Press Conference - 28th August 2013

Facilitator: Welcome everyone to this short press conference. I wonder if you could just make sure that you do identify yourselves and your organisation before asking a question, because we've got the TV cameras here and I'm sure everybody wants to know who you are. So it's one question at a time. Who's got their hand up first? Well let's take the question in the front row, right here.

Rebecca Barry, Channel 5 News: We spoke to a businessman in Nottingham this morning who says his bank would have preferred to see him go bust than reduce his loan repayments. What promises can you give him, and other businesses, that banks are on their side?

Mark Carney: Way to go Rebecca. Well I spoke to a number of businesses in Nottingham today, and the general sense is that credit conditions of banks are improving somewhat. There are still big pockets where people aren't served, small and medium sized enterprises aren't served, and there are issues with terms and covenants and the like. But there's a direction of travel which would be consistent with what we see in the macro figures, is that there is some improvement on the margin.

Look, I'm not going to give promises about individual institutions or individual businesses. What I will reconfirm is that in our prudential responsibilities of the Bank, both micro and macroprudential, so for individual institutions and for the economy as a whole, is that we'll make sure that our major and minor institutions are adequately capitalised, that they have appropriate liquidity, and that they're focused on the real economy. And that process has been substantially advanced by the work of my predecessor and colleagues at the Bank in bringing institutions towards that 7% threshold.

Stephanie Flanders, BBC: Governor, people in the financial markets seem to expect the Bank of England to raise interest rates now rather sooner than they did before you offered your forward guidance on that subject. Have they failed to understand forward guidance, or do they just not believe it, do you think?

Mark Carney: No, well look Stephanie, I don't want to over-interpret relatively recent moves in financial markets, but the guidance is not around a date, the guidance as you know is around an economic outcome - specifically unemployment. And different institutions, different individuals, can have different views about when that economic outcome is going to be achieved.

I think that the thing that has to be stressed is that just the achievement of that economic outcome - it does not then follow that interest rates move. And that's something I tried to make clear in the speech today.

There's a variety of reasons to expect that it could take some time longer than the middle of – well, than current market expectations - for adjustment in Bank Rate, because the underlying performance of the labour market could be different, for good reasons as well, because we're recovering productivity. But I'd stress that the assessment that the MPC will take, when the threshold is reached, will be what's right for the economy at the time. This is not a pre-commitment on action at that point.

Ed Conway, Sky News: It's really following on from that point really; each time that you've stood up recently you've announced these policies. You announced forward guidance; the market has reacted in a different way to how I think a lot of people might have anticipated that they would have reacted. Were you disappointed by the market reaction after the Inflation Report? And could you give a yardstick as to what would constitute success in terms of the kind of message, and the kind of reaction, that you're seeking to get from markets with, for instance, today's speech?

Mark Carney: Well, look, let me say something about markets. And I think you know this but maybe it bears repeating. Markets react – I mean a market reaction is relative to what they expected that they were going to hear. And in trailing into an announcement, the original announcement on forward guidance, I mean it was - the remit question had been set out by the Chancellor. I had given a speech in December; the remit question had been set out by the Chancellor in February. We'd been working on a number of comments from MPC, a number of analyses had been done, and an assessment. So it's relative to expectations, that's first and foremost.

What are we looking for? What we're looking for is - in where the message of the policy is directly to the people who put capital to work, directly to the people in that room and by extension across the country, to businesses and to households - to provide a degree of certainty about the likely path of policy.

We're in a recovery that's just beginning. There are signs of some broadening of that, but it's just beginning. It is a long way back, a very long way back - we're lagging virtually everyone else in the advanced world. There's a lot of spare capacity. The question is how much. But until we reach that 7% threshold we're in a position where we don't have to make that assessment about whether to adjust Bank Rate up. And that's core.

So I wouldn't - I think hanging this on markets is to miss the point. What my colleagues, and what I'm hearing, are hearing across the country, is that there is appreciation for that greater degree of certainty that's been provided by the Bank. And remember, as I said in the room, the rate that matters for three quarters of the households, almost three quarters of households, and more than three quarters of businesses, are rates less than one year, most cases the floating rate. And those rates are linked directly to Bank Rate. And Bank Rate is decided by the MPC.

