

## Treasury Committee Questionnaire ahead of appointment hearing for Sir John Gieve

### A. Personal and Professional Background

- 1. Do you have any business or financial connections or other commitments which might give rise to a conflict of interest in carrying out your duties as a member of the MPC? Are there any relevant personal or other factors of which the Treasury Committee should be aware in considering your appointment?**

No

- 2. Do you intend to serve out the full term for which you are appointed?**

Yes

- 3. Please explain how your experience to date has equipped you to fulfil your responsibilities as a member of the MPC and as Deputy Governor responsible for financial stability.**

My experience in HM Treasury over 20 years gave me considerable exposure to the main issues of economic and financial policy and involved working closely with the Bank. In particular, as Principal Private Secretary to the Chancellor, I was privy to all the main policy discussions across the range of the Treasury's responsibilities (which then included monetary policy). Later, as the director responsible for the Budget and Public Finances and then Public Services and Expenditure, I was closely involved in the decisions on overall fiscal and economic policy. That experience will be of value to me as a member of the MPC.

The skills I developed as Permanent Secretary in the Home Office and, before that, on the Treasury Management Board will enable me to support the Governor in leading and managing the Bank.

My responsibility in the Home Office for counter terrorism and financial crime will be of value in taking responsibility as Deputy Governor for contingency planning and in my work as a member of the board of the Financial Services Authority.

I was for three years head of the division in the Treasury dealing with financial regulation and banking. In that role I worked closely with the Bank on issues relating to the financing of small firms, negative equity, the regulation both of domestic and EU banks, and the potential impact on financial stability of banking failures including the collapse of BCCI. Later I was the Board Director responsible for financial regulation and a member of the Standing Committee which brings together the Bank, the FSA, and the Treasury to discuss their work to maintain financial stability. I also spent two years working for a venture capital company. The experience and knowledge I gained in these jobs will be directly relevant to my responsibilities as Deputy Governor for Financial Stability.

**4. To what extent will membership of the MPC require a different approach from that required in the senior civil service with regard to the discharge of the duties and responsibilities involved?**

Both roles require a similar commitment to the public interest and public service values. The main differences lie in the Bank's independence from Ministers and the individual public accountability of individual members of the MPC for their votes.

**B. Accountability**

**5. How important do you think it is for MPC members to be subject to ex post parliamentary accountability? What are the strongest and weakest parts of the current procedures?**

I think it is important for any public body to account to the public for its decisions and performance. It is particularly important for the Bank and for the MPC because maintaining public trust and credibility is essential to its ability to deliver monetary and financial stability.

Accounting to Parliament both in written reports and in committee hearings must be a central part of that. Given the individual responsibility of MPC members for their votes, the Parliamentary process needs to include some individual accountability.

As far as I can see, the present process works well. I will have a better feel for how this works after Thursday.

**6. If you were to make yourself available for reappointment to the MPC at the end of your term, what criteria should be used to assess your individual record as an MPC member?**

I think the criteria should include: the success of the MPC in meeting its target; my contribution to that in terms of my voting record and also my contribution to internal debates; my contribution to building the public's trust and understanding of the Bank and its decisions for example through speeches and regional visits. Obviously my contribution to leading and managing the Bank and its work on financial stability would also be relevant.

**C. Monetary and economic policy**

**7. How might the post-1998 monetary policy control system be improved? Is the framework of an explicit symmetrical inflation target the best within which to conduct policy?**

It is too early for me to judge whether there are practical ways of improving the process but I am convinced that the main features of the present system are right in principle and they have been remarkably successful in practice. In particular I think the clarity of a public inflation target not only ensures that the Bank focuses on the final outcome but helps to condition inflation expectations. I favour a symmetrical target because it requires the Bank to take the risk of an excessively tight policy as seriously as the risk of too loose a policy and thus contributes to the broader goal of economic stability.

