Bank of England speeches

A short summary of speeches and *ad hoc* papers made by Bank personnel since publication of the previous *Bulletin* are listed below.

The labour market, productivity and inflation

Martin Weale, Monetary Policy Committee member, November 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech621.pdf

In a recent speech at the Manchester Economic Seminar, Martin Weale reviewed the characteristics of the labour market since the financial crisis in 2008. He suggested that a change in the working of the labour market had some implications for the growth of labour productivity. In particular, he found that changing occupation had typically resulted in a marked reduction in earnings since the onset of economic crisis, whereas before the crisis occupational moves had, on average, been associated with increases in earnings. This effect accounts for, at most, just under 10% of the total labour productivity shortfall. In his subsequent analysis, he concluded that there appears to have been little change in the relationship between unemployment and inflation since the crisis. He then emphasised that the factors underlying productivity were not sufficiently well understood to be confident that labour productivity would recover following a sharp increase in demand.

Broken glass — moving towards sustainable financial regulation

Michael Cohrs, Financial Policy Committee member, November 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech620.pdf

In this speech, Michael Cohrs surveyed the progress of regulators in reforming the financial system following the crisis, underlining the limitations of regulation, and highlighting key challenges.

Reflecting on his experience on the Financial Policy Committee, Michael noted that the Committee has found itself straying occasionally into the microprudential sphere, partly due to the concentrated nature of the British banking system. Nonetheless, he remained confident that macroprudential regulation would play an important role alongside microprudential regulation going forward both in the United Kingdom and elsewhere.

Turning to the issue of broader structural reform, Michael reflected on the considerable benefits that could arise if the Liikanen and Vickers proposals were enacted in full force, particularly in making the resolution of financial institutions much easier. But he remained concerned about the too big (or too important) to fail dilemma, calling for a greater urgency from policymakers to tackle this key problem. In particular, adding further pressure with a credible resolution regime and additional taxes for overly large financial institutions should be considered.

Michael also expressed a note of caution with regards to the current environment, explaining that pushing too hard on lending at a time when creditworthy companies and households are deleveraging may be counterproductive if increased lending to non-creditworthy borrowers were to lead to higher default rates.

The challenges in assessing capital requirements for banks

Andrew Bailey, Executive Director, November 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech619.pdf

In this speech at a Bank of America Merrill Lynch conference, Andrew Bailey continued his series of speeches on the appropriate approach to assessing the capital requirements for banks. Andrew argued that regulators needed to take into account a number of factors when making a judgement about the safety and soundness of firms.

Andrew reviewed the history of Basel I and II, and how these accords failed to adequately cover the risks the banks were taking. Andrew outlined how supervisors were now acting to reduce the excessive leverage and risk-taking that had grown in the past 20 years.

Andrew discussed the role of the leverage ratio. He said that he found it a useful back-up check rather than a 'frontline tool', in that, by itself, it did not prevent the main causes of the crisis. Andrew finished by setting out the considerations he believed should be taken into account when determining whether banks needed to hold additional capital.

Central banking in boom and slump

Charlie Bean, Deputy Governor, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech617.pdf

In the J S G Wilson Lecture at the University of Hull, Deputy Governor Charlie Bean examined how policy had been set prior to the financial crisis and considered the lessons that have been learnt. He explained how monetary policy is not well suited to preventing credit/asset price booms and described the role of the new Financial Policy Committee in overseeing the stability of the financial system. In discussing the role of monetary policy in the aftermath of the financial crisis, he noted how the effect of lower yields on demand may be weaker when uncertainty is elevated and balance sheet repair is under way. But this did not mean that quantitative easing was impotent. He noted that a 'helicopter drop' of money may not be the obvious way to stimulate demand and that cancelling gilts held in the Asset Purchase Facility would weaken the link between policy and the economic environment.

A leaf being turned

Andrew Haldane, Executive Director for Financial Stability, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech616.pdf

Andrew Haldane spoke at an event organised by Occupy Economics to discuss how to create a more socially useful banking system. He argued that we are in the early stages of a reformation of finance, one that Occupy had played a significant role in helping to stir by highlighting the problems posed by rising inequality, pre and post-crisis.

