



BANK OF ENGLAND

# Speech

---

**One Mission. One Bank. Promoting the good of the people of the United Kingdom.**

Speech given by

Mark Carney, Governor of the Bank of England

Mais Lecture at Cass Business School, City University, London

18 March 2014

It is a great honour to be invited to give the 30<sup>th</sup> Mais Lecture. This lecture series has charted the evolution of UK macroeconomic policy through the eyes of leading policymakers, including my four predecessors as Governor.

The Mais Lectures span a period during which the focus of macroeconomic management was firmly on monetary policy. They helped establish a broad consensus for the primacy of price stability as well as the institutional framework necessary to deliver it.

This focus initially made sense since one of the greatest challenges for macroeconomic policy in the late 1970s and 1980s was the fight against inflation.<sup>1</sup> That fight culminated in the adoption of an inflation target, which helped secure 15 years of price stability and sustained economic growth.

However, with time, a healthy focus became a dangerous distraction.

The financial crisis that exploded the Great Moderation was a powerful reminder that price stability is not sufficient to maintain macroeconomic stability. Words which had alluded to such risks were not followed by actions that might have prevented them being realised.

Lessons have since been learned. In the wake of the crisis, the Bank of England would be promised enormous new powers and responsibilities. In the past year those promises have become realities with the statutory Financial Policy Committee (FPC) and the Prudential Regulation Authority (PRA) formally joining the Bank.

The question now is how we use our powers to fulfil our responsibilities.

In response, the Bank of England is today launching a transformative strategic plan to fulfil its broader mission. We have a new leadership team. We are setting out fifteen initiatives to reshape the institution. Behind that plan is a vision for the Bank that I want to set out this evening. It is:

A Bank with many and varied responsibilities, but a single timeless mission;

An institution that works as One Bank to exploit the synergies and complementarities across our policy functions;

A Bank that draws on its long history of intellectual leadership and international engagement to shape an open, resilient global system;

---

<sup>1</sup> 'The fight against inflation' was the title of Geoffrey Howe's 1981 lecture.

And a Bank that builds on the immense successes of the past quarter century in combining clear objectives, good governance and constructive transparency.

### **A single timeless mission**

Let me begin by asking a simple question: what is the Bank of England for?

The Bank's founding charter of 1694 explains that its original purpose was to '*promote the publick Good and Benefit of our People...*'. What that meant in practice at the time was pithily summarised by the diarist John Evelyn, who recorded the event 320 years ago in the following terms: 'A publick bank... set up by Act of Parliament... for money to carry on the war'. The war in question was against France, and in return for the monies raised the Bank received both income and banking privileges: it was soon the only bank allowed to be constituted as a joint stock company, and had an effective monopoly of the note issue in the London area.<sup>2</sup>

Its size – partly resulting from its unique joint stock status – meant that, by the first half of the 19<sup>th</sup> Century, the Bank had become the dominant part of the financial infrastructure. Its notes had become an accepted means of settlement between banks, and as the provider of those notes the Bank acted as banker to other banks. Commercial banks held Bank of England notes in place of gold, relying on the Bank of England's credibility for ultimate convertibility.

Despite the Bank's founding aim of public service, criticism persisted until after the middle of the 19<sup>th</sup> Century that it was acting in its own rather than the public interest by protecting its gold reserves at times of financial stress, to the detriment of its customers. That criticism faded as the Bank gradually assumed the role of lender of last resort, adopting Bagehot's principle that it should lend freely against good collateral at penalty rates in times of crisis.<sup>3</sup>

By the end of the 19<sup>th</sup> Century the Bank of England had *informal* responsibility for a broad range of policy areas. It remained the fiscal agent for the government. It maintained monetary stability through the operation of the Gold Standard. And it promoted financial stability through its role as the effective lender of last resort, and more generally – through the judicious exercise of the Governor's eyebrows – as the institution which managed and resolved financial crises.<sup>4</sup>

---

<sup>2</sup> Other banks were restricted to partnerships of up to 6 members.

