



BANK OF ENGLAND

Mark Carney
Governor

Bernard Jenkin MP
Public Administration and Constitutional Affairs Select
Committee
House of Commons
London
SW1A 0AA

14 June 2016

Dear Mr. Jenkin,

I am responding to your letter to dispel immediately the numerous and substantial misconceptions it contained.

First, I have not "already made [my] views known about the question in the forthcoming referendum". Nor do I intend to share my private opinion other than via the anonymity of the ballot box when I join millions of others to cast my vote. All of the public comments that I, and other Bank officials, have made regarding issues related to the Referendum have been limited to factors that affect the Bank's statutory responsibilities and have been entirely consistent with our remits.

I have made this point explicitly on a number of occasions. For example, at the outset of a speech I gave last October, alongside a report we published on EU membership and the Bank of England, I said "Our report is solely concerned with how EU membership affects the Bank's ability to achieve our core objectives of maintaining monetary and financial stability. It is not a comprehensive assessment of the pros and cons of the United Kingdom 'being in Europe'."¹

In my evidence to the House of Commons Treasury Committee session on the economic and financial costs and benefits of UK membership of the EU, I was clear that "economic questions are important questions in terms of the broader decision the people of the United Kingdom have to make, but they are not the totality of the considerations upon which people will reflect and make their decision on how to vote. We will not be making and nothing we say should be interpreted as making any recommendation with respect to that decision."²

Second, your letter demonstrates a fundamental misunderstanding of central bank independence as enshrined in statute. The Bank has been given, by Parliament, operational independence to pursue monetary and financial stability, within clearly defined frameworks. The Bank must assess the implications of

¹ See Carney, M (2015), Cairncross Lecture, October 2015, available here <http://www.bankofengland.co.uk/publications/Documents/speeches/2015/speech852.pdf> and Bank of England (2015), EU Membership and the Bank of England, October 2015, available here <http://www.bankofengland.co.uk/publications/Documents/speeches/2015/euboe211015.pdf>.

² Oral evidence: The economic and financial costs and benefits of UK membership of the EU, Tuesday 8 March 2016, available here: <http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/treasury-committee/the-economic-and-financial-costs-and-benefits-of-uks-eu-membership/oral/30246.html>

the UK's EU membership for our ability to achieve our core objectives. The Bank has a duty to report our evidence-based judgments to Parliament and the public. Indeed that responsibility to provide a high level of transparency is enshrined in our remit.

For example, the Remit for the Monetary Policy Committee sets out that "the Committee should promote understanding of the trade-offs inherent in setting monetary policy". Moreover, it requires when inflation deviates from the 2% inflation target by more than 1 percentage point as was the case in May, that the Governor must write an open letter to the Chancellor that sets out, amongst other things, a description of "the trade-off that has been made with regard to inflation and output variability in determining the scale and duration of any expected deviation of inflation from the target rate" and "how this approach meets the Government's monetary policy objectives". Given that in the view of all nine independent members of the MPC the "most significant risks to the MPC's forecast concern the referendum" and the implications of a vote to leave the EU "could lead to a materially lower path for growth and a notably higher path for inflation" and therefore the Committee "would face a trade-off between stabilising inflation on the one hand and output and employment on the other" it would have been clearly contrary to our remit not to comment on this in our publications.³

Similarly, the FPC was quite clearly meeting its statutory remit when it reported that in agreeing its view on the outlook for financial stability and, on the basis of that, its intended policy actions, it "assessed the risks around the referendum to be the most significant near-term domestic risks to financial stability".⁴

As I testified to the House of Lords Economic Affairs Committee in April 2016 "This is the fundamental standard of an open and transparent central bank. Assessing and reporting major risks does not mean becoming involved in politics; rather, it would be political to suppress important judgments that relate directly to the Bank's remit and which influence our policy actions."⁵ As I also explained in my testimony to the House of Commons' Treasury Committee in May 2016, if "we are changing policy, as the Bank of England has—we have changed our liquidity policy, we have changed our supervisory policy, and we might have to change our monetary policy in pursuit of our remit—we have an obligation to disclose that".⁶

The Chair of the Treasury Committee, through which the Bank of England is accountable to Parliament, has acknowledged the appropriateness of the MPC setting out the impact of this issue on our statutory responsibilities when he said, again recently and publicly, "a vow of Omertà from the Bank of England on this subject would have resulted in a bumpy hearing or two for you and your colleagues in front of this Committee in the face of a decision or an event of this type."⁷

Third, your letter refers to section 125 of the Political Parties, Elections and Referendums Act 2000 (PPERA). The Bank is familiar with PPERA and has confirmed its understanding of those provisions with the Electoral Commission. The Bank is not "*a person or body whose expenses are defrayed wholly or mainly out of public funds*" and, as such, is not subject to the restrictions in section 125.⁸ Nonetheless, the Bank has voluntarily determined to observe pre-Referendum purdah in the spirit of the guidelines issued by the Cabinet Office on 26 May 2016. Of course, the Bank must continue to pursue its statutory objectives throughout the purdah period and will therefore continue to publish 'business as usual' communications pursuant to its statutory remit.

