Bank of England speeches

A short summary of speeches and *ad hoc* papers made by Bank personnel since 1 March 2014 are listed below.

Unfair shares

Andrew Haldane, Executive Director for Financial Stability, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech732.pdf

In this speech, Andrew Haldane discussed the issue of inequality. Some have argued that central bank policies of extraordinary monetary accommodation have, by boosting asset prices and wealth, exacerbated inequalities.

But extraordinary monetary measures will not last forever. And nor will any distributional effects. Moreover, inequality can have an important adverse effect on the stability of the financial system and growth in the economy. So central banks do have a vested interest.

He pointed to evidence from psychologists that financial scarcity creates a 'myopia trap' that can reduce (human) capital accumulation, lowering growth and productivity. And he made the case for a reform of corporate governance to address short-termism and rebalance the scales towards investing profits rather than distributing them.

Inclusive capitalism: creating a sense of the systemic

Mark Carney, Governor, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech731.pdf

In his speech, the Governor set out his views on how to rebuild social capital, return to true markets and make capitalism more inclusive.

The combination of unbridled faith in financial markets prior to the crisis and the recent demonstrations of corruption in some of these markets had eroded social capital. When combined with the longer-term pressures of globalisation and technology on the basic social contract, an unstable dynamic of declining trust in the financial system and growing exclusivity of capitalism threatened.

To counter this, rebuilding social capital was paramount. Financial reform was now helping. Globally systemic banks were simplifying and downsizing. Some were de-emphasising high-profile but risky businesses that benefited employees more than shareholders and society. Authorities were working feverishly to end 'too big to fail'. The structure of compensation was being reformed so that horizons were longer and rewards matched risk. Regulation was hard-wiring the responsibilities of senior management. And new codes were seeking to re-establish finance as a true profession, with broader societal obligations.

The Governor noted that a welcome addition to these initiatives would be changes to the hard and soft infrastructure of financial markets to make them dynamic and fair. Through all of these measures, finance could help to deliver a more trustworthy, inclusive capitalism — one which embedded a sense of the systemic and in which individual virtue and collective prosperity could flourish.

The future of monetary policy

Charlie Bean, Deputy Governor, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech729.pdf

Speaking at the London School of Economics, Deputy Governor Charlie Bean described the measures taken by the Bank of England to moderate the impact of the financial crisis. While he did not expect that central banks' collective management of the exit from the exceptionally stimulatory monetary stance would be easy, he noted that the risk of major financial problems crystallising in the advanced economies should be lower given improvements in banks' balance sheets and the resolution framework. He then examined the interaction between monetary and macroprudential policies and observed that a good macroprudential tool would be one well targeted at dealing with a particular financial market failure. He concluded by describing a framework for how monetary policy and macroprudential policy might be best combined, noting that while they could superficially appear to be at odds with each other, such a balance of the policies might be entirely appropriate.

Ending 'too big to fail' — progress to date and remaining issues

Sir Jon Cunliffe, Deputy Governor, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech727.pdf

Jon Cunliffe reviewed the progress made by regulators in addressing the issue of 'too big to fail' and set out some remaining issues. Two key elements of prudential standards were still in the design stage: the leverage ratio and the net stable funding ratio. Though tighter regulation was likely to impact on market liquidity, it needed to be acknowledged that liquidity risks were probably underpriced before the crisis. Reforms were also under way to allow even the largest firms to fail and be resolved in a safe way without recourse to taxpayer funds. While the required legal framework was now in place, banks also need to hold sufficient debt that can be quickly bailed in if needed, also known as 'gone concern' loss-absorbing capacity (GLAC). There was now agreement on the broad objective for an international GLAC standard: it must allow for an orderly wind down of large, complex cross-border groups, while protecting its critical economic functions. Derivatives contracts also needed to be amended to prevent a disorderly close out of contracts during a resolution. Regulators were working with the International Swaps and Derivatives Association to develop a revised protocol which put in place a stay on close-out rights to permit the orderly use of resolution powers. The way forward would likely entail the major dealers moving to a revised set of contracts first.

Institutions for macroprudential regulation: the United Kingdom and the United States

Donald Kohn, Financial Policy Committee member, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech726.pdf

Comparing UK and US macroprudential systems: lessons for China

Donald Kohn, Financial Policy Committee member, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech728.pdf

Donald Kohn delivered the first of these speeches at the Kennedy School of Government, Harvard University where he compared the macroprudential institutions of the United Kingdom and the United States. In his second speech, given at the Global Financial Forum, PBC School of Finance, Tsinghua University, Beijing, Kohn contrasted the macroprudential systems in the United Kingdom, the United States and China.

