Bank of England speeches

A short summary of speeches and *ad hoc* papers made by Bank personnel since 1 June 2013 are listed below.

Crossing the threshold to recovery
Mark Carney, Governor, August 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech675.pdf

In his first public speech as Governor of the Bank of England, Mark Carney began by welcoming signs of renewed growth after a period in which the United Kingdom had endured its weakest recovery on record.

Over the past five years a pervasive sense of uncertainty had held the economy back. As a result around a million more people were unemployed than before the crisis, and capacity had lain idle in firms. The Bank of England's task was to secure the fledgling recovery, and allow it to develop into the period of sustained and robust growth that was required to begin to reduce that spare capacity.

The Bank was using its full suite of policy tools to help rebuild confidence. First, the Monetary Policy Committee (MPC) was removing uncertainty with its guidance that interest rates would stay low at least until unemployment fell to a threshold of 7%. That would boost demand, while ensuring that risks to price stability were contained. Second, the Bank was building confidence in banks and building societies by requiring them to repair their balance sheets, so that their capital ratios at least reached a threshold of 7% by the turn of the year. That would put them in a position to support the real economy and promote investment.

Crossing these two 7% thresholds was necessary to ensure that the economy could withstand the inevitable bumps along the road to full recovery. But they would be met in a disciplined way. The MPC would ensure that it brought inflation down as the recovery progressed. And the Bank would use its considerable policy tools to prevent new vulnerabilities, whether in the housing sector or financial sector, from arising during this critical transition period.

In these ways, the Bank of England was helping the British economy over the threshold and into strong, sustainable and balanced recovery.

Global aspects of unconventional monetary policies
Charlie Bean, Deputy Governor, August 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech674.pdf

In remarks delivered at the Jackson Hole Economic Policy Symposium, Deputy Governor Charlie Bean reviewed the domestic and international consequences of unconventional monetary policies. He called for a 'two-handed' approach to setting policy, in which supportive aggregate demand policies are complemented by policies that facilitate the necessary restructuring, particularly of the banking sector. He acknowledged that the risks associated with such accommodative monetary policies meant they were best suited to filling in a temporary hiatus in demand, not a long-lived shortfall. He observed that the international spillovers from these policies are diverse in nature and ambiguous in overall sign. He ended with a few words on the exit from unconventional monetary policies, noting that the heterogeneous nature of the recovery will complicate matters and it was such concerns that had prompted the MPC to offer explicit guidance on the future path of interest rates and asset purchases.

Meeting the challenges of a changing world — the view from the PRA
Andrew Bailey, Deputy Governor, July 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech672.pdf

Andrew Bailey spoke about the rationale behind singling out banks and insurers for prudential supervision by the Prudential Regulation Authority (PRA). Both insurers and banks provide critical services to the public, which need to be accessed on a continuous basis. The PRA has a second objective for insurance — the protection of policyholders — because continuity of insurance protection requires assurance that the policyholder has access to their specific contract. Andrew outlined the macroprudential responsibilities of the Financial Policy Committee and highlighted its interest in the stress testing of insurers. He also set out the PRA's approach to supervising insurers. Business model analysis, which involves answering questions such as how the firm makes money, was an important part of the new approach. Andrew noted that a list of global systemically important insurers (GSIIs) was expected to be published by the Financial Stability Board shortly and that the implications for being labelled as a GSII would then need to be considered.

Central bank asset purchases and financial markets

David Miles, Monetary Policy Committee member, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech671.pdf

In a speech delivered at the Global Borrowers and Investors Forum, Professor David Miles considered the impact of central bank asset purchases on financial market prices and demand. He found little evidence for the argument that asset purchases had created asset price bubbles. He argued that, instead, 'asset purchases helped to stop … a downward spiral in asset prices that would have … become dangerously self-reinforcing'. Considering the effect of asset purchases on demand Professor Miles concluded that by supporting asset prices quantitative easing 'caused spending to be higher than it would otherwise have been'.

