

Bank of England

Getting the right directions

Norges Bank

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What are central bank mandates for?
how should they evolve?

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Central bank mandates are devices that align a specialised institution with things that society cares about

1. Price stability...
2. ...in support of economic prosperity

In macroeconomics that translates into

- Low and stable inflation
- Low and stable unemployment
- Robust and sustainable growth
- Financial stability and absence of deep recessions

Institutional developments and the Bank of England's remit

Institutional arrangement post-1997 following the independence of the BoE

- Monetary Policy Committee (MPC) formed and given a remit under 1998 legislation
- Inflation target as the primary goal (now 2% CPI), and an acknowledgement of trade-offs

The global financial crisis in 2008 and the refining of the mandate in 2013

- Emphasizes real-world trade-offs: speed of returning inflation to target versus output volatility
- Clarifies forward-looking inflation target: allowances under “exceptional circumstances”

Also, a new financial stability mandate in 2013

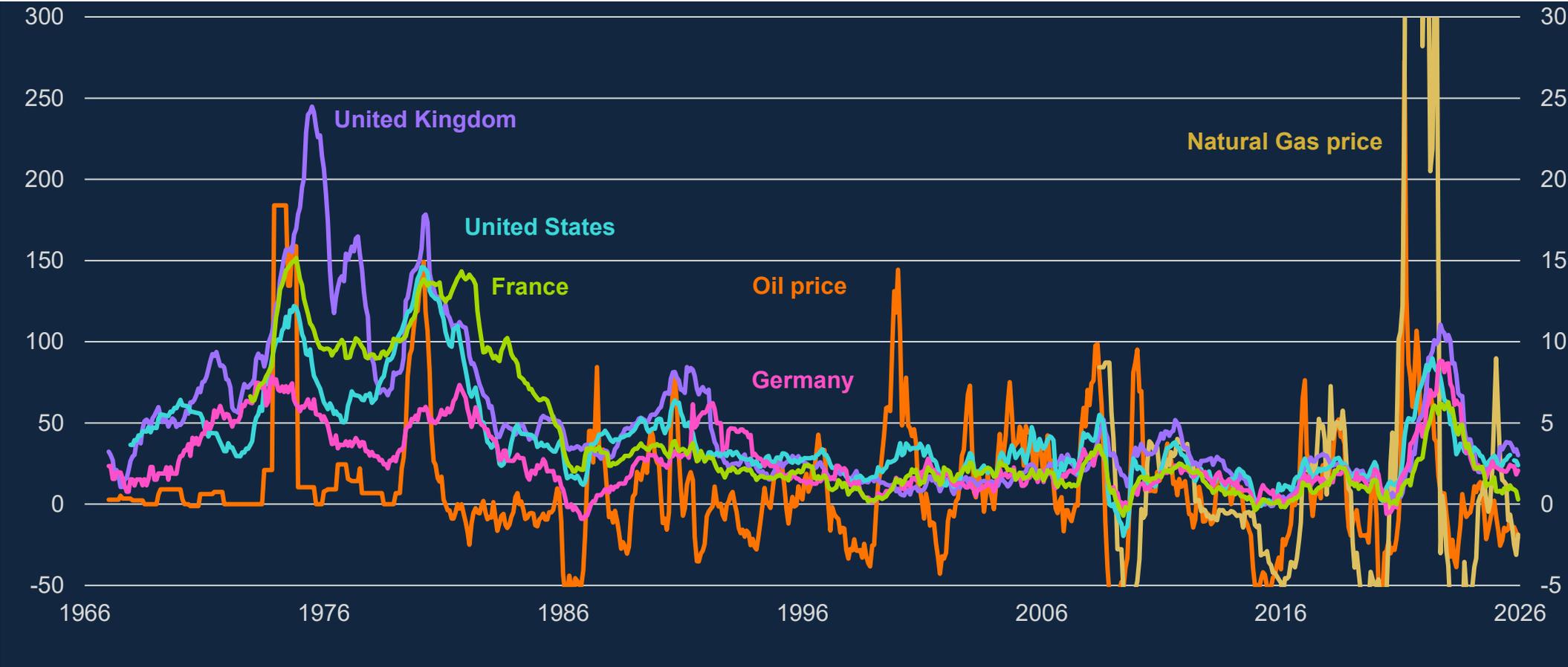
- Creation of Financial Policy Committee (FPC): explicit mandate to guard against systemic risks



Why mandates came about:
independence and accountability

Energy shocks have been the biggest drivers of inflation overshoots in the last 60 years – but with different outcomes

Chart 1: Global energy prices – oil and gas (LHS axis) and Inflation rates across countries (RHS axis)



Notes: Left-hand side axis in year-on-year price changes of Oil prices (West Texas Intermediate) in dollars per barrel and Natural gas prices in dollar per million BTUs, both extracted from FRED; and right-hand side in year-on-year inflation rate for various countries. Latest observation: January 2026.

