



# Treasury Committee

House of Commons, Committee Office, London SW1A 0AA

Tel 020 7219 5769 Fax 020 7219 2069 Email [treascom@parliament.uk](mailto:treascom@parliament.uk) Website [www.parliament.uk/treascom](http://www.parliament.uk/treascom)

Mark Carney  
Governor  
Bank of England  
Threadneedle Street  
London EC2R 8AH

11 October 2018

*Dear Governor*

Thank you for your letter of 12 July, in which you committed to publishing an analysis of how the Brexit withdrawal agreement will affect the Bank's ability to deliver its objectives. I promised to write to further clarify the Committee's expectations about the timing and content of this work.

Of course, the timetable remains uncertain; but the Committee expects the analysis to be published after the negotiations between the Government and Commission have concluded, but in good time before any Parliamentary votes.<sup>1</sup> The Committee may also wish you to provide oral evidence on the analysis, once it is published.

Taking into account the potential for a 'no deal' scenario, either in the event either of a breakdown in the negotiations, or a Parliamentary vote against the withdrawal agreement, the analysis should consider the consequences of leaving the EU on 30 March without a Withdrawal Agreement, separately and at an equivalent level of detail. You have also noted a third scenario, in which the UK leaves the EU with no trade agreement at the end of a transition period. This too should form part of the analysis. The baseline for all scenarios should be the present situation.

I am sure that the Bank under your leadership will not demur from providing a full and frank assessment of the consequences of leaving the EU, under different scenarios, for the economy, monetary policy and financial stability. Accordingly, the Committee does not intend to dictate how this work is presented; but I would note that a complete analysis of the economic effects, and the implications for monetary policy, may warrant alternative sets of forecasts for each scenario, and an assessment of the impact on prices in different parts of the CPI basket.

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<sup>1</sup> Including any vote on a motion under Section 13(1)(b) or Section 13(1)(c) of the European Union (Withdrawal) Act 2018

Finally, I note the confusion surrounding your briefing to Cabinet on 13 September, and in particular media reports that this contained a forecast that house prices would fall by a third in a 'no deal' scenario. I would be grateful for confirmation that what you set out to Cabinet was in fact the Bank's 2018 stress test scenario (which includes a 33 per cent fall in residential property prices as one of its parameters), which in turn is being used to draw inferences about banks' preparedness for 'no deal'. If you have anything further to add, both about the content and scope of your briefing, and the subsequent reporting of it, I would be grateful if you could do so in your response to this letter.

I will be placing this letter, and in due course your response, in the public domain.

Mons S. Morgan  
Nick

The Rt Hon. Nicky Morgan MP  
Chair of the Treasury Committee