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The Bank of England's statutory monetary policy objectives: a historical and legal account

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Abstract

The Bank's monetary policy objectives are among the most significant statutory objectives bestowed by Parliament on any UK public authority. The objectives make the Bank responsible for maintaining price stability and, subject to that, for supporting the government's economic policy, including its objectives for growth and employment. When granted in 1998, the objectives were a watershed moment in the three centuries-old history of an institution that had long-resisted having its role prescribed or, as Bank officials at the time saw it, constrained by, law. Yet the Bank quickly embraced the benefits of having greater clarity in its legal mandate, and the objectives have proved remarkably resilient in directing the Bank's monetary response over the past 25 years. This paper offers an in-depth historical and legal account of the Bank's statutory monetary policy objectives; it explores the relevant statutory provisions in the Bank of England Act 1998 and the debates that surrounded their drafting, as well as their application and interpretation in practice.

Key words: Monetary policy, objectives, price stability.

JEL classification: E520, E580, E630, K230.

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Introduction

The Bank of England (the ***Bank***) is one of many UK public authorities which have statutory objectives which they are required to interpret in order to make corresponding policy and regulatory choices. The difference with the Bank's statutory objectives is their impact: "the decisions of the Monetary Policy Committee probably have a more direct effect on people's lives than those of any other body in the country. They affect everyone with a home loan, everyone with a credit card, every saver and every business in Britain."[1]

The Bank's statutory objectives in relation to monetary policy are simply-stated. As a primary objective, the Bank must maintain price stability. Subject to that, and as a secondary objective, the Bank must support the economic policy of the Government, including its objectives for growth and employment. Their importance, however, is hard to overstate: for the UK economy; for the Bank as an institution; and for the Labour Government that introduced them.

In relation to the economy, it is pursuant to these objectives that the Bank maintains the value of money relative to the goods and services it is used to purchase, and the cost of borrowing in the UK. Traditionally this has been achieved through the setting of interest rates. In more recent years the Bank has used other policies, including asset purchases – or quantitative easing (***QE***) – to achieve its monetary policy objectives in response to a series of major challenges[2].

> **Box 1: The Bank's monetary policy objectives**
>
> *"In relation to monetary policy, the objectives of the Bank of England shall be—*
>
> *(a) to maintain price stability, and*
>
> *(b) subject to that, to support the economic policy of His Majesty's Government, including its objectives for growth and employment."*
>
> Section 11 of the Bank of England Act 1998

For the Bank, the objectives were a seminal milestone. Since its founding in 1694, the Bank's governing legislation said very little about its formal objectives. Indeed, the very idea of having the Bank's mandate set down in law was anathema to senior Bank officials, who feared it would curtail the Bank's freedom to support the national interest. There was similar reluctance from UK politicians who, despite growing international consensus on the benefits of central bank independence from the late 1980s, were wary of losing control of monetary policy by transferring responsibility to unelected technocrats[3].

1 Lord Saatchi, Monetary Policy Committee: Select Committee Report, Volume 606, 4 November 1999.

2 The Bank of England Quarterly Bulletin 2022 Q1, 18 May 2022, [QE at the Bank of England: a perspective on its functioning and effectiveness | Bank of England]

3 See Section I below for further details.

The watershed moment came with the election of the Labour government in 1997 and passage of the Bank of England Act 1998 (the ***1998 Act***). The 1998 Act aimed to deliver on Labour's manifesto commitment to "ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation".[4] Announced by Chancellor Gordon Brown on 6 May 1997, just days after the general election, Bank independence, and the Bank's monetary policy objectives, were on the statute book within a year.[5] An influential Parliamentary report from the time observed that "it is a matter of utmost significance that short-term monetary policy has a statutory basis for the first time in our modern history".[6] The reforms were ultimately to be one of the most significant and consequential of the 1997-2010 Labour administration.

While Gordon Brown proclaimed that the reforms to the UK monetary framework may have represented "a British solution to meet British needs",[7] they were unquestionably inspired by the international experience of independent central banks across the world. While he had intended the objectives to be "exactly the same as the Fed",[8] the wording in the 1998 Act owes much more to Europe than the United States. In particular, the wording of the objectives – and the primacy accorded to price stability - bears a striking resemblance to the objectives set for the European System of Central Banks (***ESCB***) and European Central Bank (***ECB***)[9] introduced by the Maastricht Treaty in 1992.[10]

The objectives have proved to be remarkably flexible and adaptable to changing circumstances: they have allowed the Bank to make trade-offs about the speed at which inflation should return to target; enabled the Bank to develop unconventional policy instruments (most notably QE); and empowered the Bank to support the government's economic policy (which, in addition to the traditional objectives of growth and employment, now include goals such as increasing long-term energy security and supporting efforts on climate change and delivering Net Zero).[11] A critical factor in the success of the framework is that the 1998 Act requires the statutory objectives to be supplemented by a "remit letter", which requires the Chancellor to flesh-out the objectives on at least an annual basis. This has been a source of continuing democratic legitimacy and flexibility, "allowing for slow-motion learning as the regime is

4 *New Labour - because Britain deserves better,* Labour Party Manifesto 1997, available at: http://www.labour-party.org.uk/manifestos/1997/1997-labour-manifesto.shtml

5 The Bank of England Act 1998 received Royal Assent on 23 April 1998.

6 House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report, 27 July 1999, para 1.3. https://publications.parliament.uk/pa/ld199899/ldselect/ldmon/96/9601.htm.

7 House of Commons Debate, 20 May 1997: Column 508, https://publications.parliament.uk/pa/cm199798/cmhansrd/vo970520/debtext/70520-06.htm (accessed 14 September 2021).

8 Gordon Brown, "*Past and Present session*", Bank of England 'Independence – 20 years on' Conference, Fishmongers' Hall, London, 28 September 2017.

9 References to the ESCB in the Treaties can essentially be read as the ECB. While the objectives in the Treaty are bestowed on the ESCB, the ESCB is governed by the ECB and therefore ultimate responsibility for the pursuit of the ESCB's objectives.

10 Article 105 of the Treaty establishing the European Community, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A11997E105; now article 127 of the Treaty on the Functioning of the European Union, https://lexparency.org/eu/TFEU/ART_127/.

11 See MPC remit letter (14 November 2024), Monetary policy remit: Mansion House 2024 - GOV.UK (www.gov.uk).

applied"[12] (although, as discussed later, there have been calls for greater Parliamentary oversight of this process). And while the wording of the Bank's objectives may have been inspired by the ECB, some have suggested that the ECB may benefit from a similar remit letter process to the Bank of England.[13]

It is therefore unsurprising that Bank officials came round to recognise and indeed extol the benefits afforded by a statutory mandate,[14] and the reforms of the 1998 Act have been described by one former external member of the Monetary Policy Committee (the ***MPC***) as "one of the most successful institutional reforms to economic policy in my professional lifetime".[15] There was generally bipartisan support from the Bank's political masters; while the Conservatives were hostile to the Bank of England Bill at the time,[16] Bank independence had been a long-held ambition for a number of senior Tories.[17] The Treasury's remit letters from governments of all stripes repeatedly emphasise their commitment to the Bank's operational independence over monetary policy.

However, the focus on the monetary policy objectives of central banks is now more intense than it has been for decades. A combination of factors, including the world's emergence from the Covid-19 Pandemic and the conflict in Ukraine, saw inflation in the UK and around the world climb to the highest levels in decades. Central banks' mandates are facing a kind of scrutiny that has not been seen since the 1970s, with questions being asked across the political spectrum. Some on the right have argued that the Bank has not focussed enough on price stability, with suggestions that the mandate should be changed to "make sure it is tough enough on inflation"[18] Some on the left have argued for employment to be placed on an equal pedestal to price stability; Gordon Brown for example has called for a "new constitution for the Bank imposing a dual mandate: to take unemployment as seriously as inflation".[19]

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[12] Paul Tucker, *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State* (Princeton University Press, 2018), 344.

[13] *The ECB's neglected secondary mandate: an inter-institutional solution* (October 25, 2021), Nik de Boer, Nik and Jens van 't Klooster, Positive Money Europe Report; *The ECB needs more political guidance on secondary objectives,* Euractiv (22 April 2021), co signed by Stanislas Jourdan, Grégory Claeys, Pervenche Berès, Nik de Boer, Panicos Demetriades, Sebastian Diessner, Jens van 't Klooster, Vivien Schmidt.

[14] Mark Carney, "*One Mission. One Bank. Promoting the good of the people of the United Kingdom*' Speech to Mais Lecture, Cass Business School, City University, London, 18 March 2014, 11-12.

[15] Ian McCafferty, *"Twenty years of Bank of England independence: the evolution of monetary policy"* Speech at the 38th Robert Warner Lecture, The Worshipful Company of Founders, City of London, 5 October 2017, https://www.bankofengland.co.uk/-/media/boe/files/speech/2017/twenty-years-of-boe-independence-the-evolution-of-monetary-policy.pdf (accessed 14 September 2021).

[16] A notable exception was Nigel Lawson who, as discussed below, had long-advocated Bank independence; Lawson observed in his memoirs that "[t]he Conservative opposition's initial hostility to this move, which I publicly welcomed (Gordon Brown…asked me to do so: but I would have done so in any event), was exceedingly foolish, and fortunately soon abandoned), Nigel Lawson, "*The View from No. 11: Memoirs of a Tory Radical"*, 1060 (1992).

[17] In particular Nigel Lawson, as discussed further in Section II below.

[18] Bloomberg, *UK Leadership Contenders Suggest Changing BOE Mandate* https://www.bloomberg.com/news/articles/2022-07-17/truss-hints-at-money-supply-target-if-she-wins-uk-leader-race

[19] The Guardian, "*Make jobs higher priority, Gordon Brown tells Bank of England"*, 10 September 2020, https://www.theguardian.com/business/2020/sep/10/make-jobs-higher-priority-gordon-brown-tells-bank-of-england (accessed 14 September 2021).

Similar debates are taking place in other jurisdictions. The Reserve Bank of New Zealand (***RBNZ***) was the pioneer of inflation rate targeting and the "primacy of price stability" approach, and since 1989 had a single statutory objective of achieving and maintaining price stability.[20] In 2019 the New Zealand Labour Government gave the RBNZ a dual mandate, and supporting maximum employment was placed on par with price stability. But the dual mandate experiment was short-lived: a change of government in 2023 swiftly saw a reversion to a singularly focus on price stability.[21] Similarly in Australia, where the Reserve Bank's objectives have come under increasing scrutiny,[22] a wide-ranging review recommended clarifying the Reserve Bank's statutory objectives for monetary policy as a dual mandate to contribute to price stability and full employment, which has now been reflected in legislation. [23]

Against this backdrop, this article examines the Bank's statutory monetary policy objectives; it explores their drafting and the debates that surrounded their wording, as well as their application and interpretation in practice. In particular:

- **Section I** recounts the Bank's incorporation as a chartered corporation in 1694, and why bestowing monetary policy objectives in 1998 was such a watershed moment in the Bank's history. It also explores the origins behind the wording of the objectives, including the inspiration afforded by the objectives set for ESCB in the Maastricht Treaty.
- **Section II** sets the scene for the Bank's operational responsibility for monetary policy, including providing an overview of the wider UK monetary policy framework. It then considers the drafting and interpretation of the statutory objectives set down in the 1998 Act, starting with the primary objective to "maintain price stability".
- **Section III** then moves to consider the Bank's secondary objective to support the government's economic policy, including its objectives for growth and employment. It explores its subordinate relationship with the primary objective, and how it has been used to adjust the Bank's monetary policy mandate to support government policy on issues such as climate change.
- **Section IV** looks at how the monetary policy objectives interact with other legal frameworks, in particular the prohibition of monetary financing (the financing of government deficits by central banks) and the Bank's statutory financial stability objective (that was given to the Bank after the Global Financial Crisis).

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20 Section 8 of the Reserve Bank Act 1989.

21 "New Zealand passes law returning central bank to single inflation mandate", Reuters (13 December 2023).

22 "*Australia Opposition Urges Review of RBA, Fiscal-Monetary Policy*", Michael Heath, 7 April 2021, https://www.bloomberg.com/news/articles/2021-04-07/australia-opposition-urges-review-of-rba-fiscal-monetary-policy (accessed 13 September 2021).

23 Review of the Reserve Bank of Australia | RBA; Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023.

- **Section V** considers the Treasury's (never-used) reserve power to direct the Bank in relation to monetary policy in "extreme economic circumstances", which, if used, would have the dramatic effect of suspending the Bank's monetary policy objectives.
- Finally, there are a variety of ways in which monetary policy objectives can be expressed. The **Annex** compares the objectives of a number of central banks to illustrate the international experience.

Section I: The absence of statutory objectives for the Bank & origins of the monetary policy objectives

For over 300 years of its existence, the Bank's governing legislation said very little about the institution's objectives and purpose. This largely stemmed from the Bank's unusual form of incorporation as a chartered corporation; but the obscurity of the Bank's statutory role was long-considered an advantage by senior Bank officials. Against this historical context, the 1998 Act was a seminal moment in setting the Bank's defined statutory objectives for the first time.

The Bank's status as a chartered corporation

The Bank was founded in 1694 as a private bank (rather than a public body) to raise money for the Government for "the carrying on the War against France" and with a vague aim "to promote the publick Good and Benefit of our People".[24] The Bank was incorporated by an Act of Parliament and Royal Charter, and was established as a chartered corporation (rather than creature of statute). The Act and Charter conferred wide general powers and discretions on the Bank which in effect mean that the Bank "can, speaking generally, do anything an ordinary individual can do".[25] But the Act and Charter did not specify the objectives of the institution. This obscurity about the objectives was common for the older central banks: "Older treatises on central banking had a lot to say about functions but relatively little about objectives; the same was the case for legislation".[26]

In the centuries that followed, Parliament did pass major legislation that impacted directly upon the Bank. For example, the Bank Charter Act 1844 (known as the Peel Act), gave exclusive note-issuing powers to the Bank and obliged the Bank to separate its issue and banking functions and to keep them in distinct

[24] The Charter of the Corporation of the Governor and Company of the Bank of England (27 July 1694), available at https://www.bankofengland.co.uk/museum/online-collections/archive-gallery/founding-documents. This phrase has been resurrected in the re-statement of the Bank's modern mission, see "*One Mission. One Bank. Promoting the good of the people of the United Kingdom*", Governor Mark Carney's Mais lecture at Cass Business School (18 March 2014).

[25] *Attorney General v Leeds Corporation* [1929] 2 Ch 291. The only express limitation placed on the Bank's powers as a chartered corporation is contained in section 26 of the 1694 Act. This restricts the ability of the Bank to trade "any sorts of goods, wares and merchandises" and was essentially aimed at preventing the Bank from taking advantage of its privileged status for the purpose of earning for itself a profit. The restriction on trade is subject to certain exceptions in section 27, including that the Bank is permitted to deal in bills of exchange and sell goods etc left as security for loans. Even today, where the Bank's activities are much more dependent on statute law than has historically been the case, there is still no exhaustive statement of the Bank's powers and functions.

[26] Bank for International Settlements, *Issues in the Governance of Central Banks: A report from the Central Bank Governance Group*, May 2009, 18.

departments.[27] And after World War II the Bank was nationalised through the Bank of England Act 1946, a statute mostly aimed at bringing the Bank "into public ownership and… public control."[28] The 1946 Act said nothing as to the purpose or mission of the Bank, and was described by the then Labour Chancellor as "a streamlined Socialist statute" with "a minimum of legal rigmarole."[29] In more recent decades, the Bank was given further statutory duties and functions.[30] There was, however, no clear legislative statement by Parliament of the Bank's role. As former Governor Eddie George observed, from nationalisation in 1946 until independence in 1998 "the Bank of England operated under legislation which, remarkably, did not attempt to define our objectives or functions – they were simply assumed to carry over from our earlier long history".[31] This sharply contrasted with the modern central banks of the twentieth century, many of whom had "a clear mission statement at the outset".[32]

The Bank's historical resistance to statutory objectives

One of the principal advantages of this arrangement was that it allowed the Bank's function to evolve over time by agreement with the government of the day, without necessarily requiring primary legislation. For a long period of time, this arrangement suited both Bank officials and their political masters.[33]

On the political side, the objection was fundamentally a democratic one: an unwillingness to transfer control from elected politicians to unelected technocrats. It was for this reason that Prime Minister Thatcher repeatedly rejected her Chancellors' proposals for an independent central bank with statutory objectives, notwithstanding the perceived benefits in controlling inflation then-evident from other countries around the world.[34] A less noble reason for the political reluctance may have been retaining the short-term political benefits that could be gained in the electoral cycle via control over interest rates.

From the Bank's perspective the apprehension was two-fold. First was that it might make the Bank less effective by impeding its freedom of action. Giving evidence to Parliament in the early 1990s, Sir George Blunden, a former Deputy Governor, thought the lack of legal provision meant the Bank benefitted from a considerable degree of autonomy which might be lost if its role was strictly defined in statute, observing

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27 Sections 1 and 11 of the Bank Charter Act 1844.

28 Preamble to Bank of England Act 1946.

29 David Kynaston, "*Till Time's Last Sand, A History of the Bank of England 1694-2013"* supra note 106, at 395.

30 Banking Act 1979, Part 1 and Banking Act 1987, Part 1.

31 George, E (2000), '*Central bank independence*', speech at the SEANZA Governors' Symposium, 26 August 2000.

32 Harold James, "*Making a Modern Central Bank: The Bank of England 1979-2003*," (Cambridge University Press, 2020), 14, which discusses the position of the US Federal Reserve, the central banks of post-war Germany, and the Reserve Bank of New Zealand.

33 The Commons Secret Select Committee June 1848 noted "it is true there are no restrictions imposed by law upon the discretion of the Bank…But the Bank is a public institution, possessed of special and exclusive privileges, standing in a peculiar relation to the Government, and exercising from the magnitude of its resources, great influence over the general mercantile and monetary transactions of the country. These circumstances impose upon the Bank the duty of a consideration of the public interest, not indeed enacted or defined by law, but which Parliament in its various transactions with the Bank has always recognised and which the Bank has never disclaimed. It is unnecessary to impose such duty by law, as there can be little doubt that the permanent interests of the Bank are identified with those of the Public at large."

