BANK OF ENGLAND

Speech

Speech given by

The Rt Hon Sir Edward George, Governor of the Bank of England

At the Lord Mayor's Banquet for Bankers and Merchants of the City of London, Mansion House

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My Lord Mayor, Mr Chancellor, My Lords, Aldermen, Mr Recorder, Sheriffs, Ladies and Gentlemen – dear friends and colleagues.

How many of you here this evening have ever run the London Marathon - perhaps we could have a show of hands? Well of course I have ……. never, ever contemplated doing so for a moment. But someone who did complete it once described to me the surge of adrenaline he experienced with just a mile to go, followed shortly afterwards by near-exhaustion, until he finally collapsed over the finishing line! I think I'm now beginning to understand what he meant.

If I have my arithmetic right – and that's a big "if" – I was recently beaten all ends up at maths games by group of primary school children from Tower Hamlets – but if I'm right, after 41 years in the Bank, this is my 27th successive attendance at this great annual Bankers and Merchants dinner and, you'll be relieved to hear, the 10th and last time that I will have the honour of addressing you in my capacity as Governor. And I should like to take this opportunity above all to thank all of you – and the various organisations that you represent – for the tremendous support that you have given to me and to the Bank over so many years.

I must begin, Gordon, by thanking you.

In fact I've been immensely fortunate to have first Ken Clarke and then you, Gordon, in charge at the Treasury during my time as Governor. You shared the conviction that overall macro-economic stability – reflected in consistently low inflation – is a necessary condition for sustainable growth. That's a conviction that is deeply embedded in my soul as a lifelong central banker – if indeed as a central banker I'm allowed to admit to having a soul!

You inherited from Ken an inflation target in the form of a cap and a degree of transparency – and public accountability – that we'd never had before. And, in your own, very first – and inspired – decision as Chancellor, you advanced that approach radically further. You – rightly – kept the political responsibility for setting the inflation target – opting crucially for a symmetrical point target. But you devolved the technical responsibility for meeting that target to your new creation – the MPC – to which you appointed independent, external, experts in fields which are relevant to monetary policy to work with our team at the Bank. And you reinforced the procedures for transparency and accountability.

In terms of the overall macro-economy this framework has served us well.

Annual inflation – on the present RPIX target measure – perhaps fortuitously – I don't really mind – averaged exactly 2.5% over the past 10 years.

But more than just consistently low inflation, we have also enjoyed continuous quarter by quarter GDP growth, over the 10 years to the first quarter, at an average four-quarterly rate of 2.9% - which is well above its earlier trend. And the rate of employment has recently been around its all-time high, with the number of people claiming unemployment benefit at around a 25 year low – and that's true for the UK as a whole and in almost every region.

Of course it hasn't all been plain sailing. We've had to cope with a painful imbalance within the economy over the past few years as a result of successive storms emanating from overseas. And it has been truly painful for the externally-exposed sectors of our economy. To stay on course while those storms persisted we've had to compensate for the external weakness by accepting – indeed positively encouraging through monetary policy – domestic consumer demand growth at a rate that we knew could not be sustained indefinitely. We have been helped more recently – and it's not often you'll hear a central banker say this – by a timely increase in public spending, consistent with your own rules designed to ensure medium-term fiscal sustainability. Without that we'd have been even more dependent upon the consumer.

A year ago there were grounds for hoping that the external storms were beginning to abate, but those hopes were deferred – by the after-effects of corporate governance and accounting failures in the US and by uncertainty associated with the war in Iraq. There nevertheless remain reasonable grounds for thinking that the external environment will now gradually improve as we move through the second half of this year into next, and that this will help to offset the gradual moderation we are beginning to see in the growth of consumer spending. That would open the way to continued relatively steady and better balanced growth – at or above trend, with inflation remaining close to target.

But there are certainly short-term risks on either side, and given those risks – including the risk of slow growth in the Eurozone, particularly in Germany – I agree with your assessment that the economic case for euro-entry has not yet been made. More generally on that subject, I very much welcome the Treasury's exhausting – I mean exhaustive – broader assessment of the longer-term pros and cons which I hope, when people have had time to digest it properly, will result in a better balanced – less polarised – debate on the economics of the euro question.