Andrew argued that a financial reformation could be delivered with the help of five 'C's: a change in banking Culture; increases in bank Capital; deferred Compensation; moderating fluctuations in Credit; and promoting Competition in financial services. Over the past few months, there have already been encouraging signs of that change taking place and a new leaf being turned in the banking system.

Deconstruction

Ben Broadbent, Monetary Policy Committee member, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech618.pdf

In this speech, Ben Broadbent considered why the construction sector has experienced a bust without a preceding boom and explained why this may come to an end soon. One factor that he put forward is that, since credit conditions are in part formed internationally, the tightening of credit that has contributed to the bust of the UK construction sector has been greater than would have been caused by domestic factors alone. Another factor is that, for a long while before the crisis, the construction industry saw no growth in productivity. Its relative costs and prices therefore rose rapidly and, although nominal spending on construction grew fairly strongly, the sector's real output did not. But he argued that productivity growth in the construction sector may improve as the economy recovers. And as banks' funding conditions have fallen significantly this year, in part thanks to the Funding for Lending Scheme, easing credit conditions should have a positive effect on mortgage approvals and residential investment. He concluded that although the prospects for the construction sector look less unfavourable than they have done for a while, the inherent volatility of this sector coupled with general macro uncertainty makes it hard to be certain that this is the case.

On being the right size

Andrew Haldane, Executive Director for Financial Stability, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech615.pdf

In this Beesley Lecture, Andrew Haldane discussed the 'too big to fail' problem, both for individual banks and the financial system as a whole. He started by exploring the potential effects of recent financial deepening and concentration, which has generated escalating expectations of state support, thereby encouraging further expansion and concentration.

He then explored three policy approaches to tackling the 'too big to fail' problem. One of these is the imposition of systemic surcharges of additional capital. These have the effect of reducing expected system-wide losses in systemically important banks, but not materially so at current levels of the surcharge. Second, new resolution regimes are being put in place to allow banks to fail safely — although the market still has doubts about the credibility of these regimes for the biggest banks. Finally, structural reform of banks is taking place, through proposals by Volcker, Vickers and Liikanen.

Despite this policy progress, expectations of state support remain high. Andrew proposed potential additional reforms to tackle 'too big to fail', such as placing limits on bank size and market share and increasing competition. Research undertaken by Bank of England economists on economies of scale shows that the costs of these proposals might not be large. While existing initiatives are a step in the right direction, there may be some distance to travel before banking is the right size.

The role of deposit insurance in building a safer financial system

Paul Tucker, Deputy Governor, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech614.pdf

Paul Tucker provided an update on the Financial Stability Board's (FSB's) progress on resolving distressed financial institutions, including the role of deposit insurance. The key objectives were to ensure public money was never used to provide solvency support for a failing bank, but that stability was preserved. That required the introduction of legislation — in Europe, the Recovery and Resolution Directive — to incorporate the FSB's 'Key attributes on resolution', an international standard endorsed by G20 Leaders. Some financial groups would probably need to adapt their structure to remove impediments to resolution. The United Kingdom's plans to ring-fence UK retail deposit-taking were helpful here. Two broad resolution strategies could be identified. 'Single point of entry', where the home country executed a group-wide resolution from the top down. And 'multiple point of entry', where regional entities were resolved individually but in a co-ordinated way. There was a special challenge when a group had not issued enough bonded debt to absorb losses left after the extinction of equity. For groups funded to a very large extent by insured deposits, an alternative would be to 'bail in' the deposit insurers. This could mean that the insurer incurred lower losses than under liquidation and, as usual, any losses would be recouped by a levy on surviving insured banks.

Speech by the Governor to the South Wales Chamber of Commerce

Sir Mervyn King, Governor, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech613.pdf

The Governor began by noting the sheer scale of the adjustment that advanced economies faced, following a period of growing trade deficits and debt levels, and a collapse of their banking systems. The level of UK output remained some 15% below where steady growth since 2007 would have taken it.

