# Bank of England speeches

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

## Monetary policy making and forward guidance

Martin Weale, Monetary Policy Committee member, November 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech695.pdf

In a speech given to A-level students at Quintin Kynaston Community Academy in London, Martin Weale outlined the modern history of monetary policy in the United Kingdom — from the 1970s to the present day. Martin explained the principles of forward guidance, the latest development in UK monetary policy, and the role of the 7% unemployment threshold under the framework. He also emphasised the importance of the Monetary Policy Committee's 'knockout' over medium-term inflation expectations. While assessments of medium-term inflation expectations have always been important for monetary policy makers, Martin argued that the second knockout of the forward guidance framework has made this indicator even more critical. Taking a range of indicators for medium-term inflation expectations, Martin stated that there appears to be an average increase of 0.15% at present. However, he added that he would have to be convinced that the upward movement would persist, as it would be 'quite wrong' to react to a short-term movement.

## Housing, leverage and stability in the wider economy

David Miles, Monetary Policy Committee member, November 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech694.pdf

In a speech given at the Dallas Federal Reserve, David Miles argued that greater use of outside equity in financing house purchases may help counteract some of the macroeconomic problems created by excessive leverage in housing markets.

Miles noted that monetary policy and macroprudential policy could also influence leverage. But monetary policy could be a blunt instrument with which to attempt to stabilise housing markets, as its impact on borrowing and spending unrelated to housing may well be greater than the effect on the intended target. In contrast, greater use of outside equity funding could permanently reduce the level of gearing and might much reduce the need to rely on macroprudential or monetary policy levers.

Outside equity funding would allow outside investors to share the risk — and rewards — of home ownership. According to Miles, switching even just 10%–20% of funding from debt to outside equity would very substantially reduce leverage, while the moral hazard inherent in such contracts — for example, homeowners potentially having less incentive to maintain their properties — might be low enough to make them commercially feasible.

## The interactions of macroprudential and monetary policies: a view from the Bank of England's Financial Policy Committee

Donald Kohn, Financial Policy Committee member, November 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech692.pdf

In this speech delivered at the Oxford Institute for Economic Policy, Donald Kohn explored the interactions of macroprudential and monetary policies.

He discussed the potential for policy spillovers. First, he explained how the monetary policy cycle can contribute to the financial cycle and how this can feed back to the economic cycle. And second, he explained that macroprudential policies, by influencing financial conditions under a variety of circumstances, would have broader effects on how the monetary authorities pursue their objectives.

Donald Kohn highlighted that most of the time the two policies generally will be acting in synch with one another — leaning against both boom and bust. But policies will need to adapt to each other. He moved on to discuss the ways in which the situation of the past few years has posed special challenges to how each policy must respond to each other.

Turning to the present, he outlined some of the recent developments in the housing market and the potential for financial stability risks to arise from this sector. He explained his view that it is not the Financial Policy Committee's role to micro-manage housing or other asset and credit cycles, but to prevent the amplification of these cycles through the financial markets.

### The UK payments landscape

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

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech691.pdf

In these remarks, Chris Salmon outlined a number of changes that have occurred in the UK payments system — as well as priorities for future reform — as the Bank works to further strengthen this critical infrastructure. He noted that while payments systems performed well during the crisis, some of the lessons derived from the crisis have prompted the Bank to address a number of credit, liquidity and operational risk issues within our core systems with more vigour than previously, and have shaped much of the Bank's recent work programme. He outlined changes initiated in both the wholesale and retail spheres following concerns about tail risks and contagion. The Bank has also sought to reduce the operational risks the Bank runs as the core infrastructure provider by working with SWIFT to develop a product that will act as a virtual third site for RTGS. Among other things, the Bank is now looking at cyber risk to the core payments systems.

### The United Kingdom at the heart of a renewed globalisation

Mark Carney, Governor, October 2013.

Speech given at an event to celebrate the 125th anniversary of the *Financial Times*, London, on 24 October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech690.pdf

The Governor began by reflecting on London's place at the heart of the global financial system. If organised properly, a vibrant financial sector brought substantial benefits. Financial services accounted for a tenth of UK GDP and were the source of over one million jobs. More broadly, London's international markets provided a valuable service to the global economy. These benefits, on both sides, would be greatest as part of an open, integrated global financial system.

It was not for the Bank to decide how big the financial sector should be. The Bank's task was to ensure that the United Kingdom could host a large and expanding financial sector in a way that promoted financial stability. Only then could it be both a global good and a national asset.

