financial stability and to strive to ensure financial crises are both rarer and less severe, the FPC's actions are intended to reduce the probability, and impact, of financial crises in the UK. The costs of such crises can fall disproportionately on lower income and vulnerable households, in which individuals sharing particular protected characteristics, including those of race and sex, can be disproportionately represented. Further, while focused on improving the resilience of the UK financial system, the FPC's policies are explicitly designed to limit any significant adverse effects on growth of the UK economy. In so doing, the FPC supports the provision of sustainable access to finance for households, including lower income and vulnerable households.

PRC and FMI Board

171. The usual governance process for matters coming to the PRC and the Financial Markets Infrastructure Board (now FMI Committee) for decision ensures members are briefed on any relevant, requisite considerations of the PSED.

Inflation indicators and statistics

172. I have been asked to provide an overview of the indicators or statistics related to inflation on which the Bank relies to make monetary policy decisions and whether appropriate and timely actions were taken by the Bank to mitigate the risk of high inflation between April 2021 and 28 June 2022. Rhys Phillips' Statement contains considerable detail on the data sources the Bank uses, which I will not repeat here, but I provide commentary in the following paragraphs on the extent to which the MPC was monitoring indicators of the risk of high inflation and the actions taken between April 2021 and 29 June 2022.
173. As background, I note that CPI inflation was around 0.5% towards the end of 2020. By April 2021, the beginning of the period in question, it had risen to 1.5% and by end 2021 had risen to around 5%. For detail of the actions taken by the MPC over the whole

period, I would point the inquiry towards the minutes of the MPC meetings between May 2021 and June 2022. From December 2021 the MPC voted to begin increasing Bank Rate from 0.1%, reaching 1.25% by June 2022. It is worth noting that Russia's invasion of Ukraine began on 24 February 2022, within the period in question, causing significant additional impacts on energy and commodity prices. I therefore comment on the periods before and after Russia's invasion below.

174. As noted in MPC communications, prior to increasing Bank Rate at its December 2021 meeting, the MPC had policy guidance in place specifying that it did not intend to tighten monetary policy at least until there was clear evidence that significant progress was being made in eliminating spare capacity and achieving the 2% inflation target sustainably. The Committee was monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack and underlying wage pressures. Between April and December 2021, the majority of the Committee judged that the conditions had not yet been met fully, although considerable progress was made throughout this period.
175. At its December 2021 meeting the Committee judged that the conditions for increasing Bank Rate had been met. The labour market was tight and had continued to tighten, and there were some signs of greater persistence in domestic cost and price pressures. The economic impact of the new Omicron variant was judged, in some scenarios, to potentially increase these inflationary pressures further. The Committee voted to increase Bank Rate by 0.15 percentage points at its December meeting, and by a further 0.25 percentage points, to 0.5%, at its February 2022 meeting. In this meeting, the Committee also voted unanimously for the Bank of England to begin to reduce the stock of UK government bond purchases by ceasing to reinvest maturing assets, and to begin to reduce the stock of sterling non-financial investment-grade corporate bond purchases.
176. I was in a slightly different position from the majority of the Committee in the latter half of 2021, with my votes over the period reflecting my concern about the risks of inflationary pressures emerging in the UK economy. My speech in July 2021 [DR/46 - INQ000616172] in which I highlighted that, relative to the MPC's assessment of the outlook, I was more concerned about upside risks to inflation than downside risks. Indeed, as I set out in that speech, and re-iterated in my Annual Report for the TSC in August 2021, I was concerned that the long-term supply effects of Covid could prove more substantial than the 1¼% assumed in our central forecast. At the same time, I

thought demand could continue to pick up as the further easing of covid lockdown restrictions may act as a further boost to household and business confidence, which combined with bottlenecks on the supply side could see inflation pick-up.

177. My MPC votes started to reflect that risk assessment in September 2021 when I voted with one other MPC member to start tightening monetary policy by stopping the QE programme that was still in train. And again, in November when I again voted with one other MPC member to stop the QE programme and also for an increase in Bank Rate to 0.25%.
178. The risks to the outlook were not one sided though, and in my July 2021 speech [DR/46 - INQ000616172] I set out an alternative scenario where growth did not just moderate but instead weakened more substantially, for instance because of a greater impact of the closing of the Government's Job Retention Scheme in September 2021, or if further new variants of the virus emerged. If activity did weaken in that way, alongside an easing in supply pressures, inflation may have fallen below our 2% target in the medium term. Whilst I placed more weight on the inflationary scenario than the disinflationary scenario, the risks were two sided, and I understood the rationale of the majority of the Committee waiting until December 2021 to take action, particularly given the uncertainties associated with the impact on the labour market of the closing of the Job Retention Scheme. The upside and downside risks to the outlook in 2021 were impacted by the tightness of the labour market, which the MPC did not have a complete picture on at the time. The Labour Force Survey was the MPC's only source of information on labour force inactivity and it was not possible to rely on the LFS to assess how many people had left the labour market during the pandemic nor how likely they would be to return as the economy re-opened. At the same time, there was a lot of uncertainty around the impact of the closing of the Job Retention Scheme. Data indicated that there were still 1 million people on the Scheme as it was ending in September 2021, and so there were concerns that a large proportion would go straight into unemployment. But it is clear from subsequent data that that did not happen. Combined, it meant the MPC had to make a judgement on the balance of risks as it assessed them at the time.
179. Ahead of the MPC's March 2022 meeting, the invasion of Ukraine by Russia led to large increases in energy and other commodity prices including food prices. As a result, global inflationary pressures were expected to strengthen considerably over the coming months, while growth in economies that were net energy importers, including the United Kingdom, was likely to slow. Given the tightness of the labour market, continuing signs