Mark Gough, ITV News: Virtually every small and medium business I talk to here in the Midlands say the biggest problem is getting lending from banks. Do you think that banks are doing enough? And do you think banks actually understand the importance of small, medium businesses to triggering growth in the economy?

Mark Carney: I think that the banking system here has improved but it is not fully healthy. And one of the consequences of that, and one of the consequences about the uncertainty on the economic outlook, has been restriction to lending to small, medium sized enterprises, without question. So part of it is about capacity, but also part of it is about risk appetite. And as the recovery progresses, and as a degree of certainty is provided alongside that, those are linked obviously reinforcing, that helps address the risk appetite question. And we've been, the Bank, the FPC, the PRA, have been addressing the capacity issue by ensuring that banks have appropriate capitalisation now.

Claire Jones, Financial Times: You know it seems clear that you're using the unemployment rate as a proxy for spare capacity, but as I'm sure you'd acknowledge yourself it's not perfect in that respect, you know, because of things like the increasing part time jobs and so on and so forth. Would it be possible for you to be a little bit clearer about what else you're looking at in terms of trying to measure how much spare capacity there is?

Mark Carney: Well it's the right question. When we look at the unemployment - when we look at the labour market - obviously we look at hours worked, average hours worked, we look at the participation rate both relative to history but also adjusted for, as demographics have moved on since, you know, pre-crisis history. We look at measures of involuntary part time, as I mentioned in the speech. We look at total hours worked as well. I mean we look at a variety of factors of underlying strength in the labour market.

What will be interesting as the recovery progresses, and we talk about guidance and using the unemployment rate, use this terminology of a robust framework, a framework to test the degree of spare capacity. So what is also of tremendous interest is the extent to which investment and productivity pick up as the recovery progresses. And all of those factors, and more, will be relevant in terms of an assessment of the degree of spare capacity both in the labour market in firms, in the broader economy, and therefore, combined with the prospects for demand, all of those are relevant for the outlook for inflation at the point at which we reach the 7% threshold.

Now obviously we're not waiting until that point to do all this analysis, but those are some examples of some of the issues that we are quite appropriately looking at in order to determine the sum of the spare capacity. And of course within the context of all that what's measured extremely well, as you know, are the labour market indicators, by and large. What's more difficult to measure are the degree of spare capacity within firms broadly speaking, more specifically the rate of growth of productivity.

Ben Chu, The Independent: Governor you spoke in your speech about some of the circumstances in which you and the MPC might consider more stimulus. And you said that this could happen if short term rates tighten and the recovery seems to be falling short. Is it reasonable to assume from that that if the short term rates do rise and the incoming flow of data is as solid as it has been recently, that more stimulus is off the table?

Mark Carney: I think what I said in my speech was if effective financial conditions tighten, which is broader than short term rates and financial conditions - you look more broadly in terms of short, longer term rates, effective spreads to corporates, equity market indicators, exchange rate - broader financial conditions. But obviously we need to look at the sum, you don't hone in on just one, so we'd look at that.

But part of the advantage of the guidance framework, and the work we did, is to provide as much clarity I think as, and certainly in the collective view of the MPC, we feel as much clarity as we can on what we see as the optimal path, the best path to get from where we are today, where inflation is above target and output is far below potential, to bring those back to their - inflation back to target over the right time horizon, while supporting growth. And so we will set - we've given you the minimum amount of stimulus, the minimum amount of stimulus that's necessary in order to achieve that. If we need to do more we'll do more.

David Thomas, Market News: The Bank hasn't published its unemployment forecast in the past. I was wondering if you might consider doing that so we can maybe have a better - better assess the Bank's track record at forecasting unemployment and compare it with those issued by the private sector.

Mark Carney: The forecast that was provided three weeks ago with the inflation report is the first MPC forecast of unemployment, so …

David Thomas, Market News: The first one published.

Mark Carney: It's the first one we've done. I mean staff do things and stuff, but I don't have something - we have published every MPC forecast of unemployment already, how is that? There's only one data point unfortunately so the analysis of its accuracy, at least in the short term, is going to be difficult to perform.