Monetary policy had played its part in combating the downturn. There was no doubt that the economy would have followed an even more painful path in the absence of the Monetary Policy Committee's (MPC's) easing of monetary policy. But there were limits to the ability of monetary policy to continue to stimulate private sector spending. Policy could only smooth, not prevent, the ultimate adjustment in the pattern of demand and output needed for a rebalancing of the UK economy. Lower asset values had left debt levels looking too high and households, businesses and, especially, banks were all deleveraging.

Explaining the Bank's role in money creation, the Governor distinguished between 'good' money creation, where an independent central bank creates enough money in the economy to achieve price stability, and 'bad' money creation, where the government chooses the amount of money that is created in order to finance its expenditure. There had been some recent talk of the possibility that money created by the Bank could be used directly to finance government spending. The Governor argued that policies that combined monetary and fiscal elements were unnecessary, and dangerous.

Turning to the outlook for the UK economy, the recovery and rebalancing were proceeding at a slow and uncertain pace. There had been some positive signs, but it was difficult to know if they would persist. The MPC stood ready to inject more money into the economy if those positive signs faded.

The Bank and the banks

Andrew Haldane, Executive Director for Financial Stability, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech612.pdf

In this speech, Andrew Haldane looked at the lessons the Bank has learnt through its 318-year relationship with the banking system, which has culminated in the wholly new framework for financial stability policy being put in place today.

From its beginnings in 1694, Andrew discussed various financial crisis episodes in the Bank's history that have shaped its financial stability role today. The Overend and Gurney crisis of 1866 made clear the Bank's role as last resort lender and guardian of the financial system as a whole. The Bank's cold storage plan in 1914 averted a full-blown credit crisis and expanded the Bank's role beyond liquidity to the maintenance of adequate credit to the wider economy. And the failure of Barings in 1995 brought the Bank to the frontline of crisis management.

Andrew pointed out that the 2008 crisis has produced equally radical reforms, highlighting in particular the introduction of the Financial Policy Committee to conduct macroprudential policy — the missing link in crisis prevention. He noted that, as the Bank embarks on the latest chapter in its 318-year history, it will have learnt from and will build on the lessons of history.

Competition, the pressure for returns, and stability

Paul Tucker, Deputy Governor, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech611.pdf

Paul Tucker reviewed the fault lines in the financial system exposed by the crisis and the elements of the reform programme most relevant to the banking industry. Moral hazard was not a complete explanation of the excessive risk-taking that occurred. Persistently accommodative global monetary conditions, agency problems, myopia and complexity all played a role. He highlighted six aspects to reform. First, holders of bank debt needed to be exposed to losses. Second, there was a need to revisit codes on remuneration, including whether management should be paid in some form of subordinated debt. Third, measures to address industry structure. That included the United Kingdom's ring-fencing plans, which would make the retail banking parts of the United Kingdom's largest institutions easier to resolve. Fourth, a step-up in prudential regulation, with higher risk-based capital requirements and a new backstop cap on leverage. Fifth, a reformed approach to supervision. And finally, the introduction of macroprudential policy to keep the regime up to date and to lean against exuberance.

The future of banking regulation in the United Kingdom

Andrew Bailey, Executive Director, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech610.pdf

In a speech at the British Bankers' Association Annual International Banking Conference, Andrew Bailey spoke about the role of bank regulation in macroeconomic policy.

Andrew spoke about the two hierarchical objectives of the Financial Policy Committee (FPC). The primary objective would involve identifying, and then taking actions to remove systemic risks with a view to protecting and enhancing the resilience of the financial system. The secondary objective was that, subject to being content on the first objective, the FPC should support the economic policy of the government, including its objectives for growth and employment.

The majority of Andrew's speech focused on the issue of capital. Andrew discussed the question of how much capital banks should grow in short order; why we want this to happen; and what form the capital should take. Alongside this, it was important to keep in mind the second FPC objective. If banks were to reach a higher level of capital in short order, this could lead to them shrinking their loan books at a time when they were being encouraged to lend more.

