

Bank of England

Mark Carney, Governor - Press Conference
24th October 2013

Mark Carney, Governor Press Conference - 24-10-13

Nils Blythe: So good evening everyone and welcome to this short press conference. As always I would ask you if you could identify yourself and your organisation as you ask the question, partly for people who are not in the room. We've got about 15 minutes so who would like to ask the first question? Ed, I think you had your hand up first.

Ed Conway, Sky News: Governor, you very elegantly avoided saying anything about, for instance, GDP numbers that are coming out tomorrow, but there's a lot of focus on the broader economy as well as the financial system. How would you characterise where we are at the moment? Do you feel that, for instance, the economy is turning a corner or are you concerned about the path of growth at the moment?

Mark Carney, Governor: Well the economy obviously has picked up over the last couple of quarters. We expect the second half to be stronger than the first half, as indicated in our minutes that came out earlier this week. We'll find out, I mean I'm not so foolish to try to give a prediction of a number that's going to come out in less than 24 hours, so why don't we wait for the GDP report, which undoubtedly will be revised over time.

But what we're seeing is that the rate of growth in the UK is towards the top end of the advanced economies, but it's coming from a very low base. The balance of that growth by components, is weighted more heavily towards the household sector at this stage. Investment is still relatively modest and the net export side is challenged. So we take some encouragement from what we're seeing, but it's a long way back from where we've been.

David Smith, Sunday Times: Governor, we've had a series of high profile announcements of energy price increases recently, and that seems to have been reflected in a rise in general inflation expectations. We had the Citi-YouGov survey out this afternoon which shows

Mark Carney, Governor Press Conference - 24-10-13

quite a sharp rise. Does that concern you, that these high profile price rises may be influencing expectations about inflation more generally?

Mark Carney, Governor:

Well a couple of things. We're going to talk maybe specifically about the indicator you referenced; the City YouGov, which I think was surveyed just in the last couple of days. So the survey was actually when the high profile - and they were high profile and notable - announcement in energy price increases happened. And we've seen a bit in the past when you have a coincident survey with something as obvious and important to people as energy prices move, you get these spikes. So we have to see on the specific survey what persistence there is, and fortunately it's a monthly survey so we look at that.

I'd generalise it a bit though, is that what we obviously do as the MPC is we look at, as you know, David, we look at a range of indicators. Other surveys, whether it's the Barclays Basics, the Bank's NOP surveys, professional forecasters, market indicators. I mean market indicators have not moved, didn't move today, haven't moved over the course of these energy price increases. I wouldn't read too much into that, but they haven't. And in the run up to our latest decision we really hadn't seen any move in inflation expectations; in fact they'd moderated a bit. If you had to make the call, we as a group, sort of said we didn't see anything notable there.

But, you know, we take note of it and certainly, as we do with all those indicators regardless of where they break. Let me say one other thing though on the energy price increases, the utility price increases, which are significant for some people, fully recognise that, and come on the heels of other increases over the years. From an overall consumer price basket perspective, so the CPI basket, the utility price is a little less

Mark Carney, Governor Press Conference - 24-10-13

than 5%. The prices that are coming out are a bit higher than we had pencilled in, in our last forecast, but all of that translates to about 15 basis points on inflation next year, increase.

And subsequent, since we made that forecast, this is relative to our August forecast, since that forecast there has been a variety of other things that have moved in the opposite direction. We'll give you, obviously in November when we release our next inflation report, an updated forecast. But when you net it out, it would appear to be slightly tilted to the downside in terms of the net outlook for inflation as a whole, relative to August.

Jennifer Ryan, Bloomberg News: Ed Balls has called today for the Bank of England to urgently review Help to Buy. Is that something you'd consider doing?

Mark Carney, Governor: Well, with respect to that specific programme, as you know we've been asked by the government to review it on an annual basis, starting from a year from now. But let me put this in a more general context which is the issue about sustainability in the housing market, potential issues for financial stability that could arise from developments in the housing market whether actual or prospective, something that is the responsibility of, amongst many others, of the Financial Policy Committee.

The FPC has to take an assessment of those vulnerabilities. In the context of that assessment, or those assessments - because it's not just about the next meeting, its subsequent meetings and beyond - it has to consider whether any action should be taken. And in that consideration it will take into account a broad range of tools that are available to it and to others, that could be used. So it's certainly not limited to the terms of one government programme. There are a variety of ways to address this.

Mark Carney, Governor Press Conference - 24-10-13

All of that said, and I hope you'll include this in your report if you write on it, that is not to say that, is not to presuppose that any action needs to be taken. I'm not prejudging any decision of the FPC whether at the next meeting or any subsequent ones.