Professor Miles also offered his thoughts on how the exceptional setting of monetary policy might be normalised. He suggested that the market environment is crucial: 'purchasing assets in times where financial markets are dysfunctional, and selling them when markets work well, might well be part of an optimal monetary policy strategy [and] a gradual unwind may be smooth'.

A Governor looks back — and forward

Sir Mervyn King, Governor, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech670.pdf

In his final public speech as Governor of the Bank of England, Sir Mervyn King began by noting the twin challenges of engineering an economic recovery and reforming the financial system. Though there were clear signs of a modest economic recovery in the United Kingdom, there remained considerable spare capacity. There was a powerful case for more monetary stimulus in the short run. But the present extraordinary monetary policies could not continue indefinitely. The challenge in returning to normality lay in rebalancing the world economy so that very low interest rates were no longer required for deficit countries to spend enough to absorb surpluses elsewhere.

Reform of the financial system was the second challenge to securing a sustainable economic recovery. In the United Kingdom, the Bank had acted quickly to make the banking sector more resilient, and better able to support lending to the real economy. Following discussions with the PRA, the major banks now had plans to fill the capital shortfall of around £25 billion identified by the Financial Policy Committee (FPC). The FPC had also recommended to commercial banks a loosening of regulatory requirements to hold liquid assets, given the liquidity backstop available in the Bank's market operations. And in future, the FPC and PRA would work together to conduct regular bank stress tests.

Though progress had been made on financial reform, further work was needed. Dealing with the problem of financial institutions that were too big to fail was an immediate priority for international regulators, as was further progress on managing cross-border resolutions. The Governor called for the implementation of the proposals of the Independent Commission on Banking, including the 'ring-fence' to separate commercial from investment banking, and the leverage ratio. Looking further ahead, the Governor noted that a change in the ethics and culture of banking would take time, but was a necessary precondition to rebuilding trust in the banking system.

The Governor concluded by wishing his successor, Mark Carney, the very best in his new role.

Inflation targeting and flexibility

Ian McCafferty, Monetary Policy Committee member, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech669.pdf

In this speech, Ian McCafferty reflected on the United Kingdom's inflation-targeting regime in place since 1992. By providing a credible framework for price stability, inflation targeting helps to anchor inflation expectations. The low and stable inflation of the past 20 years illustrates the importance of anchoring inflation expectations, in contrast to the United Kingdom's 1970s' experience of high and volatile inflation. Anchored inflation expectations have allowed the MPC to support the real economy by accommodating the first-round impact of temporary cost shocks — rising commodity prices, the depreciation of sterling and increases in administered prices — without leading to second-round inflationary changes in wages and prices. This flexible approach to inflation targeting is borne out by the MPC's new mandate announced in March. So far, above-target inflation has not unhinged survey measures of inflation expectations, but the greater responsiveness of market-derived expectations to inflation news suggests the MPC must remain vigilant.

Banking reform and macroprudential regulation: implications for banks' capital structure and credit conditions

Paul Tucker, Deputy Governor, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech666.pdf

Paul Tucker reviewed the economics of the capital structure of banks. Two micro-level regulatory reforms — a step change in equity requirements and credible resolution regimes — will change how risks in banks' portfolios are distributed across shareholders, bondholders, depositors and taxpayers. He made the case for a richer regulatory Capital Accord, which would distinguish more carefully between the different phases of a bank's life and death. That would be an Accord with two parts: equity to absorb losses in a going concern, plus a requirement for a minimum level of term bonded debt to provide sufficient gone-concern loss absorbency to enable stabilisation via resolution. He also described how the primary objective of macroprudential regulation can be advanced by making the system more resilient and so able to absorb the bust phase of a credit cycle even if the credit boom was not itself tempered. Analysis of the effects of macroprudential interventions on the cost of finance was often oversimplified. The effect on credit conditions of a temporary increase in capital requirements would depend on whether the macroprudential policymaker's actions revealed information about the state of the banking system or about its own approach to policy, and on whether the market regarded the actions as warranted, insufficient or too much. This underlined the importance of transparency — from the banks and from the Financial Policy Committee.