of robust domestic cost and price pressures, and the risk that those pressures would persist, the Committee judged that further 0.25 percentage point increases in Bank Rate were warranted at its March, May and June 2022 meetings.

180. By the end of the period in question, the MPC had taken considerable action in response to the indicators of inflation emerging in the UK economy. I would note that the UK's monetary policy framework recognises that there will be occasions when inflation will depart from the MPC's inflation target as a result of shocks and disturbances. Prior to and during the period in question, the economy was subject to a succession of very large shocks, including the global pandemic and Russia's invasion of Ukraine. Given the lag between changes in monetary policy and their effects on inflation, the Committee, in judging the appropriate policy stance, will focus on the medium-term prospects for inflation, including medium-term inflation expectations, rather than factors that are likely to be transient. For example, monetary policy is unable to prevent the effects of sharp rises in prices of global and tradeable goods of which the UK is a net importer. The role of monetary policy is to ensure that, as this real economic adjustment occurs, it does so in a manner consistent with achieving the 2% inflation target sustainably in the medium term, while minimising undesirable volatility in output. I would note that medium-term is not a specifically defined period but in this context evidence shows that it can take around 18 to 24 months for monetary policy to have its full effect on the economy. The MPC publishes forecasts for inflation and other economic variables over the next three years.

181. I note that, had we had stopped the QE programme early in 2021 and begun tightening monetary policy earlier, in line with my votes in September and November 2021, the impact on subsequent significant inflation in 2022 would have been minimal. That was because the first round effects of the spike in energy and commodity prices, following Russia's invasion of Ukraine, accounted for a large proportion of the overshoot in inflation.

Part F: Quantitative Easing (QE)

182. I have been asked a series of questions on QE and the way QE was utilised through the pandemic. The Bank has commented extensively on the use of QE through the covid pandemic, including as part of Lords Economic Affairs Committee's report on QE, the TSC's report on Quantitative Tightening and the Bank's Independent Evaluation Office's (IEO) evaluation of the Bank's approach to QE. I have personally appeared at several hearings on the topic, including as part of those reviews, as well as in separate TSC

hearings. I will draw on the documented material set out in those reports and hearings, to the extent they cover the same questions that have posed to me in this inquiry, and provide any additional views of my own where relevant.

QE and how it relates to other monetary policy tools

183. Alongside changes to Bank Rate, QE is a tool the Bank can use to lower interest rates. QE involves the Bank engaging in large scale asset purchases – in the UK case, buying mostly ‘gilts’ in return for newly created central bank reserves. These purchases lower longer term government bond yields. In turn this reduces interest rates in the economy, where the rate at which banks lend to households and firms is typically strictly related to gilt yields. This dynamic encourages greater spending and investment, thereby supporting aggregate demand in the economy and helping to prevent inflation from persistently undershooting the 2% target. While Bank Rate may work primarily through shorter-term interest rates, QE operates mainly on longer-term interest rates.
184. QE works through several transmission channels, which is relevant in understanding the kind of circumstances in which it can be an effective tool. The mix of channels, and the total impact of QE, may vary across time according to circumstances, implying that different QE programmes may have different effects on asset prices and the real economy. Through the signalling and uncertainty channels, QE can be an effective tool when Bank Rate is very low and there is limited scope to lower it further. When the central bank engages in QE, markets may infer that the central bank is credibly committing to a period of protracted low policy rates, lowering longer-term interest rates and reducing uncertainty around the path for the policy rate.
185. Further, the portfolio balance channel works by reducing the “free-float” of bonds available to market participants. It can lower the yields on these bonds and their close substitutes and also reduce the overall amount of duration risk borne by investors. One condition for this channel to operate is that some investors do not view bank deposits as a perfect substitute for bonds or have preferences for bonds with a specific maturity. An additional requirement is that other investor groups should not be able to undo this effect by exploiting arbitrage opportunities across bonds; for instance, because they are risk averse or subject to financial constraints.
186. QE can also be effective in periods of market dysfunction and exceptionally stressed circumstances through the ‘market functioning’ channel. This channel may have been

particularly important during the early stages of the Covid pandemic as outlined in Parts D and E above.