Andrew finished by explaining the actions that the Financial Services Authority and the FPC had taken to date in order to balance the objectives of the FPC.

'Investors: speak now or forever hold your peace'

Robert Jenkins, Financial Policy Committee member, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech607.pdf

In this speech, Robert Jenkins addressed the CFA UK Society — a collection of professionals operating in the investment management industry. Robert encouraged investors to become more actively involved in the ongoing debate about banking reform that was being played out between the banking lobby and the authorities. He suggested that investment managers had the combination of financial expertise and credibility sufficient to counterbalance the banks, and so better shape the outcome of the debate, particularly on the issue of leverage and the level of bank equity capital.

Twenty years of inflation targeting

Sir Mervyn King, Governor, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech606.pdf

The Governor's Stamp Memorial Lecture marked the 20th anniversary of the introduction of inflation targeting. Targeting price stability had led to a sustained period of low and stable inflation. But the recent financial crisis had raised the question: 'should monetary policy go beyond targeting price stability and also target financial stability?'.

The Governor set out three arguments for why meeting an inflation target in the short run might increase the risk of financial instability in the longer term. First, misperceptions on the part of households, firms and banks could stimulate unsustainable levels of spending and debt. Second, price stability could lead to complacency about future risks. Third, monetary policy itself could affect financial sector risk-taking.

The Governor argued that monetary policy could not fully offset the effects of financial crises after they have happened. This suggested that a strategy of higher interest rates prior to the crisis might have brought some benefits for financial stability. But those benefits would have been limited because the crisis was global in nature. Moreover, the effectiveness of persistently higher interest rates would have depended on what happened to the exchange rate, and such a strategy would have been a 'big gamble'.

The Governor argued that it would have been better to alleviate the risk of a crisis with macroprudential tools, such as a leverage ratio, rather than interest rates. But it would be optimistic to rely solely on such tools to prevent all future crises. In view of that, the Governor argued that there may be circumstances in which it was justified to aim off the inflation target temporarily so as to moderate the risk of financial crises. Nevertheless, the case for price stability remained as strong as it was 20 years ago. Low and stable inflation was a pre-requisite for economic success.

Prudential regulation: challenges for the future

Andrew Bailey, Executive Director, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech604.pdf

In this speech at the University of Edinburgh Business School, Andrew Bailey spoke about the changes being made to the regulatory system in the United Kingdom and the benefits of having separate prudential and conduct regulators.

Andrew spoke about the objectives that the Prudential Regulation Authority will have: promoting the safety and soundness of firms, focusing on the potential harm that firms can cause for the stability of the United Kingdom's financial system; and additionally for insurance companies, policyholder protection.

Andrew argued that it was not the role of regulators to ensure that firms did not fail, but that they should ensure their failure would not cause significant disruption to the supply of critical financial services.

Finally, Andrew discussed the recommendations of the FPC relating to liquidity and capital, and the actions that the Financial Services Authority had taken to support the Funding for Lending Scheme.

We should go further unbundling banks

Andrew Haldane, Executive Director for Financial Stability, October 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech605.pdf

In this article, published in the *Financial Times*, Andrew Haldane discussed the reasons why global banks are currently valued at a discount of their equity book value, and what action can be taken to change this.

He noted that lowly bank valuations are in part a legacy of the past and in part a prophecy about the future. The legacy is the overhang of overvalued bank assets, caused by forbearance on past loans and inadequate provisioning for future loan losses. Looking ahead, investors appear to be uncertain over the future franchise value of banks. He argued that the problem appears to be not so much 'too big to fail' as 'too complex to price'.

Andrew said that there is a strong case for regulators to step in to lessen the uncertainties over valuations. He pointed to the Financial Policy Committee recent recommendation that UK banks make prudent valuations of the assets across their balance sheets.

He noted that structural solutions, such as the Vickers proposals in the United Kingdom, ought to help solve the 'too complex to price' problem. Alongside efforts to strengthen macro and microprudential regulation, these initiatives would help mobilise bank funding and lending, just when it is most needed for the economy.