Simon Kennedy, Bloomberg Markets: In the August meeting some members of the MPC saw a compelling case for more quantitative easing. Were you one of them?

Mark Carney: I just gave you my views on - this is my speech today, and I think you can infer from what I said whether I think that's currently necessary. In fact you're going to have to infer because I'm not going to draw it out any more specifically.

Faisal Islam, Channel 4 News: So right now the Bank of England is subsidising funding for commercial banks through the Funding for Lending Scheme. The government is subsidising mortgages through Help to Buy. You're promising lower interest rates for longer, and now bank liquidity rules have been weakened. If this does end up getting slightly out of control in terms of credit, and the credit goes disproportionately into mortgages rather than business, do you have the tools to rein that back in?

Mark Carney: Well it's the right question, and the third part of the speech today was to talk about the other tools that the Bank has that potentially could be used, if appropriate, if necessary, to address specific vulnerability, whether it's in the housing market, or a certain sector of the financial market. It starts with more intensive supervision of activity in that area. That's something we've used, certainly used to effect in Canada. It can include adjustments to capital requirements for specific sectors, adjustments to terms to lending or mortgages in those sectors. So we have those tools.

But first and foremost it's the responsibility of the Financial Policy Committee at the Bank to make an assessment of those vulnerabilities. And the point is that, you know, interest rate policy is focused on delivering the core monetary policy mandate, achieving the inflation target in the way that we have described. And it's the last line of defence to address those types of issues.

So we have a committee who is charged with the responsibility of assessing those vulnerabilities - it will do that. We have a committee that has the ability to make recommendations and in some cases - to make recommendations, and we also have a committee which has an ability, the PRA, which has an ability to take steps that it could take, if necessary, in order to address emerging vulnerabilities to institutions and to the broader economy.

So there's a lot we can do in that area. I'm not saying we can do absolutely everything, but there's a lot we can do in that area. It's our responsibility to use those tools if we think it's necessary, yes.

David Milliken, Reuters: A few weeks ago sort of at the Inflation Report news conference you said that you thought that sort of market interest rates were sort of clearly out of line with fundamentals. And I was just really wondering given developments since then, whether that's sort of something that you would sort of reiterate now?

Mark Carney: Is that a quote?

David Milliken, Reuters: Something that I was …

Mark Carney: We will take an assessment at our next policy meeting of the sum of financial conditions, the sum of data, the momentum, that's there. And in the context of forward guidance, assess the stance of monetary policy. Although I would remind that we have said that interest rates will remain at the current levels until that threshold is achieved, and we'll reinvest all the proceeds from the asset purchase facility, any maturing elements of the asset purchase facility, until that threshold is achieved. So there's only one direction possible on the adjustment of policy.

But, you know, the adoption of guidance is, in my view, an important change in policy. It's something that reaches directly to those who put capital to work, households and businesses. And one evaluates, over time, the effectiveness of that as part of a mixed strategy which includes the level of base rate and the size of the balance sheet of the Bank of England that currently exists. As well as Funding for Lending and other aspects I should say.

Larry Elliott, The Guardian: I just wondered whether you're surprised at all by the market reaction, given that the one policy announcement in the speech was an easing of liquidity requirements for the banks. The markets clearly are hearing what you're saying but are not especially convinced by it, they don't think that the unemployment rate is going to take three years to get down to 7%. And given the Bank's recent forecasting record, that's hardly surprising.

So I just wondered whether you think that given that, given the market response and clearly the sort of lack of belief in the Bank's forecasting, that you are going to need to back up forward guidance with some policy action, whether forward guidance on its own as a verbal signal to the market is going to be sufficient here?

Mark Carney: A couple of things. One is what's important is the effective stimulus that's being provided to the economy in order to achieve real and nominal economic outcomes. The core outcome that we're responsible for is achieving the 2% inflation target, and we've been absolutely clear, as clear as we possibly can be, over what horizon we think we should achieve that 2% in the current extraordinary environment. And we are in extraordinary times, I think you know that.