The Use of QE between 1 January 2020 and 28 June 2022

187. There were three rounds of QE announced during the course of the pandemic. First, additional QE asset purchases of gilts and corporate bonds amounting to £200bn were introduced at a special meeting on 19 March 2020. Second, on 18 June 2020, the Bank announced the MPC's decision to increase the target stock of purchased assets, financed by the issuance of central bank reserves, by an additional £100 billion. Third, on 5 November 2020, the Bank announced the MPC's decision to increase the target stock of purchased UK Government bonds again by an additional £150 billion, to take the total stock of purchased assets to £895 billion.

Decision to use QE during the pandemic

188. QE was used during the pandemic to enable the MPC to meet its remit. I describe in further detail the reasons for each round of QE in response to question 41 below, but at a high level QE was used to guard against an unwarranted tightening in financial conditions and to support businesses and households through the crisis to help limit any lasting damage to the economy. QE was also aimed at improving market functioning at the start of the pandemic, responding to the 'dash for cash' triggered by the sharp deterioration in the economic outlook and increase in economic uncertainty.
189. In deploying QE to counteract the Covid-19 economic shock, the MPC considered: the most recent developments on the spread of Covid-19, and its impact on financial markets, overall financial conditions, and on the global and the UK economies; the channels through which the disease was likely to affect the UK economy; and the appropriate stance of monetary policy, in the context of the much broader set of policy measures and health interventions the Government was making.
190. To inform the MPC's judgment, staff considered a range of factors, including the potential macroeconomic stimulus from QE, the range of alternative potential tools, and the headroom for purchases.
191. As with all the Bank's actions the MPC sought to ensure its actions with those of HMT in order to ensure that initiatives were complementary and that they would, collectively,

have maximum impact in supporting households and businesses during the period of disruption.

Assessment of the economic crisis in March 2020

192. As I've already noted, the minutes of the special MPC meeting on 19 March 2020 and the MPC meeting ending on 25 March 2020 provide a contemporaneous record of the Bank's assessment of the kind of economic crisis facing the UK in March 2020. The MPC noted that, whilst there had been little evidence up to that point to assess the precise magnitude of the economic shock from Covid-19, the MPC judged it likely that activity would weaken materially over the coming months, and that the shock would affect both supply and demand in the economy.
193. In the near-term, the supply capacity of the economy was likely to be reduced temporarily through a number of channels. Some people would be unable to work for a period of time and many were likely to need to adjust their working arrangements. Disruptions to supply chains could also constrain companies' production.
194. There were also likely to be significant demand effects. People who were isolated at home would probably spend less. Others might cut back on forms of consumption that could be delayed or involved social activities. There could be substantial broader uncertainty effects, including on major purchases and for corporate investment plans. Demand for UK exports would reduce as global GDP growth and trade was affected. In addition, substantial falls in risky asset prices would dampen spending. The resulting weaker activity, alongside the temporary, but significant, disruptions to supply chains could challenge cash flows and increase demand for short-term credit from households and for working capital from companies.
195. The Bank continued to assess the impact of the Covid shock through March 2020, with the understanding of the potential impact of the shock on supply and demand evolving as we learnt more about the spread of the virus and the Government's response over March and April. In the illustrative scenario published in the May 2020 MPR, the large shock to demand was expected to be somewhat greater than the shock to supply. Given that potential supply is unobservable it is difficult to judge the degree to which this assessment was accurate. Indeed, at the TSC hearing on QE in May 2021, the Governor highlighted the uncertainty in measuring the output gap through the shock. As

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the Governor said at the time, the Covid shock was more complicated to assess given both supply and demand were impacted. It was the Bank's assessment that a margin of spare capacity had opened up for a period, but the output gap was small relative to the fall in demand.

196. Our latest assessment of the initial shock to supply is broadly unchanged from the May 2020 scenario. But the initial shock to GDP is now somewhat smaller than expected following upward revisions to the data over time which would be consistent with a smaller differential between the shock to demand and the shock to supply than in the initial illustrative scenario. But that should be set within the context of unprecedented large shocks.
197. Beyond the near-term, in the MPC's illustrative scenario in the May 2020 MPR, the negative effects of the pandemic on supply were longer-lasting than the effects on demand. I've already set out the MPC's assessment of the longer lasting supply side impacts of the pandemic in my response to Question 33 and how it evolved as we learnt more about the spread of the virus and its impacts on the economy. The "In Focus" section of the May 2020 MPR set out a number of channels through which Covid-19 could have affected the economy beyond the near-term. For instance, the sharp near-term fall in investment and Research & Development could permanently reduce the capital stock and productive capacity of the economy if it did not recover after the pandemic ended. The sharp fall in activity caused by Covid-19 could also have reduced the number of new firms formed and weigh on productivity growth. There was also the possibility of scarring effects in the labour market, known as hysteresis, where workers that are laid off could lose skills and become detached from the labour market, lowering labour supply.
198. As I detailed in my response to Question 33, the MPC's estimate of the impact of the pandemic on the supply capacity of the economy was initially 1¾% and subsequently 1¼%. As set out in detail in the "In Focus" section of the February 2024 MPR the lasting effects of the pandemic on productivity may have been smaller than previously assumed, and the February 2025 MPR notes that the supply-side effects of the pandemic on the market sector have now dissipated.