The Governor focused on the three core elements of the Bank of England's new Financial Stability strategy. First, the Bank was working to complete the jobs of making banks more resilient and tackling 'too big to fail'. Second, the Bank was making markets more robust in order to turn the shadow banking system from a source of risk to a pillar of resilience. Third, the Bank was changing how it backstopped private firms' liquidity management, offering money and collateral for longer terms against a wider range of assets for smaller fees. These initiatives would help set the stage to improve further the supply of credit within the United Kingdom.

In the style of the *Financial Times* 125 years ago, the Bank of England today was the friend of resilient banks, continuous markets, and good collateral; and the enemy of taxpayer bailouts, fragile markets and financial instability. The Bank was playing its part in helping the United Kingdom renew globalisation to the benefit of all.

### The UK economic outlook

Charlie Bean, Deputy Governor, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech689.pdf

Speaking at the Society of Business Economists Annual Conference, Deputy Governor Charlie Bean discussed whether the pickup in UK growth was likely to be sustained, and considered the impact of forward guidance on interest rate expectations. He suggested there were signs that the recovery may be gaining traction, noting that UK banks had made progress in bolstering their capital positions and that the euro area was no longer in existential crisis. But he warned that the pace of recovery was likely to remain fairly modest. On forward guidance, he believed that businesses understood that policy would only be tightened once the recovery was entrenched. He noted that interpreting the recent rise in bond yields was complicated by the run of unusually strong UK data, but observed that the yield curve had steepened by less than previous similar episodes would suggest. That could indicate some effect from guidance in preventing unwarranted movements.

### Remarks at the joint Black Country Reinvestment Society and Black Country Diners Club networking lunch

Martin Taylor, Financial Policy Committee member, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech688.pdf

In a speech in Wolverhampton, Martin Taylor described the responsibilities and powers of the Financial Policy Committee (FPC). He contrasted the Committee's remit with that of the Monetary Policy Committee (MPC), pointing out that the FPC's remit is both broader and less precise than that of its longer-established sister body. He discussed the way in which the FPC was increasingly being used as a backstop to potentially risky policies developed elsewhere — the Treasury's Help to Buy scheme, and the MPC's incorporation of a formal financial stability knockout into its forward guidance. He also covered housing market developments, where FPC intervention to cool the market down has been urged in some quarters, reminding the audience that the FPC would be likely to show concern only if and when it felt financial stability was threatened.

### Regulating international banks

Andrew Bailey, Deputy Governor, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech687.pdf

Andrew Bailey spoke at the British Bankers' Association's annual international banking conference to explain the Prudential Regulation Authority's (PRA's) thinking on issues concerning the pressures on international banking business and the establishment and supervision of non European Economic Area (EEA) bank branches in London — the single market allows EEA banks to 'branch-in'. Andrew noted that the recent fragmentation of the international banking system had been driven by concerns over sovereign creditworthiness and the difficulty of dealing with cross-border resolution when bank failure occurs. However this 'balkanisation' should not be considered inevitable. The PRA's approach towards the supervision and scope of activities that non-EEA bank branches can undertake places emphasis on recovery and resolution agreements between national authorities. For non-EEA firms the PRA will expect very clear and credible assurances from the parents of banks wishing to operate as branches and from the home state authorities. While the PRA approach seeks to limit the range of activities that these branches can undertake it still allows them to undertake safer forms of wholesale banking. This approach is applied evenly to all non-EEA jurisdictions.

### Inflation targeting and the MPC's forward guidance

Spencer Dale, Executive Director and Chief Economist, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech686.pdf

In a speech at the International Journal of Central Banking Annual Conference, Spencer Dale asked how the United Kingdom's inflation-targeting regime has stood up to the extraordinary challenges posed by the recent prolonged period of high inflation, anaemic demand and weak supply. He concluded that, on balance, recent events demonstrate the value of an inflation target which afforded the MPC the credibility to loosen policy aggressively in support of the recovery. But he also conceded that the MPC could have done more to communicate that they were providing this support, thereby enhancing the legitimacy of the inflation-targeting regime. The MPC's forward guidance, framed in terms of a threshold for the unemployment rate, tackles this issue head on and in this sense enhances the United Kingdom's inflation-targeting regime to respond to the current exceptional circumstances. Its guidance also serves to emphasise that what matters for monetary policy is spare capacity and the level of economic activity, and not simply economic growth.