Kohn reflected that one of the many causes of the financial crisis was that no entity had a clear mandate to look at the financial system as a whole and the authority to act to mitigate the risks it saw developing. He argued that the world's regulatory agencies were lured into complacency by a relatively tranquil economic and financial environment and relied too much on the private sector to police itself.

Kohn set out what the world should expect macroprudential authorities to do:

- Identify legitimate risks to financial stability.
- Be willing and able to act on the risks they identify in a timely way.
- Be able to interact productively with the microprudential and monetary policy authorities.
- Weigh the costs and benefits of proposed actions appropriately.

Kohn described the UK macroprudential system and discussed some of its benefits. In particular he highlighted the composition of the Financial Policy Committee which benefits from having microprudential regulators, external members and members of the Monetary Policy Committee among its members. However, Kohn did not hold up the UK institutional arrangement as ideal for all countries in all circumstances.

In drawing contrasts with the US system, Kohn drew out the value of giving agencies an explicit financial stability objective, ensuring that there are data-sharing agreements, putting in place a mechanism to review the regulatory perimeter and ensuring that the regulators have enough independence so that they can take the necessary action, even if this may be unpopular in some quarters. As a particular lesson for China, Kohn noted that deregulation and liberalisation will heighten the need for strong macroprudential oversight.

Momentum in the housing market: affordability, indebtedness and risks

Sir Jon Cunliffe, Deputy Governor, May 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech725.pdf

Speaking to the Worshipful Company of International Bankers, Sir Jon Cunliffe considered recent developments in the UK housing market. Growing momentum likely reflected a pickup in confidence and more readily available mortgage credit including through the Government's Help to Buy scheme. Together these factors had unleashed pent-up demand. With supply inelastic, when demand grows strongly, house prices can keep rising quickly for a long time. The extent to which that jeopardises financial stability depends on whether pressure results in more transactions at higher prices and whether that in turn leads to an increase in household indebtedness and where that debt is concentrated. The Bank and Treasury had already taken some action in response to the growing momentum in the housing market by withdrawing the cheap funding and favourable capital treatment of mortgage lending from the Funding for Lending Scheme. Whether and how to act further would be the most challenging judgement that the Financial Policy Committee (FPC) will have to take in the coming months. The FPC's response would depend on the nature of the risks to stability: its powers of direction on bank capital bear most directly on lenders' ability to weather a downturn and a housing bust once it has emerged; while powers to make recommendations to the Financial Conduct

Authority and Prudential Regulation Authority could bear more directly on underwriting standards and affordability constraints like debt to income, loan to income and loan to value ratios.

Slack, pricing pressures and the outlook for policy

Ian McCafferty, Monetary Policy Committee member, April 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech724.pdf

In this speech, Ian McCafferty argued that quantitative estimates of the amount of economic slack are highly uncertain, making it important to monitor directly the inflationary pressures they give rise to. Estimates of labour market slack — how much average hours worked are below 'desired' hours or how far unemployment is above its medium-term equilibrium level — pointed to slack in the economy equivalent to 1%–1½% of GDP in early 2014, suggesting there remained some room for demand to recover further without pushing up on inflation. Companies' output prices and prices early in the supply chain have so far been muted. But the pickup of some wage settlements suggests that nominal pay may recover strongly as slack is absorbed. The timing of the first increase in Bank Rate depends not only on these considerations, but also on the need for rate rises thereafter to be gradual. While a relatively low end-point for Bank Rate might make the first rise appear less pressing, a gradual pace of tightening means it cannot be held back too far.

The age of asset management?

Andrew Haldane, Executive Director for Financial Stability, April 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech723.pdf

In this speech, Andrew Haldane discussed the links between asset management and financial stability. He explored the risks to the financial system and the opportunities that asset management offers.

The industry's assets under management (AUM) are currently estimated at around US$87 trillion globally. They have grown rapidly as the pool of prospective global savers has become larger, older and richer. The United Kingdom has seen a five-fold increase in AUM since around 1980.

Given its increasing size and importance, he asked whether the asset management industry has spawned institutions that are 'too big to fail' and whether the industry contributes to procyclicality in the financial system. He pointed out that pension funds, as long-term investors, could play a stabilising, countercyclical role.

In practice, there is some evidence of institutional investors acting procyclically and investment decisions being short-termist. Public policy might consider these market failures.