Decisions about QE rounds

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199. As I set out in response to Question 37 there were three rounds of QE announced during the course of the pandemic: £200bn in March 2020; £100bn in June 2020, and £150bn in November 2020.
200. In my Annual Report for the TSC dated 27th August 2021 [DR/53 – INQ000653627], I provided an overview of the stance of monetary policy during the Covid period and the rationale for the actions the MPC took, including the three rounds of QE. I copy parts of my Report here as I think it provides a helpful overview to the majority of the sub-questions the inquiry has asked about in relation to the decisions to undertake QE.
201. The stance of monetary policy during the Covid period was guided by the evolving economic outlook. In the initial phase of the crisis the priority was to support economic activity and employment, both with the goal of returning inflation sustainably to the MPC's 2% target, and to provide a bridge through the Covid crisis and minimise the potential for longer-term damage or 'scarring' to the economy's supply side. That was one key reason why I voted, along with my MPC colleagues, for the package of support measures in March 2020, including the £200bn programme of QE.
202. Our 19 March 2020 decision and subsequent purchases which started the following day also took place against a backdrop of extreme market disorder. Our purchases, alongside other policy measures here and abroad, were instrumental in restoring order, and indeed we deliberately carried them out at an unprecedentedly fast pace to achieve that. Had we not done this then that market disorder might, as we said at the time, have led to an unwarranted tightening of monetary and financial conditions, and an even sharper contraction in GDP.
203. As the economic outlook became somewhat clearer, the focus of monetary policy also evolved. While our ultimate goal remained to return inflation, which was forecast to be at very low levels, sustainably to the 2% target by bridging through the Covid crisis, our priority shifted to ensuring that the economy remained on track and that we were not blown off course as further risks crystallised.
204. This was the case for the second round of QE where, leading up to the June 2020 MPC meeting, UK financial conditions remained tighter than prior to the Covid-19 shock and the unprecedented situation meant that the outlook for the UK and global economies was unusually uncertain. As set out in the minutes of the June 2020 meeting [DR/54 – INQ000616206], more positive data on the initial recovery were weighed against greater risks around the potential for longer lasting damage to the economy from the pandemic.

A majority of MPC members therefore judged that a further easing of monetary policy was warranted to support the economy and meet the 2% inflation target in the medium term.

205. Turning to November 2020, and the third round of QE, the MPC made it explicit when announcing the £150bn programme of QE purchases that our priority was to ensure the outlook for the economy remained on track. In the November MPR [DR/47 INQ000616238], the MPC's projections embodied a further fall in near-term activity and a slower recovery beyond that, with risks to the outlook for activity judged to be skewed to the downside, and inflation risks balanced. The vaccination programme had not yet started, and the UK was going into another lockdown. Risk management considerations implied that policy should lean strongly against downside risks to the outlook. Announcing further asset purchases was viewed as supporting the economy and helping to ensure that the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target.
206. On the specific sizing of each round of QE purchases, the size of each QE programme was anchored in the inflation target and the extent to which QE asset purchases were required to meet the 2% inflation target sustainably. The MPC's judgement on QE was made on the assessment of the likely path of the UK economy and the size of asset purchases required to meet the inflation target. A second element that we should also take into account is the amount of headroom available to us to purchase assets – i.e. the amount of, primarily outstanding gilts, that can be purchased from the secondary market at a given point in time.
207. It is difficult to judge whether – in hindsight – different decisions would have led to better outcomes. The evidence on balance suggests that QE pushed down longer-term borrowing costs for households and corporates, which stimulated demand. The path of the economic recovery is therefore likely to have been conditional on the stance of monetary policy, and it is difficult to establish the right counterfactual through which to assess the impact of different policy decisions. To directly respond to the question on whether each QE decision was appropriate: I think they were, given the prevailing news and economic data available to us at the time. I do though repeat the points I made above in answer to question 35 that, following the successful rollout of the vaccination programme in 2021 and signs of building inflationary pressures, I did vote with one other MPC member to end the third round of asset purchases early. I think it is likely that had we ended asset purchases earlier it would have exerted some downward pressure on

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inflation relative to the counterfactual, but this would be very small in the context of the other factors driving up inflation.

208. The Bank is committed to ensuring it uses QE and its other policy tools as effectively as possible and will continue to draw on the lessons from its own experience, the research literature and best practice among central banks.

The Bank's role through the crisis and use of monetary interventions

209. I have been asked for my view on whether monetary interventions were an appropriate tool to respond to the crisis and whether the Bank's role in responding to the pandemic should have been confined to one of 'market maker of last resort'.
210. I view the monetary interventions that the Bank undertook as appropriate for the crisis facing the UK economy at the time. The UK economy was facing an unprecedented shock in March 2020, as has been highlighted many times in my statement, requiring the comprehensive set of actions taken by the MPC. Those monetary interventions were complementary and consistent with the much wider range of health and economic policy provided by the government. Fiscal support provided to workers and to companies played a key role in preventing a larger fall in spending and widespread business failures. Whilst looser monetary policy had a role to play by supporting cashflows, demand, and financial conditions.
211. On the specifics of QE, asset purchases have formed an important part of the Bank's monetary policy toolkit since the global financial crisis in 2009. With Bank Rate constrained by the ELB during the pandemic (i.e. further cuts to Bank Rate were judged to have become ineffective in providing stimulus to the economy), the MPC turned to asset purchases as a means for providing additional monetary stimulus and supporting the economy. Asset purchases should be judged on the basis of how successful they have been in supporting the MPC's pursuit of its statutory objectives.
212. The Bank is committed to ensuring it uses QE and its other policy tools as effectively as possible, in order to meet the inflation target, drawing on the lessons from the research literature and best practice among central banks. This includes responding to the recommendations set out in the IEO's review of QE prior to the pandemic, and the response to the House of Lords' EAC report on QE in 2021.

