ANDREW MARR SHOW
MARK CARNEY GOVERNOR BANK OF ENGLAND

AN: Now you’re looking very, very dapper and very cool, but a huge torrent of ordure, verbal ordure has poured on your head since you took this decision and I’ve read some of the quotes, there are plenty more. You may have heard Andrea Leadsom saying it was a very dangerous thing to do. So why, in short, did you feel that you had the right and possibly the duty to wade into what is a British political argument?

MC: Well, first thing to say Andrew, thanks for having me on. I understand there’s a lot of passion on all sides of this debate. Central banking isn’t a passionate business, it’s subjective, it’s analytic, it’s evidence based and the judgements we take – and I would emphasise the we – these are judgements taken by independent committees, 9 members on the Monitory Policy Committee. Those judgements are carefully considered. And those judgements only reflect our remits, our mandates, the issues we have to deliver. So we have to deliver the inflation target, we have to look out over -

AM: So you can talk about inflation and so forth but not about sovereignty?

MC: Exactly. The issues around the referendum are much, much broader than the issues that concern the Bank of England, so when we look – and the Monitory Policy Committee with the most recent forecast, its most recent decision and crucially its most recent letter to the Chancellor about bringing inflation back to target, we have to talk about the trade off. The trade off between inflation and growth. And that trade off could be very different in a scenario if the UK were to remain in the European Union versus one if it were to leave.
AM: Sure, but you are, you know, you’re a very un-naive observer of the scene. By doing this you have linked yourself very, very closely to the Chancellor George Osborne and the Treasury view and yet you are supposed to be independent.

MC: We’re absolutely independent. It is an independent committee and we’re not linked to the bigger questions about the longer term economic impact of being in or out. What we’re doing is we’re identifying risks around leave and we’re taking steps as an institution to mitigate those risks.

AM: Okay but there are risks both ways and yet you focused on the risks only of leaving.

MC: No, that’s not true. Our central forecast is for remain. We always take government policy, that’s the standard approach of the Bank of England and our central forecast is for that and we go in great detail on the risks around that.

AM: And we’re going to come onto that. I’m glad you said that. But before we do, Lord Lamont, a former Chancellor, can’t be dismissed, talks about the ‘daily avalanche of institutional propaganda is becoming ludicrous,’ he says, ‘and pitiful. Important institutions are being politicised.’ I think he’s talking about the Bank of England here, ‘and used to make blood curdling forecasts. A Governor should be careful that he doesn’t cause a crisis.’ That’s fair enough, isn’t it?

MC: Well, it’s fair enough. We have learned in the United Kingdom from past mistakes. High, variable inflation, the debacle of the ERM exit. The lesson from that was to adopt inflation targeting brilliantly executed by my predecessor, Lord King. The lesson of the financial crisis, the run up to the financial crisis was to give an
institution responsibility for identifying risk, not to cross your fingers and hope that risks would go away or everything would be all right on the night, but to identify the issues, come straight with the British people about them and then take steps to mitigate them. What brings those two approaches together, those two big lessons of the last quarter century is transparency. And so we don’t just have a responsibility to the British people to be fair and not pop up after a vote and say, oh by the way, this is what we thought.

AM: What you thought at the time.

MC: Yeah, at the time. But we also have a responsibility to explain risk and then take steps because by explaining them, by explaining what we would do to mitigate them, we reduce them. And that is the key point. Ignoring a risk is not to reduce it.

AM: And so if transparency is so important – and presumably you discuss all aspects of this in the Monetary Policy Committee, why not publish the minutes? They’re meant to be kept secret for eight years which is ridiculous.

MC: The minutes are published. We published the minutes on Thursday. You can see in the minutes –

AM: You can see all the arguments?

