

Bank of England

Mais Lecture – Press Conference
18th March 2014

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Nils Blythe, Executive Director,
Communications:

So good evening, everyone. Thanks very much for coming, and welcome to this short press conference following the Governor's speech. The usual rules apply; please do wait for the microphone, and do say your name and the name of your organisation before asking your question. So first question. Richard?

Richard Edgar, ITV News:

Governor, you've announced a swathe of senior appointments, 15 initiatives and even a mission statement. Briefly, what's the problem that all that is trying to fix?

Mark Carney, Governor:

Well I wouldn't say it's a problem. What we're looking is to take an opportunity. We've been given a wide range of new powers and we're going to deploy them to increase the public good. And what does that mean? That means low, stable, predictable inflation and it means strong, sustainable and balanced growth. So we're going to take the opportunity that's been given to us by the wide range of powers that we have.

Ben Chu, The Independent:

Governor, in your speech you referenced the credit crisis and also the forex and the Libor scandals. If this range of institutional structures and powers which you've outlined had been in place a decade or more ago, is it your view that those events and abuses could have been prevented?

Mark Carney, Governor:

Well let me separate them, Ben. I think in terms of the credit cycle and the credit crisis, certainly if we knew then what we know today, and we had the powers and the organisational structure that we're putting in place, we would quite rightly be expected to take action that would have moderated the credit cycle.

Now the UK had its own challenges and problems, but it was also hit by a global crisis. So we could have moved maybe more towards Canadian outcomes, if I may, following that

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crisis, and with less of a tail – a very severe tail, that we've experienced over the course of the last five years, the true stagnation that we've had over the last five years. And certainly that's what would be asked of this institution going forward.

And let me make one other point related to that and then I'll move to conduct, which is that, and I made this point towards the end of the speech, is that the global environment, for the foreseeable future, has opportunities but actually is going to be quite risky as well. And so we will continue to have risks coming from abroad that we can prepare for, and to some extent we can moderate the impact of those risks. But we won't be fully able to escape them and that's why we need to work abroad as well.

With respect to the market conduct issues, as you are well aware the Bank is not responsible for market conduct, that's the responsibility of the FCA. What I think we can do with respect to those issues, and we will do, and Minouche Shafik will help lead this in her new Deputy Governor role, is that we will look to change the infrastructure of markets – working with market participants, working with other regulators, to work to make sensible changes to the hard and soft infrastructure of markets.

So let me give an example. We're working right now through the FSB, the Bank of England - Paul Fisher specifically - is leading an effort to change the way benchmarks, fixes, are calculated in FX markets. That's changing the hard infrastructure of those markets. But we also have to look at softer issues in terms of principles around what are fair, open, competitive markets, so that market participants themselves recognise when certain behaviours are developing in a way that undermine, effectively, the market system and reduce the efficiencies that it brings.

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Faisal Islam, Channel 4 News:

You said in the speech that it doesn't take a genius to see that similar risks exist today, as in the pre-crisis low rate environment a decade ago. And I think in the Q&A you said that there were some signs of excess returning. What are you talking about there? And how would you reflect on the government deciding to extend Help to Buy, which the Bank of England have had some concerns with, and the current account position as well which some market commentators have had some concerns about?

Mark Carney, Governor:

Okay. There's a metapoint that I was making and it goes back to my answer to Ben, and the conclusion of the speech, talking about the international environment. Look, the risks that are there because of the domestic outlook, the international environment and the fact that a certain conjuncture of risk and economic outcomes is likely to persist for some time. In other words a relatively low for relatively long rate environment, relative predictability of that, which is an environment which we've seen in the past is conducive to potentially complacency, particularly in financial markets, and excessive risk taking.

That's a reality. That's a reality in terms of delivering one of our core mandates, remits – the inflation target – so it is setting policy in that environment so that we deliver the inflation target. And if we only had one instrument, we would be in a very difficult position. Obviously we have other instruments, other tools and other responsibilities which can help us through microprudential supervision, supervision of banks, key intermediaries, and macroprudential measures to guard against some of those risks.

Now you raised a number of them. Maybe I'll just jump to housing as one and then we'll move on, if you don't mind. The FPC is very alert, as is the MPC, to the potential risks that are created by this environment, in a recovering economy, that vulnerabilities in the housing market could increase.

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That's why the FPC has acted - four major measures that we announced in November.

Some of those are just coming into play now. The MMR, the Mortgage Market Review standards for underwriting, are just coming into effect next month officially actually. The stress testing process is really just getting going and will run over the course of this year. And so we're going to monitor the effectiveness of those.

We could take other measures. I don't want to speculate on any other measures that we could take. We actually have an FPC meeting tomorrow, so I'm falling into purdah now, so I won't make any speculation except to observe that we've taken measures in the past. If necessary we've outlined all the other range of tools that we have as the FPC, and we won't have any hesitation to take the necessary steps, but only at the right time and only in the right proportions.