A debate framed by fallacies

Robert Jenkins, Financial Policy Committee member, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech603.pdf

In this speech, Robert debunked three prominent myths that have hindered the post-crisis debate on regulation. First, Robert argued that there is no trade-off between safety and growth: by replacing debt with equity on their balance sheets, banks can both reduce leverage and support lending.

Second, additional equity is not expensive. While more equity may lower return on equity (RoE), Robert argued that RoE is a poor proxy of shareholder value, as it did not adjust for risk. On a risk-adjusted basis, investors appeared to prefer lower-leveraged firms.

Third, Robert suggested that governments need not choose between financial stability and the competitiveness of their domestic financial centres. Stronger, safer banks are more likely to grow market share at the expense of weaker competitors.

Robert suggested that these three myths had been propagated by bankers who did not understand the concepts of cost of capital or risk-adjusted returns, and were fixated by RoE. These myths had led to suboptimal reform and complicated international co-ordination, which need not be the case if governments and regulators realised they did not need to operate on the basis of such false choices.

Developments in financial markets, monetary and macroprudential policy

Paul Fisher, Executive Director for Markets, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech602.pdf

In this speech, Paul Fisher described how financial markets over the past year had been buffeted by the eurozone crisis, a global slowdown, numerous policy actions and financial sector misconduct issues. But (implied) volatility and skews had fallen to post-crisis lows. This could reflect an assumption that central banks will deal with tail risks. An alternative explanation is that market participants have to some extent adapted to the new environment and decided that the show — albeit a chaste and less spectacular show — must go on. He described the phenomenon as not the old, indiscriminate 'search for yield', but rather a much more calculated hunt.

Paul contended that safe and sound credit institutions are a necessary part of generating sustainable economic growth. Risk-taking needs to be properly appraised, priced, managed and provisioned — not eliminated.

Turning to the Funding for Lending Scheme (FLS), Paul emphasised that it was designed to support the UK economy, not the banks. It creates strong incentives for banks to boost lending. If a bank's lending contracts, the price of liquidity in the Scheme will be higher. He stressed that we cannot expect every bank to increase its lending stock over the drawdown period — the crucial impact will be whether the FLS enables them to lend more than they would have done otherwise. Announcements of reductions in interest rates and the loosening of terms and conditions are indicative of an early impact.

Paul noted that the FLS does not seek to allocate credit to particular parts of the economy directly. Paul expected some banks' borrowing in the Scheme to exceed their lending growth, partly because the Scheme is set up so that the funding can be drawn down in advance. That was just one of the features designed to ensure that the Scheme gave the best possible support to the supply of credit.

A practical process for implementing a bail-in resolution power

Andrew Gracie, Director, Special Resolution Unit, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech600.pdf

In this speech, Mr Gracie outlined the operational steps that would be required in order to enact a bail-in within resolution in the context of the FSB's 'Key attributes of effective resolution regimes', and the European Commission's proposed Recovery and Resolution Directive. These steps include: first, an initial stabilisation period; second, a valuation process in order to determine the extent of losses for the purpose of establishing the amount which creditor claims need to be written down; third, a recapitalisation of the firm's operations via the conversion of further creditor claims into equity; and finally, a restructuring process in order to address the causes of the firm's failure in which long-term viability of certain operations is restored and others are wound down in an orderly way.

Why Britain's banking rules aren't restricting our economic recovery

Paul Fisher, Executive Director for Markets, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech601.pdf

In this article, Paul Fisher argued that the FPC's aims of ensuring a strong and resilient banking sector on the one hand, and supporting lending and economic growth on the other, are not conflicting.

Paul noted that the FPC is not trying to prevent banks from taking risks — every loan carries some credit risk. But it is crucial that the risks taken are known, proportionate and properly managed. The FPC can promote this using macroprudential policy. In 2011, the FPC encouraged banks to improve their resilience without exacerbating market fragility or reducing lending to the real economy. And in June 2012 the FPC recommended banks to make prudent valuations of their euro-area exposures, and to assess, manage and mitigate specific risks to their balance sheets.