<sup>3</sup> During the 1866 and 1878 crises the Bank lent freely to the system but allowed the insolvent Overend Gurney and City of Glasgow Bank to fail. And in 1890 it used a 'lifeboat' approach to rescue Barings which was perceived to be solvent. Note however that there is no definitive evidence that an explicit set of Lender of Last Report (LOLR) principles was accepted by the top of the Bank and its directors. The emergence of the Bank's LOLR role in this period is discussed in Collins (1988), Capie (2002) and Dornbusch and Frenkel (1984).

<sup>4</sup> In the late 19<sup>th</sup> Century the banking system was relatively unregulated (and partly self-regulated) – the Bank did not have an explicit supervisory infrastructure or system of prudential control until 1979. Nevertheless the scope of the Bank's responsibilities was arguably as broad then as it is now, albeit that the mix was different.

While the Bank's responsibilities varied over the following century they remained broad and largely informal until 1997. The transformative changes that year gave birth to a modern Bank with a narrower focus on price stability grounded in clear statutory objectives, and with the operational independence to pursue them. Independence was the solution to the time inconsistency problem, which causes policymakers who promise low inflation – but then go for faster growth – to get neither. Removing political considerations from the conduct of monetary policy made possible a credible commitment to low inflation. Strong accountability mechanisms and transparency were put in place to legitimise that independence.

Those changes reflected the belief that price stability was the best contribution a central bank could make to macroeconomic stability and by extension to the broader public good. This represented a deconstruction of the old model of central banking.<sup>5</sup>

In my view, while there were enormous innovations of enduring value during this period, the reductionist vision of a central bank's role that was adopted around the world was fatally flawed.

In particular, it failed to recognise that financial stability is as important an objective of macroeconomic policy as price stability, and it downplayed the interrelationships between the two.

And it failed to recognise that central banks have a vital role to play in maintaining financial stability because of the deep underlying connection between it and monetary stability. Both are fundamentally about maintaining the public trust and confidence in money and financial intermediation that are essential for them to oil the wheels of commerce. That trust and confidence can be undermined through a loss of certainty about the future value of money, a loss of confidence in financial intermediaries, or ultimately a loss of faith in the financial system.

Central banks have a primordial responsibility to act as guarantors of trust and confidence in money because of their status as monopoly issuers of currency. This naturally gives them control over the quantity of money and interest rates – monetary policy. It also means that a core part of financial stability policy – acting as lender of last resort to private financial institutions at times of financial stress – falls naturally to central banks.

Other instruments of financial stability policy seek to prevent the build-up of vulnerabilities in the first place. Microprudential supervision aims to maintain the safety and soundness of individual financial institutions by ensuring they are adequately capitalised and have sufficiently resilient funding and liquidity. Macroprudential policy seeks to safeguard the stability and resilience of the financial system as a whole both by using prudential policy for macroeconomic ends – for example in managing the financial cycle – and by addressing

---

<sup>5</sup> See Padoa-Schioppa (2011).

risks related to structural features of financial institutions and markets. In the latter regard, the priorities range from ending too big to fail to improving the resilience of financial market infrastructure.

The Bank of England has now been tasked by Parliament with operating these prudential tools. Our broad range of responsibilities now include: supervision and regulation of financial market infrastructures; acting as lender and market maker of last resort; the design and operation of macroprudential tools; recommendations on core elements of financial reform; and the resolution of failing financial institutions.

A return to a broad role is welcome.

The best answer to the question of what the Bank of England is for is given by the original 1694 founding charter: promoting the good of the people of the United Kingdom.

That mission is timeless. The understanding of what we should do to achieve it has evolved. In 1694 promoting the good of the people meant financing a war with France. During the Great Moderation, it meant price stability. Today, reflecting the lessons of the ensuing financial crisis, it means maintaining both monetary and financial stability.

We don't intend to fail.