MC: We can see the arguments, the issues in the minutes, they’re detailed in the letter to the Chancellor as well, they’re detailed in the Monetary Policy Report. This is - central banking has changed in the last 25 years. This is part of the change. Now you will get – you’re right, in eight years the verbal transcripts of what’s actually said, not 25 years like under public service...
MARK CARNEY, GOVERNOR BANK OF ENGLAND

AM: But they won’t be very different from the minutes we can see now?

MC: No, absolutely not and I can fully hope to be – still be alive. I won’t be in British public life at that point but I will be – you can cross check, everything it says and also may I make this point. All the analysis behind those judgements will also be published.

AM: Jacob Rees Mogg, who is a Tory MP, taken seriously in the House of Commons, called on you to resign as a result of this. When you saw all the headlines and you saw the reaction, was there a moment when you thought, d’you know what, I think I have overstepped the mark?

MC: No, absolutely not. I - we – central banks are independent in very specific areas for a reason. It’s precisely not to bend to political pressure from any side and to and to make clear objective judgements and then explain those judgements, and we have a duty – if we’re taking a judgement as a committee and we’re changing policy because we’re putting out billions of pounds of liquidity facilities, we’re getting banks to raise capital, as we did a few years ago against these types of risk, if we’re potentially going to alter the path of interest rates or other instruments of monetary policy because of certain things manifested, we have a duty to explain that to the British people and to parliament. And can I go back to one of your earlier points about daily avalanche. No, the bank’s comments on these issues have been in the context of testimony to the House of Lords, testimony to the Commons Committees and inflation reports and associated press conferences around those reports. So it’s in our daily business.

AM: All of which is your job, as it were?
MC: Yes.
MARK CARNEY, GOVERNOR BANK OF ENGLAND

AM: Now turning to the actual state of the economy and what the report says, if you look at the OBR one of the points they make is that Britons have never been more over borrowed for longer than we are now. I think 58 billion pounds of borrowing net by British households at the moment, going up to 68 billion pounds by the end of the decade. That must be a really, really serious threat to an economy which is still not growing very fast.

MC: Well, okay, there’s several things there. First, I think we should look at the expansion as a whole. This has been the strongest growing economy up until very recently in the G7. Secondly, in terms of the borrowing position of British households, relative to their incomes British households have worked hard and paid down debt. So it’s gone from about 160% of income to about 135. So absolute –

AM: But that’s tailed off now, hasn’t it?

MC: It has now tailed off and so this is something that we are watching.

AM: So we are still quite heavily borrowed. And the reason I’m asking about this of course is this all based on a world where we don’t really have interest rates anymore. So presumably the worry is when you have to put interest rates back up again, assuming we stay inside the EU, we could then face a kind of raft of repossessions and people being in terrible trouble, as they were in the 1980s, you remember negative equity and stuff that we faced then. Are we heading towards something like that now because of over borrowing?

MC: Well, I remember – I lived here at that time and I remember it very well. I remember that the levels of uncertainty in the early 1990s are the same as the levels of uncertainty today in this
economy which is one of the reasons why the economy is slowing right here as we sit. In terms of borrowing and the ability to pay back, one of the things we've done, as the new Bank of England, is to say to banks and building societies is when somebody takes out a new loan don't just test them against today's interest rate, test them against interest rates where they could go, in fact 3 percentage point higher than they are today to make sure that we don't –

AM: They're still lending like, you know.

MC: Well, they're lending, where they're lending - the big increase in borrowing right now has been for car purchase and there's been much more lease contracts for cars, so there is an element of security around that point. It is without question, Andrew, something we're watching.

AM: If you have to put up interest rates in - we can talk about Brexit. If we leave the EU and the pound falls and there's an inflationary pressure and you have to put up interest rates, what then happens to the over borrowed British public?