The 1980s and 1990s - after the dust settled

Broad consensus formed across advanced economies after the 1970s great inflation:

- Monetary policy needed clear objectives and insulation from short-term political cycles

Research at the time:

- Pointed out that monetary discipline associated with greater central bank independence had delivered lower and more stable inflation (Alesina and Summers 1993)
- Inflation performance was likely to be better if a central bank has a mandate for monetary stability, without goal independence, but with instrument independence (DeBelle and Fischer 1994)

The goal should be a societal choice, a democratic aggregation of preferences, depending on how averse society is to inflation volatility as well as to large output fluctuations.

- The central bank should have instruments needed to achieve the goal... then be left to do its job.
- Independence is not without accountability: central bankers compelled to justify and explain their actions to the public and their elected representatives.

Putting the mandate into practice

For nearly three decades, two features of our mandate have been especially important:

- The primacy of the inflation target, defined currently and for most of this period as 2% annual growth in the Consumer Price Index.
- A strong requirement for accountability, both through formal reporting (e.g. the open letters to the Chancellor), informal public statements (such as speeches), and through scrutiny by Parliament.

These twin pillars have not only anchored monetary policy but, in my view, also supported the legitimacy of central bank independence itself.

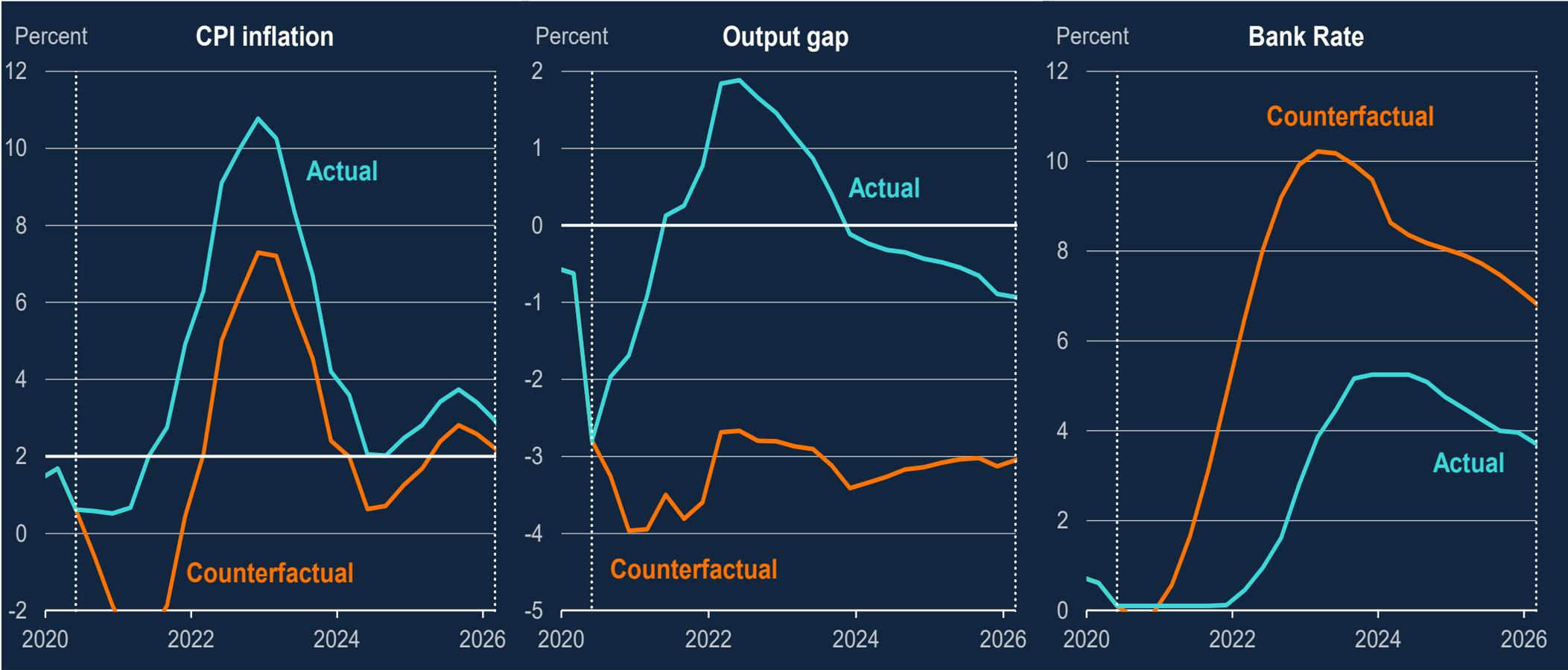
- But accountability is not a static concept confined to statutory reporting, speeches, and testimony. It is increasingly about direct engagement with the public.
- Members of policy committees go around the UK to speak with businesses, workers, and citizens in the course of visits arranged through the Bank's network of Agents.