Going back 320 years to refresh our purpose is part of building on the best of our history, but we are not seeking to reconstruct the central bank of the past. Instead through our strategic plan we are building the 21<sup>st</sup> Century central bank.

Here's how.

### **One Bank: complementarities, synergies and economies of scope**

The broad range of responsibilities we have been given creates the potential to exploit the complementarities and synergies between them.

It is our duty to do so because the effectiveness of each function influences that of the others. In other words, we have to maximise our impact by working together.

That imperative is the core of our new strategic plan which stresses that our contribution to the public good will be greatest if we work as One Bank.

Complementarities might be operational, arising when putting two functions together is more efficient by allowing faster decision making in a crisis, improving the coherence of communication, or taking advantage of the common skills, information or analyses required to operate the policies.<sup>6</sup>

Or they might be economic, arising when there are strong interactions in the way the policies have their effect, or when one policy affects another. It then makes more sense to have them operated by one institution so that shared analysis and information leads to consistency of decision making and so that trade-offs between objectives can be managed effectively, and in a timely manner, to achieve better outcomes.

There are strong complementarities between all four of the core functions of the Bank: monetary policy, markets, macroprudential policy and microprudential regulation.<sup>7</sup> Each affects overall monetary and financial conditions and therefore has the capacity to affect the achievement of both monetary and financial stability. They in turn help maintain confidence in the currency, which we also support by issuing high-quality banknotes that people can use with confidence. More generally we are conscious that everything we do affects the trust and confidence in the Bank and by extension the financial system.

### ***Monetary and macroprudential policy***

The interaction between macroprudential and monetary policy is central to the Bank's success in achieving its dual objectives of monetary and financial stability.

The case for discharging these responsibilities in a coordinated way is very strong.

I am delighted that Ben Broadbent has today been appointed as the next Deputy Governor for Monetary Policy. In that role, he will be central to co-ordinating these functions and his experience in academia, financial markets, and as an external Monetary Policy Committee (MPC) member, makes him extremely well qualified to do so.

The transmission channels of monetary and prudential policy overlap, particularly in their impact on banks' balance sheets and credit supply and demand – and hence the wider economy.<sup>8</sup> Monetary policy affects the resilience of the financial system, and macroprudential policy tools that affect leverage influence credit growth and the wider economy.

---

<sup>6</sup> Decision-making should be quicker with fewer agencies involved, and when trade-offs can be internalised rather than being subject to negotiation.

<sup>7</sup> Blinder (2010) argues that, because of economies of scope, the Federal Reserve should be both the systemic risk regulator and should supervise because preserving financial stability is closely aligned with the objectives of monetary policy and is likely to require lender of last resort powers.

<sup>8</sup> Monetary policy affects banks' balance sheets for example by changing the return on their assets; through its impact on the economic cycle and the amount of bad loans; through its impact on credit demand; and by affecting the value of their collateral and hence funding conditions.

In turn, financial stability is a pre-requisite for monetary stability – for example systemic banking crises are likely to be deflationary. In reducing the frequency and severity of financial crises, macroprudential policy therefore helps to preserve the role of money as a store of value.<sup>9</sup>

While price and financial stability are clearly connected, achieving both can be difficult. As we saw so clearly in the run-up to the financial crisis, the credit and business cycles operate on different time horizons, with the former as much as twice as long and twice as big.<sup>10</sup> In pursuing price stability, monetary policy can contribute to the gradual build-up of financial vulnerabilities through its effect on the degree of risk-taking in the economy.<sup>11</sup> For example the period of low and predictable interest rates before the financial crisis helped drive a ‘search for yield’ and leverage cycle, even with inflation subdued.

It doesn’t take a genius to see that similar risks exist today.

That tension between monetary and financial stability is best managed in a coordinated way in a single institution. The use of macroprudential tools can decrease the need for monetary policy to be diverted from managing the business cycle towards managing the credit cycle. This enhances the credibility of the inflation target. That in turn may reduce the need for sharp or persistent moves in interest rates, which themselves might threaten financial stability.