³ Monetary Policy Summary and minutes of the Monetary Policy Committee meeting ending on 11 May 2016 available <http://www.bankofengland.co.uk/publications/minutes/Documents/mpc/pdf/2016/may.pdf>

⁴ Record of the FPC's March 2016 meeting is available here:

<http://www.bankofengland.co.uk/publications/Documents/records/fpc/pdf/2016/record1604.pdf>.

⁵ Available <http://www.bankofengland.co.uk/publications/Documents/other/treasurycommittee/other/eac190416.pdf>

⁶ Oral evidence on the Bank of England inflation report, Tuesday 24 May 2016, available here:

<http://www.parliament.uk/business/committees/committees-a-z/commons-select/treasury-committee/inquiries1/parliament-2015/bank-of-england-inflation-report-hearings-2015-16/>

⁷ See footnote 6 for reference.

⁸ Further details of our funding arrangements can be found in our Annual Report, available

here: <http://www.bankofengland.co.uk/publications/Documents/annualreport/2015/boereport.pdf>.

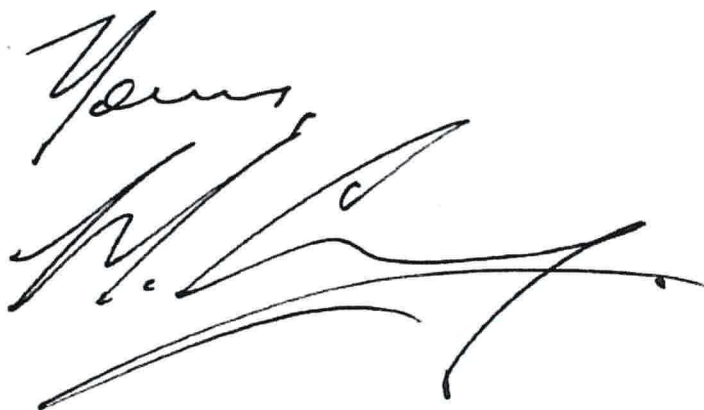
The Bank's full arrangements for purdah were shared with the Chairman of the Treasury Select Committee on 25 May 2016. As I noted to Andrew Tyrie MP, these arrangements were discussed by the Bank's Court of Directors and circulated to all Bank staff, including MPC, FPC and PRA members. They are in addition to our normal codes of conduct for our policy committees that are available on the Bank's website.⁹

As I highlighted in my most recent evidence to the Treasury Committee, the most obvious "business as usual" publication that the Bank will make this month is the minutes of the latest MPC meeting which will be published on 16 June. These minutes will provide a full record of the MPC's deliberations and the factors the Committee considered relevant to its monetary policy decisions.¹⁰ As I noted in my evidence, these may therefore make reference to Referendum effects if the independent committee members judge them to be relevant to the pursuit of the MPC's remit. Again this is entirely appropriate, especially if, in the view of the independent MPC, the data on which our monetary policy decision is based are being affected by the referendum.

Mr Jenkin, in conclusion, transparency is a hallmark of Parliamentary accountability. My comments as Governor, and those of my independent colleagues, have been in the discharge of the Bank's responsibilities. Those responsibilities stem from the sovereign will of Parliament which we must respect. The vast majority of these public statements have been made in the context of official publications relating to the Bank's policies or minutes of its Committee meetings, or during parliamentary testimony. The Bank's policies and the minutes of the proceedings of its committees are published to hold the independent members of those committees to account and to enhance the effectiveness of their policies – there is an extensive literature on how to structure central bank independence and accountability most effectively, which is summarised and drawn on in the recent Warsh Review.¹¹ I would note that I have testified more than anyone else in front of Parliamentary Committees having given evidence on 22 occasions since I became Governor in July 2013.

Given his consideration of this issue, and our accountability to Parliament via his Committee, I am copying our exchange to the Chair of the Treasury Committee. You should feel free to place these letters in the public domain.

In the future, I would be grateful if you would do me and my fellow independent committee members the courtesy of consulting the public record before writing letters such as that which I received on Monday.



⁹ MPC Code of Conduct is available here: <http://www.bankofengland.co.uk/monetarypolicy/Documents/mpccoc.pdf>

FPC Code of Conduct is available here: <http://www.bankofengland.co.uk/financialstability/Documents/fpcoc.pdf>

¹⁰ Transcripts of these meetings, alongside all relevant documents and analysis, will be published in eight years.

¹¹ See Warsh, K (2014), Transparency and the Bank of England's Monetary Policy Committee, available here: <http://www.bankofengland.co.uk/publications/Documents/news/2014/warsh.pdf>