How mandates evolve:
learning from the past

Inflation stabilisation under perfect foresight – 2022

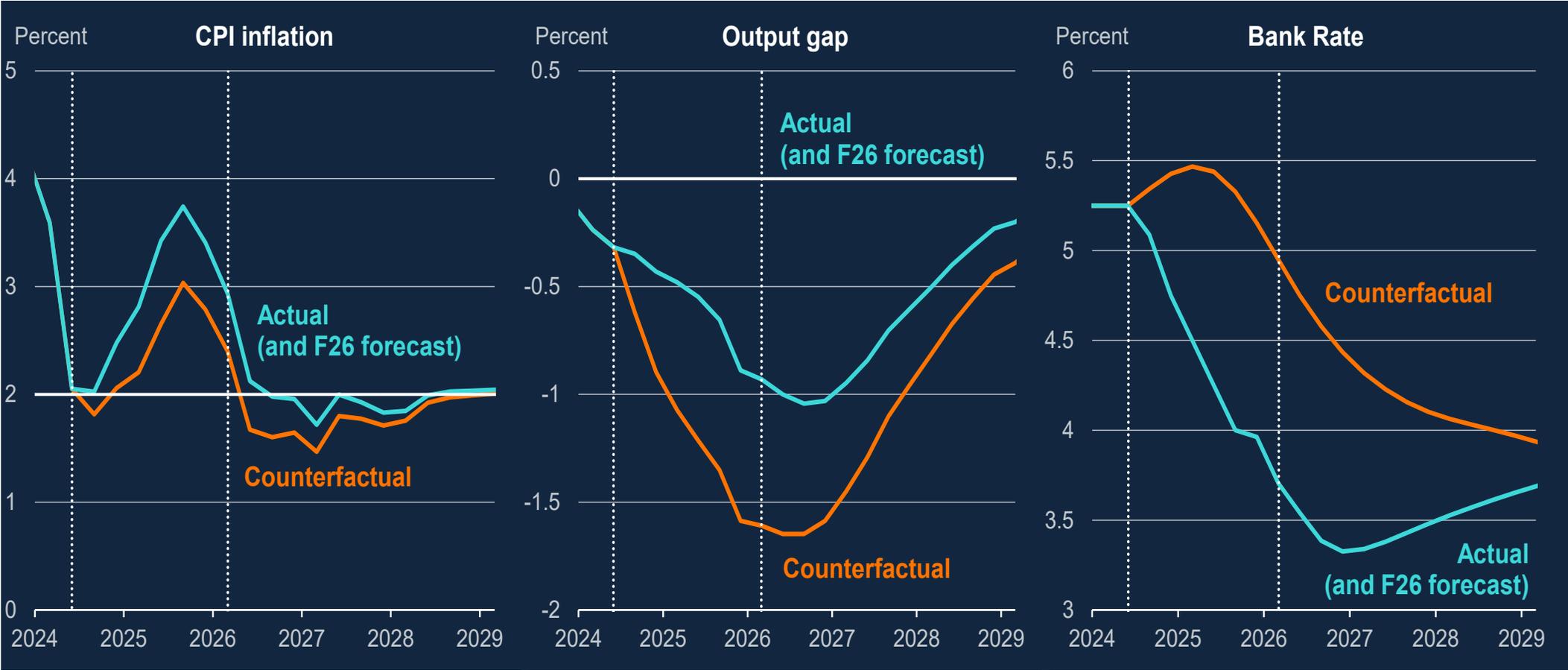
Chart 2 – inflation stabilisation under perfect foresight – post-covid inflation