Similarly, macroprudential policy can more effectively focus on its primary goal of systemic stability by recognising that, while it affects the economic cycle, it is not suited to managing it. Instead its effects on the economic cycle should – like fiscal policy – be taken into account in setting monetary policy, which is the primary and most effective tool of demand management.

Taken together with the synergies from sharing information and analysis, these are strong arguments for operating monetary policy and prudential policy in the same institution. In the short time the Bank has been responsible for both, we have already seen the benefits of operating them in a coordinated way.

For example, our forward guidance framework for monetary policy reflects a clear division of responsibilities. Although monetary policy has an important role to play in mitigating financial stability risks, it does so only as a last line of defence.

This is important because vulnerabilities can emerge from a long period of unusually low interest rates, as complacency sets in about the future path of policy and asset prices. There have been signs of such behaviour across the housing markets in advanced economies. In anticipation of similar risks arising in the UK the Bank’s MPC and FPC have met jointly to review them. The FPC has identified a graduated range of

---

<sup>9</sup> Brunnermeier and Sannikov (2013).

<sup>10</sup> See Aikman et al (2014), Drehman et al (2012).

<sup>11</sup> See Adrian and Shin (2010), Jimenez et al. (forthcoming).

macroprudential tools available to it for a coherent, proportionate response to these risks, and has taken initial, prudent steps. As the housing market evolves and macroprudential policy responds the FPC and MPC will continue to work together to understand the collective impact of measures on residual vulnerabilities and macroeconomic outcomes.

That co-ordination, the shared monitoring of risks, and clarity over the FPC's tools allows monetary policy to keep Bank Rate as low as necessary for as long as appropriate in order to support the recovery and maintain price stability. For example expectations of the future path of interest rates – and hence longer-term borrowing costs – have not risen as the housing market has begun to recover quickly.

### ***Macroprudential and microprudential policy***

There is also a natural complementarity between macro and microprudential policy because, in essence, macroprudential policy uses prudential policy tools for macroeconomic ends, specifically the mitigation of risks that could in time undermine price and financial stability.<sup>12</sup> So the two will often operate through the same channels – albeit towards different objectives.

Those objectives are themselves generally mutually reinforcing. While ensuring the safety and soundness of individual institutions is not sufficient for systemic stability, it surely helps.<sup>13</sup> Meanwhile macroprudential policy seeks to reduce systemic risks and in doing so is likely to improve the resilience of individual firms.<sup>14</sup>

At times there may be a conflict. This is most likely to arise at a turning point in the cycle when macroprudential policy – perhaps in pursuit of its secondary objective to support growth and employment – may mandate a loosening of capital requirements in order to support credit supply and broader economic conditions. A microprudential supervisor at the same time may understandably be more concerned to maintain large capital buffers. The question best answered in a single institution is which dominates – risks from a paradox of thrift or those from weakened institutions?

The obvious overlaps in tools and objectives mean that combining the two arms of prudential policy in one organisation makes sense. That will also help to share knowledge and expertise, and to help avoid conflicting messages to firms. And, to the extent conflicts occur, they are likely to best be resolved within a single institution through shared analysis and mutual understanding of reaction functions.<sup>15</sup>

---

<sup>12</sup> For example, the Basel III framework for capital regulation combines microprudential and macroprudential elements. Tougher minimum requirements and institution-specific add-ons will be the responsibility of microprudential supervision. The system-wide counter-cyclical buffer will be the responsibility of macroprudential policy.

<sup>13</sup> In a concentrated banking system such as the UK's the resilience of a subset of large institutions has a disproportionate effect on the resilience of the system. One might think that microprudential regulation is then enough to guarantee systemic stability. But that is not so when there are systemic externalities or financial accelerator effects. The latter operate through feedbacks in the macroeconomy, and would depend (among other things) in the short run on the response of monetary policy. A macroprudential authority – with a macroeconomic viewpoint – therefore complements microprudential supervision even in a concentrated banking system.

