MARK CARNEY:
What we actually said was we wouldn’t *even* begin to think about adjusting interest rates until unemployment came down. As you said, it’s come down faster than we expected. That’s good news - there’s half a million more people in work today than there were in August. But when we look at the labour market particularly, there are a lot more people who want to work, there’s a lot more people who are working but want to work full-time, there’s a lot more people in self-employment as opposed to working with companies, and that … that is a suggestion of some addition…

ANDREW MARR:
*(over)* And that’s what you call slack, is it?

MARK CARNEY:
Well collectively it gives a sense that there is more slack in the … in the labour market. And if I may make one other point. What we’re seeing, which is good news again but it suggests more slack, is that people who’ve been out of a job for longer are finding employment now more rapidly than they have in the past, and that’s good
news. But it means that we can responsibly take our time and only adjust interest rates once more of that slack is used up. What we’re saying is that there is this extra capacity in the labour market - more people wanting to work or work longer. We have time to use that up, to provide stimulus to the economy to use that up. And then very importantly the question is well what happens when the time eventually comes that we start to adjust interest rates? And we’re trying to be as clear po… as possible about that, saying that …

ANDREW MARR:
Slow and gentle?

MARK CARNEY:
Limited and gradual, yes. And that’s for good reason: because we’re coming out of a truly exceptional period.

ANDREW MARR:
Let’s talk about the recovery itself because you’ve said that it’s … it’s not balanced yet and not sustainable. What needs to happen for it to be balanced and sustainable in concrete terms?

MARK CARNEY:
Yes in concrete terms. What we’ve had thus far, which is good, but what we’ve had thus far is a consumer led recovery. So households across Britain have started to draw down on extreme levels of precautionary savings and spend a bit more. That’s the core of what’s happened in the economy. What we haven’t seen yet is business investment picking up and we certainly haven’t really seen net exports recovering. Now it’s going to be very difficult on the net export side. Europe is still weak. Sterling is stronger. It’s going to take some time.

ANDREW MARR:
Yeah.

MARK CARNEY:
So the key to this recovery sustaining itself is going to be around business investment.
It’s part of the reason why we’re trying to provide as much clarity to business; that the path of monetary policy, the path of interest rates is going to be calibrated very carefully to ensure …

**ANDREW MARR:**
Yes.

**MARK CARNEY:**
… that only when we see sustainable growth in jobs, in incomes and in spending will we make adjustments.

**ANDREW MARR:**
And you’ve said we’re not going to go back to the bad old days of very high interest rates, for the foreseeable future at any rate. I suppose some people would say a caricature of the bad old British economy was people were spending far more than they were earning, they weren’t saving enough, they rushed into housing bubbles and housing speculation from time to time, and there was low productivity in the economy. All those things remain true and, therefore, how can you be so sure we won’t be facing inflation as we normally do?

**MARK CARNEY:**
I can take issue with every one of those characterisations (*Marr laughs*) but maybe I’ll just pick at a few. The first thing is that the … on the hou… Let’s speak about housing.

**ANDREW MARR:**
Yeah.

**MARK CARNEY:**
What we’ve seen in the housing market is an adjustment from very low levels. So if you look at the level of transactions - how many houses are purchases … pur… purchased, how many mortgages are struck - they dropped by more than 50 per cent from the average before the crisis to the levels of the trough?? They’ve now bounced back, but they’re still more than 25 per cent below historic averages, let alone stronger
than historic averages.

**ANDREW MARR:**
In terms of the number of houses being bought and sold?

**MARK CARNEY:**
In terms of the numbers of houses bought and sold and a number of mortgages.

**ANDREW MARR:**
(over) But not the price that they’re getting?

**MARK CARNEY:**
Well the prices relative to incomes …

**ANDREW MARR:**
Yeah.

**MARK CARNEY:**
… have come down still - even in the hottest parts of the UK housing market - have come down relative to historic levels. But we have to be very conscious and we are very conscious of the history, the economic history in Britain, and there is a history of boom and sums… subsequent bust in the housing market; and that’s one of the reasons why the Bank of England has been given additional powers and one of the reasons as of last November we started to use those powers. So we’ve tightened up on underwriting standards, we’ve … we’ve tightened up on capital standards, we’ve taken away special stimulus programmes that existed before.

**ANDREW MARR:**
And what about the so-called Help to Buy Scheme, the Government? Are you comfortable with that?

**MARK CARNEY:**
Well we have … we … if we’re not comfortable with it, we will say, and we will say clearly and publicly. And we will say on our timetable, not on someone else’s
timetable, because if it were …

ANDREW MARR:
(over) Are you anywhere near feeling a kind of twinge of discomfort yet, can I ask?

MARK CARNEY:
I … We… You certainly may. But what I would say is that relative to the level of transactions in the housing market, running about 70,000 on an annualised basis, there’s about 6,000 Help to Buy in its entirety and only 700 in the most aggressive end of Help to Buy, which is the mortgage guarantee scheme.

ANDREW MARR:
Yeah.