Notes: The three panels show, in aqua, outcomes for UK CPI inflation, the output gap, and Bank Rate between 2020 and 2026. The orange lines show counterfactual paths for these variables under a different monetary policy stance following Alati et al. (2025). The first dotted line denotes the second quarter of 2020, after which the counterfactual is allowed to diverge from realisations. The second dotted line denotes 2026 Q1, the nowcast quarter of the February 2026 MPR forecast, which we treat as data. Latest observation: 2026 Q1.

Inflation stabilisation – 2025 inflation hump

Chart 3: Inflation stabilisation under perfect foresight – inflation hump



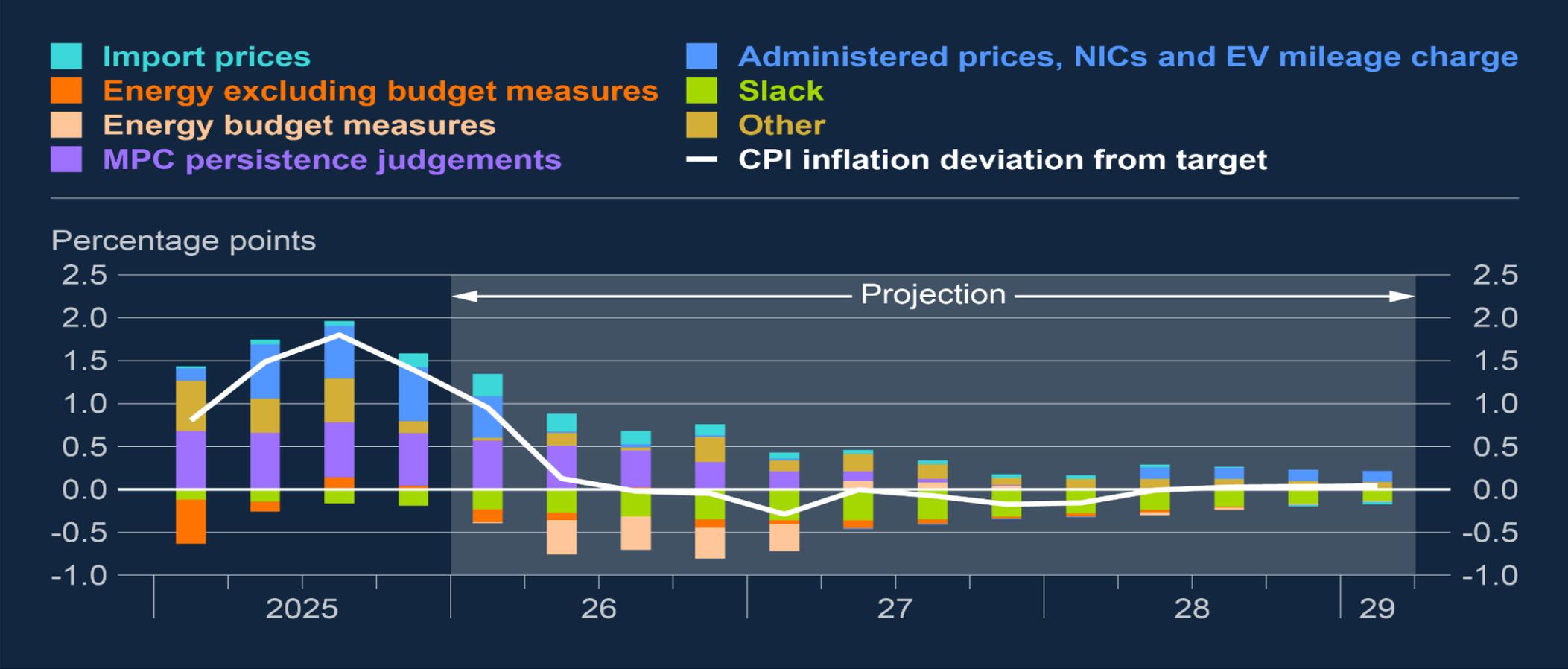
Notes: The three panels show, in aqua, outcomes for UK CPI inflation, the output gap, and Bank Rate between 2024 and 2029. The orange lines show counterfactual paths for these variables under a different monetary policy stance following Alati et al. (2025). The first dotted line denotes the second quarter of 2024, after which the counterfactual is allowed to diverge from realisations. The second dotted line denotes 2026 Q1, the nowcast quarter of the February 2026 MPR forecast, which we treat as data. Latest observation: 2029 Q1.