<sup>14</sup> See Bank of England (2009) for a discussion.

<sup>15</sup> Blinder (2010) makes this argument in the context of potential conflicts between safety and soundness considerations and monetary policy.

Our strategy will be to conduct supervision as an integrated part of the central bank and not as a standalone supervisory agency that happens to be attached to a central bank.

The benefits that close cooperation can bring were demonstrated in 2013 as the PRA and the FPC worked closely together to bring clarity both to banks' existing capital positions, and the standards expected of them. The FPC mandated the exercise with a view to establishing a system-wide, transparent standard of resilience that would boost confidence and allow the banking system to contribute to economic recovery. The PRA – under Andrew Bailey's leadership – delivered the recommendation for each of the major institutions. The resulting increase in capital ensured the core of the financial system was on a sound footing and made an important contribution to securing economic recovery.

There were clearly lessons to learn from that exercise, most notably the importance of clarity of early communication by the Bank to financial institutions about the standards to which they would be held. Those lessons are being applied now in the first of the Bank's annual stress-testing exercises, which will bring together the microprudential standards for banks with a macroprudential assessment of the risks to which they must be resilient.

As with monetary policy, expectations matter and the system will be more resilient if the Bank's moves can be anticipated.

### ***Market operations and prudential policy***

The synergies I have identified so far explain why it makes sense for monetary policy and prudential policies to be operated by a single institution, but there are also complementarities between prudential policy and the way a central bank uses its balance sheet and controls the supply of high-powered money.

The design and operation of our liquidity facilities have important synergies with prudential policy. The terms on which we supply liquidity in times of stress affects the level of self-insurance banks choose. If we are too strict, banks have to over-insure at significant cost by holding an excess of low-yielding liquid assets rather than loans, and markets will freeze too quickly in crises. But overly permissive terms create a moral hazard risk in the form of banks running excessive liquidity mismatches in normal times.<sup>16</sup> Prudential supervisors can mitigate the moral hazard risk by imposing minimum liquidity requirements. But there is no point in setting those requirements at a very high level when the central bank is prepared to lend freely against good collateral to solvent institutions.

So it is important to coordinate liquidity requirements and banks' reliance on liquidity insurance from the Bank of England. Striking an efficient balance is most likely when responsibility for prudential policy also lies

---

<sup>16</sup> See Farhi and Tirole (2012).

with the central bank.<sup>17</sup> And it explains why we are announcing management changes today to enhance that coordination, with Paul Fisher – the Bank’s Executive Director for Markets – moving to become Deputy Head of the PRA.

The Bank exploited those synergies in August 2013 when, recognising the greater availability of liquidity insurance provided through our facilities, and banks’ improved capitalisation, we reduced the required level of banks’ liquid asset holdings to help support lending to the real economy.

And in October last year we overhauled our facilities, offering money and collateral for longer terms against a wider range of assets, at lower cost. We could do so because, as both supervisor and provider of liquidity insurance, we can manage any resulting moral hazard risk.<sup>18</sup> More importantly these changes recognise and support the evolution of markets and the growing importance of collateral that in turn stems from financial reform. We have the opportunity through the design of our facilities to help support more diverse forms of finance and more resilient markets – to the benefit of financial stability.

There is another important operational complementarity. The Bank can use supervisory information and insight to make quicker, better informed judgements about whether to lend to banks at times of crisis.<sup>19</sup>

It is clear that there is a strong case for central banks to have a broad role. Monetary and financial stability are core objectives of macroeconomic policy, and central banks are uniquely well positioned to contribute to their achievement. There are significant complementarities between the broad range of the Bank’s policy responsibilities, and that has already translated into significant mutually reinforcing support to the UK economic recovery.