34 Sucheen Patel, "*An Independent Bank of England: The Political Process in Historical Perspective"*, 1 January 2008, https://journals.sagepub.com/doi/10.1177/0952076707083284.

that, in his view, the Bank was "the most independent because all other central banks are constrained by articles and acts that have established for them what they may do and what they may not do".[35] The second was an awareness that there was a more profound issue at stake: legitimacy.[36] In recognition of the force of the democratic argument, there was a strong view that the Bank should not be given legal independence over monetary policy unless and until there was a broad-based societal consensus in favour of the Bank being responsible for price stability.[37] In his final speech as Deputy Governor in 1990, Sir George observed that:

> My ideal is a publicly responsible central bank entrusted with effectively maintaining the stability of the currency *but in a society where such stability is generally desired*, where inflation is recognised as a deadly sin, and where the government is dedicated to price stability.[38] (emphasis added)

The Bank's suspicion of statutory objectives continued even when it became inevitable that the Bank was to receive objectives in relation to monetary policy. On 14 May 1997, shortly after Gordon Brown had announced Bank independence and the objectives he intended to give the Bank (in his famous letter of 6 May 1997 discussed further below), then Governor Eddie George updated the Bank's Court of Directors:

> Turning to the Bank's objectives in the legislation, [the Governor] said that the current Act and Charter said nothing about the objectives of the Bank of England. The Bank had always found the situation quite comfortable, though for management purposes it had defined its core responsibilities internally. The Governor said that there was a question over whether to include the three core purposes in a detailed statement or in some general form, such as "the Bank's objectives were monetary and financial stability and the promotion of the effectiveness of the financial system", or whether the objectives could be defined simply in relation to monetary policy. A concern was that the Bank should be careful that it did not define its objectives so tightly that it could not do things that it had not previously thought of. That inclined the Bank to a minimum specification of objectives, except in the sense set out in the Chancellor's letter. Dame Sheila Masters asked whether, having specified the objectives, the Bank would be

[35] House of Commons, Treasury and Civil Service Committee, Session 1993-1994, "The Role of the Bank of England, First Report, Evidence", 20 October 1993, 71 (Question 242).

[36] See Rosa Lastra, International Financial and Monetary Law, 2nd Edition, Chapter 2, where she notes that there are two facets of legitimacy: "a formal normative one, which refers to legality of the political system and a societal or empirical one, which is determined by the acceptance of or loyalty to the system". She argues that democratic legitimacy combines both a binding legal regime with societal perception of that regime. This societal legitimacy in turns acts as an important accountability mechanism by reducing the risk of abuse of power.

[37] This goes beyond law and is a fundamental question of underlying values; as Sir Paul Tucker has observed when it comes to monetary independence, "duly passed legislation is necessary but not sufficient. Embedded, stable preferences, generated by experience and shaped through debate, are also needed"; Paul Tucker, *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State* (Princeton University Press, 2018), 270-271.

[38] Julian Hodge Annual Lecture.

> restricting its other activities. Her inclination was to specify as little as possible. The Governor said the Bank had made clear in its discussion that it wanted maximum flexibility. [39]

The pre-1997 monetary policy regime

Before 1998, while the Bank played a supporting role in the various broad monetary policy regimes that operated in the UK in the post-war period, decision-making authority for monetary policy decisions resided with the Chancellor of the Exchequer.[40] That the buck ultimately rested with the Chancellor was reflected in the fact that the Treasury had a back-stop power to direct the Bank "in the public interest".[41]

By the late 1980s, in light of persistent high inflation in the UK and an emerging international consensus of the benefits of independent central banks[42], serious consideration was given as to whether to grant the Bank independence over monetary policy. Indeed, according to papers released under the Freedom of Information Act 2000, the Treasury considered Bank independence over monetary policy four times between 1988 and 1993 but the proposals were rejected.[43] In an important memorandum to a sceptical Margaret Thatcher, dated 25 November 1988, Chancellor Nigel Lawson forcefully set out the arguments in favour of granting the Bank of England statutory independence,[44] concluding that:

> I have reached the view that the best way to [defeat inflation] would be to give statutory independence to the Bank of England, charging it with the duty to preserve the value of the currency, along the lines already in place and of proven effectiveness for the US Federal Reserve, the National Bank of Switzerland and the Bundesbank.

Such a move would enhance the market credibility of our anti-inflationary stance, both nationally and internationally. It would make it absolutely clear that the fight against inflation remains our top priority […] On the statutory objectives of the Bank, Lawson's memorandum foreshadowed the notion of primary and secondary objectives for monetary policy, explaining:

> The Bank would be obliged, as is the Bundesbank, to conduct monetary policy within the framework of the Government's economic policy as a whole, but only so far as that is consistent with its primary function of safeguarding the currency. There would also, and within this context,

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39 Bank of England Court Minutes (14 May 1997), https://www.bankofengland.co.uk/-/media/boe/files/minutes/1900-2000/1997/court-may-1997.pdf.

40 Review of the Monetary Policy Framework, HM Treasury, Cm 8588 (March 2013), Chapter 1 (Historical and International Context).

41 Section 4 of the Bank of England Act 1946, discussed in Section II below.

42 For an overview of the arguments for and against central bank independence see, Rosa Lastra. "Central Banking and Banking Regulation", Financial Markets Group of the London School of Economics. (1996).

43 "*Treasury rejected Bank of England independence four times",* The Guardian (8 March 2005), https://www.theguardian.com/business/2005/mar/08/politics.freedomofinformation.

44 Memorandum from Nigel Lawson, Chancellor of the Exchequer, HM Treasury, to Margaret Thatcher, Prime Minister, United Kingdom (1988), in Nigel Lawson, "*The View from No. 11: Memoirs of a Tory Radical"*, (Corgi 1992), 1060. Many years later, after the Bank gained its independence, Tony Blair was to pay generous tribute to the original Lawson proposals, see Tony Blair, "*A Journey"* (Hutchinson 2010), 113.

be a joint obligation on the Government and the Bank to work closely together in the conduct of economic policy.

Knowing it would appeal to Thatcher's euroscepticism, Lawson added that "an incidental advantage of creating an independent national central bank, with a proper statutory framework, would be to demonstrate that we did not envisage the absorption of the Bank of England into a European central bank".[45]

Thatcher, however, was "wholly unreceptive"[46] to the proposal, noting it would be seen as "an abdication by the Chancellor"[47] and would have involved transferring of executive power, and an electorally useful policy tool, from the Chancellor (and Prime Minister) to a Bank whose reputation was not particularly high at the time.[48]

After the failure of exchange rate targeting and the UK's unceremonious exit from the Exchange Rate Mechanism in 1992, the UK operated an inflation targeting regime whereby the Chancellor set an inflation target[49] "in the long term of 2 per cent or less but to keep underlying inflation within the range 1-4 per cent", with the aim of achieving a rate in the lower half of the range by the end of the Parliament.[50] It was the Chancellor who decided interest rates, on advice from the Bank. In practice, these took the form of informal regular meetings between the Chancellor Ken Clarke and Governor Eddie George. While congenially described as the "Ken and Eddie show" there were also real policy tensions; in illustrating where ultimate power lay, it is worth observing that, in the months before the May 1997 election, the Chancellor repeatedly rejected the Bank's advice that interest rates be raised.[51]

In 1992 the Treasury Select Committee produced a report on the role of the Bank of England which considered "the objectives of monetary policy, whether the conduct of monetary policy should be delegated to the Bank of England and the degree of autonomy the Bank should be allowed to enjoy in performing the function." The Report reflected an increasingly bipartisan consensus on the benefits of granting the Bank independence over monetary policy with its own statutory objectives.[52]

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45 Nigel Lawson, "*The View from No. 11: Memoirs of a Tory Radical*", (Corgi 1992), 868.

46 Ibid, 870.

47 Margaret Thatcher, The Downing Street Years (London: Harper Collins, 1993), 706-7

48 In addition to Thatcher's irritation at failures of banking supervision in the 1980s, most notably Johnston Matthey, "she also thought that independence would require a central banker of more stature, a British equivalent of Karl Otto Pöhl or Paul Volcker or Alan Greenspan", see Harold James, *"Making a Modern Central Bank"* (Cambridge University Press 2020), 226 and 319-320.

49 As measured by the Retail Prices Index excluding mortgage interest payments (RPIX).

50 Letter from the Chancellor to the Chair of the Treasury and Civil Service Committee, (8 October 1992).

51 James, 365.

52 House of Commons, Session 1993-94, Treasury and Civil Service Committee, First Report, The Role of the Bank of England, Volume I, 8 December 1993.

Origins of the objectives: the 6 May 1997 letter & the Maastricht Treaty

That the incoming Labour Government would propose reforms to the UK monetary policy framework was expected: indeed, Labour's manifesto stated: "We will reform the Bank of England to ensure that decision-making on monetary policy is more effective, open, accountable and free from short-term political manipulation".[53] But the concept of granting the Bank operational independence was not a feature of the election campaign, and the speed and detail of the announcement was not widely anticipated[54] - even within the Labour team itself. Ed Balls, Gordon Brown's economic adviser at the time, recalled that "three days before the election Gordon Brown turned to me and said 'if we are going to make the Bank of England independent, I think we should do it immediately; can you write the letter to the Governor'. And I spent my last two days of the campaign writing the letter". Mr Balls indicated the political reason for not highlighting the reform during the campaign was a fear that, given the Bank had advised that there should be rate rises in the lead up to the election, it might be spun as: "vote Labour and see your interest rates go up with Eddie George".[55]

Within days of the election result, the announcement was made in a seminal letter from the Chancellor Gordon Brown dated 6 May 1997 and entitled "The New Monetary Policy Framework".[56] This explained that: the Bank was to be given operational independence in the formulation of monetary policy to achieve an inflation target determined by the Government; policy decisions would be taken by majority vote by the MPC, made up of both internal and external members; and there would be greater focus on the accountability and transparency of the Bank's decision-making. The aims of the reforms were both to de-politicise, as well as de-personalise, the monetary policy decision-making process, and to "underline the Chancellor's commitment to creating a low and stable rate of inflation".[57]

Paragraph 4 of the letter included a set of "Objectives of the Bank of England" under the new framework:

> Price stability is a precondition for high and stable levels of growth and employment, which in turn will help create the conditions for price stability on a sustainable basis. To that end, **the monetary policy objective of the Bank will be to deliver price stability (as defined by the Government's inflation target) and, without prejudice to this objective, to support the Government's economic policy, including its objectives for growth and employment.** (emphasis added)

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53 James, 409.

54 House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), para 1.4.

55 *Political Currency*, Can Starmer work with Trump and Le Pen? - Political Currency | Podcast on Spotify (2 July 2024).

56 Chancellor Gordon Brown letter to the Governor of the Bank of England, 6 May 1997, https://www.bankofengland.co.uk/-/media/boe/files/letter/1997/chancellor-letter-060597.pdf.

57 House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), para 1.8.

The Chancellor emphasised that the new monetary policy framework represented "a British solution to meet British needs".[58] But it is also true that the framework had been inspired by the international experience of independent central banks and inflation targeting across the world.[59] And this is particularly true when it came to the wording of the objectives. The drafting drew on the European experience and the objectives set for the ESCB in the Maastricht Treaty in Article 105.1 which provided:[60]

> **The primary objective of the ESCB shall be to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community** with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2 [which include 'a high level of employment' and 'sustainable and non-inflationary growth'].[61] (emphasis added)

This article, now replicated in article 127(1) Treaty on the Functioning of the European Union (***TFEU***), established price stability as the "Grundnorm" of the Community.[62] That wording was itself heavily influenced by the German experience and the Bundesbank Act 1957 which required the Bundesbank to give priority to price stability and "support the general economic policy of the Federal Government, but only insofar as it can do so without prejudice to the performance of its own functions".

There is a striking resemblance[63] in the wording of the Chancellor's letter and Article 105.1: the primacy and overriding importance accorded to price stability; the use of the distinct words "without prejudice"; and the responsibility to "support", as a secondary objective, the economic policy set by political actors. This is perhaps unsurprising given at that time it remained conceivable that the UK might participate in the Economic and Monetary Union (***EMU***) and, as part of the legal convergence requirements under the Treaty for entry into the Eurozone, there was an interest in aligning the legislative frameworks to smooth the UK's entry should the UK ever decide to participate in the EMU (there is a degree of irony given Lawson's view, noted above, that statutory independence for the Bank would protect it from absorption under a future European Central Bank).

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58 20 May 1997 : Column 508, https://publications.parliament.uk/pa/cm199798/cmhansrd/vo970520/debtext/70520-06.htm.

59 Review of the Monetary Policy Framework, HM Treasury, Cm 8588 (March 2013), Chapter 1 (Historical and International Context).

60 https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A11997E105.

61 Article 2 (now Article 3 of the Treaty on the European Union (***TEU***)).

62 "*Price Stability and Budgetary Restrains in the Economic and Monetary Union: The Law as Guardian of Economic Wisdom*" (1998) CML Rev. 9(21); The Law of the European Central Bank by Zilioli and Selmayr (Hart Publishing, 2001), 36.

63 An observation also made by others e.g. "The lexicographic structure of this general objective imitates the wording in Article 105 of the Maastricht Treaty laying out the statutory objectives of the European Central Bank (ECB)", Charles Bean, *Inflation Targeting: The UK Experience*, Speech at the Annual Congress of the German Economic Association, University Zurich-Irchel, Switzerland (1 October 2003).

There would be, however, a very important difference with the European framework: in contrast to the ECB - which is free to choose how it interprets its price stability objective - the Bank would be provided with a remit set by the Chancellor that defined the objective (as noted in Box 2 and discussed further below).

Box 2: International comparisons at a glance

	Objectives	Who sets the Inflation Target	Inflation Target	Executive override?
Bank of England	Hierarchical: 1. Price Stability 2. Support government economic policy	Treasury	2% CPI	By Treasury reserve power
European Central Bank	Hierarchical: 1. Price Stability 2. Support general economic policies of the EU	Governing Council of ECB	2% HICP	No
Bank of Japan	Single: Price Stability	Bank of Japan	2% CPI	No
Reserve Bank of New Zealand	Single: Price Stability	Minister of Finance	Between 1% and 3% All Groups Consumers Price Index	By Governor-General reserve power
US Federal Reserve System	Dual: Price Stability; Employment	US Federal Reserve	2% price index for personal consumption expenditures	No
Reserve Bank of Australia	Dual: Price Stability and full employment	Government and Reserve Bank of Australia	2-3% CPI	By Treasurer
Bank of Canada	Widely defined mandate but primary objective of price stability	Government and Bank of Canada	2% target inside a range of 1-3% CPI	By Finance Minister, with approval of Governor in Council
People's Bank of China	Dual: Currency stability; Economic growth	State Council and People's Bank of China	3% CPI	By State Council

Section II: Operational responsibility for monetary policy and the primary objective to maintain price stability

The wording of the Chancellor's May 1997 letter held up remarkably well through the Parliamentary process,[64] and is largely replicated today in section 11 of the 1998 Act. This provides:

> *In relation to monetary policy, the objectives of the Bank of England shall be—*

64 In fact, only two changes were made to the wording in the Chancellor's letter: the first was that the mandate to "deliver" price stability was changed to "maintain" price stability; the second was to substitute "without prejudice" with the words "subject to that". These are discussed below.

(a) to maintain price stability, and

(b) subject to that, to support the economic policy of His Majesty's Government, including its objectives for growth and employment.

This "clarity of definition of the Bank's responsibilities" is, in the words of former Governor Eddie George, one of the "key characteristics" of the 1998 Act.[65] Yet with many of the key terms deliberately left undefined in the interests of flexibility, the drafting of the statutory objectives inevitably leaves a degree of ambiguity and room for different reasonable interpretations as to their meaning. With this in mind, the following Section examines the key concepts of the Bank's "operational responsibility" for "monetary policy" and further explores the primary objective to maintain "price stability". Section III then turns to consider the secondary objective of supporting the government's economic policy.

"Operational responsibility"

The schematic of the 1998 Act is first to give the Bank operational responsibility for monetary policy before defining the objectives for which the Bank is responsible.

In a narrow legal sense, the Bank's "operational responsibility" for monetary policy is achieved with a single sentence in section 10 of the 1998 Act. This section, entitled "operational responsibility", disapplies the Treasury's general power to direct the Bank, by stating that Treasury directions cannot be used "in relation to monetary policy".[66] This operates, in essence, as a "monetary policy carve-out" from Treasury's general power of direction.

The Treasury's general power to direct the Bank "in the public interest" is set out under section 4 of the Bank of England Act 1946 which, as noted, was the post-war legislation that took the Bank of England into public ownership. Although never used,[67] curtailing this general power of direction was a crucial aspect in granting the Bank independence. Having a wide-ranging and sweeping power on the statute

[65] George, E (2000), '*Central bank independence'*, speech at the SEANZA Governors' Symposium, 26 August 2000.

[66] The power of direction is disapplied in relation to monetary policy *generally* and not by reference to the specific monetary policy objectives.

[67] Former Governor Eddie George remarked that "such directions would necessarily have been made public: none were in fact ever given. In any event the Bank of England was in a formal, statutory, sense throughout this period well along the spectrum towards the subservient polar extreme". George, E (2000), 'Central bank independence', speech at the SEANZA Governors' Symposium, 26 August 2000. In his history of the Bank, Harold James records that: "Section 4 of the 1946 Bank Act was constantly discussed, but never used: indeed, it became the sort of analogy of a Treasury nuclear weapon, a deterrent which was so terrifying that it could never be deployed. The Treasury periodically but inconclusively debated what was really meant by the power to give directions to the central Bank. The Bank meanwhile believed that the Governor would have no choice but to resign were this clause ever to be implemented. Occasionally, the Bank even used an invitation to the Treasury to issue a directive as a weapon in its power struggle with the government", *Making a Modern Central Bank*, Cambridge University Press (2020), 16. For an account of Treasury's powers of executive override over the Bank (and a comparison against the Federal Reserve), see Salib & Skinner (2019), Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, The Georgetown Law Journal, 2019, Vol 108, 912, 927-928 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3589453.

book – that at least in theory provided a threat of political interference in the formulation of monetary policy – was inconsistent with the policy goal of granting the Bank independence over monetary policy.

Moreover, the Government at the time expressed an intention to join the EMU, provided that certain economic criteria were met. EU Treaty requirements specified that the national central banks of countries in what would become the Eurozone needed to be statutorily protected from political instruction.[68] By providing a legal basis for Bank independence in the field of monetary policy, and circumscribing the Treasury's ability to direct the Bank, the UK statute book would appear more consistent with those EU Treaty requirements.