MARK CARNEY:
So it’s still pretty small. It’s all outside of London. It’s for lower priced houses as a whole and it’s mainly first-time buyers. So it’s not driving the housing market, but we have a responsibility to watch it and we will … we will speak out if we are concerned.

ANDREW MARR:
(over) And you’re not too concerned at the moment at the very fast spiralling London property market, which seems disconnected from a lot of the rest of the economy?

MARK CARNEY:
Well first we have to make policy for the entire economy.

ANDREW MARR:
Of course.

MARK CARNEY:
In terms of London, I mean we do … we do watch; it’s an important segment of it. Much of what’s driven in London of course is not mortgage driven, but it’s cash driven. It’s driven by … The top end of London is driven by cash buyers. It’s driven
in many cases by foreign buyers. We, we … we as the central bank can’t influence that. We change … we change underwriting standards - it doesn’t matter, there’s not a mortgage. We change interest rates - it doesn’t matter, there’s not a mortgage, etcetera. But we watch and we watch the knock-on effect. I will say that if you look at the UK as a whole everywhere, bar Northern Ireland, we are now seeing house prices begin to recover. So it is a more generalised phenomena.

ANDREW MARR:
Okay, could I come back, therefore, to the medium-term prospect for interest rates?

MARK CARNEY:
Yes.

ANDREW MARR:
We could have a housing bubble, the market could start to rage again. We could have an oil price shock. We could have, because of climate change or whatever, a sudden rise in world food prices. In other words, there are always possible shocks in the system.

MARK CARNEY:
Yes, yeah.

ANDREW MARR:
Are you really saying that, despite all of that, we can look forward to below 5 per cent interest rates for you know many years ahead?

MARK CARNEY:
Well we’re more specific in terms of the time horizon. We … When we have a forecast, we go out three years. So we’re saying that three years from now … If you look at the interest rates that are in the market today, three years from now the market interest rate is about 2 per cent. That implies what the Bank … where the Bank of England would be three years from now. If you put that into our forecast - which we do and we published that this past week - we actually have a situation where we don’t use up all that spare capacity, all the extra capacity in the labour market (mic noise),
which is one of our objectives: we want to use up all that spare capacity. And inflation itself is a little below target, so it gives you a bit of a sense. Now in the very … in the medium-term, in the long-term, as the global economy becomes more normal, interest rates should move to more normal levels. If there are situations where there are persistent changes to the way the British economy functions, if there’s a persistent commodity price shock, if there’s … if there’s this, if there’s that, of course we have to respond.

**ANDREW MARR:**

_(over)_ You then have to react to that, yes.

**MARK CARNEY:**

But people will know about those big changes …

**ANDREW MARR:**

Yeah sure.

**MARK CARNEY:**

If I may, Andrew, what we’re saying though is that there are some very big forces that are operating now and will persist. Weakness in Europe, repair of public balance sheets, the finishing off of repairing the financial system - all of those forces conspire collectively … to keep that level of interest rates down. And people should understand that and that’s what we try to convey.

**ANDREW MARR:**

Looking at the next period ahead, at some of the bumps that may be coming ahead, the CBI is very worried about the prospect of a referendum on Europe and the effect of that and uncertainty. Are they right to be worried?

**MARK CARNEY:**

Well there … uncertainty is always …

**ANDREW MARR:**

Bad.
MARK CARNEY:
… always bad for investment. It increases the value of waiting. And what we’ve seen over the course of the last five years is that businesses, even when they’ve had cash and had opportunities, they’ve … they’ve held off investing. Originally it was because of uncertainty over the financial system - was it going to collapse? Legitimate uncertainty, unfortunately.

ANDREW MARR:
Yes.

MARK CARNEY:
Then it was very much uncertainty about the Eurozone. Was it going to collapse? Again a legitimate uncertainty. Both of those have decreased. The uncertainties that we can influence at the Bank of England is not a European referendum or a Scottish referendum. What we can in… what we can influence are uncertainties about the financial system - we’re very involved in fixing … you know finishing the job, fixing the financial system - and uncertainty about the path of monetary policy. And so what we’re trying to do …

ANDREW MARR:
Right.

MARK CARNEY:
… to the maximum extent possible is provide the comfort that we are not going to adjust interest rates until jobs, incomes and spending is rea… is really growing.

ANDREW MARR:
You mentioned Scotland just now. Last week, you went to Scotland and you said that technically it was possible for there to be a shared currency after an independent Scotland, but there would have to be a fiscal union of some kind, there’d have to be an agreement between the two governments. Can I be clear how dramatic that kind of agreement would have to be? Would that be an agreement on deficits, on tax rates, on what?
MARK CARNEY:
Well what … to be more specific what I … what I said in … was to keep very strictly to a technical analysis of issues within currency union …

ANDREW MARR:
(over) Sure - I know, I understand that, yes.

MARK CARNEY:
… so I wasn’t opining on whether or not it would work. On the fiscal side … And there’s a few issues. There’s issues around banking, but specifically on the fiscal side, the observation that I made was that in virtually all currency unions there are substantial fiscal arrangements that help equalise fiscal capacity. And …

ANDREW MARR:
(over) So that’s about - sorry - about borrowing, about tax rates, that kind of thing?