Our strategic plan cements our commitment to work as One Bank to exploit those synergies. It breaks down barriers between areas within the Bank through a reorganisation that puts greater emphasis on joint working and moves key senior staff between areas; it aids staff movement between areas by promoting a unified culture; it sweeps away a proliferation of internal committees that held up decision-making; and it gives responsibility to the new Chief Economist and Governors both for a coordinated research agenda spanning all aspects of central banking and focusing in particular on the intersections between policy areas, and for ensuring the Bank makes better use of the data we have across the organisation in tackling all of the policy challenges we face.

---

<sup>17</sup> See Rochet and Vives (2004).

<sup>18</sup> See <http://www.bankofengland.co.uk/markets/Documents/money/publications/liquidityinsurance.pdf>.

<sup>19</sup> See Ferguson (1999).

## **International engagement to shape an open global system**

In an era of renewed globalisation securing monetary and financial stability requires more than a purely domestic focus. To realise globalisation's promise and deliver strong, sustainable and balanced growth, policymakers must re-build an open, integrated and resilient global financial system. As the leading global financial centre, the UK will be central to this task. There are two elements that are particularly important.

First, the Bank of England's actions will help shape the functioning of core markets. The combination of the eventual exit from Quantitative Easing and new liquidity regulations will shape demand for central bank reserves. A host of financial reforms, such as those to derivative markets, will fundamentally change the role of collateral, to which the Bank of England's facilities must respond. And most fundamentally, given the serious issues raised by the Libor and foreign exchange scandals, changes must be made to both the hard and soft infrastructure of core markets to ensure they are fair, effective and efficient.

These are massive issues which require focus, discipline and innovation. Those are some of the reasons why we have created a new Deputy Governor role for Markets and Banking and why my colleagues and I are thrilled that Minouche Shafik has accepted this extraordinarily important task. Minouche brings immense international, managerial and economic experience from a career that has spanned academia, the public service and the IMF. She will help lead the Bank's efforts to reshape core markets and the Bank's relationship to them.

Second, through its intellectual leadership and international relationships, the Bank can help complete the G20's ambitious programme of financial reform including building resilient financial institutions, ending too big to fail, making derivative markets safer and transforming shadow banking to market based finance. Sir Jon Cunliffe, one of the original architects of the Financial Stability Board, is leading this effort. The job is too big for one person and requires a well-resourced and focused international strategy that draws on all areas of the Bank. That is why we are pooling our prudential policy teams in a single directorate and bringing together our international teams to increase insight and impact.

By acting as One Bank we can increase our international impact and ensure that the UK's financial sector can be both a global good and a national asset.

## **Building on the success of the past 25 years**

On the face of it the recent enlargement in the Bank's responsibilities represents a return to the broader role of the Bank of the past. If there are some similarities in roles, how we will discharge them will be fundamentally different. The age of informal responsibilities, nods, winks, secrecy and instinct is long past.<sup>20</sup>

---

<sup>20</sup> That approach is perhaps best captured by Montagu Norman's remark in 1930 when pressed by the Macmillan Committee to explain the Bank's actions: "Reasons, Mr Chairman? I don't have reasons, I have instincts".

In no small part due to the Mais Lectures of my predecessors, particularly Mervyn King, we have today a regime for monetary policy that is both democratically legitimate and highly effective. It rests on clear ultimate objectives delegated by Parliament, on sound governance arrangements to support independence, and on transparency of policymaking.

We are extending this sound framework with our strategic plan. We will reinforce these foundations in monetary policy. And we will broaden them to financial stability.

The case for the independent operation of monetary policy is firmly established around the time-inconsistency of governments with horizons dictated by the electoral cycle. That time-inconsistency argument applies even more strongly to both microprudential and macroprudential policy given the large potential size and long duration of credit cycles. The avoidance of potentially unpopular measures to boost the resilience of the financial system today can have disastrous consequences many years later. Moreover, being tough and avoiding crises has no obvious reward. It is hard to be given credit for a counterfactual.