### Solving too big to fail: where do things stand on resolution

Paul Tucker, Deputy Governor, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech685.pdf

Paul Tucker reviewed progress by the international community on addressing the problem of 'too big to fail' (TBTF) via enhanced resolution regimes. First, given the United States had the technology and major banks with a group structure that lends itself to resolution, he could not see how the US Administration could persuade Congress to bail out the biggest US banks and dealers. Europe was not far behind but needed to pass its key legislation, and many large European banking groups will need to be reorganised. Second, he described how the distinction between single point of entry and multiple point of entry resolution strategies may be the most important innovation in banking policy in decades. Few major financial groups could adopt these strategies without significant changes to their legal, organisational and financial structure. Third, he noted that all bonds could be bailed-in in a resolution scenario. That was distinct from the issue of whether the authorities should mandate a specified amount of bonded debt, issued by particular entities in a group. Fourth, jurisdictions with international banks needed to reach co-operation agreements on cross-border resolutions. Fifth, the reform programme was not just about banks: central counterparties needed to be resolvable too. His conclusion was that the authorities will have no excuse if they do not solve TBTF through resolution regimes. The necessary technology was clear; the necessary restructuring of firms was clear; and the degrees and forms of cross-border co-operation was also clear. It was a matter of: 'just do it'.

### Current issues for the Prudential Regulation Authority as a General Insurance supervisor

Julian Adams, Deputy Head of the Prudential Regulation Authority and Executive Director of Insurance, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech684.pdf

In this speech, Julian Adams outlined the PRA's role in supervising insurance companies, how it has taken into account lessons from the crisis and how the PRA is applying its new supervisory approach to considering the implications for general insurers of the growth of alternative capital. Julian highlighted a number of wider lessons from the crisis that had equal relevance to the supervision of insurers — including the need to focus on potential future risks to the sustainability of a firm's business model or solvency position, the need to be alert to changes in market structures which might impact the risks that firms run, and the need to consider risks at a system-wide level as well as risks within individual firms.

Julian went on to outline some of the ways in which the PRA expected firms to be assessing the potential implications of the growth of alternative capital for their business models and risk profiles, and ensuring that they manage appropriately the risks which might arise. He also highlighted the PRA's interest in how these trends might affect the potential build-up of system-wide risk and leverage. Julian closed by giving a brief update on the status of Solvency II negotiations and the PRA's intended use of 'early warning indicators' to supplement firms' own risk modelling approaches.

### Financial markets, monetary policy and credit supply

Paul Fisher, Executive Director for Markets, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech683.pdf

Paul Fisher reviewed developments in financial markets over the past year. Markets were relatively calm until May. Volatility increased after Ben Bernanke indicated that the Federal Open Market Committee was considering tapering its asset purchases. But despite the subsequent wide-ranging sell-off, Fisher did not sense any long-lived market dysfunction. For many market participants the 'shock' was seen as a healthy correction to what had become a complacent outlook. He emphasised that monetary policy setting is about decision-making under uncertainty and the actual outcome for policy will always be dependent on how the economy, and hence the outlook, evolves.

The MPC had provided explicit guidance regarding the future path of its monetary policy instruments in August. Forward guidance is not a guarantee to hold rates fixed for a set period of time but allows the MPC to explore how much spare capacity there is in the economy before raising Bank Rate. He noted that the early reactions from businesses and the public suggest it had added to confidence and thus helped to promote the recovery.

Fisher also assessed the impact of the Funding for Lending Scheme, which he believed had successfully shifted the supply of credit to households and businesses over the past year.

### The reform of international banking: some remaining challenges

Paul Tucker, Deputy Governor, October 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech682.pdf

Paul Tucker discussed three issues that standard setters and regulators will need to address as they complete the reform of international banking.

The first was that, while the international regime sets a minimum equity requirement for banks, it does not ensure that banks have in issue debt that enables an effective reconstruction in resolution: 'gone concern' loss-absorbing capacity (GLAC). The recent G20 leaders summit called on the Financial Stability Board (FSB) to produce plans in this area over the coming year. The second area, also being addressed by the FSB, is ensuring an adequate distribution of equity and GLAC across the different legal entities in a banking group. He explained that allocation is part and parcel of deciding the preferred resolution strategy for a group. Finally, and drawing attention to a discussion paper recently published by the Bank, he explored how a clear framework for stress testing banks and other key financial institutions can help micro and macroprudential regulators. It could also represent a 'quantum leap' in the public accountability of both the FPC and the PRA Board.