QE and Inflation

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213. I have been asked for my view on whether QE has led to increased economic scarring, particularly in the form of high rates of inflation. This topic has been discussed before, and indeed I provided oral evidence on this specific question to the TSC inquiry on Quantitative Tightening.
214. In short, I disagree with the suggestion that QE has led to increased economic scarring. QE was undertaken precisely because we were worried that the initial pandemic was going to have permanent scarring effects on the real economy. As I set earlier in this statement, even in the final round of QE in November 2020, the vaccination programme had not started, the economy was going back into lockdown, and we were managing significant uncertainties around health and economic outcomes.
215. It is true that after the last round of QE in November 2020, the UK experienced a period of inflation well above target. This inflation was driven by a series of very large, external, negative shocks to the economy, including supply-chain disruptions and global goods demand associated with the pandemic and the Russian invasion of Ukraine. While it is difficult to establish an accurate counterfactual, it is worth noting that the MPC had been using QE for 10 years prior to the pandemic and inflation was 2% on average over this period. Similarly, QE was being used in the US and the euro area during this time, with below-target inflation throughout the period. This period was also characterised by relatively weak – rather than strong – money growth. While the rounds of QE during the pandemic are expected to have had some impact on inflation and hence deployed by the MPC to help achieve its remit of 2% inflation, this is likely to have been small in the context of the much larger external cost shocks. Overall, it is more likely that QE helped to reduce broader economic scarring than increase it.
216. Subsequent to the cost-push shocks the UK economy was subjected to in 2021 and beyond, the MPC took action to tighten monetary policy. It is worth noting that the MPC started quantitative tightening several months before the Fed and the ECB in 2022.

Distributional effects of QE

217. The distributional effects of QE, and the evidence base around them, have been a key area of interest in the public debate. The Bank provided a written response on the topic to the House of Lord's EAC inquiry into QE in 2022, some of which I have used in my response here. And my response to Question 34 provides commentary on the wider distributional effects of monetary policy.

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218. A number of commentators have pointed to QE pushing up on absolute measures of inequality as evidence for negative distributional effects. In the Bank's view, it is important to consider a broader range of indicators when making an assessment of the impact of QE on inequality. A number of studies, including Bank staff analysis, suggest that the marginal impact of monetary policy, including QE, on standard measures of relative income and wealth inequality has been small. In addition, non-financial measures, such as household well-being, suggest a net welfare gain from monetary policy actions.
219. More broadly, it is important that in any discussion of the distributional effects of QE, the asset price effects are weighed up against the effects of monetary policy on employment outcomes and wages in the economy. The public commentary on the distributional effects of QE has tended to focus more on the potential asset price effects, without considering the extent to which the policy may have improved incomes and employment outcomes.

QE and the Bank's independence

220. The Bank and HMT have a well-established governance framework for QE which is underpinned by appropriate oversight and public accountability. This has enabled the necessary operational independence required by the Bank to deliver QE effectively, in order to meet its given mandate over the past decade. I disagree with the argument that the objective of the Bank's asset purchases is to facilitate monetary financing. The Bank has remained within its statutory mandate for monetary policy and its actions have been undertaken to fulfil the MPC's remit for price stability.
221. I fully recognise that given QE's role as a core part of the monetary policy toolkit, building public understanding of the tool through effective communications is important for its mission. While feedback on the Bank's overall communications has been positive, the Bank acknowledges that this is an area where it can develop further and has welcomed recommendations from the EAC and IEO to consider further avenues to build public understanding and trust in QE.

Unwinding QE

222. Prior to the pandemic, the MPC had set out guidance for the unwind of the stock of asset purchases in the November 2015 MPR and reviewed in the minutes of the June 2018 MPC meeting. This previous guidance stated that the stock of purchased assets

would be expected to be maintained until Bank Rate reached a level from which it could be cut materially, determined to be around 1.5%. Against the backdrop of the significant expansion in the scale of asset purchases, the MPC asked Bank staff to commence work to reconsider the Bank's previous guidance on the appropriate strategy for tightening monetary policy.

