

From: Enquiries <Enquiries@bankofengland.co.uk>
To: 'xxxxxxxxx@xxx.com' <xxxxxxxxx@xxx.com>
Sent: Mon, 22 Jun 2020 9:28
Subject: Letter to Governor

Dear Justin

Thank you for your letter. Andrew has asked me to reply on his behalf.

It is not role of the Bank of England to provide opinions or general commentary. However, please see answers to your specific questions about the Bank below:

Area One:

As the Bank explained in its 2014 Q1 Quarterly Bulletin article “Money in the modern economy: an introduction” (<https://www.bankofengland.co.uk/quarterly-bulletin/2014/q1/money-in-the-modern-economy-an-introduction>) the amount of money consumers have available for transactions (often referred to as ‘broad money’) is derived from two sources: (i) currency (banknotes and coin); and (ii) bank deposits (which may be created through persons depositing currency at the bank, persons making payments to a bank account or banks granting loans to their customers).

Under the Bank Charter Act 1844, only the Bank of England may issue banknotes in England and Wales. As regards Scotland and Northern Ireland, only banks authorised under the Banking Act 2009 may issue banknotes in Scotland and Northern Ireland respectively.

As regards deposits, accepting deposits is a regulated activity for the purposes of the Financial Services and Markets Act 2000 (Regulated Activities) 2001 (SI 2001/544) (the **Regulated Activities Order**). If UK firms are accepting deposits within the terms of the Regulated Activities Order, as banks and other deposit takers (such as building societies) are, then they are required to be authorised by the Bank of England’s Prudential Regulation Authority (**PRA**) and the Financial Conduct Authority (**FCA**) under the Financial Services and Markets Act 2000 (**FSMA**). As authorised deposit takers under FSMA, they will be subject to PRA prudential regulation and supervision, and subject to legal requirements about the adequacy of their capital and liquidity resources.

As the Bank noted in a second, accompanying Quarterly Bulletin article, also issued in the 2014 Q1 Quarterly Bulletin “Money Creation in the modern economy” (<https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/2014/money-creation-in-the-modern-economy.pdf?la=en&hash=9A8788FD44A62D8BB927123544205CE476E01654>):

“Although commercial banks create money through lending, they cannot do so freely without limit. Banks are limited in how much they can lend if they are to remain profitable in a competitive banking system. Prudential regulation also acts as a constraint on banks’ activities in order to maintain the resilience of the financial system.”

Therefore, whilst the law does not impose a prohibition on banks and other deposit-takers creating money through the granting of loans, the prudential regulation of deposit-takers does, through PRA prudential regulation and supervision, impose some constraints on their activities, including the granting of loans.

Moreover, as “Money creation in the modern economy” notes, it is not only the prudential regulation of banks that imposes constraints of authorised banks creating money through making loans. In addition, it notes that:

“Monetary policy acts as the ultimate limit on money creation. The Bank of England aims to make sure the amount of money creation in the economy is consistent with low and stable inflation. In normal times, the Bank of England implements monetary policy by setting the interest rate on central bank reserves. This then influences a range of interest rates in the economy, including those on bank loans.”

Area Two:

1. The Bank of England is wholly owned by the UK Government. The Bank was nationalised in 1946. All private stock in the Bank was acquired by the UK Government at

this time. However, we are operationally independent. This means our policy committees take policy decisions without Government interference. The powers we have been given are enshrined in Acts of Parliament. You may find this helpful:

<https://www.bankofengland.co.uk/-/media/boe/files/about/legislation/boe-charter.pdf?la=en&hash=3321FC2EE6ED47FCA9617B4F476B3032629EA6C7>

2. The Bank of England is accountable to Parliament through our appearances at Treasury Select Committee hearings. As I have said, operational independence means that we take policy decisions without Government interference. Ultimately these powers are given to us by UK Government. The Court of the Bank of England governs us. It sets our strategy and makes our most important decisions on spending and appointments.

3. That may be a question you wish to pose to the Bank for International Settlements directly.

4. A wealth of information is shared with our Court (and therefore its members). This includes information about meetings which senior members of Bank Staff attend. The minutes of our Court meetings are publically available. You may wish to view what has been discussed. These can be viewed here:

<https://www.bankofengland.co.uk/about/people/court-of-directors>

Turning to your concerns about the awareness of the BIS amongst the 'Trade Union Movement', this is not a question we can answer. You may wish to ask them directly.

Area Three:

1. We would not agree with your personal view, and remain supportive of all international and national efforts in the fight against climate change. The Bank remains committed to working on matters of climate change relevant to our remit.

2. The Bank has not yet made a decision on whether to introduce CBDC, and intends to engage widely with stakeholders on the benefits, risks and practicalities of doing so. We are therefore conducting research in this field, both on how a potential design may work, and the implications for the people of the United Kingdom. You can read more about this here:

<https://www.bankofengland.co.uk/research/digital-currencies>

3. The Bank of England is committed to providing high quality banknotes which meet the demands and needs of the people of the United Kingdom. We are also committed with working with relevant stakeholders to ensure access to cash for those who need it. Our of our main responsibilities is monetary stability, and therefore we play an important role in the production of sterling currency.

Area Four: These are questions for HM Treasury. You may wish to write to them directly.

Kind regards

Charles

Engagement and Enquiries | Communications

Bank of England|Threadneedle St|London EC2R 8AH|+44 (0)20 3461 4878

enquiries@bankofengland.co.uk

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