The removal of the Treasury's general power of direction in relation to monetary policy is a key aspect of the legal framework that grants the Bank's "operational responsibility" in the monetary policy sphere. In its place, Treasury retained a much more constrained "reserve power" over monetary policy, accompanied with much greater procedural safeguards over its use (discussed in Section V below).

[68] Reflected today in Article 130 of the Treaty on the Functioning of the European Union: "*When exercising the powers and carrying out the tasks and duties conferred upon them by the Treaties and the Statute of the ESCB and of the ECB, neither the European Central Bank, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body. The Union institutions, bodies, offices or agencies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision-making bodies of the European Central Bank or of the national central banks in the performance of their tasks*."

Box 3: Overview of the UK monetary policy framework

The Bank's monetary policy *objectives* are one aspect of the broader UK monetary policy *framework* which reflects the judgment reached for the setting of monetary policy in the UK constitutional and legal order.

1. **Objectives:** Parliament sets the Bank hierarchical statutory monetary policy objectives – to maintain price stability and, subject to that, to support the Government's economic policy.
2. **Elaboration:** Parliament empowers the Treasury to elaborate on the objectives – in practice through the so-called "remit letters" – on at least an annual basis. It is through the remit letter that the Bank is set the inflation target.
3. **Independence:** The Bank is *goal dependent* as the high-level goal is set by Parliament and elaborated upon by the Treasury; the Bank then has *instrument* (or operational) independence in deploying the instruments of monetary policy to achieve its objectives.
4. **Decision-making:** Decisions to meet the objectives rest not with an individual but with a "one member, one vote" statutory committee, the Monetary Policy Committee, which is made up of internal (5) and external (4) members and meets at least eight times a year.
5. **Accountability:** The MPC is accountable to the Bank's Court of Directors, Treasury and Parliament for how it is meeting the monetary policy objectives. It must explain itself publicly through publication of it meeting minutes and Quarterly Monetary Policy Reports. An "open letter" process operates, whereby the Governor must write to the Chancellor, copying the Chair of the Treasury Committee, where the inflation target has failed to be met by more than one percentage in either direction.
6. **Override:** The Bank's operational independence can exceptionally be overridden by Treasury if it is in the public interest and in extreme economic circumstances. But should Treasury wish to do so, it can only do so transparently and with the approval of Parliament.

"Monetary policy"

The term "monetary policy" is a significant concept in the UK statute book in three main contexts. First, in framing the Bank's mandate: the Bank's objectives in section 11 to maintain price stability and to support the Government's economic policy are defined "in relation to monetary policy".[69] Second, in circumscribing executive control over the Bank: the Treasury is precluded from using its general power of direction over the Bank "in relation to monetary policy".[70] Third, in providing the Bank with a privileged status: providing it is acting in pursuit of "monetary policy", the Bank is excluded from a range of other legal regimes from market abuse to subsidy control.[71]

69 See Sections II and III below.
70 See Section V below.
71 See Section IV below.

This important term, however, is left undefined in UK law. This is not unusual and it is not clear that the term "monetary policy" has been defined on the statute book of any other jurisdiction. For example, the term is used frequently in the EU Treaties without definition. [72]

In the absence of a statutory definition, any legal interpretation of the term monetary policy must ultimately be left to the courts to decide. Although there have been calls for greater legal accountability of central bank decisions, [73] it is fair to say that legal challenges against monetary policy decisions have generally been rare, both historically and internationally speaking.[74]

There are a number of general and particular hurdles that claimants face in seeking to bring a judicial review claim for a monetary policy decision. The first is demonstrating that the claimant has standing. If a person does not have a "sufficient interest"[75] in the matter to which the claim relates, the application for judicial review will be refused. This has certainly been the case in the US, where the rules on standing have meant that challenges against the Federal Open Market Committee have to date failed.[76] Under UK public law, demonstrating that an individual has been "directly and adversely affected by the decision under challenge"[77] is a reasonably high bar and perhaps explains why it is more common for supervisory and regulatory decisions – which typically apply directly to an individual or regulated entity – to be challenged rather than monetary policy actions.[78] Monetary policy decisions, by contrast, have a broad, far-reaching impact by their nature and are not targeted at a specific group. Secondly, an individual who has established standing would then need to demonstrate that there is no other adequate alternative remedy and their claim must fit under one of the grounds for judicial review, all of which are

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72 It also featured in the UK Protocol to the Maastricht Treaty (setting out the various UK opt-outs), which provided that the UK would "retain its powers in the field of monetary policy according to national law", see Protocol (No 25) on certain provisions relating to the United Kingdom of Great Britain and Northern Ireland (1992), annexed to the Treaty establishing the European Community.

73 Lastra and Goodhart, "*Populism and Central Bank Independence*", http://eprints.lse.ac.uk/83164/1/Goodhart%20et%20al._Populism%20and%20Central%20Bank%20Independence.pdf; Towards an Administrative Law of Central Banking.

74 In Dr Gavin Bingham's written evidence to the Treasury Select Committee on "*Accountability of the Bank of England'*, he noted the lack of cases against central banks involving monetary policy decisions, noting a few exceptional examples in Japan, Thailand and Latin America. See "*Written evidence submitted by Dr Gavin Bingham, Secretary General, Central Bank Governance Forum"*, https://publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/874/874we09.htm#note21 (accessed 4 December 2021).

75 "*The Administrative Court Judicial Review Guide 2020"*, July 2020, paragraph 5.3.2.1.

76 In the US this may be explained by the difficulties in establishing standing to bring a claim – see "*Law and Custom on the Federal Open Market Committee*", David T Zaring. Notwithstanding the challenges in establishing justiciability, there has been commentary more recently that recommends correctives, such as regular dialogue between the Fed and Congress on the Fed's contribution to international affairs as a check and balance on the Fed's independence. See "*The Foreign Affairs of the Federal Reserve"*, Peter Conti Brown and David T Zaring. Similarly, the Supreme Court's recent decision to overturn case law that gave deference to government agencies in interpreting laws they administer, could lead to future decisions being more susceptible to challenge. See US Supreme Court curbs federal agency powers, overturning 1984 precedent | Reuters

77 "*The Administrative Court Judicial Review Guide 2020"*, July 2020, paragraph 5.3.2.4.

78 There remains a high threshold to bring a successful judicial review claim against a supervisory or regulatory decision and such decisions typically have statutory rights of appeal to specialist tribunals, which is the more typical mechanism for challenging such decisions. See also Dr Gavin Bingham's written evidence to the Treasury Select Committee on "*Accountability of the Bank of England".* See "*Written evidence submitted by Dr Gavin Bingham, Secretary General, Central Bank Governance Forum"*, https://publications.parliament.uk/pa/cm201012/cmselect/cmtreasy/874/874we09.htm#note21 (accessed 4 December 2021).

focused on the administrative decision-making process rather than the substance of the decision. Third, even if a judicial review challenge overcomes these procedural hurdles, as discussed below, the English courts have tended to show a degree of deference to expert public authorities and decision-making bodies taking decisions in relation to complex economic judgments.[79] It should also be noted the Bank also benefits from a statutory immunity from damages in its capacity as a monetary authority[80] (although this immunity does not apply to any action or inaction taken by the Bank in bad faith and/or in contravention of section 6(1) of the Human Rights Act).

While there may not have been many legal challenges over monetary policy in the UK, the concept of monetary policy has been regularly considered by the Court of Justice of the European Union (***CJEU***) in recent years.[81] Some of those judgments were decided before 31 December 2020 and so have been retained in UK law by virtue of the European Union (Withdrawal) Act 2018.[82] In the 2018 case of *Weiss and Others*, for example, the CJEU noted that the Treaty on the Functioning of the EU "*contains no precise definition of monetary policy but defines both the objectives of monetary policy and the instruments which are available to the ESCB for the purpose of implementing that policy*".[83] The CJEU held that in order to determine whether a measure falls within the area of monetary policy it is appropriate to refer principally to the *objectives* of that measure (and the instruments which the measure employs in order to attain those objectives),[84] thus affording a considerable degree of deference to the economic judgments of the central bank. The judgments of the CJEU were decided in the specific context of EMU and without consideration of the UK's unique position in relation to monetary policy by virtue of the opt-out in the UK Protocol, which disapplied various Treaty provisions in relation to the UK. They accordingly should not necessarily be regarded as determinative of how an English court would or should interpret "monetary policy". Nevertheless, it would be reasonable to assume that an English court would want to

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79 See for instance the Court of Appeal's judgment in *SRM Global Master Fund LP & Others v The Commissioners of Her Majesty's Treasury* [2019] EWCA Civ 788, a judicial review brought by 150,000 Northern Rock against the Treasury's compensation scheme set up in the wake of failed bank's nationalisation, where the Court of Appeal concluded that the margin of appreciation permitted an assumption in calculating compensation that no "lender of last resort" funding had been provided to Northern Rock by the Bank of England; or *Chadwin v Financial Services Compensation Scheme Limited* [2021] EWHC 2523, a judicial review brought by bondholders against the FSCS's decision to refuse to award them compensation for their losses, where the High Court recently endorsed the principle that "the reviewing court must show due deference to the expertise and experience of the expert body designated by Parliament for the purpose of making precisely these sorts of decisions." Although there have been no decisions by the English courts in relation to the Bank's decisions on monetary policy directly, note the recent decisions of the CJEU discussed above, some of which form "retained EU caselaw", which exhibit a similar degree of deference.

80 Section 244 Banking Act 2009. For a discussion of statutory immunity see: Michael Salib, "The Bank of England's Statutory Immunity: its Logic and its Limits, Journal of Business Law, Issue 7, 2018; Donal Nolan, "The Liability of Financial Supervisory Authorities" 4 Journal of European Tort Law 190, 2013.

81 For example see, C-422&223/19 *Dietrich & Anor v Hessischer Rundfunk* (Judgment 26 January 2021); Weiss and Others, C-493/17 (judgment of 11 December 2018); C-370/12 *Pringle* (Judgments of 27 November 2012), C 62/14 Gauweiler and Others (Judgment 16 June 2015).

82 Section 4 of the European Union (Withdrawal) Act 2018.

83 Paragraph 50, citing *Pringle*, C 370/12 (paragraph 53) and *Gauweiler and Others*, C 62/14 (paragraph 42).

84 Paragraph 53, citing *Pringle*, C 370/12 (paragraph 53 and 55) and *Gauweiler and Others,* C 62/14 (paragraph 53).

understand (and scrutinise) the Bank's stated intention[85] and underlying rationale, behind a particular policy measure in assessing whether or not it constituted monetary policy, and that the court would show a degree of deference to the Bank.[86]

During the passage of the 1998 Bank of England Bill through Parliament, there was some concern about leaving the term to be interpreted by the judiciary. The Conservative Opposition argued that "monetary policy" required some sort of definition otherwise the matter may have to be resolved by the courts with potentially unsatisfactory results. There could, it was argued, be a "genuine difference of opinion" between the Chancellor and the MPC over whether a particular course of action constituted monetary policy:

> imagine the incoherence of the situation in which the Chancellor sought to give a direction on a matter which he regarded as not part of monetary policy and the MPC thought that it was acting within its rights… I would not like to see the issue of what was or was not in the remit of the Monetary Policy Committee resolved by a judge, perhaps as the result of some process of judicial review…We could have a frightful mess.[87]

In response, the Economic Secretary to the Treasury (and a former professional economist), responded on behalf of the government that she did "not believe that we can give precise definitions" but clarified that "it is clear in the clause that the MPC's intention is to formulate and implement all major monetary policy decisions. It goes much wider than simply setting interest rates" and used market interventions and credit controls as other possible policy instruments.[88] The overt rationale was that it was important to retain a degree of flexibility and to "ensure that this legislation could respond to changes over time".[89] Given that the term "monetary policy" is ambiguous as to its precise scope, it is therefore conceivable that if a court were called upon to interpret the term, under the rule in *Pepper (Inspector of Taxes) v Hart* [1993] A.C. 593[90] these Ministerial statements in the parliamentary debates on the meaning of monetary policy could have some force.

85 For good illustration of the scrutiny that can attach to the Bank's "intention" of monetary policy measures see the debate that followed the Bank's March 2020 expansion of the QE programme in response to Covid-19 (discussed in Section IV below).

86 While there has not been any detailed analysis by the English courts of what is meant by the term, they have quoted approvingly from EU caselaw which placed emphasis on the discretionary nature of monetary policy, "the subject-matter of which is constantly being adjusted according to variations in the economic situation", see *Infinis Energy Holdings Ltd v Revenue and Customs Commissioners [2016] EWCA Civ 1030; R (on the application of AFP Drax Power Ltd) v HM Treasury [2016] EWHC 228 (Admin)* which refer to Case T-79/13 Accorinti v ECB (2015).

87 Mr Boswell - 25 November 1997 Standing Committee debate.

88 Economic Secretary (Mrs Liddell) - 25 November 1997 Standing Committee debate.

89 Ibid.

90 *Pepper (Inspector of Taxes) v Hart* [1993] A.C. 593, in particular Lord Griffiths at 617: "The object of the court in interpreting legislation is to give effect so far as the language permits to the intention of the legislature. If the language proves to be ambiguous I can see no sound reason not to consult Hansard to see if there is a clear statement of the meaning that the words were intended to carry."

The 1998 Act itself is intentionally silent about the policy instruments that the Bank can deploy to achieve its monetary policy objectives, underlining the flexibility and freedom given to the Bank in this regard. As one senior Bank official observed when describing the "Monetary Policy Toolbox" in the UK, "there are no definitive rules or prescriptions when it comes to monetary policy tools, and no such thing as a manual for monetary policy makers"[91]. The instruments at the Bank's disposal encompass a range of "conventional" (interest rates and FX interventions) and "unconventional" instruments (quantitative easing and forward guidance).[92]

Primary objective: maintain price stability

Maintaining price stability is the Bank's primary monetary policy objective, taking priority over the secondary objective of supporting the government's economic policy. The pre-eminence of price stability mirrors the ECB; unlike the ECB, however, the definition of price stability is set by the government, not the central bank itself.[93] The priority given to price stability differentiates the UK from central banks such as the Federal Reserve and the Reserve Bank of Australia which place employment on an equal pedestal to price stability (see Annex). In practice, however, the differences are fewer than might first appear because of the flexible way the Bank's primary objective has been interpreted and applied in practice.[94] This in-built flexibility is made possible by the drafting of the objectives. But the ambiguity in the drafting has also been a source of criticism: as a House of Lords Select Committee observed shortly after Bank independence, "there is not universal agreement on the main objective itself, the precise way it is expressed, how it is interpreted, and what its effects on the real economy are likely to be."[95]

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[91] "*The Monetary Policy Toolbox in the UK*", Speech given by Dave Ramsden, Deputy Governor for Markets & Banking, 21 October 2020.

[92] As might be expected, only the conventional instruments were expressly envisaged in the Chancellor's original remit letter of 6 May 1997. Interestingly, on FX interventions, while the 6 May 1997 letter stated that "the Government will be responsible for determining the exchange rate regime. The Bank will have its own separate pool of foreign exchange reserves which it may use at its discretion to intervene in support of its monetary policy objective", during the passage through Parliament of the 1998 Act, criticism was expressed at the Bill for not making clear where the responsibility for exchange rate policy lies. During the debates on the 1998 Act (Bank of England Bill, Standing Committee Debate, 25 November 1997) an amendment was proposed to include within the secondary objective to include "a stable and competitive exchange rate over the medium term" but was rejected on the basis that a conflict could arise between the interest rate policy and exchange rate policy.

[93] While the fact that the Bank does not have the power to set its target may mean the Bank has less "freedom of action" than the ECB and the Federal Reserve, at the time of independence it was the clear preference of Bank for the government to set the target, see House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), para 1.48 where it was noted that "the Governor told the Committee, however, that the MPC preferred the Government to set the target than to set it itself". https://publications.parliament.uk/pa/ld199899/ldselect/ldmon/96/9601.htm

[94] The differences have also lessened given changes in practice of dual mandate central banks; when the Federal Reserve adopted a numerical inflation target in 2012, Mervyn King observed that "'*there has been a convergence between the practice of flexible inflation targeting and the practice of dual-mandate central banks…this practical convergence means that there is now little steam behind the question of the relative merits of the two approaches to the target, or mandate, for central banks.", Twenty years of inflation targeting,* The Stamp Memorial Lecture, London School of Economics (9 October 2012), Twenty years of inflation targeting – speech by Mervyn King (bankofengland.co.uk)

[95] House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), para 1.3. https://publications.parliament.uk/pa/ld199899/ldselect/ldmon/96/9601.htm

“Price stability”

The foundational nature of price stability was explained in the Chancellor’s 6 May 1997 letter:

> “Price stability is a precondition for high and stable levels of growth and employment, which in turn will help to create the conditions for price stability on a sustainable basis.”

This reflects the economic theory that there is no long-term trade-off between employment and inflation, and achieving medium-term price stability is critical for anchoring inflation expectations.[96]

Like monetary policy, the concept of price stability is not defined in the 1998 Act itself.[97] However, unlike monetary policy, there is an express mechanism for Treasury to define the meaning of the term. Section 12 of the 1998 Act requires the Treasury to specify, “by notice” and at least once a year, matters relevant to the objectives, in particular what price stability is to be taken to consist of (as well as what the government’s economic policy is taken to be). In practice, these notices take the form of so-called “remit letters” written by the Chancellor to the MPC. The letters must be published and be laid before Parliament. There is no formal requirement for the Bank to be consulted on the remit letters, or for the Chancellor to have regard to the Bank’s views,[98] but in practice there is a degree of coordination before remit letters are finalised. These letters do not have the status of formal statutory instruments made by Ministers. The advantage of this approach is that the letters are not legalistic in their nature and are therefore more accessible in terms of public understanding.

While Parliament does not formally approve the remit letters (as it might for secondary legislation), the Chancellor and Governor are subject to regular scrutiny at Parliamentary Committee which provides a form of oversight over the process.[99] That said, the House of Lords Economic Affairs Committee recently called for enhanced parliamentary scrutiny and public debate on the process,, recommending

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96 Most famously, Kenneth Rogoff argued a “conservative central banker” could achieve better inflation outcomes by focusing on keeping inflation low and stable, without reducing average output or increasing average unemployment, see *The Optimal Degree of Commitment to an Intermediate Monetary Target*, 100 Q. J. ECON. 1169, 1177 (1985). Also see Ben Bernanke, *The Great Moderation*, remarks at the Eastern Economic Association, Washington, DC (20 February 2024), who showed the decline in inflation and output volatility in the US, and argued a large part of that had been from better anchoring of inflation expectations; a similar case was made in relation to the UK by Mervyn King in *The MPC ten years on, to the Society of Business Economists,* (2 May 2007).