223. The Market Notice of 19 March 2020 [DR/56 – INQ000616231] noted that the programme was continuously under review. It notes that the Bank will keep the schedule of operations under review in light of prevailing market conditions. Additionally, the Bank intended to set and vary the pace of its gilt purchases in response to market conditions and to support market functioning. The Market Notice of 15 May 2020 [DR/57 – INQ000615985] consolidated previous provisions, including that the Bank reserved the right to cancel an auction at any time before the results were published, and the Bank reserved the right to reject offers, in whole or in part, including in the light of other offers received; and reserved the right to set a maximum offer price/minimum yield. Regarding corporate bond purchases, the Market Notice of 2 April 2020 [DR/58 – INQ000615976] noted that the Bank would keep the eligibility criteria under review and would reserve the right in its sole discretion to deem any security ineligible for any reason, including deeming securities ineligible, or ceasing purchase of securities, that it has previously offered to purchase.
224. In the August 2021 MPR, the MPC noted that at some point, monetary policy may need to tighten to meet its remit and that in principle such a tightening could be achieved by increases in Bank Rate, by a reduction in the stock of purchased assets, or some combination of the two. The committee set out a strategy for the mix of its monetary policy tools and its intended approach to using the instruments in its toolkit to deliver any tightening in the overall stance of policy, should that be required. It noted that the sequence of monetary policy tools to deliver tighter policy would be guided by a set of key principles, First, the committee intended to use Bank Rate as its active policy tool when adjusting the stance of monetary policy. Second, any asset sales would be conducted so as not to risk any disruption to the functioning of financial markets. Third, to help achieve that, sales would be conducted in a gradual and predictable manner over a period of time. This was communicated via Box A in the MPR, and the MPC Meeting minutes published on 5 August 2021.

Quantitative Tightening

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225. Quantitative tightening (QT) refers to the process of unwinding asset purchases conducted by the Bank under QE. It was not a policy tool used in response to the pandemic, but rather part of the normalisation of the Bank's balance sheet. The MPC's strategy for unwinding the stock of asset purchases was outlined in MPC guidance and updated in the August 2021 MPR, as described above.
226. At its meeting on 3 February 2022, the committee voted to increase Bank Rate by 0.25 percentage points to 0.5%. Alongside this, and consistent with previous guidance on QT, the committee voted unanimously for the Bank to begin to gradually reduce the stock of UK Government bond purchases, financed by the issuance of central bank reserves, by ceasing to reinvest maturing assets. The MPC also voted unanimously for the Bank to begin to fully unwind its stock of sterling-denominated non-financial investment grade corporate bonds, both by ceasing to reinvest maturing assets and by a programme of corporate bond sales to be completed no earlier than towards the end of 2023.
227. At its meeting ending on 4 May 2022, the MPC voted to increase Bank Rate by 0.25 percentage points, to 1%. Consistent with the MPC's previous guidance, the Committee communicated it would consider beginning the process of selling UK government bonds held in the APF. The Committee reaffirmed that the decision to commence sales will depend on economic circumstances including market conditions at the time, and that sales would be expected to be conducted in a gradual and predictable manner so as not to disrupt the functioning of financial markets. The Committee recognised the benefits of providing market participants with clarity on the framework for any potential sales programme and therefore asked Bank staff to work on a strategy for UK government bond sales. An update on this strategy was provided in the minutes of the August 2022 meeting.
228. The MPC's decision on how and when to begin QT was underpinned by the key principles I have previously set out. Beginning QT materially sooner or to a greater extent would not have been consistent with these principles. QT is also judged to have had small effects when undertaken in a manner consistent with the guiding principles. Beginning QT sooner or to a greater extent, but while remaining consistent with the key principles, would be expected to have only very small economic effects. Indeed, I made this point when providing oral evidence to the TSC inquiry on QT. Moreover, QT is not the active tool of monetary policy, with decisions on Bank Rate determining the overall monetary policy stance.

Part G: Covid Corporate Financing Facility (CCFF)

Design and implementation of CCFF

229. As set out earlier in this statement the CCFF was designed to support liquidity among larger firms, helping them to bridge Covid-related disruption to their cash flows through the purchase of short-term debt in the form of commercial paper. It was operated by the Bank on behalf of HMT. The Bank acted as an agent for all commercial paper purchases, following eligibility guidelines as agreed with HMT. HMT, as the ultimate risk-owner of the CCFF, had the final decision on whether an issuer was eligible to use the facility. Detailed information on the CCFF was provided through Market Notices and other communications made available on the Bank's website.
230. As DGMB, I was sighted on the design of the CCFF and the plan for implementation. I provided advice to Bank staff in the Markets Directorate who had responsibility for oversight of implementing operational processes associated with the CCFF. This included the counterparty eligibility assessment and admission process and operational policy in relation to the CCFF, alongside undertaking market intelligence on the commercial paper market, eligibility assessments, risk monitoring of eligible issuers and financial risk reporting.
231. I received regular updates from staff on the implementation of the scheme, was sighted and provided advice on changes to the design of the scheme and discussed progress of the scheme with my counterparts at HMT.