Why there is life after death: four myths about the future of securities financing markets

Andrew Hauser, Head of Sterling Markets Division, April 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech721.pdf

In a speech to JPMorgan's Collateral Management and Securities Financing Forum, Andrew Hauser argued that it was time for a more rational debate about the role of securities lending and repo markets, avoiding both the extremes of those who asserted that the markets had single-handedly caused the financial crisis, and those who abhorred the post-crisis regulatory response as excessively heavy-handed. In doing so, he argued against four commonly heard myths. First, regulators and central banks did not want to kill off repo and securities lending — they wanted to see a thriving, but safer, market. Second, a global 'collateral crunch' was highly unlikely, with the amount of extra high-quality issuance far outweighing the projected increase in demand. Third, barriers to collateral fluidity were not primarily for the public authorities to remove, but would mostly come from the private sector responding to changing price incentives. And, fourth, there would be ways to make an economic return on securities financing business, as demand recovered. But the nature of that business would inevitably change, perhaps quite radically. It was essential that central banks stayed abreast of these changes, as the Bank was doing through its Securities Lending and Repo Committee.

City Week 2014

Andrew Bailey, Deputy Governor, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech719.pdf

Andrew highlighted the importance of achieving a stable institutional structure of financial regulation in the United Kingdom. Consistency and clarity in the objective of regulation were necessary pre-conditions for delivering this. While it had been possible to coalesce around a view on the institutional structure for monetary policy it had been less easy to describe simply what constituted financial stability — this explained why it had taken longer to arrive at a stable institutional structure for achieving it. Andrew observed that a stable financial system was necessary for realising stable economic growth and other economic welfare benefits. An important example was the UK housing market where there was evidence of increased momentum. Andrew concluded by highlighting seven important messages for the future, including that policymaking tools at the Bank of England would be joined up, consistent with the recently announced single mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.

Taking the long view: how market-based finance can support stability

Dame Clara Furse, Financial Policy Committee member, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech718.pdf

In a speech to the Chartered Institute for Securities and Investment in March, Dame Clara Furse talked about the importance of the FPC's forward agenda for the next 12–18 months and, in particular, its focus on working to improve the diversity of market-based financing in the United Kingdom.

Dame Clara explained that the FPC's work so far had, rightly, focused on mitigating systemic risks to the UK financial system by improving the resilience of banks, but also noted that some market segments, including small and medium-sized enterprises, had continued to face tight credit conditions. Improving the availability of non-bank and market-based finance could help to broaden the type of funding available to companies.

Dame Clara stated that the FPC would work with the wider Bank to examine the impediments to the development of market-based finance in the United Kingdom. As part of this work, the Bank would assess and, where necessary, act to: promote a better-functioning securitisation market in the United Kingdom; consider whether a credit register might support financial stability; enhance the resilience of liquidity in those financial markets important to the United Kingdom's financial resilience; and reduce the risks to the system arising from procyclicality in the availability of finance, including via collateral markets. Dame Clara also noted that the ability of the financial system to provide credible long-term equity capital to promising companies to support innovation and future growth was of particular importance to her.

Dame Clara also pointed out that regulation is vital in promoting confidence by building a framework with predictable and proportionate rules, standards and reactions, but that businesses and investors must also play a part in developing high standards of corporate governance and building trust.

Global systemically important insurers: issues, policies and challenges after designation

Julian Adams, Deputy Head of the Prudential Regulation Authority and Executive Director of Insurance, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech717.pdf

In a speech at the Geneva Association's 30th PROGRES Seminar, Julian Adams focused on the policy measures currently being developed by the International Association of Insurance Supervisors (IAIS) for global systemically important insurers (G-SIIs), following the designation of nine insurers as G-SIIs by the Financial Stability Board in July 2014. As Chair of the IAIS Financial Stability Committee which leads on development of these policies, Julian was invited to discuss this programme of work.

Key themes emerging from the panel discussion and Q&A session included whether insurers and their activities should be considered systemic; the importance of, but also the difficulties associated with, developing international capital standards in the absence of a globally comparable valuation framework; and the extent to which any standards developed by the IAIS can be implemented consistently given existing jurisdictional arrangements.

Slack and the labour market

Martin Weale, Monetary Policy Committee member, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech716.pdf

In this speech, Martin Weale set out his thoughts on the recent behaviour of the labour market. He asked how far the economy can continue to recover before wage pressures build up and risk pushing inflation above the Bank's 2% target.

Drawing on survey data on the labour market, Martin found that workers who succeeded in finding a job between 2012 and 2013 were paid less than two thirds as much per hour than those who were already employed. They also worked fewer hours per week. In part this is because many of those taking up work were young, and young workers tend to be paid much less than the average of the population. But it might also imply that new workers — at least in the short run — contribute less to production than those already in work.

