Bank of England speeches

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

The Bank of England's perspective on CCP risk management, recovery and resolution arrangements

David Bailey, Director, Financial Market Infrastructure, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech781.pdf

At a Eurex conference in London, David Bailey noted the increasing importance of central counterparties (CCPs), due to evolving regulatory and legislative initiatives, and welcomed international progress to enhance regulatory standards and the resilience of centrally cleared markets.

He also stressed that international standards can only be viewed as a 'baseline', that should evolve to keep pace with market developments. In particular, David emphasised the importance of progressing European legislation on CCP recovery and resolution. He noted that this legislation should provide CCPs and their domestic resolution authorities with flexible and well-considered toolkits to enable them to ensure the continuity of critical clearing services in an extreme event, without recourse to taxpayer funds.

The use of business intelligence in monetary policy

Ian McCafferty, Monetary Policy Committee member, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech780.pdf

In this speech, Ian McCafferty argued that to be in the best position to make informed policy decisions it is necessary to supplement official economic data with business surveys, both intelligence collected by the Bank's regional agents and external surveys. Ian outlined the benefits of survey data. They provide a timely source of information which in some instances can give a more helpful steer than early vintages of official data. Surveys are also vital in filling in the gaps which official data are not able to cover, such as estimates of spare capacity. And 'softer' survey questions about intentions, confidence and expectations can help shape the policy narrative. To make the most of survey data, it is important for policymakers to have a thorough understanding of the way in which the survey is compiled and to recognise that some information is more relevant at certain points in the economic cycle, such as those questions which provide advance warning of potential downturns or upturns in economic activity.

What is the right amount of guidance? The experience of the Bank of England with forward guidance

David Miles, Monetary Policy Committee member, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech779.pdf

At a speech to De Nederlandsche Bank's Annual Research Conference on 13 November 2014, Professor Miles asked what sort of guidance on future monetary policy by central banks is most useful. Drawing on analysis he had presented recently at a speech at the London School of Economics, he argued that a commitment to a particular path for interest rates is very unlikely to be desirable.

Nonetheless, giving some assessment of the broad likelihood of interest rates following different paths is likely to be helpful, particularly in situations in which past action and communication is not enough to describe new trade-offs in an unusual environment. But he argued that it was far from clear that making an explicit estimate of the probabilities of interest rates following particular paths was really helpful. It risks giving a false sense of precision as estimating probabilities is deeply problematic.

Why we need a leverage ratio, and how bank boards might take charge

Martin Taylor, Financial Policy Committee member, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech778.pdf

Martin Taylor addressed two subjects: the role of the leverage ratio in the United Kingdom's capital framework for banks, and the corporate governance of financial institutions, in particular the overdevelopment of board committees.

Martin considered four questions in relation to the leverage ratio: why it was needed in addition to risk-weighted capital ratios; how it should be calibrated; why the Financial Policy Committee's proposals were not simpler; and what type of capital was appropriate to count towards the leverage ratio.

On the corporate governance of banks, Martin observed that, in response to governance failures of the past, and in order to operate more efficiently, boards of directors had increasingly delegated important decisions to board committees. In his view, there were some matters that the board of a bank must have a collective understanding of and take collective responsibility for, in particular those related to risk, remuneration, audit and capital allocation.

Financial 'deglobalization'?: capital flows, banks, and the Beatles

Kristin Forbes, Monetary Policy Committee member, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech777.pdf

Speaking at Queen Mary University, Kristin Forbes examined the substantial declines in international capital flows and financial exposures since the global financial crisis both for the United Kingdom and for the world as a whole. She showed that banking flows have contributed most to the decline, resulting in a major contraction of the international banking network. In particular, reduced bank flows into and out of the United Kingdom have played a greater part in the observed banking deglobalization than any other banking system. Kristin found that bank flows are no longer primarily driven by global risk and economic uncertainty as they were before the financial crisis. She offered a number of possible explanations for their recent behaviour, ranging from higher informational costs of doing business abroad and weakness in bank balance sheets to recent regulatory changes and the conditions of official support packages for banks. In conclusion, she discussed the possible implications of banking deglobalization for monetary policy in the United Kingdom, highlighting that it could reduce vulnerability to external conditions but increase vulnerability to domestic conditions, as well as make the lending channel of monetary policy more effective.