97 During the debates on the Bill there was an attempt to define price to include the “prices of houses and land”; the argument being that the legislation should prescribe a proper measure of inflation (rather than the Chancellor’s then preference of relying on the retail price index) but this was rejected. House of Lords debate – 22 January 1998. While price stability is not defined, it is widely considered to have both an *internal* dimension, relative to prices, and an *external* dimension, relative to the exchange rate. See Rosa Lastra “*International Financial and Monetary Law”* (2d ed. 2015) where she notes that “monetary policy can be defined in positive terms or in negative terms. In positive terms, monetary stability refers to the maintenance of the internal value of money (ie, price stability) as well as of the external value of the currency (ie, the stability of the currency vis-a-vis other currencies, which is, in turn, influenced by the choice of exchange rate regime). In negative terms, monetary stability refers broadly to the absence of instability”.

98 This contrasts to the approach in New Zealand, which has a more prescriptive legal framework around the procedure and content of the remit issued to the MPC, see section 10 of the Reserve Bank of New Zealand Act 1989.

99 Explanations and Accountability: Deliberations in UK Select Committees, Cheryl Schonhardt-Bailey, London School of Economics and Political Science, https://www.lse.ac.uk/government/Assets/Documents/pdf/research-groups/pspe/working-papers/TSC-EAC-paper-full-for-Toronto-Oct2015.pdf (9 November 2021).

that the remit letters be published in draft form to allow greater scrutiny, with the final remit letters laid before both Houses of Parliament and accompanied by an oral statement in each House.[100] The government agreed to send a copy of the final remits directly to the chairs of the Lords Economic Affairs Committee and the Treasury Committee (in addition to them being published online and laid before Parliament), but resisted the call to publish draft versions highlighting the frequency with which remits are updated and the "important degree of stability between remit letters year to year", noting that publishing draft letters "could create extended periods of uncertainty".[101]

One possible concern is that a Chancellor might use the remit letters to engage in "subtle backseat driving" (while nominally paying heed to central bank independence)[102] or to define price stability in a way inconsistent with the statutory objectives. In this regard, a House of Lords Select Committee rightly observed that the letters must be a "valid interpretation" of the statutory monetary policy objectives and that "if some other aim were to be designated which would be regarded as downgrading price stability, or imperilling it...an amendment to the Act [would] be required".[103] The Committee went on to say that "while price stability does not have to mean zero inflation, it is impossible to see a high single figure, let alone double digit, inflation as meeting the requirements of the legislation".[104] The Chancellor cannot therefore use the remit letter to set an inflation target that is unreasonably high on account of it being inconsistent with the goal of "price stability"; [105] nor should the remit letter be used to introduce a dual mandate by the backdoor by requiring the MPC to balance price stability against growth and employment, given the primacy accorded to price stability by Parliament.[106] In the words of one former

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[100] 'Making an independent Bank of England work better' (November 2023), HL Paper 10, Making an independent Bank of England work better (menlosecurity.com). Precisely how government "remits" for independent regulators should be subject to parliamentary scrutiny is a frequent area of controversy. For example, as of 2023 the government now issues a "strategy and policy statement" for the Electoral Commission on a five-yearly basis, to which the Commission must have regard when carrying out its functions. To assuage the significant concerns raised that the Commission's independence might be undermined by this reform, it was made subject to (rather convoluted) statutory safeguards: the government must consult relevant parliamentary committees (and the Commission itself) on a *draft* statement; this must be published, along with a report on the government's response to that consultation; the draft statement must then be laid before Parliament where it is subject to a period of representation from parliamentarians before being subject to approval by both Houses, see sections 4A-E of the Political Parties, Elections and Referendums Act 2000.

[101] HM Treasury, 'Letter from Jeremy Hunt MP, chancellor of the exchequer, to Lord Bridges of Headley ref Economic Affairs Committee report', 30 January 2024, pp 7–8.

[102] Former Deputy Governor, Sir Paul Tucker, for example, has noted that "some of my former colleagues were concerned about subtle backseat driving when, in 2013, the remit was amended to push the MPC toward employing "forward guidance" on the future path of interest rates (which, it should be said, the incoming governor [Mark Carney] was committed to)" Paul Tucker, "*Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State"* (Princeton University Press, 2018), 345.

[103] House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), paras 7.4-7.5.

[104] Ibid, para. 2.5.

[105] There have been calls to increase the current 2 per cent target (to 4 per cent) in light of increasing levels of inflation in the UK; this would remain consistent with the concept of price stability. See, for example, Howard Davies, *The Bank of England After Boris*, Project Syndicate (11 August 2022), available at https://www.project-syndicate.org/commentary/raising-bank-of-england-inflation-target-by-howard-davies-2022-08.

[106] Although, as discussed below, the fact that the 1998 Act does not specify a time horizon for achieving price stability means the position is not as hard-edged as might first appear, and in practice there can be a degree of scope for making "trade-offs" between the objectives, at least in the short-term.

Chief Economist of the Bank, "the lexicographic structure…helps to insulate the central bank from pressures to pursue a more accommodative monetary policy in the short run if that conflicts with keeping inflation close to target".[107]

That the 1998 Act only refers to price stability and not an inflation target was a deliberate decision. The broad concept of "price stability" provided flexibility as it allowed not only the use of inflation targets but also an approach based on an exchange rate regime if that became appropriate.[108] Otherwise a tension could have arisen between a statutory inflation target and an exchange rate regime, should the UK have entered a fixed exchange rate regime (such as re-entering the ERM). If the Bank was charged with a price stability objective defined in terms of a specific inflation target, the Bank might judge that the exchange rate regime was inconsistent with the attainment of price stability, so that it could not lawfully give effect to the requirements of the regime.

In practice, price stability has always been defined as an inflation target. The target "applies at all times" which, as noted in the 2024 remit letter, "reflects the primacy of price stability and the inflation target in the UK monetary policy framework" and the government's belief that "low and stable inflation is an essential pre-requisite for economic prosperity".[109] Today this is a target of 2 per cent as measured by the 12-month increase in Consumer Prices Index.[110] The target is "symmetric" essentially meaning that under- or over-shoots of the target are considered undesirable, and deviations of more than 1% in either direction trigger the open letter process (described further below).[111] The remit letters recognise that a breach of this range will not necessarily constitute a failure of monetary policy: if the actual inflation rate

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107 Charles Bean, *Inflation Targeting: The UK Experience*, Speech at the Annual Congress of the German Economic Association, University Zurich-Irchel, Switzerland (1 October 2003).

108 The breadth of the 'price stability' concept would allow for alternative monetary policy frameworks to be adopted. For example, HM Treasury's 2013 Review of the Monetary Policy Framework considered, among others, a nominal GDP targeting. The Review examined the advantages and drawbacks of nominal GDP targeting, concluding that these "come alongside important practical drawbacks and risks" and that "the Government believes that relative to these alternatives, the flexible inflation targeting framework has served the UK economy well" and that the MPC's mandate remained appropriate at the time. There has, however, been a renewed call to consider alternatives to inflation targeting, including re-examining nominal GDP targeting, see for example, Dr Gerard Lyons, *How the Bank of England has failed to control inflation. And what should be done to reform it,* Conservative Home (3 May 2022), available at https://conservativehome.com/2022/05/03/gerry-lyons-how-the-bank-of-england-has-failed-to-control-inflation-and-what-should-be-done-to-reform-it/

109 MPC remit letter, 14 November 2024, Monetary policy remit: Mansion House 2024 - GOV.UK (www.gov.uk).

110 From the inception of the MPC in 1998 until 2003, the target was based on a symmetric inflation target for the 12-month increase in the Retail Prices Index of 2 ½ %. The reasons for the change were explained in an annex to a letter from the Chancellor to the Governor (December 2003) https://www.bankofengland.co.uk/-/media/boe/files/letter/2003/chancellor-letter-annex-101203.pdf.

111 A similar approach has now been taken by the ECB, which following a strategy review (https://www.ecb.europa.eu/home/search/review/html/ecb.strategyreview_monpol_strategy_statement.en.html) concluded that in the Governing Council's view "price stability is best maintained by aiming for two per cent inflation over the medium term. The Governing Council's commitment to this target is symmetric. Symmetry means that the Governing Council considers negative and positive deviations from this target as equally undesirable". This is a shift from the ECB's previous "asymmetrical" target, which was close to but below 2% of the Euro Area Consumer Price index which places greater emphasis on low and stable inflation over wider economic policy aims.

departs from its target as a result of shocks[112] and disturbances, the remit's flexibility can allow the MPC to let inflation deviate from target temporarily in order to avoid undue volatility in the real economy. This is known as a "flexible inflation target regime"[113] and was regarded as a critical feature by the designers of the framework in that it enabled the Bank to take a more gradual approach to achieving the inflation target than it would under a "strict inflation target" regime (favoured by the so-called "inflation nutters"[114]).[115]

If inflation deviates by more than 1% either side of the target then this triggers an open letter from the Governor to the Chancellor, under the so-called "open letter" exchanges,[116] in which the Governor (on behalf of the MPC) must publicly explain to the Chancellor why this is the case, propose a way to bring inflation back to target and how this approach meets the government's monetary policy objectives. While attention tends to focus on the Governor's letter, the Chancellor's reply is equally important; it provides an opportunity for the Chancellor to respond with their own views on the specific circumstances that have resulted in the deviation from target, including the ability to indicate whether the MPC's plan to bring inflation to target "was too rapid, or not rapid enough, if [they] so wished".[117] In that sense, and similar to the remit letter, the open letter process provides a mechanism for slow-motion learning as the regime is applied in practice, as well as a trigger for a public explanation as to why the target has been missed.

While the Bank has operational independence for monetary policy, because the Bank does not determine its price stability goal – price stability is defined by the Treasury – it has *goal dependence*.[118] This contrasts with the Federal Reserve and the ECB where the central banks themselves, not the fiscal authority, are responsible for elaborating upon their price stability goals – so-called *goal independence*. One former member of the MPC has recently recommended that the UK government should consider granting the Bank goal independence (like the Federal Reserve and ECB) to signal the government is

112 For example, say a war causes a fall in oil supply; that could cause global oil prices to rise; that would lead to an increase in production costs in the UK; which in turn could slow the pace of growth and employment as well as lead to inflationary pressures. Loose monetary policy might help with growth and employment but would exacerbate inflationary pressures; tight monetary policy may help reduce inflation but at a cost to growth and employment. There are trade-offs, which are recognised in a flexible inflation targeting regime.

113 The 'flexible inflation target regime' differs from strict inflation targeting, which requires a return to the inflation target as soon as possible and average inflation targeting, which is described below in the context of the Fed.

114 Mervyn King, "*Changes in UK Monetary Policy: Rules and Discretion in Practice*", Journal of Monetary Economics, 39, 81-97.

115 HM Treasury, "*Review of the monetary policy framework"*, Cm 8588, March 2013 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/221567/ukecon_mon_policy_framework.pdf, Chapter 2 (accessed 14 September 2021).

116 This is a non-statutory process; it has been set out in the remit letters since the inception of the MPC.

117 Charles Bean, *Inflation Targeting: The UK Experience*, Speech at the Annual Congress of the German Economic Association, University Zurich-Irchel, Switzerland (1 October 2003).

118 Guy Debelle & Stanley Fischer, 1994. "How independent should a central bank be?," Conference Series, Federal Reserve Bank of Boston, vol. 38, pages 195-225.

"serious about entrenching price stability" and may also find its debt servicing costs are reduced as a consequence.[119]

Time horizon for price stability

The 1998 Act does not require a return to price stability within any particular timescale. The time horizon is therefore a matter that the Treasury has the freedom to define as part of the remit letter. This allows some scope for the Chancellor to give guidance on how to manage short-term trade-offs between inflation and economic activity.

The dilemma that can arise on the time horizon for price stability can be summarised as follows: "if inflation is above target, the MPC can seek to get it back to target quickly, but only if they are willing to incur a sharp recession. Alternatively, they can do it more gradually, so limiting the depth of any recession but inflation will be away from the target for longer".[120] This dilemma crystallised following the 2007-2008 financial crisis, when inflation remained stubbornly high as the UK came out of the recession, yet at the same time there was an imperative to support growth and employment. The 2011 remit (and subsequent remit letters) have therefore placed greater emphasis on achievement of price stability over "the medium term", accepting difficulties in achieving the inflation target over the short term,[121] and underlining the move to flexible inflation targeting.[122]

To address perceptions that the secondary objective might take precedence over the primary objective of price stability, there is an onus on the Bank to explain its judgments publicly. Recent remits emphasise that the MPC should "promote understanding of the trade-offs inherent in setting monetary policy to meet a forward-looking inflation target while giving due consideration to output volatility", and that the MPC should set out in its communications the trade-off that has been made with regard to inflation and output variability when determining the scale and duration of any expected deviation of inflation from the target analysis, as well as explain the Bank's judgment that inflation is transitory and demonstrate the plan for inflation to return to target.[123]

It is worth noting that during the passage of the Bank of England Bill there was an attempt to hardwire the time horizon for price stability on the face of the legislation but this was rejected.[124] This is consistent

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119 Sushil Wadwani, *How to cut the UK debt interest bill*, CEPR (22 July 2024).

120 Evidence by (then) Professor Charlie Bean, House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), para 3.5.

121 Remit for the Monetary Policy Committee, 23 March 2011 https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/221569/open_letter_from_chx_to_boe_22032011.pdf (accessed 14 September 2021).

122 Letter from the Chancellor to the Chairman of the House of Lords' Economic Affairs Committee responding to the Committee's inquiry unto the independence of the Bank of England, 30 January 2024. committees.parliament.uk/publications/43234/documents/215125/default/

123 MPC remit letter, 14 November 2024, Monetary policy remit: Mansion House 2024 - GOV.UK (www.gov.uk)

124 The amendment was to include within the primary objective "and a stable and competitive exchange rate *over the medium term*". The amendment was ultimately rejected, largely due to the confusion that could be caused by adding in

with the international picture where it is rare for the time horizon for price stability to be prescribed in central banks' mandates; a notable exception is the Reserve Bank of New Zealand (RBNZ), where the Reserve Bank Act was recently amended to require the central bank to achieve price stability "over the medium term".[125] An accompanying "charter", which is signed by the Finance Minister and Governor, has since been updated to require the RBNZ MPC to spell out a specific time frame for when inflation would be returned to the target band (and specifically the midpoint of the band), and the reasons for that timeframe.[126]

"Maintain"

Under the 1998 Act, the MPC must "maintain" price stability. This was a change from the Chancellor's 6 May 1997 letter which originally proposed that the MPC would be required to "deliver" price stability. "Deliver" perhaps imparted a sense of attaining or getting, whereas "maintain" places more emphasis on continuing or keeping in existence. The change may be said to better reflect Parliament's intention that the Bank should aim for price stability continuing over a period rather than at a point in time. The use of the word "maintain" also mirrors the wording of the Maastricht Treaty which, as noted above, largely provided the inspiration for the Bank's monetary policy objectives. There was some discussion around the meaning of the word during the debates on the Bill in the House of Lords; in particular it was questioned why the objective was not to "achieve" price stability, noting that one has to achieve price stability first before then maintaining it.[127] The issue could have been simply addressed by requiring that the Bank "to "achieve and maintain" price stability", which is the approach now adopted in relation to the mandate for the Reserve Bank of New Zealand or to "pursue" price stability, which is the approach in the US.[128]

Section III: The secondary objective: supporting the government's economic policy

Subject to its primary objective of price stability, the Bank's secondary monetary policy objective is "to support the economic policy of His Majesty's Government including its objectives for growth and employment". The Treasury is required to specify for the Bank, on an annual basis, what the government's economic policy should be taken to be.[129] This Section examines the secondary objective in more detail, drawing out its subordinate relationship with the primary objective and its adaptability to changes in government economic policy, notably climate change.

reference to the exchange rate, rather than because of any arguments against specifying a time horizon, see Bank of England Bill, Standing Committee Debate, 25 November 1997.

125 See Annex for an international comparison.

126 Monetary Policy Committee Charter of the Reserve Bank of New Zealand, 20 December 2023, available here.

127 Official Report of The Grand Committee on The Bank of England Bill. Volume 568: debated on 3 March 1998. Lord Peston.

128 See Annex.

129 Section 12 of the 1998 Act.

"Subject to that"

It is the words "subject to that" that set the hierarchy between the Bank's two monetary objectives, and which make price stability pre-eminent over supporting the government's economic policy. Although stylised examples have their limits, this essentially means that if the Bank has a choice between two monetary policy measures, the Bank should select the measure that is more effective in maintaining price stability. But if the Bank has a choice between two measures which are equally effective in maintaining price stability, the Bank should select the measure that better supports the government's economic policy.

The original formulation of the monetary policy objectives in the 6 May 1997 letter indicated that supporting government economic policy would be "without prejudice" to the price stability objective. As noted, the "without prejudice" wording was taken from the objectives of ESCB in the Maastricht Treaty. It is not clear what lay behind the change from "without prejudice" to "subject to". This change was questioned during the Parliamentary debates, but without full clarification.[130] "Subject to" is perhaps more in keeping with wording used in the UK statute book. In any case, both are slightly ambiguous: the Office of Parliamentary Counsel includes both phrases – "without prejudice" and "subject to" – in a list of "potentially vague words" whose meaning is not precise.[131]

Perhaps the most convincing reason for the change was that "subject to" added greater emphasis that the Bank's secondary objective in relation to growth and employment was *subordinate* to the primary goal of price stability. Indeed, that was how the amendment was read by MPs during the Parliamentary debates,[132] which prompted one to argue that the "the Government should not make employment subsidiary to the control of inflation, which appears to be the god on all occasions."[133] Alistair Darling, then Chief Secretary to the Treasury, explained the rationale for the government's approach, namely that "low inflation is an essential precondition to achieving the Government's objectives of high and sustainable levels of economic growth and employment" and that "it is not possible to have high and sustainable levels of growth, together with the levels of employment that we all want, without ensuring price stability in the first place".[134] Moreover, Darling explained that he saw the secondary objective as relevant to determining the speed with which inflation should be returned to target:

130 Mr Gibb – Bank of England Bill Standing Committee Debate 22 January 1998, Volume 304, Column 1206, see https://hansard.parliament.uk/Commons/1998-01-22/debates/33d6c3d8-458d-4347-a078-84caf3d1c299/BankOfEnglandBill.