Richard Edgar, ITV News:

Governor, are you happy with the distribution of the economic growth in the country, coming back to Ed's question a moment ago?

Mark Carney, Governor:

Yeah, well Richard, I think the - I gave a speech today about the financial services sector, and one of the points I tried to make was that there is a broader distribution of the financial services sector across the UK. But let me go to geographic distribution. What's absolutely clear to us at the Bank, and this is a point that myself and my colleagues have discussed as we go round the country, is that a recovery that's just in the southeast is not ultimately a sustainable recovery for the UK. So it's going to turn on the Midlands, it's going to turn on what happens in the North, in Scotland. It needs to be broad; it needs to be a broad recovery to truly be sustainable.

We're seeing some broadening in geographic terms of the recovery. What we have not yet seen is broadening across the components of GDP away from just a concentration, if you will, around household expenditures.

Hugh Pym, BBC:

Governor, when you set out forward guidance in August, you made it pretty clear that you wouldn't consider a rate rise until unemployment fell to 7%. And it was pretty implicit that would not be till 2016 because of the Bank's projections for unemployment and assumptions.

Mark Carney, Governor Press Conference - 24-10-13

Since then there's been a lot of speculation about 7% being hit earlier than that, hints I think from an MPC member that you'll recalibrate your unemployment forecast in November. And also another member of the MPC saying rates could even rise next year. What message can you tonight give households and businesses about the likely timing of a rate rise?

Mark Carney, Governor:

Well I agree with the first sentence in your question, which was we made it pretty clear that we wouldn't consider raising interest rates until unemployment reached 7%. I don't agree with the second part of your question which went into a specific calendar.

Now what we tried to do when we released guidance was to give as much information as we could about the probabilities over which the threshold could be achieved. So there were relative probabilities - whether it was 2016, 2015, 2014 - that that 7% threshold could be achieved.

And what we have seen since then has been the economy has been a little stronger, which is welcome. More jobs have been created than we had expected, which is also welcome. Inflation has edged down as broadly as we would have expected; inflation expectations have held.

And the message to households, to businesses, is that the recovery has obviously begun, it is strengthening, but we are not going to withdraw monetary stimulus until it's really gained that traction. And we're using the 7% unemployment threshold, something you report, everyone in this room reports the unemployment rate when it comes out, something that matters to people across the country, these are real people, real jobs, real people looking for jobs. We're using that as the staging post for when we reassess monetary policy and begin to think about raising interest rates.

Mark Carney, Governor Press Conference - 24-10-13

So look, if we make it there faster because the economy is growing more rapidly, because more jobs are being created, we will then assess - make that assessment - more rapidly in time. But it's about conditions. It's not about a calendar.

Larry Elliott, The Guardian:

Governor, how can you explain the fact that the recovery, such as it is, seems to be driven by the household sector, yet real wages are going down?

Mark Carney, Governor:

Well there are a couple of things. There has been an adjustment, Larry, as you probably know, in the savings rate. I mean that data is always somewhat imperfect, whether it's here or US or anywhere else. But there has been a step down in the rate of savings of households over the last couple of quarters. So there's that adjustment. There are more people in work so that helps as well, so more people are actually earning a wage than were before. And what there hasn't been has been a sharp uptake in borrowing.

In our forecast in August - obviously we'll update it in a few weeks, but in our forecast in August - we didn't see consumer borrowing picking up, borrowing for consumption picking up. We saw consumption growth largely in line with income growth, and income growth being relatively modest, as you say. So that's one of the reasons why, despite the fact that the UK economy is still just coming back to its level in 2008, growth, while it's improved, while it's strengthened, is still relatively modest relative to historic recovery. So the rate in historic recoveries because we don't see that expansion in incomes, and the constraint on the growth of consumption is more about the growth of incomes.

And I'll make one last point if I may, just to complete it, which is this one of the many reasons why it matters what happens to productivity, because our view is that ultimately

Mark Carney, Governor Press Conference - 24-10-13

that real growth in incomes is going to come if productivity starts to pick up more rapidly. We've only seen the initial signs of that.

Chris Giles, Financial Times:

Governor, in your speech you said the Bank of England was now open for business in terms of its liquidity operations. Should we now fear that banks might hear those words and start taking excessive risks again?

Mark Carney, Governor:

Well it's a fair question, I think, and let me answer it in two ways. One is why do we feel it necessary to say that? And the answer is that there is a stigma that develops in terms of using central bank facilities. And there are certain classes of central bank facilities. There's emergency lending, which sounds exactly like it is, for individual institutions. I didn't talk about that today. But then there are the regular facilities, as you know, of the central bank, that are there to be used.