### Bank of England polymer consultation programme

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

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech680.pdf

In a speech delivered to the Norfolk Chamber of Commerce, Chris Salmon discussed the Bank's polymer public consultation programme. He addressed three key questions relating to the consultation programme: why the Bank was only now proposing a switch to polymer; why the Bank was consulting the public; and why all central banks are not proposing to make the change. He noted that over the past few years a number of 'push' and 'pull' factors had prompted the Bank to reconsider whether paper remained the best long-term solution for our banknotes. He discussed the in-depth assessment the Bank had conducted of the merits of banknotes printed on a variety of materials. In terms of the consultation, he made it clear that there would be no point moving to polymer if the public had material misgivings. He committed to considering all the feedback received ahead of making a final decision.

### Monetary policy and forward guidance in the United Kingdom

David Miles, Monetary Policy Committee member, September 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech681.pdf

In his speech at Northumbria University, Professor Miles argued that slack in the economy generated by several years of underperformance meant that monetary policy would not quickly return to normal. If the growth of GDP picked up, higher wage growth can be offset by higher productivity, limiting inflationary pressures.

He explained that forward guidance conveyed a simple message to the British public: in the absence of inflationary pressures, monetary policy would not be tightened until the recovery was sufficiently strong to make a meaningful dent in unemployment. Guidance reduced the risk that a recovery was 'smothered by the anticipation that a tightening in monetary policy is imminent'.

Miles expressed that he would be pleased to begin normalising monetary policy if growth turned out to be strong and unemployment came down significantly. But he concluded: 'What (...) a stronger path for output and confidence does not need right now is tighter monetary policy. That is what the guidance that has been given by the MPC is designed to avoid'.

### Monetary strategy and prospects

Paul Tucker, Deputy Governor, September 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech679.pdf

Paul Tucker explained his thinking on monetary strategy in the context of the emerging economic recovery. He drew attention to the substantial degree of uncertainty about the amount of slack in the economy. For some time, he had been pursuing a 'probing' approach: 'provide stimulus; pause to see whether inflation expectations remain anchored; if, but only if, they are and more stimulus is needed, provide it'. The MPC's new forward guidance framework is consistent with that approach. Forward guidance can be particularly useful during a period when the recovery is beginning to take hold, where it could be very easy to come to the mistaken conclusion that monetary stimulus will soon begin to be withdrawn. Given the slack in the economy, Paul Tucker explained, the Committee is in no rush. It should not have been a complete surprise that recovery is finally under way, given various 'Keynesian' policies designed by the Bank to stimulate the economy. A resilient banking system was a precondition for a sustained and better-balanced recovery. Repair in this regard was now under way. That had required realism about asset values, expected losses and risks — not pretending, taking the medicine: policy in the spirit of Hayek. The Bank's overall policy package combined Keynes and Hayek.

### Conditional guidance as a response to supply uncertainty

Ben Broadbent, Monetary Policy Committee member, September 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech678.pdf

In a speech at the London Business School, Ben Broadbent explained why uncertainty surrounding productivity means it is right to condition monetary policy on the unemployment rate. He began by observing that labour productivity has been inexplicably weak recently. Oft-cited explanations like greater pay flexibility cannot explain all of the strength in employment. On the other hand, there is evidence that slower reallocation of resources has impaired the economy's effective supply. Under such uncertainty, the unemployment rate is a more reliable indicator of spare capacity than economic growth. If unemployment falls faster — either because of weaker productivity or stronger demand — it would be right to consider tightening monetary policy. In closing, he pointed out that tighter policy will be conditional on a significant fall in unemployment and the inflation and financial stability 'knockouts', and that there is no unconditional promise to keep interest rates fixed for a particular length of time.

### Why institutions matter (more than ever)

Andrew Haldane, Executive Director for Financial Stability, September 2013.

www.bankofengland.co.uk/publications/Documents/speeches/2013/speech676.pdf

In this speech, Andrew Haldane argued that the twin forces of greater integration and greater information may have increased the severity of the tail risks facing global systems. As a result, institutions such as the Bank of England matter now more than ever.

Economists through time, from Smith to Veblen to Coase to North have shown that institutions rise in importance as societies become more complex, integrated and information-rich. The financial system is no different. And responsibility for financial stability should be given to a policymaker with institutional memory, at arms-length from the political process and with a system-wide focus.

The United Kingdom's new regulatory arrangements recognise that. The Bank of England has around 320 years of history, which ought to give it the institutional memory. The FPC has operational independence from government and the ordering of its objectives leans against short-termism. And the FPC's focus is on system-wide 'macroprudential' policy.