The future of financial reform

Mark Carney, Governor, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech775.pdf

Speaking in the immediate aftermath of the Brisbane G20 Leaders' Summit, the Governor noted that the Summit had marked the intended, positive result of the G20/FSB reform agenda — the point at which the post-crisis system of prudential regulation had been settled. That system, built on safer, simpler and fairer foundations than the one that led to disaster was able to serve households and businesses right across the globe.

But that did not mean that the job of financial reform was completed. Implementation needed to follow agreement, based on three pillars. The first, diversity of market-based as well as bank-based finance, would support a wide variety of investment necessary to create jobs. The second, trust, would allow the financial system to retain its social licence to support the real economy in innovative and efficient ways. And third, openness, to ensure the best allocation of scarce capital.

The next phase of reform would give businesses and households the confidence that finance, far from being a threat to them, was there to serve them in their work to deliver prosperity. Reform would stop only when industry and society were content and finance justifiably proud.

Central bank psychology

Andrew Haldane, Executive Director and Chief Economist, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech776.pdf

In a speech, Andrew Haldane considered how psychological biases can affect policymaking and asked what can be done to counteract these effects.

Over recent years, there has been a huge amount of research on how human decision-making is affected by various cognitive biases. Behavioural biases afflict us all, and central banks are no exception. Andrew examined the challenges posed by various cognitive ticks, and argued that the Bank's new policy framework is part of the response to these challenges. But still more could be done.

As part of its Strategic Plan, the Bank will begin to carry out, and publish externally, research covering the whole range of policy issues it faces. Through a set of new publications, this research will as often challenge as support the prevailing policy orthodoxy on certain key issues, proving further support against these biases.

Regulatory reform, its possible market consequences and the case of securities financing

David Rule, Executive Director, Prudential Policy, November 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech774.pdf

In this speech, David Rule argued that regulators should closely follow how banks adjust to the set of regulatory reforms that are being implemented, to understand their overall effect on banks and financial stability, and to identify any unintended consequences. The changes and overall increase in regulatory requirements will lead to both 'income' effects and 'substitution' effects. Adjustments might take place from banks to non-banks, between banks, and within the scope of banks' business models. Regulators will need to follow such reallocations and be alert to pure regulatory arbitrage and to undesirable shifts in risk allocation.

One example of a market where tougher regulation was needed but might have wider consequences is securities financing. This market plays some important economic functions but has proven fragile because of excessive leverage and maturity transformation. Regulators have taken steps to make this market more resilient in stresses. The flipside may be less leverage, maturity transformation and lower inventories in normal times.

Managing global finance as a system

Andrew Haldane, Executive Director and Chief Economist, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech772.pdf

In his Maxwell Fry Annual Global Finance Lecture, Andrew Haldane described how the international monetary and financial system has undergone a mini-revolution in the space of a generation as a result of financial globalisation.

For much of the 20th century, global finance was more of a patchwork than a network. But the picture has changed spectacularly over the past 30 years. Today, global finance is a well-connected network, a genuine system. The crisis also revealed that the safety of individual banks was neither a necessary nor sufficient condition for systemic stability.

Despite the benefits, financial globalisation also brings many risks to financial stability. This naturally begs the question — what might be done to improve the resilience of the international monetary system? Andrew discussed four areas where progress might realistically be made in developing this new architecture: financial surveillance; debt structures; macroprudential policies; and multilateral financing.

Monetary policy one year on

Sir Jon Cunliffe, Deputy Governor, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech773.pdf

In a speech to the Cambridge Society for Economic Pluralism, Jon Cunliffe reviewed developments in the UK economy during his first year in office. The burst of pent-up demand that propelled the initial recovery through the second half of last year was stronger and lasted longer than initially expected. Combined with weak productivity growth, that had led to record growth in employment. The big surprise for the Monetary Policy Committee, however, had been over the extent to which employment has been able to grow without generating more inflationary pressure. Labour supply appeared to be behaving differently to the past. Together with the constraints that came with Bank Rate remaining close to the effective lower bound, that gave reason to be cautious about moving to tighten monetary policy on the basis of falling unemployment alone, before clearer signs of strength in pay growth. Softness in the pay and inflation data, together with the weak external environment, suggested that the current degree of monetary stimulus could be maintained for a longer period than previously thought.