**8. What issues do the increasing levels of household indebtedness present for financial stability and monetary policy?**

The MPC is bound to give a lot of attention to the household sector balance sheet – both assets and liabilities – in judging the likely course of the economy and prices. It is a major factor in determining consumption. At present I doubt whether the increases in unsecured borrowing are sufficiently large to have great significance for monetary policy although they raise some social concerns. The rise in mortgage borrowing has accompanied the rise in the value of the housing stock. Given that, it is not likely that the level of secured borrowing poses a risk to monetary or financial stability over and above the risks posed by the current high level of house prices. I would expect the MPC to monitor this risk closely as part of its wider assessment of the inflation prospect. We need also to assess the impact of the rise in the levels of household debt on the sensitivity of households to interest rate changes.

**9. How great is the risk to UK growth and inflation posed by high oil prices? How should monetary policy react to higher inflation caused by increased oil prices?**

I think the general view among economists is that the immediate impact of a rise in oil prices on the CPI cannot be offset by monetary policy which should look beyond that first round impact to how it will work through the economy over the next two years and on the second round impacts for example on wages. This seems reasonable to me but I will want to go into the issues closely in the coming weeks. So far the sharp rise in oil prices over the last couple of years does not seem to have fed through into a longer term rise in earnings or inflation expectations but that is something we will need to continue to monitor closely. Both the impact on prices and the wider impact of the rise on the economy will depend on the causes of the increase (which seem different now than in the late 70s for example).

**10. What consideration should be given to the exchange rate and to asset prices, including house prices, within the framework for inflation targeting? In particular, how should monetary policy react to asset price bubbles?**

I know from experience both how critical these questions are for monetary policy and how easy it is to get them wrong. The MPC's starting point has to be our target ie we need to focus on the impact of asset prices and the exchange rate on inflation and not give them an independent standing. We need also to be careful in interpreting relative price movements. While history has demonstrated that asset price bubbles can arise, it is rarely possible to be sure at the time whether an asset price rise is sustainable or is seriously overshooting. Even in cases where asset prices do seem substantially too high, it may be best for the monetary authority to draw attention to the risks of market participants and prepare to respond effectively to the expected correction rather than to seek to impact asset prices directly.

**11. The IMF recently recommended that “it would be worthwhile for the [Bank of England] to expand the number of key macroeconomic variables for which quantified projections are published”.<sup>1</sup> Do you agree with this statement? Which additional key economic variables should the Bank publish projections for?**

I will need to get more experience of the forecast process before I can answer that. In general I do think that the MPC should be as transparent as possible in its working and reasoning and the Inflation Report and the monthly publication of the minutes contribute to that. I am not clear whether that should lead to publication of quantitative forecasts for more variables. There is a danger that the need to reach agreement on a wider range of variables would distract the MPC from its key task of forecasting inflation and assessing the risks around that forecast. The publication of a wide range of quantitative projections could also weaken the focus on the key messages about inflation prospects that the MPC needs to communicate.

**12. Do you believe that the natural rate of unemployment is a useful concept? On your assessment, where is unemployment currently relative to the natural rate?**

The natural rate of unemployment like the output gap is a helpful part of the framework for thinking about the economy, but I do not see it as a reliable method of pin pointing exact numbers or actions. The MPC does need to think about how much slack there is in the labour market in assessing the future prospects for inflation but it is not possible to do that by simply comparing the current rate with a known natural rate. The natural rate is uncertain and liable to change (indeed there are some grounds for thinking it has been reducing in recent years).

**13. What weight do you place on (a) the monetary aggregates and (b) the output gap in your assessment of inflation prospects?**

I need to do more thinking about this but my initial view would be that both are useful in forming a judgement on the likely course of inflation, but should be seen as just part of the tool set. While in the long term the quantity of money does determine the level of prices, in the near term the velocity of circulation is not sufficiently stable or predictable to use monetary aggregates as a reliable guide to future inflation. The output gap is not directly observable; judging what it is and how it is moving requires a broader analysis of labour and other markets.

**14. To what extent should fiscal policy play a demand management role alongside monetary policy in the short run?**

While a sustainable fiscal policy helps alongside monetary policy to create economic stability, I do not think fiscal policy should be expected to play a role in short term economic management. Both changes to taxation and public spending take time to implement and to impact on demand and growth and they are usually difficult to reverse. As I know from experience, attempts in the past to use fiscal policy for demand management have not been encouraging.

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<sup>1</sup> International Monetary Fund, Staff report for the 2004 Article IV Consultation, para 42, page 27