Discussion of:

“The Evolution of Central Banks – A Practitioner’s Perspective”

by

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- 55 years of central bank analyses and decision-making!

Outlines of discussion:

- Mandates
- Trade-offs
- Similarities and differences
- Lessons
- The future
Norges Bank’s mandate

- The Bank shall be an executive and advisory body for monetary, credit and foreign exchange policy.
- It shall issue banknotes and coin, promote an efficient payment system domestically as well as vis-à-vis other countries.
- To carry out its purposes the Bank may engage in any and all types of banking business and banking services.
- Monetary policy shall be aimed at stability in the Norwegian krone's national and international value.
- At the same time, monetary policy shall underpin fiscal policy by contributing to stable developments in output and employment.
- Norges Bank's implementation of monetary policy shall ... be oriented towards low and stable inflation. The operational target of monetary policy shall be annual consumer price inflation of approximately 2.5 per cent over time.
Bank of England’s mandate

- The Bank of England exists to ensure monetary stability and to protect and enhance the stability of the financial system.
- The Bank’s monetary policy objective is to deliver price stability and, subject to that, to support the Government’s economic objectives including those for growth and employment.
- Monetary stability means stable prices and confidence in the currency.
- Stable prices are defined by the Government's inflation target.
- Financial stability requires an efficient flow of funds in the economy and confidence in financial institutions.
- Monetary and financial stability are not ends in themselves, but necessary pre-conditions for delivering the public good. ... The Bank of England’s mission is to promote the good of the people of the United Kingdom by maintaining monetary and financial stability.
But there are trade-offs.

- **Short and long run objectives**
  - “governments could act in ways which undermined financial and monetary stability”

- **Independence and trust**
  - “bounded flexibility has been essential for preserving trust” [for central banks]

- **Stable and efficient financial system**
  - “between stability and competition in finance”
  - “Expectations of liquidity support ... may encourage excessive risk taking”

So central banks change over time...
... which explains why there are both similarities...

- BoE and NB became “more independent” during the 90s

- BoE and NB both have floating exchange rates

- BoE and NB both have explicit inflation targets
... and differences

- BoE is responsible for macro- and micro-prudential regulation and supervision
- NB publishes interest rate forecasts
- BoE publishes the MPC’s minutes
Some important lessons from history

- “the arguments for central bank independence are every bit as strong, if not stronger, for financial policy as monetary policy”

- “central banks’ pursuit of financial stability is intimately linked to their pursuit of price stability”

- “Too great a focus on price stability may have contributed to the lack of peripheral vision, or imagination, or both”

- “ultimate goals – stability in money and credit”
Further convergence in the future?
(own speculations inspired by Haldane & Qvigstad)

■ “More active choices about how different objectives are weighed”

■ “Changes in the structure and topology of the financial system”
Further convergence in the future?
(own speculations inspired by Haldane & Qvigstad)

- "More active choices about how different objectives are weighed"
  - Operational targets for financial stability?
  - BoE will start to publish interest rate forecasts?
  - NB will start to publish (edited) minutes?

- "Changes in the structure and topology of the financial system"
  - Norges Bank and Finanstilsynet will be merged?
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- “Changes in the structure and topology of the financial system”
  - Norges Bank and Finanstilsynet will be merged?
  - BoE and NB will join the European Banking Union?
  - BoE and NB will join the European Monetary Union?
Thank you!

- Very educating, and policy-relevant, paper

- Great conference

- ... and to Jan & NB: for all discussions, support and co-operation over the years.