



Discussion of:
"The Evolution of
Central Banks – A
Practitioner's
Perspective"

by
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Lessons from History", 5 – 6 June 2014

Anders Vredin, Sveriges riksbank

Andrew G. Haldane & Jan F. Qvigstad

- 55 years of central bank analyses and decision-making!
 - Outline of discussion:
 - Mandates
 - Trade-offs
 - Similarities and differences
 - Lessons
 - The future
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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.
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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.
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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
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... and differences

- BoE is responsible for macro- and micro-prudential regulation and supervision
 - NB publishes interest rate forecasts
 - BoE publishes the MPC's minutes
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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”
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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?
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Thank you!

- Very educating, and policy-relevant, paper
- Great conference
- ... and to Jan & NB: for all discussions, support and co-operation over the years.

