Questions and Answers

Katie Martin: Great. We'll start with Sue.

Szu Chan

Good morning.

Szu Chan from the Telegraph.

A three-part question about the UK gilt market, if I may. What do you think the bond market reaction to the Chancellor's tears says about the fragility of the bond market? Do you think this recent heightened volatility is the new normal given who holds our debt increasingly hedge funds and the political backdrop.

And also, will it have implications for your long-term debt holdings in the APF?

Andrew Bailey

Well, let me take all three parts of your question, Szu.

So first point to make, which I've made before, is that we have seen movements in government bond markets globally, which are broadly similar. So, we've seen steepening of yield curves globally. So, I think it's important to start in that context.

There's nothing sort of I would say particularly UK focused about that that that steepening pattern. It's a global trend of which the UK market has been part of. And you don't see particular differences in terms of the nature of that activity.

We did see obviously market movements last week, but we also saw obviously those market movements reverse. I think that is further evidence, as we've seen during this year, that we are living in a period of more of more volatile markets, but we are living in a period where markets also do show fairly sort of fast reversion, where that is appropriate.

On the hedge fund point, I would refer you back in my case going back to the speech I made earlier this year to it was a speech to the Chicago Business School. It was made down the road, but which we've set out what I described as very profound changes in the nature of intermediation in government bond markets over recent years.

Now, that's not just a feature of the UK. It's a feature of all major government bond markets, I think. And my colleagues, my fellow governors, all remark upon it. So, it has changed the nature of intermediation in government bond markets. There is more leverage in the markets. There's no question about that, I think, and that's why we have put so much emphasis on understanding those both domestically here in the UK, but globally, it was one of the reasons why we did the system wide exploratory exercise last year, which, I found very helpful.

I mean, it wasn't an exact sort of predictor of what was going to happen this year. I don't want to claim any sort of foresight in that sense, but certainly from my point of view, it gave us a lot of advanced sort of in a sense notice of what could happen and indeed some of the things that did happen as well.

And it gave us a helpful steer as to where to look when we were monitoring market conditions. And, just how orderly were markets? And we will go on doing that work. Because it's important that we do.

The third part of your question was, I think was looking forward to the annual quantitative tightening review that we are literally about to start or are starting. I'm not going to give you, I think, any clue other than the one I've given you several times already and various other events recently to say, we do that every year. It's an open decision.

But I have said a number of times I said it certainly in the House of Lords recently when I was giving evidence that to your first point, which is a very fair point, I think that the global steepening of bond curves, while government bond curves, I don't think it's caused by QT, I think it's caused by other things we do. We'll of course have to look carefully at how that plays into that decision. And that's what we will do, because that's what the review is about. We wouldn't be doing our job if we didn't do that.

Katie Martin

Go ahead.

Jennifer Surane

Thank you. Jenny from Bloomberg News.

I'm hoping you can talk about the review that you're undertaking of the overall level of capital requirements.

I'm curious if you can talk about what prompted that. And it would also be good to get a sense of how big of a scope that assessment might have. And how sizable you think any ultimate changes might be?

Andrew Bailey

Yes.

I might hand over to Sam on that one.

Sam Woods

Yes. So we've said that we think the level of capital that we have in the system is broadly appropriate. That's our assessment.

We first put a stake in the ground here in 2015. When we looked at what we thought the right level should be, and we thought the right level was around 14% in tier one terms.

We look at this from time to time. So, we looked at it again in 2019, and now we're about five years on from that. It makes sense to have another look also because some things have moved on since in particular we've finalized and we have no intention of reopening the substance of our Basel 3.1 package. But that will leave some shifts in how the capital stack works. We've also, of course, now embedded the ring fence and the resolution regimes. And that's relevant to this question because in coming up with the 14%, we lowered the figure by five percentage points from 19 to 14 to take account of the fact that those things give us a stronger ability and stronger confidence that we can manage financial crises.