131 Drafting Guidance, Office of the Parliamentary Counsel (4 April 2024), see 2024-03-19 Drafting guidance - GOV.UK

132 "It is interesting how the phrase "subject to" has crept into the drafting of the Bill, whereas in letters from the Chancellor to the Governor of the Bank of England and to the Chairman of the Treasury Select Committee, the phrase has always been "without prejudice to". I do not want to go into semantics to see how distinct is the difference between those two phrases, but "subject to" subjugates the pursuit of the Government's other economic objectives to the overriding objective of maintaining price stability". Mr Gibb – Bank of England Bill Standing Committee Debate 22 January 1998, Volume 304, Column 1206, see https://hansard.parliament.uk/Commons/1998-01-22/debates/33d6c3d8-458d-4347-a078-84caf3d1c299/BankOfEnglandBill.

133 Mr. Dafydd Wigley (Caernarfon), 11 November 1997: Column 711.

134 Bank of England Bill House of Commons Debate, 11 November 1997, Volume 300. Column 711-809.

> A plain reading of clause 11 makes it abundantly clear that the Bank, in achieving the Government's inflation target of 2.5 per cent., must have regard to the Government's other objectives—growth and employment. That means, among other things, that if there were some violent shock to the economic system, the Monetary Policy Committee would have to take account of the Government's policy on growth and employment to decide the time frame in which it would reach the inflation target of 2.5 per cent.[135]

However, the meaning of section 11 was not "abundantly clear" to everyone. A year after the Act was passed, a House of Lords Select Committee continued to question "why was *subject to that* written into the Act" and requested a definitive statement from the Chancellor as to the meaning of the expression:

> We remained puzzled by the meaning of section 11 read in association with the Chancellor's letter. Being aware of the experience of other monetary authorities it might be thought that the Act could have been better worded. The wording is certainly different from that of the remit of the Federal Reserve. This means that those who interpret the two as much the same must be mistaken. […] The way the Act is written implies there can be no balancing of the price target against a real target even in the short term. But if we concentrate on the wording of the Act, which as legislators we must do, the expression "subject to that" in section 11 must have a meaning. We would welcome a definitive statement from the Chancellor on what precisely that meaning is.[136]

No such definitive statement was issued by the Chancellor. As a matter of legal interpretation, the main area of ambiguity is the extent to which the Bank can pursue its secondary objective to support government economic policy *outside* the pursuit of price stability. It would seem that there are two ways of reading the provision. The narrower interpretation is that the Bank, as it seeks to maintain price stability, should have regard to the government's economic policies and should act where possible in a way which supports those policies. The secondary objective would be essentially ancillary on the primary. The government's economic policies would not provide an independent basis for action; rather, they would merely be a ground for influencing or changing the nature of measures which the Bank could take in seeking to maintain price stability. This would appear to be how Darling spoke of the provision in the quotation above. However, this would seem to downgrade the status of the secondary objective; if it had been intended as a mere "have regard" the provision would have been framed in that way.

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135 Bank of England Bill Standing Committee Debate 22 January 1998, Volume 304, Column 1211, see https://hansard.parliament.uk/Commons/1998-01-22/debates/33d6c3d8-458d-4347-a078-84caf3d1c299/BankOfEnglandBill.

136 House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), Chapter 7: Final Interpretations and Conclusions, paragraph 7.7.

Similarly, if the intention was that the secondary objective was only to be engaged in the course of pursuing the primary objective that could have been made clear.[137]

The broader interpretation on balance would seem the better view. This is that the Bank, in conducting monetary policy, should – within important limits – consider acting to support the government's economic policies even in circumstances where it would have concluded that such exercise was not warranted on price stability grounds alone. In that sense, the secondary objective can be said to have independent standing or, more colloquially, "a life of its own" – albeit constrained by certain limits. First, the support must concern matters of *economic* policy – as opposed to issues exclusively concerned with other areas of government policy (e.g. foreign policy). Second, any measures adopted by the Bank to support government economic policy must still be said to be "in relation to monetary policy" (the words which preface the objectives); and so, in practice, limited to the instruments the Bank has at its disposal to pursue monetary policy. Finally, and most importantly, supporting the government's economic policies must not risk compromising or conflicting with the pursuit of the primary objective of price stability; and in the face of a conflict the former must give way to the latter.

Given the similarity with the ECB's objectives, it is notable that the ECB Legal Service recently considered this issue (in the context of the ECB's 2021 monetary strategy review) and publicly-stated its view that the broader interpretation seems the more plausible, noting that, "the ECB could rely on the secondary objective as an alternative basis for a monetary policy measure, provided this is without prejudice to price stability".[138] And domestically, the Treasury's remit letter for the MPC's sister committee, the Financial Policy Committee (***FPC***), with its similarly-framed objectives,[139] expressly recognised for the first time in 2020 that the FPC could pursue its secondary objective of supporting the government's economic policy "independently" where doing so does not conflict with its primary financial stability objective, and that the FPC should "routinely assess" whether it can take actions to support the government's economic objectives in a way that would not conflict with the FPC's primary objective.[140] The FPC retains considerable discretion to judge for itself as to precisely how and when it should

[137] For example, the PRA's secondary competition objective is only engaged "when discharging its general functions in a way that advances" its general objectives of safety and soundness and insurance policyholder protection. Section s2H(1) of the Financial Services and Markets Act 2000. For further discussion on the PRA's secondary objective see: Evaluating the PRA's approach to its Secondary Competition Objective, Bank of England Independent Evaluation Office (March 2016), https://www.bankofengland.co.uk/-/media/boe/files/independent-evaluation-office/2016/evaluating-the-pras-approach-to-its-secondary.pdf.

[138] *The Mandate of the ECB: Legal Considerations in the ECB's Monetary Policy Strategy Review,* Ioannidis, Michael, Sarah Jane Hlásková Murphy, and Chiara Zilioli (2021), ECB Occasional Paper Series, available at https://www.ecb.europa.eu/pub/pdf/scpops/ecb.

[139] To contribute to the Bank's statutory objective to protect UK financial stability and, subject to that, to support the Government's economic policy, see 9C of the 1998 Act.

[140] Remit and recommendations for the Financial Policy Committee, see https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/965778/FPC_Remit_and_Recommendations_Letter_2021.pdf (accessed 23 January 2021)

exercise its functions to support the government's economic policies, although is expected to be transparent on the judgements reached.[141]

Whether the Bank should move to a "dual mandate" – and whether the words "subject to that" should be deleted – has been a recurring issue since Bank independence. In a 2006 Treasury Committee report it was noted that "there have been calls to remove the hierarchy and amend the objectives so that equal emphasis is placed on price stability and maximising employment."[142] Then-Chancellor Gordon Brown, when questioned by the Committee as to why he was "so adamant against the dual mandate", robustly defended the hierarchy of the Bank's monetary policy objectives. His argument was that the Federal Reserve's "dual mandate" was written many decades ago, and was "a creature of [its] times". In contrast, he argued that the Bank's monetary objectives were set against a previous backdrop of high levels of inflation, and that the UK framework had achieved, as well as low inflation, low levels of unemployment. He also pointed to modern economic theory which suggested that there was no long-term trade-off between employment and inflation, and that therefore a dual mandate was not a worthwhile objective. The Committee was ultimately persuaded of the argument but noted that they would "continue to monitor the Monetary Policy Committee's compliance with the secondary objective of meeting the Government's intention of high and stable levels of growth and employment."[143]

Although Gordon Brown defended the hierarchy of the objectives at the time, it is clear from his memoirs that a "dual mandate" for the Bank was in fact his preferred approach back in 1997, but he was counselled against it by Treasury lawyers:

> I wanted the Bank to have a dual mandate to keep inflation low and employment high – one that was similar to that of the American Federal Reserve. But the lawyers advised that it was too difficult legally to have two primary objectives.[144]

Brown re-surfaced the case for a dual mandate in 2020; in the midst of the economic fall-out from the Covid-19 pandemic, and at a time where it appeared there would be a significant increase in the unemployment rate, Brown said: [145]

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141 As of writing, the MPC's remit does not currently contain similar wording. The FPC remit for 2021 is available here, https://www.bankofengland.co.uk/-/media/boe/files/letter/2021/march/fpc-remit-and-recommendations-letter-2021.pdf?la=en&hash=3C5B23BE764387498155F61CAF255417E665CCE8.

142 The Monetary Policy Committee of the Bank of England: ten years on; HC 299-I (18 September 2007), https://publications.parliament.uk/pa/cm200607/cmselect/cmtreasy/299/299.pdf.

143 Ibid.

144 "*My Life, Our Times*", Gordon Brown (Penguin Random House, 2017), 121. One potential concern, as noted by Rosa Lastra in "*International Financial and Monetary Law"* 2.173 (2d ed. 2015) relates to accountability. As noted by Lastra performance accountability is facilitated with a single goal, which is narrowly defined. She recommends that if there are multiple goals, there should be a clear and unambiguous ranking rather than no ranking at all.

145 The Guardian, "*Make jobs higher priority, Gordon Brown tells Bank of England"*, 10 September 2020, https://www.theguardian.com/business/2020/sep/10/make-jobs-higher-priority-gordon-brown-tells-bank-of-england (accessed 14 September 2021).

> Having been the chancellor responsible for the Bank of England Act 22 years ago, I am disappointed that while obligations for employment are included in its statutory objectives, the Bank of England does not place greater emphasis on maximising employment.
>
> The Bank should announce an operational target, that interest rates will not rise or stimulus end until employment returns to its pre-crisis levels.[146] And we should agree a new constitution for the Bank imposing a dual mandate: to take unemployment as seriously as inflation.

In practice, much of the heat can be taken out of the "dual mandate" debate for two reasons. The first is that the inflation target has always been symmetrical and sits at 2%. This essentially means that anti-inflationary aggression (e.g. with the aim of bringing inflation *below* target) must be tempered by a concern for growth and employment.[147] The second is that, as discussed above, the remit letters can be used to clarify the time horizon for achieving price stability, thus allowing a temporary deviation from the inflation target if it would result in undesirable volatility in output.

"…to support the economic policy of His Majesty's Government including its objectives for growth and employment"

Reflecting its nature as a secondary objective, the obligation on the Bank is to "support" the government's economic policy. There are two conditions to the Bank taking action pursuant to this objective. First, doing so must not conflict with maintaining price stability. Second, the government is the lead actor in pursuing its own economic policies; the Bank is cast in a supporting role in being required to provide assistance or backing[148] for those policies (subject to the first condition).[149]

During the Parliamentary debates on the Bank of England Bill, the Conservative Opposition proposed the word "pursue" instead of "support", recognising that the latter was less demanding upon the Bank than the former. This was rejected by the Government on the grounds that only the government could "pursue" their economic policies: the Bank and other agencies could only "support" them.[150] There was also a separate fear from the Opposition that an obligation to "support" the government's economic

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146 This to some degree echoes the Bank's approach in respect of its forward guidance policy in 2013, discussed further below.

147 "I would emphasise…that it is a symmetrical inflation target and therefore we want that target to be achieved. It is not 2.5 per cent or less, it is not simply low inflation, it is 2.5 per cent. That is why the second part says subject to achieving the inflation target to pursue the Government's objectives of growth and employment. In other words, to under-achieve…on the target [and to] have lower inflation would not necessarily be pursuing the Government's objectives for growth and employment" House of Lords Select Committee on Monetary Policy Committee of the Bank of England Report (27 July 1999), para 3.33. Also see My Life, Our Times, Gordon Brown (Penguin Random House, 2017), 121.

148 The Oxford English Dictionary defines support as "the action or an act of helping a person or thing to hold firm or not to give way; provision of assistance or backing".

149 The ECB Legal Service has adopted a similar view on the limits to ECB action in pursuing its secondary objective, noting the ECB should "not engage in autonomous policymaking in the field of economic policy", *The Mandate of the ECB: Legal Considerations in the ECB's Monetary Policy Strategy Review,* Ioannidis, Michael, Sarah Jane Hlásková Murphy, and Chiara Zilioli (2021), ECB Occasional Paper Series, available at https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op276~3c53a6755d.en.pdf?1c01b997e11da2c1945d9551bc9a5477.

150 Bank of England Bill, Standing Committee Debate on 25 November 1997.

policy would keep the Bank as an "appendage"[151] for the government, and constrain the Governor from making speeches critical of government economic policy if he was under a statutory duty to support that policy. However, the Minister confirmed that there was "no intention to prevent the Governor of the Bank of England speaking out on economic policy"; moreover, the fact that the clause is prefaced by "in relation to monetary policy" means that the feared constraint is not there as a matter of legal interpretation (and has not materialised in practice).[152]

As noted, the Bank's secondary objective bears a strong resemblance to that of the ECB. There are, however, two notable differences. First, the ECB is mandated by the TFEU to support the general economic policies in the EU with a view to contributing to the achievement of a much wider range of objectives of the Union including: 'balanced and sustainable development of economic activities'; 'a high level of employment and of social protection'; 'equality between men and women'; and, of more relevance in recent years given the attention on the climate crisis, 'a high level of protection and improvement of the quality of the environment'.[153] In contrast, the Bank's secondary objective in the 1998 Act highlights specifically the economic objectives of growth and employment. Second, there is no formal mechanism for the EU democratic political institutions, in particular the Council and European Parliament, to specify and prioritise which of these wide-ranging policies which the ECB might be expected to support. In contrast, and as noted, the 1998 Act put in place the framework for the remit letter process whereby the Treasury is able to elaborate upon the objectives, including on what the government's economic policy should be taken to be.[154] Some commentators have expressly called for the EU to draw upon the UK approach in this respect, arguing:

> …to add legitimacy for the ECB acting on its secondary objectives, a formal procedure involving the Council and the European Parliament should be developed in order to specify the policy areas where the ECB would be expected to deliver. In many ways, such a process would resemble the Bank of England's accountability framework, which allows the Chancellor of the Exchequer to specify at least once a year the "remit" of the central bank.[155]

Unlike price stability, the Treasury has not specified numerical targets for the Bank in relation to growth and employment, with the secondary objective framed in more generic and qualitative terms. This is

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151 Mr Heathcoat-Amory, House of Commons Debate on 11 November 1997 , https://hansard.parliament.uk/commons/1997-11-11/debates/bdc9710d-dc23-4a41-8abe-a8073a209921/BankOfEnglandBill.

152 The most notable intervention of a Governor in this regard in recent years came in June 2009 when Governor Mervyn King observed "the scale of the deficit is truly extraordinary" and reflected the fact "that we came into this crisis with fiscal policy itself on a path that wasn't itself sustainable", https://www.reuters.com/article/uk-britain-bank-highlights-sb-idUKTRE55N2ZU20090624.

153 Article 3 of the TEU, to which Article 127(1) of the TFEU refers.

154 Section 12 of the 1998 Act.

155 *The ECB's neglected secondary mandate: an inter-institutional solution* (October 25, 2021), Nik de Boer, Nik and Jens van 't Klooster, Positive Money Europe Report; *The ECB needs more political guidance on secondary objectives,* Euractiv (22 April 2021), co signed by Stanislas Jourdan, Grégory Claeys, Pervenche Berès, Nik de Boer, Panicos Demetriades, Sebastian Diessner, Jens van 't Klooster, Vivien Schmidt.

not unique: the most famous of the "dual mandate" central banks, the Federal Reserve, set itself an average inflation target of two-percent (itself a milestone)[156] but determined "it would not be appropriate to specify a fixed goal for employment" on the basis that the maximum level of employment is not directly measurable and changes over time due to largely structural factors[157] (such as the level of skills in an economy; the tax regime; employment regulation and the regulatory environment). One consequence of this is that it is inevitably more difficult to hold central banks accountable for their performance in relation to supporting employment than it is with respect to their inflation targets for price stability, and can also lead to criticism that the employment aspect of the objective is neglected.[158]

There are two notable examples of how the Bank has sought to support the government's economic policies through monetary policy: first, the 2013 policy of forward guidance; and second, the 2021 "green mandate" for the Bank to support the transition to a net zero economy. These are considered in turn below.

Forward guidance

To support growth and employment in years following the financial crisis, in August 2013, the MPC first adopted forward guidance.[159] This was a broad commitment – although the word "commitment" is too strong – to keep interest rates low for at least until unemployment fell below a particular rate. In particular, the MPC stated an intention not to raise Bank Rate (from its then level of 0.5%) at least until the headline measure of the unemployment rate had fallen to a "threshold" of 7%. This guidance was subject to certain "knockouts" that, if breached, would mean that the guidance would no longer apply. First there were "price stability" knockouts, designed to ensure that the MPC's guidance did "not entail material risks to its overriding objective of price stability". These knockouts comprised: (i) if, in the MPC's view, it was more likely than not that Consumer Price Index inflation 18 to 24 months ahead will be at least 0.5% above the 2% target; and (ii) if medium-term inflation expectations no longer remain well-anchored. There was also a "financial stability" knockout, whereby the guidance would no longer apply

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156 It was only in 2012 that the Federal Reserve set an inflation target of two-percent, the first time in its history. In August 2020, that target was altered so as to adopt "average inflation targeting". The Fed now "seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time". The Fed has not defined the time horizon over which it will seek to bring average inflation to two percent. By contrast, the previous annual two-percent inflation target did not allow for "catch-up" inflation or deflation if the target had been missed in a previous year; the Fed let inflation "bygones be bygones" and past deviations from target did not affect its future-looking target. https://www.federalreserve.gov/monetarypolicy/files/fomc_longerrungoals.pdf. Risks of the average inflation targeting approach are that it complicates the accountability in meeting inflation targets; and that it can feed expectations that inflations will be allowed to rise materially without monetary response.

157 Statement on Longer-Run Goals and Monetary Policy Strategy, 26 January 2021, https://www.federalreserve.gov/monetarypolicy/files/fomc_longerrungoals.pdf (accessed 14 September 2021).

158 The Guardian, "*Make jobs higher priority, Gordon Brown tells Bank of England*", 10 September 2020, https://www.theguardian.com/business/2020/sep/10/make-jobs-higher-priority-gordon-brown-tells-bank-of-england (accessed 14 September 2021). The ECB has been similarly criticised for "neglecting" its secondary mandate entirely (not solely in relation to employment), see *The ECB's neglected secondary mandate: an inter-institutional solution* (October 25, 2021), Nik de Boer, Nik and Jens van 't Klooster, Positive Money Europe Report.