MC: Well, what history shows is that the British public pays their debts. It's not like the US public. The British public pays their debts. The challenge and the thing we're trying to manage to the medium term is to ensure that not too many of the British public are, as you say, over borrowed because that will make a down turn that much more severe. We would take a judgement, whether it's remain, leave, some other shock happens to the economy as inevitably it will, we'll take a judgement about interest rates taking into account the borrowing position of households. But also the overall level of inflationary pressures and all of those judgements, like our judgements that we made this past week,
both about leave and remain, are in the horizon of two to three years which is our relevant horizon.

AM: Let’s come back to what you were saying about a possible Brexit this week. First of all can I be clear, this is about a short term shock. You’re not trying to make judgements about whether the British economy would be stronger or less strong, in or out of the EU in several years time?

MC: You’re absolutely right. That is a judgement of which we are capable of making but we will not make because it is not our mandate to make.

AM: So you use lots of coulds and woulds and perhaps in your report, similarly, it is perfectly possible that we leave the EU and because of less regulation and because of the 10 billions a year we have to spend on the NHS and so forth Andrea Leadsom was talking about and because we have our new trade deals with other countries we could actually be better off as an economy?

MC: Okay, so you’re just trying to get me to contradict what I just said –
AM: I am.
MC: - which is to make a judgement about the longer term economic prospects for the economy, which is again a judgement which we’re capable of making at the Bank of England but it’s our mandate so we won’t and I won’t. What we can make a judgement, what we have to make a judgement about is that near term, that medium term, two to three years out and a sense, as you rightly point, it’s in the conditional, it’s could, should, would. But there are a number of indicators what back up those points.

AM: And to be clear. What do you fear happening is the pound falling in value and as a result of that inflation being imported into
the economy, growth slowing and you talk about the possibility of what you call a 'technical recession.' Now again to people watching this programme we don't know what a technical recession is or might feel like, it may not sound too bad, a technical recession, it's only a technical recession, it's not a real one, what would it feel like?

MC: Well, look, the technical definition of a technical recession is just that. It's two quarters of flat or negative growth, so it doesn't necessarily have the broader connotations. To be absolutely clear. What our judgement is, as a risk, is that growth will be materially slower and inflation notably higher in event of a leave, because –

AM; That means fewer jobs, lower wages, businesses going out of business?

MC: It can have those consequences, absolutely. Now what we have to do is make a judgement about the appropriate stance of monetary policy and the key point to get across in advance is - to markets and to others – is that you have conflicting forces. You have upward pressure on inflation, potentially for movements in currency markets. You have downward pressure, potentially from people deferring some consumption or investment because of uncertainty until things settle down, and you also, as a consequence of that have less productivity in the economy for a period of time in part because of that lower investment. So we have to take all that together.

AM: And that is something we would all notice of course.

MC: We would notice and it's something that we would – sorry Andrew – but we note in advance. We make clear, as clear as possible in advance how we might react to that and that reduce – that gets more of the work done and less of the surprise in
MARK CARNEY, GOVERNOR BANK OF ENGLAND

markets and other places. See this is the difference between denial and transparency.

AM: Your critics as you may have heard Andrew Leadsom say again, also say the Bank has not been very good at forecasting over the last period, that you've said interest rates would go up and unemployment hit 7% -

MC: I didn’t say that, Andrew. We said, just to be clear. We said that interest rates – we wouldn’t even begin to think about raising interest rates until unemployment got to 7% and then we would take stock. And the reason we said that is we felt that there was more supply capacity in the economy. The economy had more potential. And we were absolutely right in that inference. Let me make an important point.

AM: We’re running out of time, one last question if I could.

MC: The big calls in terms of did this economy have more supply potential? Absolutely. Big call. Should interest rates stay lower for longer? Absolutely, we got them right. We get the big calls right. We want to quibble about decimal places with the strongest recovery in the G7, it’s not a problem.

AM: Very quickly. Is it conceivable, is it possible that we will see negative interest rates in this country? Actually paying the banks to hold our money.

MC: It is highly, highly unlikely. Look, we have space for any eventuality in normal interest rate policy. What we’re focused on is returning to normal.

ENDS