So, we need to look at all that again. I think it'll be about testing the assumptions that we made. We will look and see if there's anything that looks duplicative or overcomplex and things of that kind. But our expectation is we'll do the first phase of that work.

During the second half, will then probably have something to say in the December version of this meeting, and we'll probably engage with people after that point.

Sarah Breeden

If I might add one point.

One of the things that's happened since we last did a review is that we had the experience of the Covid pandemic and how the bank capital regime operated in that period of actual stress. One of the things that we learned through that was that some of our buffers are more usable than others.

The CCYB, the countercyclical capital buffer that we raise in the good times and take away in the bad times, seemed to support lending to a greater extent than did the Basel combined buffers. And I think trying to start a debate about the appropriateness of the various buffers we have internationally would be a really good thing to come out of this review.

It's a thing Sam talked about in his Bufferati speech, but it might be an opportunity to look again at that.

Katie Martin

Kalyeena.

Kalyeena Makortoff

Kayleena Makortoff from The Guardian. The report highlights that a weak IPO market is resulting in fewer exit opportunities for private equity backed firms. I'm wondering how concerned you are about the lack of buoyant public markets, including in London, and can you elaborate on what risks it poses?

Andrew Bailey

Well, I think there's a number of trends underlying your question. And they're not necessarily unique and they're not particularly unique to the UK by the way, actually as well.

So, I think relevant here to go back to start with, to the point I made in my introductory remarks, of course, about the growth of private equity and private assets that and we're seeing internationally and have been for some time now a shift from quoted markets to private markets.

So that, of course, is part of that story that the source of capital raising now has a greater share of private capital in unquoted markets than it. And that's reflected, obviously, as you as you rightly point out in the in the number of IPOs, we're seeing as well as a number of IPOs other countries are seeing. It's not just here by any means.

I think the second thing that so that's a that's a backdrop to it. Now I just on that because I did obviously cover it in introductory remarks. But just to add a little bit to it.

I don't think there's anything per se wrong in this, by the way. I don't think we should say it's per se not a good thing. It's a development that we're seeing. But we do, as I said in my opening remarks and will be doing need to understand what's under the lid, as it were. And that and it is a more opaque world. Let's be frank about that.

That's one of the points that underlies this whole area of interest that we have to we have to look rather harder to, to see what's going on because of the fact that it's a private set of markets. And that's what we have been doing and will be doing more of.

I think looking more short term and this is more a point about capital raising, it's not specifically an IPO point, by the way is and I just put my MPC hat on for a moment. I think what we are seeing is firms telling us that, as we've seen a higher level of uncertainty in the world economy, obviously in geopolitically speaking, it is causing investment decisions to be delayed.

And that, of course, can include decisions as to whether to raise capital, in which markets to raise capital in. And it is a theme that I pick up talking to firms.

And it's not surprising because economics and economic theory tells us this, that since investment decisions are typically irreversible, once you take them, once you start them, you've got to go on as it were.

You can't usually turn back. Then if uncertainty increases, then the option value of delaying goes up. And so, you do see delayed investment. And I think we are seeing that at the moment.

Katie Martin

Anna.

Anna Wise

Hi. It's Anna Wise from Press Association. And I'd just like to get a sense of how worried you are about UK workers in sectors exposed to a rising global trade war. How likely do you think that it's genuinely going to cause more job losses and a reduction in employment?

You say that businesses can withstand global shocks, but is it at the expense of workers?

Andrew Bailey

Well, obviously, as we've highlighted, and we've seen this big increase in geopolitical uncertainty. We've seen a big increase, obviously, in uncertainty around trade and tariffs. And I've said a number of times, fragmenting the world economy is bad for activity in the world economy. That's sort of, fairly simple trade theory.

I always caveat that by saying I do understand because we've lived through it, obviously, and we've lived through the consequences of it, that there have been challenges to the robustness of what I might call, say, called just in time supply chains.

And, it's natural that there will be some adjustment to that. But going beyond that to fragment the world economy is bad for activity. It's bad for economic activity, and it's therefore bad for employment. Obviously in that sense there is a there is a consequence.