Making markets fair and effective

Minouche Shafik, Deputy Governor, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech771.pdf

In a speech at the London School of Economics, Minouche Shafik set out how the Fair and Effective Markets Review intends to go about identifying the key recommendations it will make for Fixed Income, Currency and Commodities (FICC) markets in June 2015. That review is currently seeking responses to its consultation document from market participants, international policymakers, the academic community and the general public.

Dr Shafik outlined why the FICC markets matter for us all — through business transactions, public finances and personal saving decisions. She also outlined the outrageous cases of misconduct that have come to light in recent years, and some of the features of the FICC markets which may have facilitated this.

Many changes are already under way, and Dr Shafik emphasised that the key question of the review will be whether or not these will be enough. She also outlined some potential further ideas for making markets fair and effective, including changes to: market microstructure; competition and market discipline; benchmarks; standards of market practice; responsibility, governance and incentives; and surveillance and penalties.

Monetary policy, asset prices and distribution

Ben Broadbent, Deputy Governor, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech770.pdf

Speaking to the Society of Business Economists, Ben Broadbent discussed the reasons for the 'remorselessly downwards' trend in global interest rates over the past 20 years, and the implications for asset prices and inequality. He cautioned against attempts to 'explain' low interest rates solely by reference to the actions of central banks. He argued that central banks have instead been accommodating a deeper downward trend in the 'natural' rate of interest and that, had they not done so, policy would have been too tight and inflation and output too low.

Broadbent looked at several real economic changes that may have influenced interest rates, along with the implications for movements in asset prices. He found that greater uncertainty about, and a downward skew to, global growth expectations might help to explain the divergence between equity and bond yields that had opened up since 2001. He pointed out that, despite this divergence, it is not obvious that there had been any implication for the broad distribution of income between capital and labour.

The future path of natural real rates is, Broadbent said, 'anyone's guess'. That said, his instinct is to set more store by the very long-term average for both productivity growth, and real interest rates, than the more recent trends.

PRA Solvency II Conference: countdown to implementation
David Rule, Executive Director, Prudential Policy, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech768.pdf

Speaking at a Prudential Regulation Authority (PRA) Solvency II conference for insurance firms in London, David Rule discussed the importance of this EU policy framework. He started by highlighting the significance of the insurance sector to the financial system and how Solvency II will support the furthering of the PRA's primary objectives. Enhanced group supervision will help deliver stability in the system through improving visibility of risks in interconnectedness. Stability can also be enhanced through diversification of funding sources, specifically by the growth in investment from insurers in the real economy. Revitalisation of securitisation markets with improved transparency, simplicity and consistency can further contribute to improved growth. In setting the scene for the conference he stressed the shift in focus from policy development to proper implementation, and specifically the rigour with which the Bank will assess internal models and their use in firms, emphasising that inadequate models would not be approved. Looking forward, he concluded, the Bank will seek to align developments in the international landscape on policies for global systemically important insurers with the positive steps made in Europe with Solvency II.

PRA Solvency II Conference: countdown to implementation
Paul Fisher, Deputy Head of the PRA and Executive Director, Insurance Supervision, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech767.pdf

Paul Fisher stated that Solvency II was one of the Bank's key priorities and that the PRA is taking a proportionate approach to implementation and would not 'gold plate' the Directive. He emphasised that the amount of work still required was significant and the challenge should not be underestimated. He clarified that internal model success was dependant on firms meeting the Solvency II Tests and Standards and therefore applications should be of a high standard and submitted in good time. He reminded firms that the PRA would not approve inadequate or opaque models. To meet regulatory reporting requirements, he stated the PRA is building new IT and data collection systems which would be ready to receive information from firms from June 2015. Finally, he made firms aware that the PRA was developing its thinking on other key aspects of the Directive including standard formula and other approvals.