So we're providing stimulus to the economy in a variety of ways - the level of Bank Rate, the guidance we've given around that. The size of the balance sheet, the guidance we've given around that. We're not going to reduce the size of the balance sheet. We might increase it but we're not going to reduce it. Funding for Lending, providing additional liquidity flexibility to the major banks and building societies in the country so that they, in this period of transition, can put additional resources out to lend. They won't necessarily use all those additional resources but they can put additional resources out to lend in the economy.

The sum of that is the sum of the stimulus. We're very consciously pursuing a mixed strategy, and we're very consciously as well, because of the enormous uncertainty that has buffeted this economy and buffeted individuals in this country over the course of the last five years, trying to provide as much certainty as possible.

And our certainty is about two things. One, we're going to achieve our inflation target. Secondly, we're going to support that recovery and we're providing certainty about the level of that support, the minimum level of that support, until an economic outcome is achieved, which is unemployment going to 7%. Not a date on a calendar, until an economic outcome is achieved. And it's the sum of that stimulus, all those aspects, which will determine the path of this economy, will be the Bank's contribution to the termination of that path.

Facilitator: We're basically out of time but maybe just a couple more.

Helia Ebrahimi, CNBC: Excluding RBS and given the relaxation of the liquidity buffers, if the PRA's capital requirements are met does that mean UK banks have been fixed?

Mark Carney: Not totally. There are a range, and I detailed them in - I didn't go through the gory details in the room but some of them are covered in the speech, in the written speech, there are a variety of other issues on the table. Not just issues but requirements that are going to be on the table. The question is the transition to implementing the recommendations of the Vickers Commission, the independent commission on banking.

I'll speak with my role as Chairman of the Financial Stability Board; there are additional surcharges for global systemically important banks. There will be issues around aggregate loss absorbing capacity for those institutions. There's issues around how they organise themselves for derivatives activities, trading activities. There are issues around solo capital; I can go on and on and on. There are a series of issues that, particularly for the most major and complex banks, will pertain.

That said - and those will all be followed through and they will all be implemented - but getting to that initial threshold of 7% and the associated threshold of the 3% leverage ratio, that allows us to get to a position where we can then have a sensible transition path for implementing those other elements, other absolutely necessary elements, of reform. And so it's incredibly important work that, in effect, my predecessors and in a number of cases still colleagues at the Bank, have put in place in order to get us to that point.

Facilitator: I think we'd better make this the last one.

Kathryn Hopkins, The Times: The figures show that banks still aren't lending near enough to SMEs as is needed. A lot of people, including cabinet ministers, are urging small businesses to look to alternative sources of finance. How safe do you think these are? I heard over the weekend that the FCA is considering looking into crowd funding, and I just wanted to see if you think all of these options are safe.

And really quickly, is Jake Bugg the type of music you listen to at home?

Laughter

Mark Carney: In terms of alternative - I mean the SME question is - there are two elements to the SME question, I think. And one thing I would stress is that we're still in a position - one of the things we shouldn't try to judge the success of the banking system by is our aggregate credit figures, because the aggregate level of credit - there's still a healthy aggregate level of credit out to the private sector in this economy.

The bigger issue is the reallocation of that credit over time. So, you know, and it's the new SME or the SME which has new ideas that needs that access to credit, whereas in some cases one might have concern about forbearance or other aspects with SMEs who continue to be rolled at very low interest rates, and large institutions as well.

I won't make a specific comment on the crowd funding, you know the equity aspect. I think that the core of - SME funding, one of the realities of SME funding is that it's very often related, in fact almost always secured against some sort of property asset or physical asset. And the recovery in those values, or at least the floor under those values, and the recovery again in prospect for demand, does make a difference to the risk appetite of banks and therefore the ability to fund.

Look, there is no mission accomplished banner up behind us here saying that the banking system is fixed. But what's happened is that we pushed appropriately the system to be adequately capitalised. It can be better capitalised, but to be adequately capitalised, and that's important. That is really important and that will start to filter through.

And as for Mr Bugg, I hope I haven't jinxed him now by admitting that I saw him. I saw him play in Hyde Park and he was outstanding - and he is from Nottingham and he is very good. So that's it, that's all I got.

Facilitator: On that musical note thank you all very much indeed for coming. See you again.

Mark Carney: Thank you.

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