I confess that I had hoped that we would by now be further along the narrow channel I have described on past occasions between the Charybdis of external weakness and Scylla of unsustainable consumer demand. And I'm sorry in this respect to be jumping ship at this particular point. But I'm convinced that calmer waters lie not too far ahead. And I've every confidence that Mervyn King – who has in effect been our Chief Navigating Officer for much of the past decade, and who will take over as skipper at the end of the month, with an outstanding MPC and Bank crew to support him – will find the way through. I certainly wish them safe passage!

My Lord Mayor, if the harsh international climate made life difficult for us on the macro-economic front, the associated, sustained, fall, in global equity markets in particular, made it an unusually tough time for many financial institutions here in the City. Happily, here too, there are more recent signs of improvement. Perhaps the truly remarkable thing about that is that the financial system as a whole withstood the pressures as well as it did.

But over a longer time horizon the City's financial institutions have responded remarkably well to sustained market pressure for change, and we have been outstandingly successful in fulfilling the City's vital economic, and social, function of promoting growth and employment both in this country and across the globe.

One can think of lots of reasons for that success – I pick out two in particular.

First, we have managed over time to maintain a reasonable balance between creative market dynamics on the one hand and official intervention and regulation on the other. It is well understood that markets must be "fair" as well as "free" to do their job effectively – and that we have to have rules that reflect public policy concerns. But it is equally understood that, carried too far, prescriptive intervention can stifle competition and the market appetite for risk. In getting the balance right, market participants can do a lot for themselves. My impression certainly is that there is a growing recognition that high standards of professional competence and integrity are vital to a firm's reputation and commercial success, or even its survival – and that helps to limit recourse to intervention. But it's also true that we have a critically important, longstanding, tradition in this country that, where there is a perceived need for intervention, the relevant authorities consult extensively with the markets which helps to avoid unintended consequences and to ensure a measured and properly targeted approach. It's a tradition which others would do well to adopt.

My second explanation for the City's success in financial services is non-discrimination. Provided they meet the standards of professional competence and integrity we expect in London, it makes no sense at all – in fact it would be self-inflicted injury – to distinguish between the firms or individuals who work here, on grounds of nationality or ethnic or religious background – or, in the case of individuals, on grounds of gender, which is a point, my Lord Mayor, which I know that you have made forcefully from the beginning of your term in office. I think we've made real progress on this front. Non-nationals for example, play an important part not just in our commercial life but in the governance of our market institutions. And I very much welcomed the initiative by the Foreign Bankers' Association to establish the Guild of International Bankers, which itself followed the opening up, to non-nationals, of the City Freedom. It is economic activity – not nationality – that generates employment and income – and even, Chancellor, tax revenue – and that's something, too, which is now better understood than in many other jurisdictions.

It is crucial that these approaches continue – as I have no doubt they will – into the future – whatever that might hold.

I have also been impressed, my Lord Mayor, by the increasing commitment among City firms – including many firms from overseas – not just to professional, but also to social responsibility. And in this context I have been greatly encouraged by the widespread and very positive response to the Heart of the City campaign launched nearly three years ago to encourage and extend City corporate community involvement. I hope that that, too, will continue.

So I take the opportunity this evening to express my thanks to all of you represented here who have worked with us at the Bank over the years in so many different ways, through good times and bad, to secure the City's position as the pre-eminent global financial market place.

And that, of course, my Lord Mayor includes the holders of your high office over so many years – and it includes the City Corporation. We at the Bank have enjoyed tremendous moral and practical – not to mention gastronomical – support in all our efforts to promote the reputation and prosperity of the City, and I hope that you may feel that we have been equally supportive of initiatives that you have taken to the same end. From my perspective it's been a very warm and constructive relationship which I have no doubt will continue.

You, Gavyn, have certainly contributed to that relationship during your period in office and I am grateful to you for that. But more than that you have maintained the finest traditions of the Mayoralty in the lead that you have given to the City. You have taken on an exhausting – and in this case I really mean exhausting – program – both at home and around the world in promotion of our interests and you have still found time, with the Lady Mayoress, to entertain us right royally this evening. We are all most grateful to you.

So to you all – as I make the transition from Who's Who? To Who's He? – I say thank you and farewell until we meet again – as I very much hope we will if ever Vanessa and I manage to tear ourselves away from Cornwall.

I invite you all to rise and to join me in a toast of good health and prosperity to "The Lord Mayor and the Lady Mayoress".