Terms of the Facility

232. I have been asked to describe the terms (including relating to the payment of interest) on which funding was to be made available to businesses under CCFF.
233. The CCFF offered financing on terms comparable to those prevailing in markets in the period before the Covid-19 economic shock.
234. The CCFF purchased commercial paper, with a maturity of one week to 12 months, at a spread above a reference rate, based on the current sterling overnight index swap (OIS) rate, an interest rate derived from financial market prices which in turn reflect future expectations for the path of Bank Rate as well as other factors. The respective reference OIS rate was determined by the Bank from Bloomberg information at 09:45 on each day. The CCFF also only purchased commercial paper subject to individual issuer limits.

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These limits, which were a cap on how much commercial paper the CCFF could purchase from each firm, reflected a range of factors, including – but not limited to or solely – an issuer’s credit rating. An indicative guide to the maximum limit pre-approved by HMT for issuers at different ratings is set out in the table below, although in some cases limits were adjusted down at the Bank or HMT’s discretion (for example where they exceeded 50% of the applicants’ average revenues over recent years).

Rating (or equivalence to rating)	Spread to OIS	Issuer limit
A1/P1/F1/R1	20 bps	Up to £1bn
A2/P2/F2/R2	40 bps	Up to £600mn
A3/P3/F3/R3	60 bps	Up to £300mn

235. Firms were able to apply for their individual limits to be increased through a limit extension request. For a limit extension request to be considered by HMT, the company needed to demonstrate that the increased limit would be used to support it specifically through the Covid-19 crisis. Due to the nature of the increased risk to the taxpayer, for such an increase to be considered there was detailed engagement between the company and HMT and UK Government Investments (UKGI) to understand, for example, if the company had sought alternative sources of financing, and to discuss repayment strategies. UKGI, the UK Government’s centre of excellence in corporate finance and corporate governance, established the Covid Intervention Resolution Group (CIRG) to support the Chancellor in lending decisions as part of the CCFF access review process introduced in October 2020, and to monitor the CCFF portfolio until maturity.
236. As per the 9 October 2020 announcement, any issuer whose long-term credit rating fell to, or below, BBB-/Baa3/BBB (low) (or equivalent) had their aggregate drawing limit capped at a maximum of £300 million. This did not affect outstanding drawings if they were already in excess of £300 million.

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237. The rate that firms paid for having commercial paper purchased via the CCFF was proposed by the Bank to HMT on the basis of pre-pandemic average prices of commercial paper. HMT, as the ultimate risk owner of the scheme, took the decision on the final pricing and limits of the scheme
238. Decisions as to the terms of the scheme were for HMT as ultimate risk owners. Looking back, I view the terms to have been appropriate and effective. The CCFF provided a significant level of support to the UK economy during the Covid-19 crisis, and its success was the result of a timely, co-ordinated response to the crisis by officials at both HMT and the Bank. Over its lifetime, the CCFF purchased over £37bn of commercial paper from 107 different companies. This, plus the facility making available over £85bn of borrowing limits to over 230 companies, represented significant support for firms that represent over 2.5 million jobs. Furthermore, by lending to large companies directly, the CCFF protected the space for commercial banks to lend to a wider population of companies, complementing other Bank and UK Government schemes, some of which have been discussed earlier in my statement, launched at the onset of the Covid-19 crisis.

Public announcement on 19 May 2020

239. I have been asked to explain the public announcement about the CCFF made on 19 May 2020.
240. Given the speed at which the CCFF was initially designed and launched, the design and operation of the scheme were reviewed on an ongoing basis and resulted in refinements being introduced at later stages of the scheme. This allowed the scheme to be launched quickly and refined over time.
241. HMT asked for the Bank's advice on how to proceed with a potential package of refinements for the CCFF [DR/59 - INQ000653965]. These refinements helped to re-frame the facility for the next phase of the crisis response, after a successful initial launch phase.
242. The package of updates announced in May 2020 [DR/60 - INQ000616144] included:
- a. **Conditionality:** HMT asked the Bank for its views on the possibility of applying restrictions on firms' pay and dividends as a condition for CCFF access – e.g. limiting pay increases for senior staff or requiring firms to pause paying out

dividends while CCFF drawings were outstanding. There were considered to be legal challenges applying this condition retrospectively to drawings already outstanding, so it was applied to new drawings after the date of the announcement. This condition was consistent with other restrictions applied to Government lending schemes (such as the CLBILS).

- b. **Early repayment:** This provided firms with additional flexibility to repay their CCFF borrowing early, where market conditions meant they no longer needed to rely on public support. Allowing early repayment both reduced overall risk to the taxpayer and provided firms with additional flexibility.
- c. **Disclosure:** When the CCFF was initially established, its terms and conditions adopted the same approach to disclosure as the Bank's facilities under the SMF – that firms could not disclose their use of the facility unless legally obliged to do so. However, with a subset of firms of the view that they were legally obliged to disclose their use of the CCFF, and other firms wishing to do so, this original approach to disclosure was contrary to the preferred approach of many, although not all, CCFF participants. An alternative approach was adopted from 26 May 2020, providing for more disclosure of CCFF use, to give more transparency about how public money was being used.