So we have to watch that very carefully.

So, I do think it's a very good thing that the UK government was obviously first to negotiate a trade agreement with the US. I know they're now very keen to put it into place and actually get it working. And I think we're all keen to see that the government is very focused on that because that's important.

We have, though, also made the point in the MPC context. And I'll make it again that because the UK is a very open economy. And of course, that's a good thing in many ways. It's not just the trade agreement that the UK government negotiates that affects the UK economy, it's what happens with other countries as well. So, you know, it's in our interest to make sure that this whole area of trade and tariffs is resolved.

And we can go forward, and I hope we can go forward also restoring what I would call multilateral governance in that field, because I think that is the way to have a much more stable and predictable system, and I think we want to get back to that. So we have to watch it very carefully.

The final thing I'll say just precisely to your question, going back to the previous question, really, I mean, we do have to watch it because again, this, the relationship between an increase in uncertainty and unpredictability in the world economy and caution in terms of investment, which will have some employment effects, is something we have to watch very carefully.

If it's bad for activity in the world economy, then we have to be very focused on that. And we here at the Bank of England have to be focused both wearing our monetary policy hat, but also our financial stability hat as well.

Sarah Breeden

Can I add one thing to that? As we set out in the report, the corporate sector in aggregate is resilient. The levels of indebtedness that we see are at levels that we've not seen for 20 years or so. However, there are pockets of vulnerability and to go back to Kayleena’s question the point about highly levered up corporates, they may be more exposed to shocks like this.

So, there is, an intersection across those two points.

Katie Martin

Martin.

Martin Arnold

Martin Arnold from the Financial Times.

Could I ask about the Office of Budget Responsibilities report that came out yesterday, which warned about the daunting risks to UK public finances, and how the efforts to bring the UK to a more sustainable fiscal footing have met with only limited and temporary success so far.

How big a concern is that for financial stability?

And do you have any words of advice for the government on bringing down the deficit and debt levels in the UK? Thank you.

Andrew Bailey

Well, Martin, I'm very careful about what I say about fiscal policy as a central bank governor. And I think that's appropriate.

So, I will stick really to things that I have said before because I think this is important. I understand, obviously, where the OBR are coming from.

I think there are, to my mind, four very important, what I would call structural issues in here at least, and what I will say, and I'll list them in a moment.

What I will say is that I think it's important that there is a very clear focus and a very clear understanding broadly, including, I think, conveyed to the public about what these issues are because they are quite they are big and they are somewhat unusual. It's not unprecedented, but unusual. And so I think the there are three headwinds and one structural issue in the economy.

The headwinds are these; like all other industrialized countries, we have a population that is, on average, aging, and that has implications for labor supply. It has implications for the public purse.

So that's the first one.

And by the way, it’s in the nature of that development that it is very slow moving in terms of changes in it because of obviously the nature of what causes it.

The second one, obviously, sadly, is that what I've described as the post-Cold War defense dividend is over and it's going back the other way.

And the third one is obviously responding to the challenge of climate change. Those are the three challenges. And I think it's very important that, they affect us in terms of our assessment of financial stability. They affect us in terms of our assessment of monetary policy. And we do that. But it's important that there is a very clear focus.

I don't think it's just a matter of saying it's all daunting. I think you have to look at the issues that are underlying it.

And then the fourth one is something I've spoken on quite a bit in recent times, its one thing that raises the productive, you know, the potential growth rate in any economy and is one thing that raises living standards and that is productivity growth. And so how we generate productivity growth, what really moves the dial on productivity growth? I made some remarks earlier this year on this question about changes in technology over the long term. Is AI going to be the next general purpose technology, which can do that? Because this is what we've seen in history.

And again, this is important for us to follow these things very carefully and understand how they affect it and how the economy can respond and how we can generate growth in the economy.