The Bank's independence must be supported by good governance arrangements. Now that Parliament has developed them, we must make them work. The model used for monetary policy of decisions being made by a committee made up of both Bank of England executives and independent experts has been expanded to financial stability with the creation of both a Financial Policy Committee and a Board of Prudential Regulation. As I have argued, those policy committees will be more effective if they have access to the broadest range of the Bank's analysis and information and are as well informed as possible about each other's reaction function.

The now very wide range of the Bank's responsibilities also creates a need to strengthen the oversight arrangements for the Bank as a whole. For delivery of our statutory objectives, the Bank is accountable to the public, through Parliament's Treasury Committee. That accountability is being reinforced.

Parliament has created an Oversight Committee of 8 non-executives who are in the Bank but not of the Bank. The Government has today announced the appointment of Anthony Habgood to lead the Bank's Court of Directors and the Oversight Committee. I welcome the appointment of someone of his depth and breadth of corporate experience. Independent oversight by the committee he will chair can strengthen the Bank's legitimacy and effectiveness.

The Oversight Committee has access to internal papers, is able to observe meetings of policy committees, and is responsible for reviewing all aspects of the conduct of the Executive of the Bank, including the delivery of policy, the design of and adherence to rigorous processes and procedures, and the monitoring of our transparency and openness. Modelled on the Independent Evaluation Office of the IMF, we will create a unit to support this, with a director reporting to the Chairman of the Oversight Committee.

It is not just our governance but also our commitment to transparency and openness that must be further enhanced.

Transparency and openness are central not just to our legitimacy to perform these new tasks on behalf of the citizens of the United Kingdom. They are also central to our effectiveness in performing them. Just as Governor King described in his Mais Lecture 9 years ago, openness about what policy is seeking to achieve can make it more effective.<sup>21</sup>

In monetary policy, that helps to anchor inflation expectations and to support countercyclical movements in the policy setting. To that end, we have introduced forward guidance to reduce uncertainty about the way monetary policy will be set as the recovery gains pace. Our *Inflation Report* has evolved in the past year to contain more information about the key judgements underlying our forecasts and to widen the set of economic indicators for which we publish forecasts to include the labour market, components of GDP, the world economy and household incomes and saving.

It will evolve further, including using our new organisational structure to draw stronger distinctions between staff and MPC forecasts. We will also review the case for releasing transcripts of our policy meetings after some years, and report publicly to the Oversight and Treasury Select Committees on the outcome of that review.

Through our strategic plan, we will also increase the transparency of our work on financial stability. We will publish the results of regular bank stress tests. As with monetary policy, we also intend to publish more of the research and analysis underlying our policy choices. Over time, the financial sector will be better placed to anticipate our responses and as with monetary policy, increased transparency will make us not just accountable, but also more effective.

## **Conclusion**

The first Mais Lectures launched the fight against inflation. With time and increased confidence policymakers would win that war only to lose the peace.

As a consequence, George Osborne's 2010 lecture heralded the return of prudential supervision and the introduction of macroprudential policy to the Bank of England. Today's challenge is to create a macroeconomic environment that provides the basis for strong, sustainable and balanced growth, the economist's equivalent of a land fit for heroes.

---

<sup>21</sup> See King (2005).

This evening I have sketched how the Bank of England intends to make its contribution. I am in no doubt that those who come after me will add to our collective knowledge of how best to coordinate the Bank's vast array of policy levers to achieve our fundamental mission. An open and confident Bank will welcome such advice and criticism.

Why? Because the need for broad macroeconomic management is not just an intellectual curiosity, but rather a reality that will persist for years to come.

As the MPC has signalled, a low for long interest rate environment will likely be with us for some time. The MPC's new guidance that any adjustments in rates, when they come, will be limited and gradual helps provide confidence to households and businesses that the MPC won't take risks with the recovery. This in turn helps make the attainment of the inflation target more likely.

At the same time, policymakers across the Bank's statutory committees are fully aware that an environment of relatively low and predictable interest rates could encourage excessive risk taking in financial markets and by households.<sup>22</sup> This puts a tremendous burden on both microprudential supervision and macroprudential management.