Martin then considered the difference between how many hours people would like to work and their actual working week. Using data from the same survey, he found that on average, people would like to work more hours than they currently do. This was especially true for young workers. But comparing how much longer people said they would like to work, to how much longer they actually succeeded in working, Martin found that many were satisfied with smaller increases than they said they wanted. Those who wanted to work more hours also tended to be paid less per hour than the average.

Drawing this evidence together, Martin concluded that there was still some way for unemployment to fall before wage pressure started to push price inflation above target. But although the unemployment rate was much higher than it was before the crisis, the margin of spare capacity in the labour market may be smaller than this headline number would imply.

One Mission. One Bank. Promoting the good of the people of the United Kingdom

Mark Carney, Governor, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech715.pdf

Delivering the 30th Mais Lecture, the Governor described the way in which the Bank was reshaping itself into a central bank for the 21st century, combining the finest aspects of its history and traditions with the best of the modern and the new, in order to fulfil its single, timeless mission: promoting the good of the people of the United Kingdom.

The Governor began by noting that while the adoption of inflation targeting had helped secure fifteen years of price stability and sustained economic growth, the recent crisis was a powerful reminder that price stability was not sufficient to maintain macroeconomic stability. Following the return of prudential supervision and the introduction of macroprudential policy to the Bank of England, the challenge was to create a macroeconomic environment that provided the basis for strong, sustainable and balanced growth.

The Governor described how, through the co-ordinated use of its tools, risks to monetary and financial stability could be mitigated. The Monetary Policy Committee's forward guidance policy had reduced uncertainty about how monetary policy would be set as the recovery gained pace. Microprudential supervision and macroprudential management would help in preventing the build-up of vulnerabilities that could arise from excessive financial and household risk-taking. Through changes to the hard and soft infrastructure of markets, fair, open and competitive markets could be rebuilt. Through ideas and engagement, the global financial system could be reformed to secure an open, resilient system in which all countries would have confidence and in which British businesses could thrive.

Is the world financial system safer now?

Sir Jon Cunliffe, Deputy Governor, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech714.pdf

Giving the keynote address at a Chatham House conference, Jon surveyed the progress made by international standard setters since 2008 to make the financial system safer and set out the further steps that need to be taken. Considerable progress, through the development of new resolution powers, had been made to address the problem of 'too big to fail'. Jon did not think, however, that the authorities could say with confidence that they could resolve a failing global giant. Systemic cross-border banks needed to be restructured so that resolution powers could be used effectively and safely. That required a new international standard. In addition to the completion of standards, the international community needed to work together to ensure the reform programme was coherent and that there was mutual trust between different jurisdictions. Without mutual trust, it was not possible to maintain a global financial sector that was resilient to destabilising crises.

Ambidexterity

Andrew Haldane, Executive Director for Financial Stability, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech713.pdf

In this speech, Andrew Haldane described the emergence of macroprudential policy — 'using prudential means to meet macroeconomic ends' — from the depths of the financial crisis. The credit cycle differs from the business cycle. It is twice as long and twice as big. In the language of Tinbergen, two cycles and two objectives call for two instruments. This is where macroprudential policy comes in.

He considered three case studies to illustrate the role that a countercyclical capital buffer (CCB) could have played in tempering the credit cycle and stabilising the financial system and macroeconomy. He described how a CCB might have been able to counteract loose monetary policy after the US dotcom bubble and prevent the rapid accumulation of credit in the run-up to the eurozone crisis. He also described how macroprudential policy is being used to temper risk-taking currently.

In short, the advent of macroprudential policy has given policymakers a second arm with which to manage the financial system and the macroeconomy. It is still early days. Macroprudential policy today resembles monetary policy perhaps a generation ago.

Sustaining the recovery

Charlie Bean, Deputy Governor, March 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech710.pdf

Speaking at the North East Chamber of Commerce President's Club, Deputy Governor Charlie Bean summarised the key issues facing the economy. He discussed three things that were required for the recovery to be both sustained and sustainable: a pickup in business investment; a revival in productivity growth; and an expansion in net exports. He noted that business investment had already started to pick up, while productivity growth ought eventually to return to something approaching pre-crisis average rates. He discussed the need to reduce the UK trade deficit in due course, noting that any further appreciation of sterling would not be particularly helpful in terms of facilitating a rebalancing towards net exports. He repeated the Monetary Policy Committee's latest policy guidance, namely that when Bank Rate does rise, it should do so only gradually and to a level materially below its pre-crisis average of 5%.