This is why we're doing this work, which I highlighted earlier, which Sarah is leading on how can the financial system contribute to contribute to productive growth in the economy? Because moving the dial and raising productivity growth, because we've had lower productivity growth now for at least 15 years.

Moving the dial is something that's critical to all these issues, and it's critical to the issues that the OBR have highlighted.

Now I say I'm not going to join in. So please don't walk out of the room thinking I've made some big statements about, you know, is it daunting? Is it this or is it that?

I think we just need to focus on what are the big underlying issues here.

Lawrence White

Thank you.

Lawrence White with Reuters.

With consolidation in the UK's mid-size and specialist bank recently, the competitiveness of that sector is in focus.

I think some analysts had hoped for an update on your MREL consultation today or at Mansion House next week, by saying that you're going to update on capital requirements at the next FSR.

Are you ruling out any sort of incremental update on things like MREL until that time.

And just more broadly, what are you sort of considering in terms of helping to lift the competitiveness of those mid-size banks, which do seem to have kind of languished in recent years?

Andrew Bailey

So, I'll split this up if you like. I'll say a little bit about MREL.

I think Sam will probably want to come in on strong and simple in the capital regime, and Sarah may want to come in as well.

Let me start on MREL because you raised it and it's an important issue. And can I just sort of frame this for a moment?

MREL of course, is essentially, what do we do in the resolution regime and particularly what do we do in the resolution regime where we judge that the failure of the institution. Well, actually, where the failure of the institution goes beyond just the coverage of insured deposits.

I mean, what do we do about uninsured deposits?

Now, the MREL regime is there for big banks, which you can think of as essentially saying it's a regime where the institution is sufficiently large that it has to self-insure to prevent that failure.

It gets recapitalized. And of course, that was the big part of the solution of too big to fail.

So, the MREL question really is where do you draw the boundary in that world between saying you need to self-insure because your failure would be too difficult to handle and too consequential, therefore, we can't go down the road, but we can't have too big to fail. Therefore, that's the solution.

Smaller institutions where that isn't the appropriate, appropriate solution, not least because the cost of raising the debt for MREL is not, for smaller institutions, it's a lot more expensive because they're not in public debt markets in the same way.

There are options, other options. And here, of course, you may well know that bit of legislation that's just been passed by Parliament, which allows us to use a different approach to a bridge bank solution, is a big help here because we can solve that issue for smaller institutions using a bridge bank that's capitalised by the FSCS. So there's another option.

So, the MREL debate is not about what is the level of capital. It's about where is the right place to draw that boundary between, you know, you're too big, you need to self-insure or actually it's sensible to mutualize it via the FSCS.

And of course the industry, different parts of the industry will have distinct interests in this because it's sort of who pays the bill ultimately. So sorry for the long explanation, but I think it's important because MREL's a bit mysterious otherwise.

And we will be coming out with, with new proposals on it. Yes.

Sam Woods

So on timing. No, we certainly won't delay coming out on that until the end of this first phase of the capital review. So that'll be up before the summer on other things we're doing.

We're very keen to get on with our strong and simple regime, which is covers the bottom end of the group of the banks that you're referring to. That's been a bit tied up with the Basel timetable on both of those things will be coming out with an update before the summer, so watch this space on that.

The other area, which has been very difficult actually, for both for us and actually for banks of all sizes, but it has come particularly strongly from the set of firms you're talking about, is in the area of models and particularly mortgage models.

Now when we approve a mortgage model for a bank, if it's a mortgage bank that has the effect of setting the capital requirement for that bank. So, it ought to be a very high standard. It ought not to be, something that is done in a slapdash or a casual way.

But we have been looking again at that area, and again, I think we'll be out before the summer, with some more ideas, both about how the process works and maybe about ways in which we could simplify, some of those modeling requirements.

So that's another area to watch.

Last point just to mention on the capital review, we will of course look at domestic banks and international banks because particularly when you're doing your comparisons and how do we compare to the Basel standards, for instance, you can get quite a different view depending on which lens you take.