159 Monetary policy trade-offs and forward guidance, August 2013, Bank of England, https://www.bankofengland.co.uk/-/media/boe/files/inflation-report/2013/monetary-policy-trade-offs-and-forward-guidance.pdf (accessed 14 September 2021).

if the FPC judged that the stance of monetary policy posed a significant threat to financial stability that could not be contained by the mitigating actions of the FPC, the FCA and the PRA.

The policy was expressed carefully to mitigate any risk that forward guidance might be seen as fettering the MPC's discretion in formulating monetary policy. The Bank made it clear that its policy was not only subject to the "knockouts", but that forward guidance was just that: guidance. It did not bind the MPC. This was a message re-iterated throughout the life-span of the policy, including Governor Carney's frequent remarks that the policy was "an expectation – not a promise".

Climate change & "Green QE"

One of the most significant and high-profile developments in relation to the secondary objective came in March 2021,[160] when then-Chancellor Rishi Sunak expanded the MPC's remit to clarify that the government's economic strategy is for growth that is "also environmentally sustainable and consistent with the transition to a net zero economy". This made the Bank the first central bank in the world to have the transition to a net zero economy expressly incorporated into its mandate, and has been an aspect of government economic policy that has been reiterated in subsequent remit letters (notwithstanding the change from Conservative to Labour administrations in 2024).[161]

In practical terms, the Bank responded by adjusting the composition of the Corporate Bond Purchase Scheme (***CBPS***)[162] to account for the climate impact of the issuers of the bonds and to incentivise transition to net zero. The Bank and HMT have been clear that "greening cannot impede the ability of the MPC to achieve its primary inflation target"[163] and that "[CBPS] is a monetary policy tool, and so its size is determined by the [MPC] as part of its monetary policy decision making in order to achieve its inflation target".[164] HMT has also confirmed in the MPC remit letter that "price and financial stability are essential pre-requisites" to achieve the government's economic objectives.[165]

The expansion of central banks into climate change policy has been controversial across jurisdictions. The objections are partly legal in nature: that formal legislative amendment is required to update the constitutions of central banks[166] (notwithstanding the fact that such amendments may be politically

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[160] MPC remit letter, 3 March 2021, https://www.bankofengland.co.uk/-/media/boe/files/letter/2021/march/2021-mpc-remit-letter.pdf (accessed 14 September 2021).

[161] MPC remit letter, 22 November 2024, Letter from Chancellor to Governor - MPC remit (bankofengland.co.uk) Monetary policy remit: Mansion House 2024 - GOV.UK (www.gov.uk).

[162] https://www.bankofengland.co.uk/news/2021/november/boe-publishes-its-approach-to-greening-the-corporate-bond-purchase-scheme.

[163] Bank of England, *Greening our Corporate Bond Purchase Scheme (CBPS)*, 5 November 2021, https://www.bankofengland.co.uk/markets/greening-the-corporate-bond-purchase-scheme.

[164] Ibid.

[165] MPC remit letter, 14 November 2024, mpc-letter-remit-2024.pdf .

[166] For example, in relation to the Federal Reserve it has been argued that the Fed "currently lacks legal authority to engage its monetary policy tools in pursuit of 'offensive' programs like "green quantitative" easing". And, drawing a contrast with the Bank of England's secondary objectives, "the Federal Reserve Act does not include such secondary objectives. In the absence of such instruction to "have regard" to the government's social or economic policy, it seems impossibly strained to

challenging to achieve). They are also practical: that over-loading central banks with too many (potentially conflicting) objectives risks distracting them from their traditional focus on price stability.[167] But most fundamentally, they are democratic: that because of the inherently political nature of the issues, the agenda and programme for responding to climate change should be unequivocally set by elected politicians (within Parliaments that, in addition to their democratic legitimacy, are institutionally better-suited to gather evidence from across society and evaluate the wide-ranging competing interests) rather than unelected technocratic officials (housed in technical institutions which may have had a more traditional myopic focus, and which may be perceived as less accountable to the public at large for their decisions). This risk of politicising the Bank of England, through an expansion of its mandate, was noted by several witnesses to the House of Lords Economic Affairs Committee on QE[168] and has been echoed since by Lord Skidelsy who has argued that greening mandates leads to central banks making political decisions, which governments should be held accountable for.[169] In addition to political scrutiny, central banks are increasingly being held accountable for government climate commitments, and have found themselves the targets of climate change litigation, which highlights a risk of central bank mandates coming under intense legal (and political) scrutiny in such litigation.[170]

The 1998 Act empowers the Chancellor, through the remit letters, to explain the government's economic objectives to the MPC, so that the Bank is able to support them. This brings a degree of democratic legitimacy for expanding the Bank's mandate to cover the pressing issue of climate change, without having to seek legislative approval to amend the Bank's statutory objectives. At the same time, the flexibility of the remit letter process has undoubted shortcomings. It leaves key design framework questions unanswered, most notably, who will decide what corporate bond purchases are acceptable or not. Indeed, as one senior Bank official has put it: "'achieve net zero' does not tell our staff which

interpret section 14 of the Federal Reserve Act to allow green asset purchases in the open market." Christina Skinner, Central Banks and Climate Change, Vanderbilt Law Review, Volume. 75.

167 In evidence to the House of Lords Economic Affairs Committee, Otmar Issing, former Chief Economist of the ECB noted, "Too many targets make it almost impossible to focus monetary policy on maintaining price stability", HL Paper 42 (21 July 2021), para. 96.

168 See the House of Lords Economic Affairs Committee, Quantitative Easing: a Dangerous Addiction? HL Paper 42 (6 July 2021), para 94, which refers to Christina Skinner's concerns that that the green mandate "puts the central bank in the position of choosing and making value judgments about green winners and losers."

169 See https://www.project-syndicate.org/commentary/problems-with-bank-of-england-green-mandate-by-robert-skidelsky-2021-07

170 In 2021, for example, ClientEarth, an environmental organisation, filed a claim against the National Bank of Belgium (***NBB***) challenging the NBB's administration of the ECB's asset purchase programme, under which over half of bond purchases are from high emitting companies. ClientEarth's letter to the President of the ECB, Christine Lagarde, argued that: The ECB is both empowered and legally required to take action to mitigate climate-related risks and reduce the impact on climate change associated with its corporate asset purchase programmes, within the scope of its existing mandate and its wider obligation as one of the EU institutions", see Letter from ClientEarth to Christine Lagarde, 12 April 2021, https://www.clientearth.org/media/jtxnhiba/2021-04-12-letter-from-clientearth-to-christine-lagarde.pdf (accessed 14 September 2021)

bonds to trade".[171] Such issues have been left to the Bank to work through.[172] The House of Lords Economic Affairs Committee has recommended that the Chancellor write to the Bank to clarify its intentions in relation to the updated green mandate on account that:

> Any changes to the Bank of England's mandate must be considered carefully. HM Treasury has updated the mandate to reflect environmental sustainability and the transition to net zero. These are important issues, but HM Treasury's instruction is ambiguous and its interpretation has been left to the discretion of the Bank of England. Without some clarification from the Government, the Bank risks being forced into the political arena, exposing it to criticism unnecessarily.[173]

The Treasury, however, has declined to go further than the remit on account of the independence of the Bank, with the Chancellor noting that "The Treasury gave no guidance or instruction to the Bank of England on how it should implement the update to the mandate, as it is for the independent MPC to judge how it can support the Government's green and other economic objectives whilst achieving its primary objective of price stability."[174] This was echoed in the Government's response to the House of Lords Economic Affairs Committee Report, where the Chancellor noted that "the MPC's primary objective of maintaining price stability is unchanged. It is for the MPC to judge how it can support the Government's green and other economic objectives while achieving its primary objective of price stability."[175]

Section IV: Interaction between the monetary policy objectives and other legal frameworks

Providing the Bank is acting in pursuit of "monetary policy"[176] Parliament has bestowed certain statutory protections on the Bank under the law in order to preserve the Bank's policy independence and freedom to act in the public interest.[177] In particular, in carrying out its monetary policy objectives the Bank is carved-out from several important legal frameworks including: the Market Abuse regime,[178] the Freedom

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171 Andrew Hauser, *It's not easy being green – but that shouldn't stop us: how central banks can use their monetary policy portfolio to support orderly transition to net zero* (21 May 2021).

172 Which the Bank is publicly consulting on, see Bank of England Discussion Paper, *Options for greening the Bank of England's Corporate Bond Purchase Scheme,* May 2021, https://www.bankofengland.co.uk/-/media/boe/files/paper/2021/options-for-greening-the-bank-of-englands-corporate-bond-purchase-scheme-discussion-paper.pdf?la=en&hash=9BEA669AD3EC4B12D000B30078E4BE8ABD2CC5C1.

173 HL Paper 42 (21 July 2021), para. 101.

174 Letter from the Chancellor to the House of Lords Economic Affairs Committee dated 9 June 2021, available here https://committees.parliament.uk/publications/6260/documents/69153/default/ (accessed 14 September 2021).

175 Letter from the Chancellor to the House of Lords Economic Affairs Committee dated 16 September 2021, available here https://committees.parliament.uk/publications/7360/documents/76987/default/ (accessed 11 November 2021).

176 Which, as noted above, is not defined in statute.

177 In addition to the examples above, while the Bank is subject to examinations by the National Audit Office (in a similar way to other public authorities) the Comptroller and Auditor General cannot examine the "merits of the Bank's policy objectives" or the "merits of policy decisions" taken by the Bank's statutory policy committees, see section 7D of the Bank of England Act 1998.

178 The market abuse regime does "not apply to transactions, orders or behaviour, in pursuit of monetary…policy by…the Bank of England [or] a subsidiary or special purpose vehicle of the Bank of England" (Article 6 of the UK Market Abuse Regulation).

of Information Act,[179] liability from damages,[180] domestic subsidy control[181] and trade obligations under international law.[182] Of particular relevance, this section considers the interaction between the monetary policy objectives and two particular legal frameworks: (1) the legal prohibition on the Bank from engaging in monetary financing, and (2) the Bank's statutory financial stability objective.

Interaction with monetary financing

A key tenet of central bank independence is that central banks should not be pressured by the executive branch to engage in "monetary financing"; that is to say, the direct financing of government deficits via central bank credit. The Bank is legally prohibited from engaging in such monetary financing. The prohibition originally stems from EU law,[183] with its purpose being "to encourage Member States to follow a sound budgetary policy, not allowing the monetary financing of public deficits…to lead to excessively high levels of debt or excessive Member State deficits".[184] The prohibition has been broadly re-stated in UK domestic law following the UK's withdrawal from the EU.[185] The legal prohibition is, however, subject to a number of express exceptions, and the prohibition does not prevent the Bank from:

(a) pursuing its monetary policy objectives within the meaning of section 11 of the 1998 Act;
(b) purchasing government debt on the secondary (as opposed to primary) market;
(c) maintaining the government's "Ways and Means" facility;[186] or

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179 The Freedom of Information Act 2000 does not apply to the Bank in relation to the following functions: "(a) monetary policy, (b) financial operations intended to support financial institutions for the purposes of maintaining stability, and (c) the provision of private banking services and related services" (Schedule 1 of the Act).

180 Provided the Bank acts in good faith and consistently with section 6 of the Human Rights Act, it enjoys a statutory immunity from liability damages "in its capacity as a monetary authority" (section 244 of the Banking Act 2009).

181 Section 46 of the Subsidy Control Act 2022 provides "The subsidy control requirements do not apply to the giving of a subsidy by or on behalf of the Bank of England in pursuit of monetary policy".

182 Central banks' pursuit of monetary policy is generally excluded from international trade commitments both under the General Agreement on Trade in Services and under Free Trade Agreements. In relation to GATS see, the scope carve-out for services supplied in the exercise of governmental authority (Article I GATS) together with the Annex on Financial Services (Para.1). In relation to FTAs see, for example, see Article 182(2) of UK-EU Free Trade Agreement (which refers to "activities conducted by a central bank or a monetary authority or by any other public entity in pursuit of monetary or exchange) and the Joint Declaration on Monetary Policies and Subsidy Control (which provides "The Parties confirm their mutual understanding that activities conducted by a central bank in pursuit of monetary policies do not fall within the scope of Chapter 3 [Subsidy control] of Title XI [Level playing field for open and fair competition and sustainable development] of Heading One [Trade] of Part Two of the Trade and Cooperation Agreement between the European Union and the United Kingdom").

183 Article 123 of the TFEU.

184 By the CJEU in C 62/14 Gauweiler and Others (Judgment 16 June 2015), 100.

185 Regulation 6 of the European Union Budget, and Economic and Monetary Policy (EU Exit) Regulations 2019. As noted in Section II, there have been a number of CJEU judgments which have considered the monetary financing prohibition, some of which have formed part of retained EU caselaw. However, it is important to emphasise that those judgments were decided in the unique context of EMU and without consideration of the UK's unique position in relation to monetary policy by virtue of the opt-out in the UK Protocol (which disapplied various Treaty provisions which informed, to varying degrees, the rationale as to how the ECB and the European Court have interpreted the monetary financing prohibition). They accordingly should not necessarily be regarded as determinative of how an English court would or should approach the issue.

186 The Ways and Means facility is the government's historic overdraft facility at the Bank. In April 2000 responsibility for government cash management moved from the Bank to the Debt Management Office. At the time of transition, the outstanding balance of the overdraft stood at £13.4 billion; since then, Treasury has been repaying the facility and the outstanding balance was reduced to less than £500m. It was expected to increase substantially in light of Covid-19 but has yet to do so, with the government continuing to fund itself successfully in the debt markets. Although it can be debated whether there is a principled rationale for excepting the ways and means facility from the monetary financing prohibition, it has demonstrated practical utility and if drawings are temporary and/or small in nature then there is a case that either it is not true monetary financing in the

(d) acting as the government's fiscal agent.[187]

These exceptions, and in particular the first in relation to monetary policy, provide the Bank with considerable latitude to take actions it considers appropriate in pursuit of its monetary policy objectives. For example, the MPC's policy of QE mainly involves the purchase, by the Bank, of government bonds financed by central bank reserves. The stated intention and justification for QE "is to provide monetary stimulus to help the Monetary Policy Committee meet its inflation target";[188] if the MPC projects inflation to fall below its 2% target it can use QE to boost demand in the economy and hence inflation.[189] Those purchases, which in practice take place on the secondary market, are made in pursuit of the Bank's monetary policy objectives which is why, in legal terms, they do not contravene the monetary financing prohibition.[190]

At the same time, however, the Bank's QE programme has become more persistent and much larger than first envisaged;[191] there was a significant expansion of the programme as part of the Covid-19 response.[192] This expansion has given rise to questions as to whether the associated gilt purchases were genuinely made in pursuit of monetary policy (as claimed by the Bank) or whether the Bank was at least partially motivated to finance the government's fiscal deficit (as perceived by certain institutional investors).[193] The Bank has robustly maintained the purchases were made for monetary policy purposes

economic sense, or is of little concern. Also see, Current Affairs Digest: Economics (June 2020) - House of Lords Library (parliament.uk).

187 Ibid.

188 Written evidence from the Bank of England (QEI0015) to the House of Lords Economic Affairs Committee, Quantitative Easing: a Dangerous Addiction? HL Paper 42 (6 July 20221), https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/4202.htm;

189 See IEO evaluation of the Bank's approach to quantitative easing, https://www.bankofengland.co.uk/independent-evaluation-office/ieo-report-january-2021/ieo-evaluation-of-the-bank-of-englands-approach-to-quantitative-easing.

190 Similar programmes undertaken by the ECB have been subject to legal challenge on the basis that, inter alia, they violate the monetary financing prohibition in Article 123 of the TFEU. In particular, in *Weiss* (Case C-493/17) the CEJU found that the ECB's Public Sector Purchase Programme (PSPP) did not violate the prohibition on the grounds that the programme fell within the area of monetary policy, according considerable deference to the ECB's economic analysis. The German Constitutional Court also considered the PSPP programme (BVerfG, Judgment of the Second Senate of 05 May 2020 - 2 BvR 859/15 -, paras. 1-237, http://www.bverfg.de/e/rs20200505_2bvr085915en.html); Karslsruhe was somewhat less deferential (both to the ECB and to the CJEU) but ultimately did not find a violation of the monetary financing prohibition. This was attributed to a number of features in the PSPP, including that states could not know which specific securities the programme would purchase, the volume of purchases was limited both in overall volume, and as a percentage of each issuance, the application of minimum credit quality standards and the obligation to discontinue the programme once its aims were achieved.

191 See IEO evaluation of the Bank's approach to quantitative easing, https://www.bankofengland.co.uk/independent-evaluation-office/ieo-report-january-2021/ieo-evaluation-of-the-bank-of-englands-approach-to-quantitative-easing.

192 Andrew Bailey: Bank of England is not doing 'monetary financing', Financial Times (5 April 2020), https://www.ft.com/content/3a33c7fe-75a6-11ea-95fe-fcd274e920ca.

193 In examining the Bank's intention behind the programme, the House of Lords Economic Affairs Committee devoted considerable time and effort in scrutinising the wording of the Bank's contemporaneous statements, concluding that greater clarity and transparency was required in order to properly hold the Bank to account. The Committee observed that "by its nature, quantitative easing lowers the cost of Government borrowing; this makes it difficult to disentangle monetary policy and deficit financing" but that "statements made by the Governor in May and June 2020 on how quantitative easing helped the Government to borrow lacked clarity and were likely to have added to the perception that recent rounds of asset purchases were at least partially motivated to finance the Government's fiscal policy". It concluded that "[t]he level of detail published by the Bank of England on how quantitative easing will affect the economy is not sufficient to enable Parliament and the public to hold it to account" and that the Bank "should be more open about its "assessment processes" for calculating the amount of asset purchases needed to achieve a stated objective. In its public communications, including Monetary Policy Committee

noting in response to the House of Lords Economic Affairs Committee Report that "as required in statute, all monetary policy decisions are taken with the objective of price stability in mind, and no other – regardless of developments in government bond issuance";[194] there has been recognition of course that the intervention may have had a "welcome side effect" in dealing with market dysfunction and maintaining financial stability,[195] and "spread[ing], over time, the cost … to society."[196]

The public communications challenges in articulating the MPC's rationale for the QE programme have been recognised by the Bank's Independent Evaluation Office.[197] And, regardless of the position in strict *legal* terms - and the actual intention behind the purchases- there remains perception from some quarters that, in *economic* terms, the Bank may have engaged in monetary financing to finance the government's expanded fiscal policy (and to keep the government's borrowing costs down) during the Covid-19 pandemic.[198] It is possible that perceptions of this kind could pose risks to the Bank's independence in delivering price stability to the extent that so-called "fiscal dominance" means that the Bank's monetary policy objectives are or perceived to be subjugated to fiscal objectives.[160] Put simply, the risk would be that, faced with a threat of rising inflation, the Bank may feel pressured not to raise interest rates (and/or engage in quantitative tightening), because of the attendant costs to the government of servicing UK debt.[199] There is, however, little evidence that this risk has crystallised in practice, with interest rates in recent years having been raised repeatedly to reach broadly pre-GFC

minutes, the Bank should publish its assumptions, along with its assessment processes and analyse the breakdown the effect of quantitative easing at each stage of the programme and examine the extent to which it has achieved the Bank of England's stated targets." House of Lords Economic Affairs Committee, Quantitative Easing: a Dangerous Addiction? HL Paper 42 (6 July 20221), https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/4202.htm, paras 81-90.