By taking appropriate risks prudently, the FPC's primary and secondary objectives are both met. The resilience of the banking system to unexpected shocks is higher if banks manage their known risks properly. And by reducing uncertainty about the amount of risk on their balance sheets, banks will be more attractive to creditors and investors, ensuring a steady flow of funding and, in turn, lending.

The FPC has also asked UK banks to raise capital. This is entirely consistent with the FPC's objectives. A strongly capitalised banking system will be better placed to absorb shocks in the future and maintain lending to the real economy. Capital is used to support lending — it is not an asset on their balance sheets. Instead of worrying about the perceived costs of regulation, there should be more focus on the benefits of a safer banking system that takes measured risks through well-judged lending.

Productivity and the allocation of resources

Ben Broadbent, Monetary Policy Committee member, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech599.pdf

In a speech at Durham Business School, Ben Broadbent considered the reasons for the apparent slowdown in productivity growth in the United Kingdom. He argued that it may be due to a combination of uneven demand shocks across sectors and the subsequent failure of the financial sector to reallocate resources to sectors where they are most productive. The uneven demand could have resulted from a number of sources, including the rise in commodity prices and the impact of the credit crunch on the demand for purely domestic-facing sectors. He then considered the implications of this for monetary policy making. First, he argued that policy should be set not just on its ability to affect demand but its capacity to improve the flow of finance in the economy as well. Second, he thought that policymakers should pay less attention than they normally do to movements in output and relatively more to changes in employment, noting that the relationship between employment and inflation has proved more stable through the crisis than those between either of those variables and output.

Winding and unwinding extraordinary monetary policy

David Miles, Monetary Policy Committee member, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech598.pdf

Professor Miles started by describing the exceptional monetary policy measures instigated since the start of the financial crisis. He argued that the Bank's asset purchase programme (QE) had been effective. The effectiveness of QE had to be judged against what might have happened in its absence. For example, instead of remaining broadly stagnant, GDP might have fallen significantly. Professor Miles also considered whether other, more radical, policies needed to be pursued. Money-financed government spending would not be attractive if it disregarded longer-term inflationary consequences. And if it were designed in a way that was sensitive to the longer-term consequences for inflation then it would closely resemble conventional QE.

Professor Miles then considered the post-crisis monetary policy framework, arguing that the Bank should retain key elements of the pre-crisis framework: the remuneration of reserves and the inflation target. He concluded that it might be advantageous for the Bank to start transitioning back to a more normal stance of monetary policy by raising Bank Rate ahead of reducing the Bank's portfolio of gilts.

Limits of monetary policy

Spencer Dale, Executive Director and Chief Economist, September 2012.

www.bankofengland.co.uk/publications/Documents/speeches/2012/speech597.pdf

In this speech, Spencer Dale discussed the role that monetary policy can play in the recovery from the financial crisis. He focused on the potential limits to the ability of monetary policy to stabilise the economy and the potential costs and side effects of running extremely loose monetary policy for a sustained period.

Mr Dale began by noting that the policy actions undertaken by the MPC have played a critical role in stabilising the UK economy. But he reminded the audience that the ability to use monetary policy as a stabilisation tool is limited by ignorance about how the economy works. In particular, Mr Dale explained that judging the appropriate policy response to a slowdown in output growth is far more complicated now than before the crisis, because the persistent weakness in output since the financial crisis has been accompanied by a period of very weak productivity growth. In that environment, the extent to which policy should be eased depends crucially on the reasons why output is weak, since the MPC's job is to hit an inflation target, not a growth target.

Moreover, Mr Dale noted that prolonged and aggressive monetary accommodation, combined with increasingly unconventional policy tools, also comes with potential costs and risks. Over longer periods of time, sustained loose monetary policy could lead to increases in the risk-taking of investors and financial institutions in a way that could store up problems for the future. It may also delay some of the rebalancing and restructuring that our economy needs to undertake. Mr Dale worried that unless the limits of monetary policy are well understood, a widening gap may develop between what is expected of central banks and what they can realistically deliver.