Sarah Breeden

Maybe I'll add just one thing on the theme of innovation. One of the things that we try and do is think about how can we support even smaller firms to innovate and keep up with the times?

So, the work that we're doing on payments, the work we're doing on artificial intelligence, the work that we're doing on climate change, all of that is designed to ensure that what might otherwise be a set of things available to the bigger guys is available to smaller firms too.

Katie Martin

Jessica.

Jess Clark

Hi. Jess Clark from the Daily Mail.

What's your view on the possibility that the government will mandate how much pension funds should invest in UK assets?

Andrew Bailey

Well, I've said a number of times that two things. One, I do think that addressing the pension fund question is very important in terms of investment. It goes back to what I was saying earlier, actually to part of Martin's question, actually, that we've had a low level of pension fund investment in the what I call the real economy in this country, at a low level of investment in this country. And I think structural changes to the pension fund industry are helpful in this respect, particularly, I think, in terms of some consolidation, because there are economies of scale and scope in terms of managing risky assets. I mean, that's reality.

Now, however, I have said before, I do not support mandating. I don't think that's appropriate. So, I sort of occupy the space, if you like, as saying, look, we really do need this to happen. I hope we can, create through the reforms that I think. By the way, both the previous government and the current government have essentially taken the same approach.

And this is in this sphere, there's not a lot of difference between what they've both said in this respect. I hope I've said a number of times, I think reforming the pension system does, to be honest, require it's a lot of heavy lifting, but it needs to be done. It will take a bit of time, but it needs to be done for these structural reasons.

I don't support mandating, but I do hope that we can reach a point where there is therefore through the changes that we see a natural ability to tackle this problem. And I do think the fact that, you know, both industry, our next door neighbor, the Lord Mayor, successive governments have put, you know, put priority on this, underlines how important it is.

Katie Martin

Anyone else?

Go ahead Szu.

Szu Chan

I've got a quick one on LTI mortgages. You've outlined some tweaks today on loan to income ratios. Given you've been told to go for growth, is there scope for more changes to get people on the housing ladder?

Andrew Bailey

Well, I'd say as I sort of previewed in my opening remarks, I'll get Sam to come in on this.

Just to start off.

We've obviously we set the axggregate 15% limit a decade ago. Now it has it has never been fully used in aggregate. And its use does vary of course, over time, a bit as well.

I think I'm right in saying on the latest numbers we have, I think aggregate usage was a little bit under 10%, about 9.7% or something like that. So, there's quite a buffer there.

Now there's all sorts of reasons why that that that's the case. Every firm gets the same allocation. Obviously, it's a flat allocation.

Some firms have business models that are more naturally use the limit, others don't. Some firms maintain buffers, others may or may not.

But we've always, right from the outset, we've been clear that we're comfortable with 15% being used.

And by the way, if you go back to why we set this, this policy out, there's a macroeconomic reason underlying it, which is if the proportion starts getting high and then we have a shock to the economy, it has real effects on the economy. We've published all that work a decade ago.

Now, we do think that it's however useful and a number of firms have raised this, and I understand exactly why they have that. We would like to see the 15% aggregate limit more used. We'd like to come up with ways by which, without changing our overall risk tolerance, from 15% in aggregate, more is used. And that's what we're doing.

So, I'll get Sam to explain what we're doing immediately. To put that in motion.

Sam Woods

Thanks, Andrew. Thanks Szu

I appreciate it seems quite technical, but actually I think it's more than the tweak what we're doing on this, because we've got that unused capacity within the existing policy, which results from the way in which the policy was implemented. And it's actually a bit of an example of the thing that Sarah was talking about, the usability of buffers.

So, we want to allow firms to go up to, in aggregate, the 15%, which will mean some firms being able to go further than the 15% for the reasons that Andrew just described. So, we've decided as it will take a while to actually rework the full implementation, not to delay and to go ahead.

Today we've offered firms something called a modification by consent, which is a kind of a waiver which they can apply for today in order to start using that capacity that's there to be used up.