194 Bank of England response to the Lords Economic Affairs Committee's report on Quantitative Easing, available here https://committees.parliament.uk/publications/7359/documents/76988/default/ (accessed 11 November 2021).

195 For example, "Some commentary that I have seen has suggested that in addressing market disorder the Monetary Policy Committee somehow broadened its objectives and used a monetary policy tool for financial stability purposes. I don't see it like that at all. The Monetary Policy Committee took action in pursuit of its objectives, because further market dysfunction triggered by the COVID shock would have led to even worse outcomes for GDP and inflation. Their action had the welcome side effect of supporting financial stability, but it was taken for monetary policy purposes". Dave Ramsden, speech on QE as an economic policy tool - what does it do and how should we use it?, 17 February 2021: https://www.bankofengland.co.uk/-/media/boe/files/speech/2021/february/qe-as-an-economic-policy-tool-what-does-it-do-and-how-should-we-use-it-speech-by-dave-ramsden.pdf (accessed 5 July 2021).

196 ITV, '*Bank of England's Andrew Bailey explains how he is helping the government avoid austerity'* (13 May 2020): Bank of England's Andrew Bailey explains how he is helping the government avoid austerity | ITV News.

197 "The public is…unclear about the extent to which QE is, or should be, used to finance Government borrowing. Given the UK's post-Covid fiscal position, a lack of public clarity on monetary financing could undermine the Bank of England's independence in the future." See IEO evaluation of the Bank's approach to quantitative easing, https://www.bankofengland.co.uk/independent-evaluation-office/ieo-report-january-2021/ieo-evaluation-of-the-bank-of-englands-approach-to-quantitative-easing. Similarly, the Bank's Chief Economist noted that "Recent QE has placed central banks in deep, and uncharted, waters. My view is that these QE actions have been necessary to support the economy and hit the inflation target. But they pose rising challenges to public understanding of the purposes of QE and, ultimately, perceptions of independence", *What has Central Bank Independence Ever done for Us?"* Speech given by Andy Haldane, UCL Economists' Society Economics Conference (28 November 2020), https://www.bankofengland.co.uk/-/media/boe/files/speech/2020/what-has-central-bank-independence-ever-done-for-us-speech-by-andy-haldane.pdf?la=en&hash=E89B59B9A236C37F6DCE94CDC567B38A52835813

198 See for example, "*Investors sceptical over Bank of England's QE programme*", Financial Times (5 January 2021); House of Lords Economic Affairs Committee, Quantitative Easing: a Dangerous Addiction? HL Paper 42 (6 July 20221), https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/4202.htm;

199 House of Lords Economic Affairs Committee, Quantitative Easing: a Dangerous Addiction? HL Paper 42 (6 July 20221), https://publications.parliament.uk/pa/ld5802/ldselect/ldeconaf/42/4202.htm;

levels. And, in designing the arrangements, the rationale for Treasury fully indemnifying the Bank's asset purchase facility (through which the Bank conducts asset purchases/sales) is explicitly to ensure that the MPC is focused solely on setting monetary policy in order to maintain price stability (and not any profit or loss as a result asset/sales).[200]

Interaction with the Bank's statutory financial stability objective

The Bank was not given a statutory objective for financial stability at the time of Bank independence in 1998. It was recognised at the time that it was somewhat lop-sided for the Bank to be given a statutory objective in relation to monetary policy but not financial stability; and during the Parliamentary debates there was an attempt to amend the Bill to include a draft financial stability objective for the Bank.[201] However, this was rejected by the government at the time on basis that it was not necessary, arguing that the arrangements in relation to financial stability were set out in the non-statutory Tripartite Memorandum of Understanding between the Treasury, the Bank and the Financial Services Authority.[202]

It was not until after the 2007-08 GFC that the Bank was given an express statutory objective in relation to financial stability.[203] Those arrangements were inspired by, and modelled upon, the well-regarded monetary policy set-up: a primary objective to "protect and enhance" UK financial stability;[204] and a secondary objective to support the government's economic policy; with those objectives pursued by a statutory FPC made up of senior Bank officials and externals members (with a Treasury representative).[205]

There is nothing in the statute itself that explains how the Bank's responsibilities in relation to monetary and financial stability are to interact.[206] However, the Treasury has used its remit letters to emphasise coordination between monetary policy and macroprudential policy, and has essentially introduced a "have regard" that the latter be taken into account in pursuing the Bank's monetary policy objectives. In particular, circumstances may arise in which the Bank's attempts to keep inflation to target could exacerbate imbalances judged by the FPC to pose financial stability risks. The 2021 remit letters explains that the FPC's macroprudential tools are "the first line of defence" against financial stability

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200 QE at the Bank of England: a perspective on its functioning and effectiveness (18 May 2022), https://www.bankofengland.co.uk/quarterly-bulletin/2022/2022-q1/qe-at-the-bank-of-england-a-perspective-on-its-functioning-and-effectiveness

201 See Standing Committee D (4 December 1997), available: https://publications.parliament.uk/pa/cm199798/cmstand/d/st971204/am/71204s01.htm.

202 See Standing Committee D (4 December 1997), available: https://publications.parliament.uk/pa/cm199798/cmstand/d/st971204/am/71204s01.htm.

203 The financial stability objective was added via the Banking Act 2009; the wider macroprudential arrangements, including in relation to the FPC, followed in the Financial Services Act 2012.

204 Section 2A of the 1998 Act.

205 See sections 9B and 9C of the 1998 Act.

206 The Bank itself has sought to explain the interaction see, for example, *The Interaction of the FPC and MPC,* Tamarah Shakir, Quarterly Bulletin 2014 (Q4), https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/the-interaction-of-the-fpc-and-the-mpc.pdf?la=en&hash=C141D62912B4216103577787A3652351414235F8. The Bank also set a "financial stability" knock-out for its 2013 policy of forward guidance (see above).

risks, which mean that the MPC "may wish to allow inflation to deviate from the target temporarily, consistent with its need to have regard to the policy actions of the FPC". Coordination is also facilitated by the overlap of MPC and FPC membership,[207] and the MPC is also expected to "reflect, in any statements on its decisions, the minutes of its meetings and its Monetary Policy Reports, how it has had regard to the policy actions of the FPC".[208]

Section V: Treasury's reserve power over monetary policy in extreme economic circumstances

As noted, in granting the Bank operational responsibility for monetary policy the Treasury sacrificed its general power of direction over the Bank in relation to monetary policy. Instead, the Treasury reserved to itself a much more constrained power of direction in the field of monetary policy. Section 19 of the 1998 Act provides:

> The Treasury, after consultation with the Governor of the Bank, may by order give the Bank directions with respect to monetary policy if they are satisfied that the directions are required in the public interest and by extreme economic circumstances.

The power would act as an "executive override"[209] of the Bank's independence and would have the dramatic effect of suspending the Bank's monetary policy objectives. Reflecting this, there are strict procedural safeguards around its use. Gordon Brown explained that he expected the power "to be exercised rarely, if at all"[210], and it has never been used to date. As noted in the Annex, Finance Ministries of a number of countries have similar reserve powers over their central banks on issues of monetary policy (including New Zealand, Canada and Australia). There are, however, no directly analogous executive override powers in relation to the ECB or the Federal Reserve; this is not surprising given their entrenched legal independence from the corresponding political/fiscal authorities, including their ability to determine their own monetary policy targets, for instance in relation to the price stability target rather than deciding upon new goals (goal independence).

Parliamentary accountability for use

Unlike the MPC remit letter, the direction must be given by formal order and there is, accordingly, much greater parliamentary oversight. The order is a form of a statutory instrument—a form of delegated legislation—which must be laid before Parliament. The direction can be immediately effective, but is time-limited. It ceases to be law after twenty-eight days unless *both* Houses of Parliament hold a debate and each approve it by resolution; then, the direction can only last for a maximum period of three months. If the power were ever to be used, the Treasury Committee has indicated that it would expect to take evidence, as a matter of urgency, from both the Chancellor and the Governor and to make that evidence

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207 The Governor, and Deputy Governors for Monetary Policy and Financial Stability sit on both the MPC and FPC.
208 There are reciprocal expectations on the FPC.
209 See footnote 67 above.
210 294 Parl Deb HC (6th ser.) (1997) col. 509 (UK). 155.

available to Parliament, presumably to inform the Parliamentary debates on whether to approve the direction.[211]

Impact on the monetary policy objectives

Section 19(7) of the 1998 Act provides that, while the direction in relation to monetary policy is in effect, the statutory objectives do not have effect.[212] In other words, the Bank would cease to be legally bound to pursue price stability where a direction is given. Whether the MPC as a decision-making committee would continue to have any role would depend on the nature of the direction given.[213] If the direction set different objectives for the Bank, the MPC could remain responsible for formulation of monetary policy; but this role would be subject to and to the extent permitted by whatever is contained in a direction order. But if the direction simply directed the Bank to take a particular course of action it is conceivable that there would be no role for the MPC.

"Extreme economic circumstances"

The Treasury must be satisfied that the directions are required in the public interest *and* by extreme economic circumstances. The public interest element is no different from the 1946 Act; but the additional condition for extreme economic circumstances is clearly intended to set a very high bar for its use.

What constitutes an "extreme economic circumstance" has intentionally been left undefined, presumably leaving the courts (if needed) to interpret the phrase according to its plain and ordinary meaning. That the statute provides for a subjective rather than objective test – in that it is for the Treasury to be satisfied – means that a court faced with a question of interpretation would likely be slow in substituting the Treasury's view with its own. The use of the word "extreme" suggests the existence of a very severe economic emergency or crisis. As a possible analogy, in financial regulation, it is common to test firms' capital requirements against "extreme but plausible" scenarios, such as the "1-in-200-years" stress event in insurance regulation.

During the Parliamentary debates on the 1998 Bank of England Bill, the government was pressured to provide specific examples of what "extreme economic circumstances" would mean in practice. This included asking the responsible Treasury Minister to run through major economic events over the past twenty-five years (from 1972–1997) and explain whether they met the test.[214] Although understandably circumspect, the Minister did offer her judgement that she did not think that the UK's dramatic exit from the European Exchange Rate Mechanism in 1992 (which precipitated "Black Wednesday") would have

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211 162. See Treasury Committee, "*Accountability of the Bank of England*", 1997–98, HC 282, at 162.

212 Section 19(7) Bank of England 1998 Act.

213 The direction can also be used to make consequential modifications to the legislation to relieve the MPC from having to comply with its usual procedural requirements (section 19(2)) (presumably on the basis that they may be a hindrance in a time of crisis); this may suggest a continuing role for the MPC.

214 See 2 Dec. 1997, Parl Deb HC (1997) (UK), https://publications.parliament.uk/pa/cm199798/cmstand/d/st971202/pm/71102s10.htm [https://perma.cc/DN9E-AB8S].

met the test. However, she did indicate that an event such as the Gulf War, which had "extreme economic consequences" in terms of its impact on oil supplies, might potentially trigger the test.

There is no evidence that use of the power to direct the Bank over monetary policy was ever contemplated during the 2007-2008 Global Financial Crisis.[215] More recently, at the start of the Covid-19 pandemic in the UK in March 2020 there was some speculation over whether the Treasury needed to direct the Bank to expand the purchases of government debt as part of the Bank's expanded QE programme; this was fuelled by evidence to Parliament given by the Prime Minister's adviser, Dominic Cummings:

> It was the case that the Bank of England, the senior officials in the Treasury and senior officials in the Cabinet Office were saying, "We have to think about the consequences. If we do this lockdown, we will have to borrow huge amounts of money. What if the bond markets suddenly spike, go crazy and refuse to lend to us? We will then have to find emergency powers to tell the Bank of England to buy the debt etc, etc." So there were conversations going on at the time about that possible problem – what if we have a financial crisis, a bond market crisis and sterling crisis on top of the whole health crisis? There were conversations about that and meetings with the Prime Minister, the Chancellor, the Cabinet Secretary and me to discuss it.[216]

However, that this was ever seriously considered as an option was firmly rejected by the Chancellor who wrote to the Chairman of the Economic Affairs Committee on 10 June 2021 to confirm that neither he nor Treasury officials attended meetings on the potential use of Treasury's power of direction.[217] The Governor of the Bank also made clear that, from his perspective, there had "been no discussion at any point in time about using the override power in the Covid crisis…certainly not in my hearing anyway" noting that "the legislation provides that if the override power is used it suspends price stability. In my view that would be a catastrophic mistake. We would be throwing away nearly a quarter of a century's progress in monetary stability".[218]

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[215] Although the Chancellor Darling did ask Treasury officials to consider whether he could use the Treasury's power of direction in section 4 of the Bank of England Act 1946 to direct the Bank ("in the public interest") to provide liquidity to the markets, see Alistair Darling, Back from the Brink (2001), 57-58; also discussed in Salib & Skinner (2019), Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, The Georgetown Law Journal, 2019, Vol 108, 912, 927-928 https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3589453.

[216] House of Commons, Health and Social Care Committee and Science and Technology Committee, Oral Evidence: Coronavirus: Lessons learnt, HC 95, 26 May 2021, https://committees.parliament.uk/oralevidence/2249/html/ (accessed 14 September 2021).

[217] Letter from HM Treasury to Chairman of the Economic Affairs Committee, 10 June 2021 https://committees.parliament.uk/publications/6260/documents/69153/default/ (accessed 14 September 2021).

[218] Economic Affairs Committee, corrected oral evidence: quantitative easing, 18 May 2021, https://committees.parliament.uk/oralevidence/2193/html/ (accessed 14 September 2021).

Concluding Remarks

The monetary policy mandates of central banks have been described as having "constitutional" status;[219] it has been said that constitutions, in a quote often attributed to Napoleon, should be "short and obscure".[220] Some may say that the constitutions of many central banks meet one or both of these criteria.

Set against its 330-year history, it is true to say that the Bank's constitution has been "obscure about objectives"[221] - until, that is, the introduction of the monetary policy objectives in 1998. For the Bank, the monetary policy objectives were a watershed moment for an institution that had long-eschewed having its mandate prescribed in law. Their perceived success meant they were taken as the blueprint for the Bank's financial stability objective following the 2007-2008 financial crisis. To paraphrase Stanley Kubrick, the Bank learned how to stop worrying and came to love its statutory objectives.

At 34 words the monetary policy objectives are certainly brief and, if not obscure, it is fair to say that there is a degree of ambiguity in their drafting. This has provided flexibility in responding and adapting to changing economic circumstances,[222] and the objectives have proved remarkably resilient in directing the Bank's monetary response to the most turbulent events affecting the UK over the past 25 years.

The objectives have generally enjoyed a sustained consensus across the political divide, but this is not to say they have not faced scrutiny or critique, particularly in more recent years. Part of it is driven by an argument that the objectives allow for too much ambiguity in their interpretation and too much flexibility in their implementation leading to accusations of mission creep or, conversely, that the objectives are not being pursued with the requisite vigour. Part of this is a resurrection of the long-running debate over whether price stability should be pre-eminent or whether maximising employment should be given equal weight.

Against this backdrop, it is important that there is a degree of understanding of what a nation's central bank has been mandated to achieve, not just within the political class and the central banks themselves, but also within markets and the public at large. This is truer perhaps more important than ever given

219 See for example, Gordon Brown, former UK Chancellor, has called for a "new constitution for the Bank imposing a dual mandate: to take unemployment as seriously as inflation", see https://www.theguardian.com/business/2020/sep/10/make-jobs-higher-priority-gordon-brown-tells-bank-of-england.

220 Although the quote did not in fact originate from Napoleon himself. Pierre Louis Roederer wrote that he drew up two plans of a constitution for the Cisalpine Republic in Italy in 1802: one long and detailed; the other very short, leaving much to the President's discretion. He told French Foreign Minister Talleyrand to advise Napoleon to adopt the latter, as it was "short and–"; Talleyrand cut him off with, "Yes, short and obscure", Pierre Louis Roederer, *Oeuvres*, Vol. III (Paris, 1854), p. 428.

221 Harold James, "*Making a Modern Central Bank: The Bank of England 1979-2003*," (Cambridge University Press, 2020), 13.

222 As was the intent: "our reform was not some one off-change whose benefits lie only in the past, but an enduring and resilient framework that continues to give us capacity now and in future to respond quickly and proactively to changing circumstances", Gordon Brown, speech at the CBI Annual Conference, available at https://www.theguardian.com/business/2005/nov/28/economicpolicy.budget2006 (accessed 6 November 2021)

the increasing breadth of impact of central banks on the global and national economies, as well as the wellbeing of the citizens affected by their decisions. As a contribution to this ongoing debate, the paper has sought to offer an in-depth historical and legal account of the Bank's statutory monetary policy objectives, exploring the relevant statutory provisions and the debates that surrounded their drafting, as well as their application and interpretation in practice.

ANNEX: Statutory Monetary Policy Objectives – International Comparisons

- The table below provides an international comparison of monetary policy objectives and remits across selected jurisdictions.
- In relation to ***legislated monetary policy objectives***, some central banks have very broadly-defined monetary objectives (Bank of Canada). Many others have price stability as their primary objective, with a secondary or subordinate objective to support economic growth or full employment provided that it does not impinge on their objective of price stability (ECB, Bank of England). A final group have 'dual mandates' where objectives for price stability and full employment are given equal weight (Federal Reserve and the Reserve Bank of Australia).
- In relation to setting the ***remit for monetary policy***, sometimes these are set by the central bank themselves (the Federal Reserve and ECB), other times they are agreed jointly between the central bank and Treasury (RBA and Bank of Canada). Where the remit is set by Treasury, there can be *ex ante* legislative procedural safeguards giving the central bank the right to input into the remit-setting process (RBNZ) but this is not always the case (Bank of England).