Translating the mandate into policymaking

New shocks in 2025 – Administered prices and energy

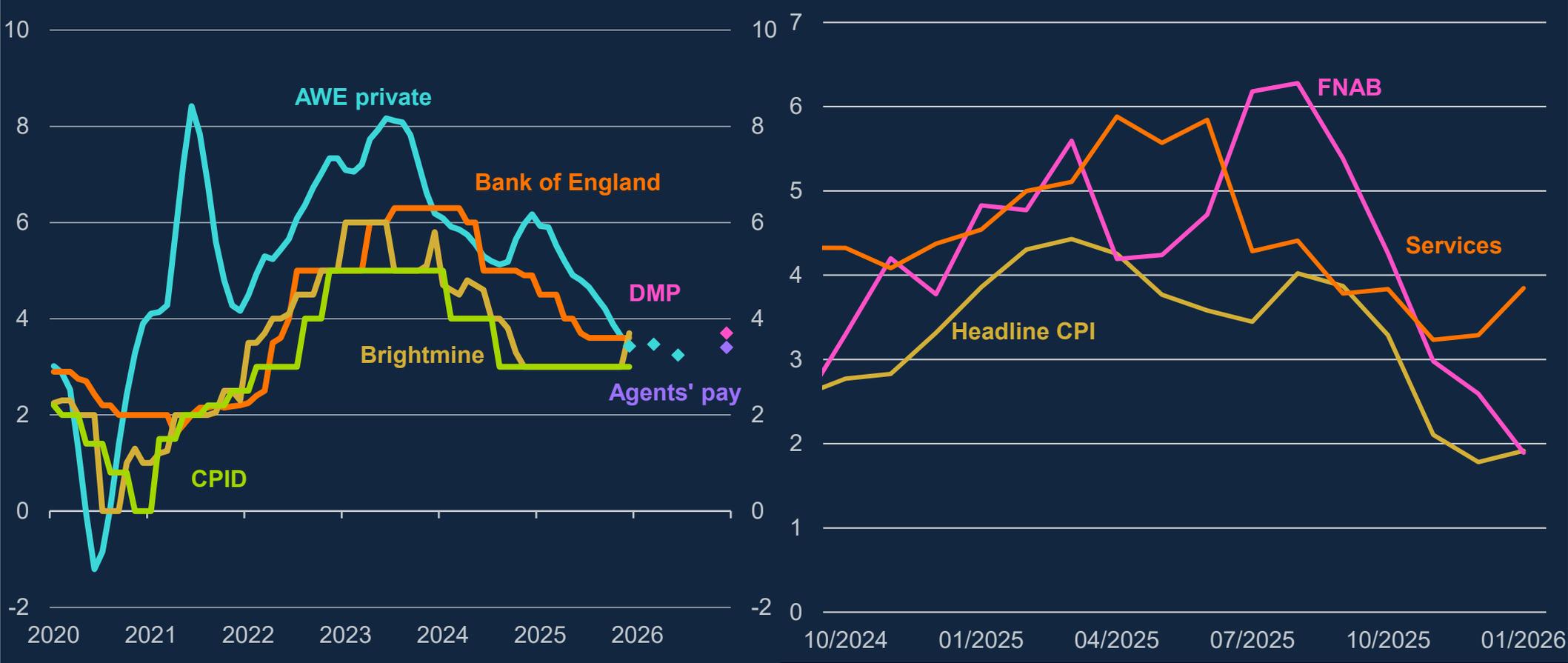
Chart 4: Inflation decomposition



Source: February 2026 Monetary Policy Report. Latest observation: February 2026.