Regulatory reform and returns in banking
Sir Jon Cunliffe, Deputy Governor, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech769.pdf

In a Chatham House conference, Jon Cunliffe set out three major developments in the regulatory landscape since the financial crisis and considered the commercial implications for the banking industry. First, macroprudential 'machinery', such as the Financial Policy Committee, had been set up to monitor and address risks to the financial system as a whole. Second, the international governance framework around the regulatory landscape had been strengthened, through the creation of the Financial Stability Board reporting to G20 leaders. Third, there had been a shift in prudential supervision to focus more intensively on firms that pose the greatest risks to financial stability. The new regulatory and resolution regimes that followed had resulted in a marked increase in the amount of capital firms were required to hold and, for the larger firms, a rolling back of the implicit subsidy from the taxpayer. These changes had in turn reduced banks' return on assets and equity. Banks' pay bills also appeared to be taking a larger share of a smaller pie, relative to shareholders. With lower levels of leverage, it was unlikely that returns on equity will return to pre-crisis levels, suggesting that pay bills might have further to adjust. Trying to bolster returns by taking excessive risk or evading regulation would not, Jon thought, be tolerated in the new world.

Twin peaks
Andrew Haldane, Executive Director and Chief Economist, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech764.pdf

In a speech, Andrew Haldane highlighted that there are plenty of reasons to be both *cheerful* and *fearful*. Growth in the United Kingdom was running at an annual rate of over 3%, yet the cumulative fall in real wages since the crisis was the worst since at least the mid-1800s.

This leaves a macroeconomic puzzle. Is the United Kingdom experiencing a fairly conventional recovery, if perhaps slower than usual? Or instead a more protracted period of sub-par growth — what some have called 'secular stagnation'?

It could be that the answer is both. Indeed, the speech outlined how recent developments in the labour market could be consistent with that interpretation. The UK economy appears to be twin-peaked.

Andrew noted that recent evidence, in the United Kingdom and globally, has shifted his probability distribution for the economic outlook towards the lower tail — put in plainer English, he is gloomier.

Andrew Bailey's speech at the Lord Mayor's Banquet, London
Andrew Bailey, Deputy Governor, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech763.pdf

Andrew noted that there had been two phases to the financial crisis — the first was a prudential phase, the second has revealed past misconduct.

The PRA was focused on four key areas:

- The capital framework for banks. This had several planks including assessing firms' models and stress testing. It would be augmented by the introduction of a global framework for total loss-absorbing capacity — the single most important objective in ending 'too big to fail'.
- The introduction of Solvency II. This represented a step change in the use of models and the PRA would be providing robust challenge on model applications.
- The prudential effects of conduct risk which, at its most serious, could threaten the safety and soundness of firms. This required, among other things, better international co-ordination between authorities.
- Getting the incentives right. It was important that the most senior people had their remuneration deferred for a meaningful period and that there was a presumption of senior management responsibility.

What to do when we don't know: policymaking when spare capacity is uncertain
Martin Weale, Monetary Policy Committee member, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech762.pdf

In the annual JSG Wilson Lecture, at the University of Hull, Martin explored what he calls 'the practical problem' of setting policy while being uncertain about the margin of spare capacity in the economy, and thus the implications of future economic growth for future inflationary pressures.

Using modelling techniques, Martin suggested ways in which policymakers could adapt to this uncertainty, and in particular how there can be benefits to setting policy with reference to the change in, rather than the level of, the margin of spare capacity. This framework also avoids the need to know the 'normal' rate of interest.

Turning to the practical implications of his analysis for current policymaking, Martin argued that given the unusually rapid fall in unemployment over the past year, it is clear that the margin of excess capacity in the labour market is being used up rapidly, and 'all logic suggests that that ought to lead to an increase in inflationary pressures over the two to three-year horizon which concerns the Committee'.

Regulatory work under way and lessons learned
Mark Carney, Governor, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech765.pdf

The Governor began by noting that, while all recognised that future crises could not be ruled out, the financial reforms made in the previous six years, along with a stronger framework for global co-operation, meant that the financial system was in a better position to face new risks.