Moreover, the nature of a rapidly evolving global economy reinforces these pressures. Sustained imbalances across countries, intense capital flow volatility and powerful disinflationary forces driven by the integration of the other half of humanity into the global economy will buffet our economy and financial sector for years to come.

The Bank can help turn those challenges into opportunities. Through the coordinated use of the Bank's tools, risks to monetary and financial stability can be mitigated. Through changes to the hard and soft infrastructure of markets fair, open and competitive markets can be re-built. Through ideas and engagement, the global financial system can be reformed to secure an open, resilient system in which all countries have confidence and in which British businesses can thrive.

To achieve this we are building a central bank for the 21<sup>st</sup> Century that combines the finest aspects of our history and traditions with the best of the modern and new.

That is how we will contribute to the good of the people. The Mais Lectures of decades to come – along with the stability of our economic and financial system – will testify as to whether we have succeeded.

---

<sup>22</sup> Carney (2009).

## References

- Brunnermeier, M and Y. Sannikov, (2013)**, 'The I-theory of Money', mimeo.
- Adrian, T. and H. Shin, (2010)**, 'Financial Intermediaries and Monetary Economics', in Friedman, Benjamin M and Michael Woodford (eds), *Handbook of Monetary Economics*. New York: Elsevier.
- Aikman, D., A. Haldane and B. Nelson (2014 forthcoming)**, 'Curbing the credit cycle', *The Economic Journal*.
- Bank of England (2009)**, 'The role of macroprudential policy: a discussion paper', Bank of England.
- Blinder, A., (2010)**, 'How Central Should the Central Bank Be?', *Journal of Economic Literature*, 48(1): 123-133.
- Capie, F., (2002)** 'The emergence of the Bank of England as a mature central bank', in D. Winch and P. O'Brien, eds., *The political economy of British historical experience, 1688-1914*, Oxford University Press.
- Carney, M., (2009)**, 'Some Considerations on Using Monetary Policy to Stabilize Economic Activity', *Remarks at the Jackson Hole Symposium, Wyoming*. Available at <http://www.bankofcanada.ca/2009/08/some-considerations-using-monetary-policy/>.
- Collins, M., (1988)**, 'Money and banking in the UK: A History', Croom Helm.
- Dornbusch, R., and J. Frenkel, (1984)**, 'The Bank of England in the Crisis of 1847', in M. Bordo and A. Schwarz, *A Retrospective on the Classical Gold Standard, 1821-1931*, University of Chicago Press.
- Drehmann, M., C. Borio and K. Tsatsaronis (2012)**, 'Characterising the financial cycle: don't lose sight of the medium term!', *BIS Working Papers* No 380.
- Farhi, E and J. Tirole, (2012)**, 'Collective Moral Hazard, Maturity Mismatch, and Systemic Bailouts', *American Economic Review*, 102(1).
- Ferguson, R., (1999)**, 'Alternative approaches to financial supervision and regulation', *Journal of Financial Services Research*, 16 (2/3), 297-303.
- Jimenez, G, S. Ongena, J-L. Peydro, and J. Saurina, (forthcoming)**, 'Hazardous times for monetary policy: what do twenty-three million bank loans say about the effects of monetary policy on credit risk-taking?', *Econometrica*.
- King, M., (2005)** 'Monetary Policy: Practice Ahead of Theory', *Mais Lecture*, Cass Business School, London. Available at <http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2005/speech245.pdf>.
- Padoa-Schioppa, T., (2011)**, 'Global macroprudential regulation', in *Macro-Prudential Regulatory Policies: The New Road to Financial Stability*, by S. Claessens, D. Evanoff, G. Kaufman, eds., World Scientific.
- Rochet, J-C and X. Vives, (2004)**, 'Coordination failures and the lender of last resort: was Bagehot right after all?', *Journal of the European Economic Association*, 2(6), December.