The five ages of (sterling) man: prospects for the UK money market

Andrew Hauser, Head of Sterling Markets Division, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech668.pdf

Speaking to the London Money Market Association, Andrew Hauser assessed the outlook for the sterling money market, drawing lessons from the market's long and sometimes colourful history. The size of the market had fallen back since the height of the financial crisis, particularly in unsecured interbank trading, reflecting the combined effects of bank deleveraging, regulatory and market incentives to shift towards secured trading, the huge increase in central bank reserves and the unusually flat short-term yield curve. But concerns about the death of the market were overdone. Some of the factors depressing activity would unwind in time. And the market that re-emerged would differ in important respects from the one that went before: more heavily secured, less focused on the very short term, with new players from outside the banking system, and new instruments. The Bank of England needed to remain close to the markets, to understand the changing developments, and to ensure its operating framework was suitably designed — as it had been doing in its response to the Winters Review of its facilities.

The future of repo: 'too much' or 'too little'?

Andrew Hauser, Head of Sterling Markets Division, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech665.pdf

In a speech to the International Capital Market Association's conference on The Future of the Repo Market, Andrew Hauser set out the importance to policymakers of finding an appropriate balance between two key challenges: first, ensuring global repo markets were deep and liquid enough to supply the sharp increase in collateral required by new regulatory rules and market participants' strengthened focus on counterparty risk; while, second, ensuring that appropriate safeguards were in place to prevent the recurrence of the procyclical instability seen during the financial crisis. There was no 'global collateral shortage' in any aggregate sense — but markets did need to innovate to ensure that collateral was effectively mobilised. At the same time, it was important to understand how that innovation would affect various sources of potential macroprudential instability in repo markets. A key priority in this analysis, being led by the Financial Stability Board, was to improve market transparency. Central banks, which relied on effective repo markets for their monetary policy and liquidity insurance operations, had a key role to play in all aspects of this work.

The notes in your wallet

Chris Salmon, Executive Director for Banking Services and Chief Cashier, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech664.pdf

Speaking at the Plymouth Chamber of Commerce, Chris Salmon considered the challenges and opportunities that developments in technology present for the Bank's note issuance function.

Chris explained that the Bank sought to achieve confidence in banknotes by both ensuring banknote demand is met and safeguarding the physical integrity of banknotes. He described how technology, including the proliferation of ATMs, had had unintended consequences, such as helping to create the 'tatty fivers' problem and noted that the Bank, working closely with ATM providers, had recently made significant progress on this issue. He also explained how technology is encouraging the local recycling of banknotes and how the Bank is currently working with the industry stakeholders to introduce a Code of Conduct that will ensure that any notes distributed to the public via a cash-dispensing machine will be authenticated to the same high standards as a note processed in the more traditional model, by the wholesale cash industry.

Chris went on to discuss the impact of innovation on the physical nature of banknotes, noting the benefits of new technologies and how these would help the Bank to ensure that our banknotes remain resilient against the threat of counterfeiting in the future.

Challenges of prudential regulation

Andrew Bailey, Deputy Governor, June 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech663.pdf

In this speech at the Society of Business Economists Annual Dinner, Andrew Bailey spoke about the major reforms to policymaking that have taken place in financial regulation. Andrew began by giving an overview of the major components of the UK regulatory landscape. He explained how it was essential that the policy committees worked together, and in that context spoke about how the FPC and PRA Board had been working together on the issue of capital. Andrew explained the rationale behind the FPC recommendation on capital, and why the FPC and PRA thought that it was important that banks increased their resilience by increasing the amount of capital they held. Andrew also explained the secondary objective of the FPC to encourage growth in the UK economy, and the steps the Bank had taken in order to encourage more lending, using the example of the extension to the Funding for Lending Scheme.