China Business

Network:

So China doubled Chinese yuan's trading band this week against the US dollar, which is considered a sign of financial liberalisation. But it has also raised concerns about possible downside risk for investors. So do you think the concerns are justified? And do you think Chinese yuan faces a more substantial devaluation? Thank you.

Mark Carney, Governor:

Well the first element of that, certainly we welcome the move by the PBOC. We welcome all measures that have been taken, will be taken, to further the internationalisation of the renminbi. We're working closely with the PBOC, the Treasury, others, in order to develop an offshore market in renminbi here in London. And that will be an important contribution, given that London is the leading international financial centre, and the core destination for foreign exchange trading. Over 40% of foreign exchange courses through

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London. And this development will be a key element of the internationalisation of the renminbi.

Look, investors in China face two-way risks, they face upside and downside, just as they do in any other jurisdiction. And it's always timely to be reminded of that. And certainly in an environment where there's potential for excessive risk taking, I would just underscore that we welcome the PBOC's move.

Sam Fleming, FT:

Thanks very much. Could I ask a bit about the new post? Could you explain the background to this post? When was it conceived and why did you decide it was necessary to create a new Deputy Governor for banking and markets? Was it effectively a knee jerk reaction to the forex scandal?

Mark Carney, Governor:

No. No is the short answer, and as you would have expected. Look, we have been looking at our functions. We started the planning process over six months ago, looking across all our core functions. If you were paying attention to the speech, what was core to that was the complementarities between the various functions - how do we first isolate the specific responsibilities, including markets, provision in markets, management of our balance sheet, development of core markets, not just from a market infrastructure perspective as Ben was asking about, but also how core funding markets are developing.

I mean these are fundamental changes to how the system is going to work. And it's a fundamental interface between the Bank, the financial system and ultimately the global financial system, but ultimately the UK real economy. And these are things that we have to get right.

So we felt that for a variety of reasons, and I could have stopped quite frankly at we have a 400 plus billion sterling balance sheet - I could have started and stopped there as a rationale to have a Deputy Governor that has that specific

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responsibility. So this is something that we discussed, we conceived of which is entirely consistent with the way we're assigning responsibilities, and looking to the senior executive, the deputy governors, the governors as a group, to work together to exploit those complementarities.

And the other aspect of that in terms of moving to a statutory formalisation of that, we're very pleased that the government signalled that it will move forward to make this a statutory post in due course.

Scott Hamilton, Bloomberg:

In relation to that new post, could you tell us a bit more about the process of the appointment of Minouche? Was the job advertised? Were there any other applicants? And if not, why not?

Mark Carney, Governor:

There was a process, as you're well aware, for the position - for a Deputy Governor position of the Bank of England. There was a wide range of highly qualified applicants for that position. They were interviewed through a process led by the Treasury. I was kept in the loop as was Court through Court membership on that Committee.

Treasury was presented, we were presented with a unique opportunity in the form of one of the most experienced international policy makers in the world, in the form of Minouche Shafik, a leading macro economist, an academic, deep experience in managing organisations. So, you know, we have managerial opportunities at the Bank and we're always looking to bolster our managerial capabilities.

And so we had a unique opportunity to bring somebody in with international experience, with managerial experience, who understands the interface between policy, who has worked in some of the most difficult macro and macrofinancial circumstances over the course of the latter

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stages of the crisis, and of course certainly over the last three years.

And the Committee, the Chancellor recommended her appointment, Court and myself agreed with that, and we're all fortunate that she is coming back to the UK to fulfil this role.

Ouida Taaffe, Financial World:

You mentioned shadow banking as an area of uncertainty. Could you talk a little bit about differences of opinion, UK versus US?

Mark Carney, Governor:

Okay, so your question on shadow banking, differences UK, US. Two things. The point I was trying to get across, the first point, is that there are quite major differences in the structure of shadow banking. You look at the US versus the UK; one big difference is the predominance of money market funds in the US and the shadow banking chain that money market funds drive.

So the reforms to money market funds - floating NAV, gates, other aspects are really - they are fundamental in the US, whereas they are of interest in the UK. We are in the process of, as the FPC - and again I'm going to appeal to purdah here - we're in the process of reviewing the risks in shadow banking in the UK. We produce a sort of regular annual report on those risks.

At the end of this year, through the FSB process - an international process, all the major jurisdictions will be reporting in on both the risks that they see, and the steps that they intend to take to mitigate those risks. But they will be very tailored, and I think what we're going to see is several years of iteration around measures that we individually and collectively take.

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Nils Blyth:

Great. Now I'm afraid that is all we've got time for. There are a lot of guests waiting for us, so thank you all very much indeed.

Mark Carney, Governor:

Okay, great. Thanks.

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