BANK OF ENGLAND

News release

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

20 November 2017

Monetary Policy From End to End: Define, Decide, Deliver

In his first speech as Deputy Governor for Markets and Banking, and as a member of the Monetary Policy Committee, Sir Dave Ramsden outlines his assessment of the UK economy and also highlights how, through innovation, the Bank of England is strengthening the resilience of key markets and financial infrastructure that underpins the implementation of monetary policy.

At its November policy meeting, the MPC judged that the effects of rising import prices on inflation would diminish over the next few years, and domestic inflationary pressures would gradually pick up as spare capacity is absorbed and wage growth recovers. It also judged that the steady erosion of spare capacity in the economy had reduced the degree to which it was appropriate for the MPC to accommodate an extended period of inflation above target.

Speaking at Kings College London on Tuesday evening, Dave outlines why he was not in the majority of MPC members to vote for an increase in Bank Rate. He says: “That was not because I disagree with the overall framework for setting monetary policy in this exceptional period, but rather because I have a somewhat different assessment of the economy.”

Dave examines how the economy has responded since the last year’s referendum on European Union membership. He states: “The biggest risk I see to that outlook for demand is around the resolution of the current uncertainty about our eventual trading arrangements and the path that will be followed to reach them. Were that uncertainty to be lifted, I can see a case for why whole economy demand could grow more strongly, more in line with, for example, recent manufacturing indicators. Equally, were uncertainty to persist at current levels or even increase further, I could see a case for demand growth, and in particular investment growth, being weaker.”

On the supply side, Dave notes it is more difficult to reach a firm conclusion on why the economy has behaved as it has since the referendum. One potential explanation is that since the referendum workers have responded to uncertainties about the outlook by showing flexibility in their wage demands: “People’s willingness to accept lower real wages would encourage firms to hoard labour, and shift away from capital expenditure toward more labour input for a given unit of output.”

In summarising his decision, Dave says: “The weakness in real wage growth, and the subdued nature of domestically generated inflation mean I am not yet ready to discount the idea that labour market flexibility is continuing to intensify. If true it would mean there is a little more room than headline measures of slack suggest for the economy to grow without generating above-target inflation in the medium term. For that reason, in our November meeting I was willing to wait for more evidence on the evolution of wage and domestic cost growth before beginning to withdraw some monetary stimulus. So I voted for no change in Bank Rate.”

Dave goes on to say that “to be successful, monetary, and indeed financial stability, policy must be effectively delivered. That requires the efficient implementation of decisions. And it requires stable and effective core sterling markets and payments infrastructure.” He says: “The Bank has always stood ready to use its convening powers or, where necessary, intervene directly in order to help ensure the smooth functioning of core sterling markets […] I believe the Bank’s work in this area will play an important role in ensuring the UK has a resilient, effective and innovative financial system as it leaves the EU.”

Dave focuses on two ongoing initiatives: the reform of the SONIA overnight interest rate benchmark and the renewal of the Real Time Gross Settlement (RTGS) system. He notes: “Both exhibit our willingness to define ourselves in terms of best practice of governance and transparency, and our commitment to working closely with end users of this infrastructure.”

Dave marks the passing of a significant milestone in the RTGS renewal programme last week, when the Bank moved to direct delivery of the UK’s High Value Payment System, ending the split of responsibilities between CHAPS Co, a private sector administrator of the scheme, and the Bank, which provides the underlying infrastructure. He says that “the changing scale, nature and sophistication of cyber and other threats to the stability of payment systems mean there is a compelling financial stability case for being able to provide end-to-end risk management within one organisation.”

Dave notes that the Bank has worked closely with the shareholders, users, management and staff of CHAPS Co to bring about a smooth transition to direct delivery. And that in the first week of operation from the Bank of England, 862,000 CHAPS payments were completed, with a value of £1.5trn.

ENDS