And the point we're making is that as markets develop, as collateral becomes more and more important to market functioning - we the regulators, by the way, are making it more important to market functioning, but it's also some of the lessons of the crisis - as that becomes more important those collateral markets in the management of collateral will become more important. And the ability, the central bank can play a role in ensuring that those markets are always there. And that's so that when there's a shock to those markets, firms have an alternative which is run on a competitive auction based to reach to the central bank.

The last point that I'll make in terms of your question, the core of your question, is this isn't happening in isolation, the change to the liquidity facilities. In fact the prerequisite for change in the liquidity facilities was much tougher liquidity regulation. In fact really for the first time true regulation,

Mark Carney, Governor Press Conference - 24-10-13

supervision, active supervision of liquidity at banks. And that's what we've been doing. And partly as a consequence there has been a substantial increase of actual liquidity at banks.

Our job, and you'll hold us to account I'm sure, as others will, is to make sure that that is still the case three years, five years, ten years down the road.

Juliet Samuel, The Times:

You endorsed Funding for Lending. I wondered if you would endorse Help to Buy, and if you worry that it's exacerbating this sort of move away from rebalancing the economy and concentrating activity and credit in the housing market, which has traditionally been a huge part of the economy.

Mark Carney, Governor:

Well Funding for Lending is a Bank of England policy. The other is not a policy of the Bank of England. I think there is an appropriate separation between our policies and the policies of a government, whatever government exists. And we have to be very careful about crossing those boundaries. We take government fiscal policy as given. We take government housing policy as given. And then we optimise, within our responsibilities, given those decisions that elected governments take.

I think what I'll say about Help to Buy is that it is very welcome that the FPC has an opportunity to review the terms of Help to Buy on an annual basis. And I'll refer back to my answer, I guess, to Jennifer, of the fact that the FPC has many other tools that it could use, if it were to decide that there were issues in the housing market that needed to be addressed.

Nils Blythe:

We've probably got time for just one more. I know Ben has had his hand up for a long time.

Mark Carney, Governor Press Conference - 24-10-13

Ben Chu, The Independent: Governor, many people would have been struck by the contrast between the tone of your speech tonight in regard to the City of London, and that of your predecessor. Is this a new start for the Bank of England in relation to the City? And do you think it's part of the job of the Governor of the Bank of England to be a cheerleader and a promoter of the activities of the City of London?

Mark Carney, Governor: No, well let me deal with the second bit. No, it's not part of the job of the Governor and we're not cheerleading for the City. That's not what this is. The point is to recognise a couple of facts. London is a global financial centre. Financial services are incredibly important to the UK economy. It's more than just about London; it spreads across the economy. London serves a role, and the UK serves a role in maintaining an open global system. The only way that we can continue to do so, and responsibly do so, is to organise the system both on the banking side and on the market side, for resilience. And that requires a bunch of reforms.

If we don't end 'too big to fail', if we don't accomplish some of the things that I set out, and more, in that speech I made on 'too big to fail', we cannot support a financial sector of the size we have, let alone one that grows. If we don't make a series, in our opinion, of reforms to the way core funding and derivative markets work, then we shouldn't have those markets of the size they are in the UK because of the ultimate risk that would come back here. And we have a role to play, both in the design and implementation of those reforms, as well as in the plumbing of central banking and the provision of liquidity.

But let me say something about where this situates relative to what the Bank has been doing before. Lord King and I worked very closely in our previous roles on a number of these reforms. And domestically a number of things that the

Mark Carney, Governor Press Conference - 24-10-13

Bank of England and that Lord King personally led, have set the stage to have a speech like today's, to talk about some of the initiatives that I raised today.

Until the domestic banking system had been fixed, the recapitalisation had happened, we couldn't be here. Some of the structural measures that have been put in place, whether it's through ICB which he helped catalyse, we couldn't be here because they're part of solving 'too big to fail', some of the compensation initiatives, the cultural issues and others that Lord King put in place. But the point is to what end? Once that is there, we still have a global financial system that's here, that's important for all the reasons I referenced. And how do we then sustainably maintain it?

The Bank's role is to figure out the prudential aspects of that equation which we will do here domestically, but importantly internationally through the FSB. What the City does with it, what the broader financial services industry across the country does in that context, is entirely up to them. And we leave it in - I'll just leave it to that actually, yeah.

Nils Blythe:

Well I'm afraid we really are out of time. So thank you all very much indeed for coming, and I hope it has been worth your while.

Mark Carney, Governor:

Okay, thank you.

END