MARK CARNEY:
Yeah and it’s to ensure that … it’s to help ensure that fluctuations, which inevitably happen in different region… regions of a currency union, are helped to be smoothed out by some form of stabilising mechanism. This is one of the fundamental challenges in the Eurozone. So it’s very relevant (Marr over) for the United Kingdom because it’s our largest export partner; and ultimately - I’m very clear about this - in our view the Eurozone will have to move to some form of deeper fiscal arrangement.

ANDREW MARR:
Now I know in terms of the Scottish and English question - if I could put it that way - this is up for the politicians on both sides to negotiate …

MARK CARNEY:
Yes.

ANDREW MARR:
… and not for you. But if for some reason they did not come to some fiscal agreement, is it possible, is it plausible for the Scots to keep the pound anyway? I mean would the Bank of England be able to send them pounds? *(Carney laughs)* Would they be able to carry on using them and so forth even if there wasn’t an agreement?

**MARK CARNEY:**
Well first off, I’d rather not engage in hypotheticals. What clearly we would do is we will discharge our mandate that’s given to us by … by Parliament, by the relevant democratic authority. So we don’t make those decisions. The decisions are quite rightly made by others.

**ANDREW MARR:**
So again that would be up to the Chancellor of the Exchequer of the day in London?

**MARK CARNEY:**
Yes, yes.

**ANDREW MARR:**
Yes it would. Okay in terms of other bumps ahead, we talked briefly about Europe. Apart from the uncertainty factor, do you think that withdrawal from the European Union would be a problem in terms of the forward trajectory of the economy?

**MARK CARNEY:**
Well it's … it’s not something that would happen on our forecast horizon. Fortunately we're sitting here in February 20... February 2014. We only forecast out three years.

**ANDREW MARR:**
So you don’t expect it as it were?

**MARK CARNEY:**
I … My understanding of any potential timetable to even broach the question is it’s beyond our three year forecast horizon.
ANDREW MARR:
Right. Now one of the other big issues that we’ve had has been bank bonuses. We’ve recently seen Bar… Barclays raising bank bonuses at the same time as they’re cutting dividends and they’re cutting profit. Is that an acceptable thing for a bank to be doing? Are you worried that the bonus culture hasn’t yet quite been tackled in the City of London?

MARK CARNEY:
Well there’s … I’m not going to comment on a specific firm. We … we think with compensation of bankers that a substantial proportion and an increasing proportion as they become more senior, as they take more risk, should be held back. You can call it a bonus, but we actually look at it a little differently. That it should be held back, it should be deferred. It should be deferred for a very long time and there should be the ability, and in fact we have the expectation, that the firm will take back that compensation if the individual is subsequently found to have taken risks that weren’t under… well understood and materialise?? … (NOT SURE ABOUT THE ABOVE SENTENCE)

ANDREW MARR:
I see.

MARK CARNEY:
… or if there are conduct issues. And unfortunately we’ve seen both far too much. And so the structure of compensation has to move in that direction. We think more deferral and for a longer period of time is the right way to do it.

ANDREW MARR:
Right, okay.

MARK CARNEY:
That’s the core thing. The second thing - and we put this not just here into regulation here, but we’ve helped put this into regulation globally - is that firms cannot pay bonuses. Their ability to pay bonuses is restricted if their capital levels start to reduce.
So if there’s … As they move it all …

ANDREW MARR:
So these are the new rules, yes?

MARK CARNEY:
These are new rules and these are hardwired. Particularly the last one is hardwired into the new capital system and that will start to have real teeth as time goes on.

ANDREW MARR:
Governor, you’re a very powerful figure in this country. You’re new to many people in this country. Can you tell our viewers something that they don’t know about you - maybe how you find working in London (I know you were here before) as compared to the 80s and the 90s, what you find about the culture here?

MARK CARNEY:
What do I find about the culture? I … I find the culture is even more cosmopolitan than it … than it was when I first worked here - late 80s, 88. Even then it was you know … obviously the city was internationalising. I think that the level of innovation is just as great. But I would say of UK as a whole - again it’s no deep insight - but if you look at cul… the culture as a whole - let’s abstract from working culture?? - but whether it’s music, whether it’s theatre, whether it’s food, whether … I mean any aspect - I mean the UK has progressed, has made quantum leaps, further quantum leaps from an already high base, and its influence internationally is … is absolutely phenomenal.

ANDREW MARR:
So it’s a fun place to be?

MARK CARNEY:
So it is … it is … it’s a privilege. It is a privilege to have this role on a personal level - to have this opportunity for myself and my family to live in London, in the UK - but then it’s obviously a privilege given the great responsibilities this institution has.
ANDREW MARR:
Governor, than you very much indeed for joining us.

MARK CARNEY:
Thank you very much, Andrew.

ANDREW MARR:
Thank you so much. Okay.

MARK CARNEY:
My pleasure.

INTERVIEW ENDS