I say more than a tweak. If you look at the unused capacity there at the moment, we think that's equivalent to another 36,000 high LTI first time buyer mortgages per year in the UK.

Now, of course, there are other constraints on first time buyers' ability to buy a house. And we lay them out in the report today, for instance, the 78% who don't have the 5% deposit for the median first-time buyer would usually buy in their area.

So that is an upper bound figure, but that is the unused capacity, which is at the moment resulting from the way we've implemented it and which is therefore freed up by this change. One last comment I make just by way of caution, which is inherent in us offering those waivers to firms and in a desire to bring up to the aggregate is the possibility, I would say, the strong possibility that we reach the 15%. And at that point we have to put the brakes on.

Now, my experience tells me that it's highly plausible that in that scenario, we will hear significant complaints from lenders about why you're putting the brakes on. But I'd point out that having those brakes is a completely necessary safety feature if you're going to allow the acceleration we're allowing today.

Sarah Breeden

Can I add one point to that? Sam talked about firms having buffers, not wanting to breach the limits so they run below it.

But there's another aspect which goes a bit to the earlier question about firms having different business models. And some firms are happier than others to have more of this type of lending. And what the change today does is enable them to have a little bit more of the limit. And those that are in a different place are not having that.

And I think that's useful given our policy, as Andrew said, is one that's designed to affect the household sector, not individual firm lending to it.

Szu Chan

To go further, in your view?

Andrew Bailey

Well, as Sam said this is a good part of this was used. This is quite a change. So I think well let's see what happens.

How much of it's taken up, what the consequences are. And then we'll. Yeah, we. One thing I would say is we this is one of our tools we review this tool almost more frequently than others because it is so much obviously having a direct consequence on households, on people's ability to buy properties. It's the right thing to do.

So I can assure you that we will be reviewing frequently to see how it's going.

Katie Martin

Go ahead. Tom.

Thomas Chow

Hi, I'm Thomas from Central Banking.

I want to ask about stablecoins. In the meeting record, you mentioned that there are benefits to having a regulatory framework that is proportionate to risk. I was wondering if you could elaborate a little bit more on that, and whether you think the Genius Act in the US is a regulatory regime that is proportionate to risk?

Andrew Bailey

Well, it's got a great name to start with. I mean you can't fault the US for the imagination of their naming of their legislation.

Let's just start with crypto as a whole and then move through it. And I divide crypto into two parts broadly.

One is the sort of the unbacked Bitcoin sort. And then the second part is stablecoins which are backed. So, the unbacked sort I've said this before many times it's highly risky. It's an investment. It's not money. This is the key point.

I know, it's devotees will disagree with me because people have written books on this subject. Well, not disagreeing with me, but on the subject. I don't regard it as money. It doesn't satisfy the test of money, the singleness test.

It doesn't hold its nominal value, which is what money should do. So that you and I can be assured that if I pay you a pound or you pay me a pound, your pound is equal to my pound.

Stablecoins purport to do that. I mean, that's the whole point of stablecoins.

They purport to be money in the sense that they can be used as a medium of exchange, and therefore they in my view, they have to meet a test of money. We're going to have to subject them to that test. Are they money?

Because that's essentially why, you know, if you ask the question, why do you regulate the banking system? One of the big reasons we regulate the banking system is because most of the stock of money is in bank accounts, is in deposits. Therefore, it needs to meet that test of nominal value.

So stablecoins in my view, are going to have to live up to that test and to the to the point about the Genius act, which we will, obviously, we are and will study very carefully, and particularly how it's put into effect by the US regulators.

And then the question of obviously, you know, how what is going to be the regime for sort of use of dollar stablecoins outside the US. That for me is the test.

They're going to have to pass the test. Do they satisfy a test of the singleness of money so that Sarah made this point has made this point before. Therefore, you can trust the value of money.

That's the test.

Katie Martin

Great.

Thanks very much.

Andrew Bailey

Thank you.