Wages normalising and high-frequency CPI at target

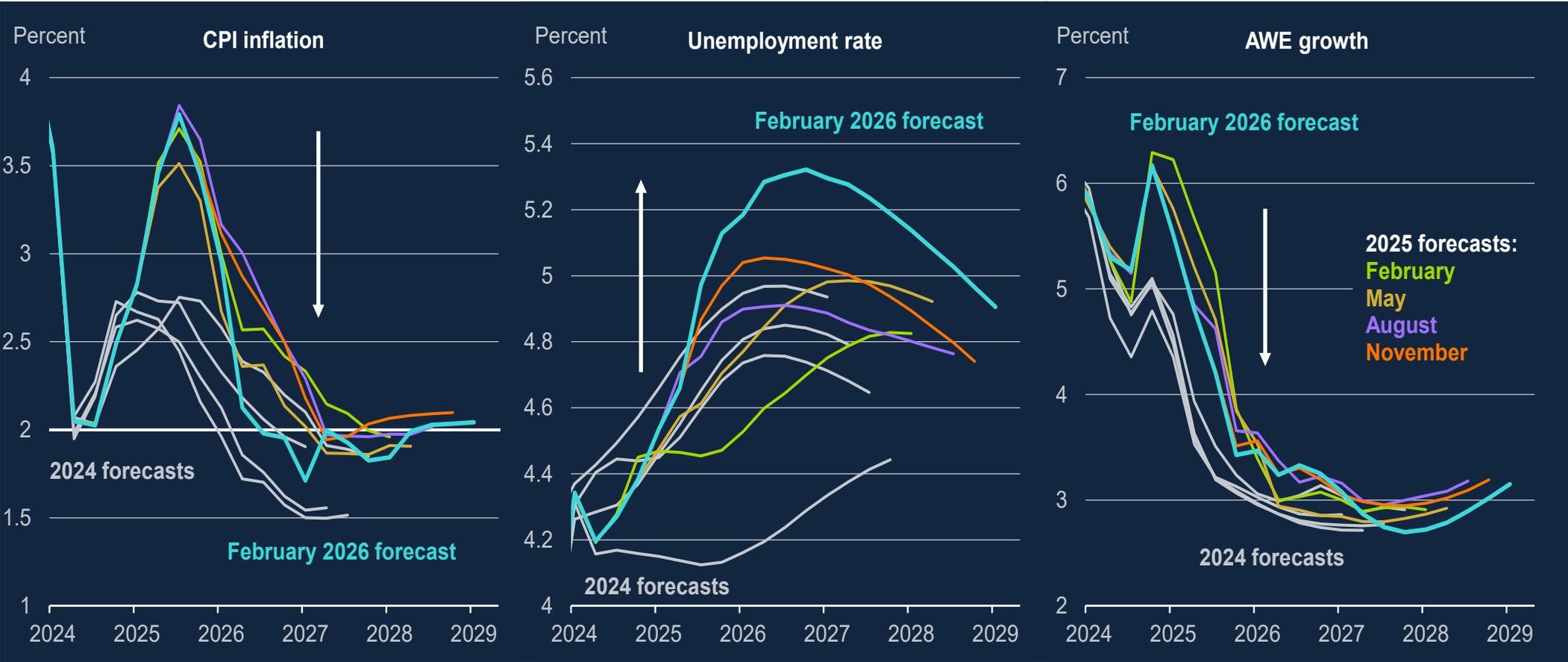
Chart 5: Pay settlements and high-frequency inflation rate



Notes: Pay settlements and wages across multiple sources and higher frequency 3-month on 3-month rate of inflation for various aggregations. Latest observation: January 2026.

Forecast revisions - Lower activity and lower inflation

Chart 6: Revisions to the MPR forecast



Notes: The chart shows successive vintages of MPR forecasts for annual CPI inflation, the unemployment rate, as well as annual growth in private sector average weekly earnings. Latest observation: 2026 Q1 (nowcast).



Continuity versus change: looking to the future of mandates

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Central bank mandates should be strong yet flexible.

History demonstrates that as the economy evolves, central bank strategies have adapted.

Whatever form mandates take, two essential principles must endure:

- Clear objectives focused on price stability and financial resilience.
- Robust accountability, making sure independence aligns with democratic values and serves public interests.

Ultimately, a mandate offers a guiding structure for policy amid uncertainty.

While it cannot promise specific outcomes, it enhances the likelihood of policies being effective, consistent, and legitimate.