Where banking systems had raised capital and restored trust in their creditworthiness, access to credit had returned. Publicly provided insurance was being removed from the system as the 'too big to fail' problem was addressed and the public subsidy for globally systemic banks eliminated.

Market forces were being restored. The system was more transparent. It was clear who bore risk.

And the scope for arbitraging new regulation had been reduced through a global approach to reform that had established common standards and encompassed shadow banking.

These G20/FSB proposals, to be presented at the G20 Leaders' Summit in Brisbane, would mark an important milestone in the financial reform agenda. But the process of reform was not over. It was essential to continue managing the system effectively in the face of new risks, in order to deliver a financial system that could support strong, sustainable, and balanced growth around the world.

Microprudential, macroprudential and monetary policy: conflict, compromise or co-ordination?

Paul Fisher, Deputy Head of the PRA; Executive Director, Supervisory Risk Specialists and Regulatory Operations; Executive Director, Insurance Supervision, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech759.pdf

In his speech at Richmond University, Paul Fisher argued that there is no reason that the three committees of the Bank of England — the Monetary Policy Committee (MPC), the Financial Policy Committee (FPC) and the PRA Board — should inevitably be in conflict due to their differing objectives.

Paul asked a series of questions designed to examine whether the MPC, FPC and PRA Board have been set the right targets, and whether they are achievable.

Paul explained that there is no inherent conflict to achieving the triple objective of CPI inflation at 2%, financial stability, and safety and soundness of firms at the same time. He said 'even though the different policy objectives can be achieved simultaneously, that does not mean that each committee can ignore the others'. He continued 'in practice independence is inevitably partial: each policy tool is likely to affect all the objectives, albeit in different degrees… the choices of one committee will affect the choices of the others'.

Co-operation between the committees is needed to meet all three objectives. One aspect of this co-operation is a common understanding of the economy. This is important as the committees could set inconsistent policies if they had different views about the state of the economy or just used different economic models. Paul noted that 'coherence doesn't always mean agreement'. He highlighted that the appointment of independent members to the policy committees is intended to ensure challenge and stop 'groupthink'. Paul explained that the likelihood of dissent across committees is mitigated as the Bank of England has 'a collective institutional need to make the whole framework function in the best interests of the UK economy'.

The economic impact of sterling's recent moves: more than a midsummer night's dream

Kristin Forbes, Monetary Policy Committee member, October 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech760.pdf

Speaking at an event organised by 100 Women in Hedge Funds, Kristin Forbes discussed the impact of the recent appreciation in sterling on the UK economy. Kristin started by highlighting that sterling's effective exchange rate had risen by 14.5% from March 2013 to July 2014. She noted that the sterling value of profits from overseas operations had fallen as a result of the appreciation. She then went on to examine the implications of the recent appreciation for UK exports. Kristin showed that the negative impact on real export volumes is probably small compared to the positive impact of observed external demand growth over the period where sterling appreciated. She then presented estimates of what the appreciation might mean for growth and unemployment, concluding that the impact was meaningful but small in relation to the recent recovery in domestic growth. Next, Kristin examined the effects on import prices and overall inflation in the United Kingdom, estimating that CPI inflation might have been up to 0.8 percentage points higher than its current level in the absence of the appreciation. But looking at a range of measures of domestic price pressures, she found little evidence of underlying price pressures. She concluded that these conflicting messages on inflation make it critically important to monitor measures of prospective inflation to determine the appropriate path for monetary policy.

Mensch tracht, und Gott lacht: giving guidance on future monetary policy

David Miles, Monetary Policy Committee member, September 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech758.pdf

In a speech at the London School of Economics, David Miles asked what sort of central bank guidance on monetary policy is most useful.

A commitment to a particular path for interest rates is very unlikely to be desirable. But giving some assessment of the likelihood of interest rates following different paths is likely to be helpful, particularly in situations in which past action and communication is not enough to describe new trade-offs in an unusual environment. Constructing an explicit probability distribution for the central bank's own policy rate, which reliably reflects how policy is made and gets across an easy-to-understand message, is a major challenge.

David concluded that more qualitative forms of guidance, such as: *interest rate rises will probably be gradual and likely to be to a level below the old normal*, might be just as useful — and possibly less misleading — than an explicit fan chart for interest rates.