243. In terms of my involvement in the decision-making process, as previously mentioned I received regular updates from my staff in Markets directorate on the implementation of the scheme. I was sighted on and provided advice to Bank staff on the potential package of refinements, and discussed the progress of these changes with my counterparts at HMT. However, the decisions on these changes were for HMT as the ultimate risk owners of the scheme.

Assessment of the CCFF

- 244. I have been asked for an overall assessment of the strengths and weaknesses of the CCFF and lessons learned. The response provided in Rhys Phillips' statement gives an overall assessment that I agree with and have therefore copied below.
- 245. There were a small number of firms (fewer than 15 out of the total 426 companies that applied) who were dissatisfied with the outcome of their application and escalated issues within the Bank or at HMT. Some issuers noted that the changes made by HMT to the terms of the scheme during its lifetime were a challenge, particularly the

conditionality restrictions which were difficult for some firms to agree to. Disclosure of usage was not universally welcomed, with some firms repaying early to avoid disclosure. Some firms complained about the time their application or other processes (e.g. credit reviews) took. However, the majority of feedback was positive about the speed and functioning of the facility.

246. Overall, I remain of the view that the CCFF was a success, achieving its objective to rapidly provide liquidity support to eligible firms, and providing businesses across a range of sectors active in the UK with certainty that they had a credible backstop liquidity line in place to continue meeting their regular payments, even while experiencing severe disruption to cashflows.
247. The Bank undertook a lessons learned exercise in 2021 following the closure of the scheme to new issuance. Reflections included the benefit of the innovative approach to the ratings-related eligibility criteria, the need to consider disclosure of usage at the design stage of such a bespoke facility and the value of pricing as a tool. In more detailed terms:
- a. **Ratings:** The CCFF was innovative as the scheme allowed firms without public investment grade ratings from credit rating agencies to evidence their investment grade status via bank or private agency ratings. Internal bank ratings were predominantly obtained via a data provider called Credit Benchmark and a framework was developed to compare public ratings to bank ratings and to ensure that the eligibility criteria was appropriate when relying only on bank ratings. 51% of the 238 firms that fully signed up to the CCFF did not have public ratings; 32% of the 238 were made eligible on the basis of bank ratings. It will be possible to leverage work done for the CCFF to increase the scope of firms that can benefit if similar schemes were to be needed in the future.
 - b. **Disclosure of usage:** For any similar future scheme, consideration should be given to adopting public disclosure of usage from the beginning. In order to mitigate the risk of firms being put off applying to use the CCFF if use was publicly disclosed (i.e. the use of CCFF being stigmatised), firms' use of the CCFF was initially not disclosed by the Bank and could not be disclosed by issuers unless there was a regulatory or legal reason. However, early experience of CCFF applications and usage indicated that CCFF users did not regard the facility as stigmatised. Some firms disclosed their usage unilaterally, and others disclosed that they had been approved to use the scheme. This created an

inconsistent public record of CCFF usage. The disclosure changes in May 2020 increased the consistency of public communications around CCFF usage.

- c. **Pricing:** The spreads per rating remained unchanged throughout the scheme, but the Bank (and HMT) retained the right to review the spreads. Given the improvement in access to market sources of funding observed over the period of the scheme, it may have been possible to increase the spreads to mitigate any over-reliance on public funds. This would of course have been a finely balanced decision given the need to exhibit demonstrable effectiveness of the scheme in supporting market sentiment.

248. A copy of the lessons learnt document is exhibited at [DR/61 - INQ000653966].
249. An additional reflection I took from the success of the CCFF was that it provided us with the knowledge and expertise to launch similar facilities in future, at pace, where required. This proved useful in the design and launch of the Energy Markets Financing Scheme (EMFS) which opened on 17 October 2022 and closed on 27 January 2023. Through the CCFF, we had experience of assessing the credit risks of various companies and allowed us to provide a scheme to support energy companies, when disruption to that part of the system potentially posed a systemic risk.

Part H: Analysis and Reflections

Assessment of the Bank's economic response

250. Overall, I think the Bank responded appropriately, and at pace, through the Covid pandemic. We were faced with an unprecedented shock, warranting an unprecedented package of responses consistent with our mission to ensure monetary and financial stability.
251. It is right that we continue to review the actions we took and consider whether there are lessons we can learn to better prepare ourselves for future crises, whether they be caused by pandemics or otherwise. I hope the responses I have provided in my statement plus the various exhibits have helped further the Inquiry's understanding of the actions we took, complimenting and building on previous assessments and inquiries, including the IEO Report on QE, the House of Lords' EAC inquiry into QE, and the TSC inquiry into QT.

Assessment of the UK Government's economic response

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252. I think this question is more appropriately addressed by witnesses from the UK Government.

Messaging Platforms

253. I have been asked to confirm what “messaging platforms” I used to communicate about the economic response to the pandemic during the between 1 January 2020 and 28 June 2022. The Bank’s internal messaging system in the initial part of the Specified Period was Avaya Equinox before being replaced by Microsoft Teams. All decisions were taken in meetings and over communications where decisions could be recorded appropriately.

Statement of truth

I declare that the contents of this statement are true and accurate to the best of my knowledge and belief.

Signed: Personal Data

Date: 10 October 2025