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
Bank of England	**Hierarchical** 1. Price Stability 2. To support economic policy of the Government	"(a) to maintain price stability, and (b) subject to that, to support the economic policy of His Majesty's Government, including its objectives for growth and employment." *Section 11 Bank of England Act 1998*	• **Yes – remit set by Treasury** • Inflation target set by government; 2 per cent of CPI • Remit letter must be laid before Parliament but does not have the status of formal statutory instruments made by Ministers and are not directly binding. The advantage of this approach is that the letters are not at all legalistic in their nature and are therefore more accessible for the public to understand. While Parliament does not formally approve the remit letters (as it might for secondary legislation), the Treasury Committee provides a form of	• The most recent changes to the remit itself have been to the specification of the government's economic strategy that is in place to achieve the government's economic policy objective of broad-based and resilient growth. For example, in March 2021, the government's economic strategy was updated to refer for the first time to the transition to a net zero economy. • In 2013, the major additions to the remit following the framework review were: ○ Provision for "exceptional circumstances" to allow trade-offs to be made in bringing inflation to target in response to shocks to the economy; A broader reference to promoting understanding of monetary policy trade-offs;

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
			Parliamentary oversight over the process.	○ A section on unconventional policy instruments and forward guidance; ○ A reference to monetary policy potentially being the last line of defence against financial stability risks; and ○ A new section on coordination between monetary and macroprudential policy. • Treasury has a reserve power and can give the Bank directions with respect to monetary policy if required by the public interest and by extreme economic circumstances.
European Central Bank (and the national central banks of the ESCB)[223]	**Hierarchical** **1. Price Stability** **2. To support general economic policies of the EU**	"…to maintain price stability. Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union as laid down in Article 3 of the Treaty on European Union [TEU]." *Article 127 in the Treaty on the Functioning of the European Union* The objectives of the Union are very broadly defined in Article 3 TEU and include "balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of	• **No – monetary strategy set by central bank itself.** There is currently no scope for elaboration by fiscal authority by any political authority. • Inflation target set by the Governing Council of the ECB; symmetric 2% inflation target over the medium term of Harmonised Index of Consumer Prices (***HICP***) (which will include in the future owner-occupied housing over time). • The symmetric target was introduced as a result of the ECB's strategy review which concluded in 2021.[224] Prior to this its quantitative definition was below but close to 2 per cent. The new target was expected to help bring up low inflation by contributing to anchoring longer-term inflation expectations more solidly.	• The objectives can only be amended by Treaty change and not by any individual Member State (and in that sense are entrenched and have quasi-constitutional status) • As a secondary objective, the ECB is required to support the diverse range of objectives of the EU whereby "the ECB is *indirectly* bound by the objectives [in Article 3], including the objective of high level of employment. The [Article 3 objectives], however can be qualified as the ECB's *secondary* objectives as, in the case of conflict with its primary objective, the ECB is legally obliged to give precedence to price stability".[225] • The secondary objective also includes the ECB's mandate for climate change as part of "the sustainable development of Europe based on […] a high level of protection and improvement

223 References to the ESCB can be read as the ECB. While the objectives in the Treaty are bestowed on the ESCB, the ESCB is governed by the ECB and therefore ultimate responsibility for the pursuit of the ESCB's objectives.

224 European Central Bank, "*ECB's Governing Council approves its new monetary policy strategy"* press release, 8 July 2021, https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708~dc78cc4b0d.en.html (accessed 13 September 2021).

225 *The Law of the European Central Bank* by Zilioli and Selmayr (Hart Publishing, 2001), 36.

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
		protection and improvement of the quality of the environment".		of the quality of the environment" and this was elaborated upon in its policy statement in 2021 which included a climate change plan[226]. • The ECB Legal Service recently took the notable step of publishing a detailed report on legal considerations relating to the ECB's mandate, which informed the Governing Council's deliberations on the 2021 monetary policy strategy review.[227]
Bank of Japan	**Single mandate** Price stability	"aimed at achieving price stability, thereby contributing to the sound development of the national economy." *Bank of Japan Act*	• **No – monetary strategy set by central bank itself.** • The inflation "goal" is set by the Bank of Japan; 2 percent in terms of the year-on-year rate of change in the CPI. The Bank of Japan has made a commitment to achieving this target at the earliest possible time.[228]	• The target was set out in a statement by the Bank of Japan in 2013[229], which was published alongside a joint statement from the Government and Bank of Japan.[230] • A reserve power is not contained in the Bank of Japan Act, instead the Bank of Japan is required to maintain close contact and cooperate with the government so that monetary policy is compatible with the government's economic policy. • The Bank of Japan understand "price stability" to mean "a state where various economic agents including households and firms may make decisions regarding such economic activities as consumption and investments without being

[226] European Central Bank, "*ECB presents action plan to include climate change considerations in its monetary policy strategy*", press release, 8 July 2021, https://www.ecb.europa.eu/press/pr/date/2021/html/ecb.pr210708_1~f104919225.en.html (accessed 13 September 2021).

[227] *The Mandate of the ECB: Legal Considerations in the ECB's Monetary Policy Strategy Review,* Ioannidis, Michael, Sarah Jane Hlásková Murphy, and Chiara Zilioli (2021), ECB Occasional Paper Series, available at https://www.ecb.europa.eu/pub/pdf/scpops/ecb. op276~3c53a6755d.en.pdf?1c01b997e11da2c1945d9551bc9a5477.

[228] https://www.boj.or.jp/en/mopo/outline/index.htm/

[229] "*The 'Price Stability Target' under the Framework for the Conduct of Monetary Policy"*, Bank of Japan, 22 January 2013, https://www.boj.or.jp/en/announcements/release_2013/k130122b.pdf (accessed 13 September 2021).

[230] *"Joint Statement of the Government and the Bank of Japan on Overcoming Deflation and Achieving Sustainable Economic Growth"*, Cabinet Office, Ministry of Finance, Bank of Japan, 22 January 2013, https://www.boj.or.jp/en/announcements/release_2013/k130122c.pdf (accessed 13 September 2021).

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
				concerned about the fluctuations in the general price level". [231]
Reserve Bank of New Zealand	**Single mandate** Price stability	"achieving and maintaining stability in the general level of prices over the medium term" *Section 9, Reserve Bank of New Zealand Act 2021*	• **Yes – remit set by Treasury** • The inflation target is set out in the remit set by the Minister of Finance and is to keep future annual inflation between 1 and 3 % over the medium term, with a focus on keeping future inflation near the 2% mid-point. The target is defined by reference to the All Groups Consumers Price Index. • In contrast to the UK, there is more formality around the production of the remit letter: the Minister must consult the Bank before issuing the MPC remit; the RBNZ must advise the Minister on the remit every five years; the Minister must consider that advice (and explain if they do not take it); the advice and Minister's decision are published.	• Legislative mandate itself defines time horizon for achieving price stability (medium term). • Reserve power is available under Section 125 of the Reserve Bank of New Zealand Act 2021 whereby the Governor-General may, by order, provide for different economic objective(s). • There is an overriding principle in the Reserve Bank of New Zealand Act which requires that "monetary policy promote the prosperity and well-being of New Zealanders and contribute to a sustainable and productive economy." • A dual mandate was introduced in 2018 with full employment put on a par with price stability but this was repealed in 2023.
US Federal Reserve System	**Dual mandate** Price stability; maximum employment	"…to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates." *Section 2A of the Federal Reserve Act 1913 (as amended)*	• **No – monetary strategy set by central bank itself.** There is currently no scope for elaboration by fiscal authority by any political authority. • Since 2020 target is 2 per cent average inflation over time. • In 2012 (and subsequently revised and reaffirmed in 2021) the Federal Reserve published a one-page Statement on Longer-Run and Monetary Policy Strategy	• In August 2020, the Chair Powell outlined the Federal Reserve's switch to average inflation targeting, noting that "in seeking to achieve inflation that averages 2 percent over time, we are not tying ourselves to a particular mathematical formula that defines the average. Thus, our approach could be viewed as a flexible form of average inflation targeting."[234] • The maximum level of employment is not specified numerically; it is a broad-based and

[231] "*The 'Price Stability Target' under the Framework for the Conduct of Monetary Policy*", Bank of Japan, 22 January 2013, https://www.boj.or.jp/en/announcements/release_2013/k130122b.pdf (accessed 13 September 2021).

[234] Speech by Chair Powell, *New Economic Challenges and the Fed's Monetary Policy Review*, 27 August 2020 https://www.federalreserve.gov/"newsevents/speech/powell20200827a.htm (accessed 20 December 2021)

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
			which outlines how it will implement monetary policy,[232] observing its "employment objectives are generally complementary" but where they conflict the Fed "takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate". The statement is not required by statute and is not legally binding; but it is a formal document and has been described akin to a "constitution" by then-Vice Chair Janet Yellen.[233]	inclusive goal. The decisions must be informed by assessments of the shortfalls of employment from its maximum level. • No express reference to environmental concerns.
Reserve Bank of Australia	**Dual mandate** Price stability and full employment	"The functions of the Monetary Policy Board are: - (a) to determine the monetary policy of the Bank in a way that, in the Board's opinion, best contributes to: - (i) price stability in Australia; and (ii) the maintenance of full employment in Australia…" *Section 9B Reserve Bank Act 1959*	• **Yes – jointly agreed between central bank and Treasury.** • Statement on the Conduct of Monetary Policy; 2-3 per cent, on average, over time. • Viewed as a medium-term inflation target, which provides the Reserve Bank Board with flexibility to set monetary policy in a way that best achieves the objectives, including the maintenance of full employment and financial stability.[235]	• The Treasurer can overrule the Bank's determination of its objectives and set a different objective, under section 11(2) Reserve Bank Act 1959. • The RBA's objectives have been subject to a detailed independent review published in March 2023[236] which recommended moving to a dual mandate to contribute to price stability and full employment (maintaining a flexible inflation target of keeping CPI between 2-3 percent), and removing the Treasurer's power of executive override, as well (as a range of other reforms

232 "*Statement on Longer-Run Goals and Monetary Policy Strategy*", 26 January 2021, https://www.federalreserve.gov/monetarypolicy/files/fomc_longerrungoals.pdf (accessed 13 September 2021).

233 "*Meeting of the Federal Open Market Committee on January 24025, 2012*, https://www.federalreserve.gov/monetarypolicy/files/FOMC20120125meeting.pdf (accessed 13 September 2021). It has been argued that, given the "law-like nature" of the statement , the Fed should adopt a more open and transparent process in its adoption, see *"Towards an Administrative Law of Central Banking"*, Peter Conti-Brown, Yair Listokin & Nicholas R. Parrillo, Yale Journal on Regulation, Volume 38, Issue 1, https://www.yalejreg.com/print/towards-an-administrative-law-of-central-banking/ (accessed 13 September 2021).

235 Reserve Bank of Australia, *"About Monetary Policy"*, https://www.rba.gov.au/monetary-policy/about.html (accessed 13 September 2021)

236 An RBA fit for the future (rbareview.gov.au)

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
				such as legislating for the RBA's financial stability role and establishing a dedicated MPC). The Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023 was passed on 28 November 2024, which introduced the RBA's dual mandate, split the RBA board in two (one focused on monetary policy and one on governance) but maintained the executive override.[237]
Bank of Canada	**Wide-defined mandate**; specific objectives and their hierarchy are not specified in statute.	Broadly-worded mandate "to promote the economic and financial welfare of Canada". On monetary policy specifically, the Bank of Canada Act sets out the method for setting monetary policy objectives: "(1) The Minister and the Governor shall consult regularly on monetary policy and on its relation to general economic policy. (2) If, notwithstanding the consultations provided for in subsection (1), there should emerge a difference of opinion between the Minister and the Bank concerning the monetary policy to be followed, the Minister may, after consultation with the Governor and with the approval of the Governor in Council, give to the Governor a written directive concerning monetary policy, in	• **Yes – jointly agreed between central bank and Treasury.** • Inflation target agreed bilaterally with government; midpoint of 2 in the range of 1-3 per cent. • Joint statement between the government and Bank of Canada;[238] this does not include any other objectives for monetary policy. This target agreement applies from 2016 to the end of 2021. This target has been reconfirmed for 2022 to 2026.[239] The flexible inflation targeting is intended to be consistent with keeping medium-term inflation expectations anchored to the 2% target.	• The Government and the Bank also agree that monetary policy should continue to support maximum sustainable employment, which is the level of employment beyond which inflationary pressures arise. • The Bank of Canada investigated whether to include a financial stability consideration but in a letter from the Governor to the Minister of Finance in September 2016 the Governor concluded that "monetary policy should be adjusted to address financial vulnerabilities only in exceptional circumstances"[240] • In the event of a disagreement on monetary policy, the Finance Minister can, after consultation with the Governor, and with the approval of the Governor in Council issue a direction to the Governor which must be laid before (albeit not approved by) Parliament (section 14(2) and (3) of the Bank of Canada Act 1985).

[237] Treasury Laws Amendment (Reserve Bank Reforms) Bill 2023 – Parliament of Australia.

[238] "*Joint Statement of the Government of Canada and the Bank of Canada on the Renewal of the Inflation-Control Target*", 24 October 2016, https://www.bankofcanada.ca/2016/10/renewal-of-the-inflation-control-target-2016/ (accessed 13 September 2021).

[239] See here for further details - https://www.bankofcanada.ca/wp-content/uploads/2021/12/Monetary-Policy-Framework-Renewal-December-2021.pdf

[240] Letter from Stephen S. Poloz, Governor of the Bank of Canada, to The Honourable William Francis Morneau, Minister of Finance, 21 September 2016 https://www.bankofcanada.ca/wp-content/uploads/2016/10/Letter-Minister-Finance.pdf (accessed 13 September 2021).

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
		specific terms and applicable for a specified period, and the Bank shall comply with that directive. **(**3) A directive given under this section shall be published forthwith in the *Canada Gazette* and shall be laid before Parliament within fifteen days after the giving thereof, or, if Parliament is not then sitting, on any of the first fifteen days next thereafter that either House of Parliament is sitting." *Section 14 of the Bank of Canada Act 1985*		
People's Bank of China (*PBC)*	**[Dual]**[241] **mandate** Currency stability; economic growth	"The objective of monetary policy is to maintain the stability of the value of the currency and thereby promote economic growth." *Article 3 of the Law of the People's Republic of China on The People's Bank of China*[242]	• **Yes – ultimately set by Congress** • China's consumer inflation target for the past 5 years has been 3 per cent, with a tolerance band, in practice, of 0 to 3 per cent.[243] The inflation target is reviewed and restated each December by the Central Economic Work Conference, before being ratified during the	• Currency stability, rather than price stability, is the stated monetary policy objective for the PBC. In practice, the PBC operates an "informal" or "de facto" inflation targeting regime. [245] • It has been noted that many aspects of China's monetary policy framework are not officially documented, including in relation to the role of the State Council in practice.[246] Former Governor of the PBC, Zhou Xiaochuan, has

241 The monetary policy framework for the People's Bank of China has been variously described as both single mandate and dual (or multi) mandate, see: *Issues in the Governance of Central Banks: A report from the Central Bank Governance Group*, Bank for International Settlements, May 2009, https://www.bis.org/publ/othp04_2.pdf (accessed 19 November 2021), 23; *"China's evolving monetary policy rule: from inflation accommodating to anti-inflation policy"*, BIS Working Papers, Bank for International Settlements, May 2017, https://www.bis.org/publ/work641.pdf (accessed 19 November 2021), 4; and "*China's Evolving Monetary Policy Framework in International Context"*, Reserve Bank of Australia, December 2019, https://www.rba.gov.au/publications/rdp/2019/pdf/rdp2019-11.pdf (accessed 19 November 2021), 11.

242 *Law of the People's Republic of China on The People's Bank of China* (adopted 18 March 1995, as amended 27 December 2003) (unofficial translation), which can be found on the PBC website: http://www.pbc.gov.cn/eportal/fileDir/english/resource/cms/2015/08/2015082610501049304.pdf (accessed 19 November 2021).

243 Ibid.

245 *China's Evolving Monetary Policy Framework in International Context"*, Reserve Bank of Australia, December 2019, https://www.rba.gov.au/publications/rdp/2019/pdf/rdp2019-11.pdf (accessed 19 November 2021).

246 For further discussion of this, see: "*China's Evolving Monetary Policy Framework in International Context"*, Reserve Bank of Australia, December 2019, https://www.rba.gov.au/publications/rdp/2019/pdf/rdp2019-11.pdf (accessed 19 November 2021).

Central Bank	Nature of the objectives	Text of the monetary policy objectives in legislation	Elaboration in Remit Letter on inflation target?	Other observations
			parliamentary session of the National People's Congress the following March. • Monetary policy decisions are highly coordinated between the PBC and State Council, China's highest decision-making body. The PBC must submit all decisions – including in relation to annual money supply, interest rates, and exchange rates – to the State Council for approval. The State Council therefore retains ultimate control over monetary policy. [244]	described the PBC as having a "multi-objective" framework, which is reactive to and dependent on broader Chinese state policy. He noted that "the single objective of maintaining price stability is an enviable arrangement" but "is not yet realistic for China" and, instead, the PBC "has multiple objectives which not only include such four annual objectives as ensuring price stability, boosting economic growth, promoting employment, and broadly maintaining balance of payments, but also cover two dynamic objectives, namely, financial reform and opening up, and financial market development".[247]

[244] Article 5 of the *Law of the People's Republic of China on The People's Bank of China* states: "The People's Bank of China shall submit to the State Council for approval its decisions concerning the annual money supply, interest rates, exchange rates and other important matters specified by the State Council and implement these decisions. The People's Bank of China shall promptly implement its decisions on matters concerning monetary policy other than those specified in the preceding paragraph, and file them with the State Council for record."

[247] *"Managing Multi-Objective Monetary Policy: From the Perspective of Transitioning Chinese Economy"*, Zhou Xiaochuan, 2016, Michel Camdessus Central Banking Lecture, International Monetary Fund, Washington DC.