Putting the right ideas into practice

Mark Carney, Governor, September 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech757.pdf

Speaking in Newport, the Governor began by noting that, as regulator, the Bank was tasked with ensuring the safety and soundness of the United Kingdom's insurance companies and the protection of their policyholders. Recognising the importance of the insurance sector to the economy, the Bank was putting the right ideas to work to preserve its positive role.

The Governor highlighted three points. First, tailored capital standards that promoted a level playing field, without impeding the provision of long-term finance to the real economy. Second, a framework for the insurance profession to hold the right people to account. Third, global standards for globally systemic insurers, to increase systemic resilience, preventing spillovers from the failure of an insurer to the wider economy.

All three ideas were needed now, in practice. As these reforms were implemented, the regulatory approach needed to be regularly reviewed, and adjusted if necessary to take into account evolving conditions. Robust interaction with the industry, including with the Institute and Faculty of Actuaries, was essential to ensure the right ideas could be put into action now, and in the future.

In giving, how much do we receive? The social value of volunteering

Andrew Haldane, Executive Director and Chief Economist, September 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech756.pdf

In a speech to the Society of Business Economists, Andrew Haldane examined volunteering and its contribution to the economy and wider society.

Volunteering is an important part of the United Kingdom's social fabric. There are around 15 million people who volunteer through formal groups or organisations in the United Kingdom, equivalent to around 1.25 million full-time employees. All in all, volunteers could be giving as much as 4.4 billion hours per year. The lecture considered several different ways of measuring the value generated from volunteering.

Overall, he found that the contribution of volunteering to UK society is likely to be huge, making it one of the most important sectors in society — but also one that is largely underappreciated. Given this, Andrew asked whether there are policy 'nudges' that might be available to help lower frictions, or sharpen incentives, in ways which could enhance the value already being created.

Remarks to the BBA Strategy Group

Donald Kohn, Financial Policy Committee member, September 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech755.pdf

Speaking to the British Bankers' Association (BBA) Strategy Group, Donald Kohn explained the objectives of the FPC and its approach to building resilience in the financial system and enhancing transparency in banking. He discussed the shared interest of the FPC and the BBA in building a safer banking system and outlined how the two bodies could work co-operatively together. For the FPC's part, Kohn expected the Committee to require more bank capital at every stage of the business cycle, set diversified measures of capital adequacy, establish limits on maturity transformation through required liquidity ratios and utilise a narrower set of measures to target specific problems. Kohn also explained that the BBA could assist the FPC in achieving its goals by identifying risks and vulnerabilities of the system, and assessing the cost and effectiveness of macroprudential policy. One area where the FPC and BBA have already been working together is in enhancing transparency of firms' approaches to risks management, and implementing the FPC's recommendations around disclosure. Finally, Kohn discussed how the FPC can work with banks to manage risks that could arise as policymakers around the world begin to prepare their exit from unconventional monetary policy.

Mark Carney's speech at the Trades Union Congress

Mark Carney, Governor, September 2014.

www.bankofengland.co.uk/publications/Documents/speeches/2014/speech754.pdf

The Governor began by noting some salient differences in how the labour markets of major economies had responded to the crisis. In the United States and euro area, there was a clear danger of a misplaced if not lost generation of workers. Britain's labour force and trade unions deserved great credit for ensuring that this risk was much lower in the United Kingdom.

By maintaining price and financial stability, the Bank was putting in place the foundations for sustainable job creation and income growth. The MPC had used the flexibility in its remit to return inflation to target over a longer period than usual in order to support sustainable jobs and growth.

As the margin of wasteful labour market slack continued to narrow, the Bank expected wages to pick up slightly faster than productivity, and unit labour cost growth to increase, consistent with meeting the inflation target. The Bank's forecasts showed that, if interest rates were to follow the path expected by markets, inflation would settle at 2% by the end of the forecast period and a further 1.2 million jobs would have been created.

But monetary policy could not do it alone. Others — including trade unions, government and businesses — were crucial to delivering long-term productivity, so that the British people got the pay rise they deserved.