Volume 6, Iussue 2, 2020

ISSN 2058-7422

# OPEN REVIEW OF MANAGEMENT, BANKING AND FINANCE



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*in association with*

REGENT'S UNIVERSITY LONDON
Centre for Banking and Finance

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«They say things are happening at the border, but nobody knows which border» (Mark Strand)

# Monetary policy in the face of the covid-19 crisis: the interesting case of theUunited Kingdom

by **Marco Bodellini and Dalvinder Singh**

**Abstract:** *In front of the first signals of the economic crisis caused by the Covid-19 pandemic the Bank of England has immediately intervened trying to limit the negative impact of the measures adopted by the Government to reduce the spread of the virus Accordingly, the British monetary authority has implemented several expansive non-conventional monetary policy measures, with the goal to support economic activities while enabling the banking and financial system to continue properly functioning, facilitating lending to businesses and households and allowing the Government to keep on issuing debt. The Bank of England's initiatives have been both very relevant and innovative with regard to some of the measures adopted. Its experience thus is particularly interesting from an international perspective.*



1. In the face of the Covid-19-provoked crisis, the Bank of England (BoE or the Bank) has performed a fundamental function by quickly intervening with a view to reducing the economic damages caused by the pandemic and by the Government measures aimed at limiting the propagation of the virus.

Through expansive non-conventional monetary policy measures,[1] its aim has been to tackle the economic activities reduction, while enabling the banking and financial system to keep on properly working, facilitating the flow of credit to businesses and households and allowing the British Government to continue issuing public debt.[2]

The BoE's initiatives have been particularly vigorous and, to a certain extent, innovative with regard to the measures implemented; therefore the British experience results particularly interesting.

In discussing the monetary policy measures adopted by the BoE to tackle the Covid-19 crisis, this article is divided as follows; after this introduction, section 2 focuses on the role of the Bank within the British system; section 3 analyses the Bank of England Act 1998 which has granted to the BoE the full independence in monetary policy matters; section 4 deals with the Financial Services Act 2012 and the Bank of England and Financial Services Act 2016; section 5 describes both functions and powers of the BoE, focusing on accountability issues; section 6 looks at the relationships between the Treasury and the Bank as well as on the former's powers of override; section 7 focuses on the BoE's monetary policy measures implemented to tackle the Covid-19 crisis and section 8 provides some concluding remarks.

2. Over the last two decades, the BoE has gone through a number of reforms and structural changes impacting its functions, its powers and its internal organization.[3] Accordingly, its tasks have been significantly expanded, by including prudential supervision and crisis management, in addition to monetary policy and keeping financial stability, thereby transforming the UK system in a central-bank based system.[4]

As a consequence, the BoE is today the British independent authority in charge for: a) micro and macro prudential supervision, b) supervision of market infrastructures, c) resolution and crisis management, d) monetary policy and central banking, e) issuance of bank notes, f) emergency liquidity assistance provision.

Against this background, the BoE has a dual mandate(ortwin mandate) that encompasses both the objective of keeping price stability and the objective of maintaining financial stability (and, secondarily, the objective to support the Government's economic policy, including growth and employment).[5] The Bank's dual mandate is reflected in its internal organization which relies on a number of committees, namely: a) the Monetary Policy Committee (MPC), established in 1998, in charge for monetary policy, b) the Financial Policy Committee (FPC), established in 2012, with the task of identifying, monitoring and removing or reducing systemic risks to protect the financial system, and, c) the Prudential Regulatory Committee (PRC), established in 2016, in charge for making the most relevant decisions of the Prudential Regulation Authority (PRA).[6]

Yet, such reforms were all adopted on the grounds that 'a transparent, accountable and well-governed central bank is essential not only for effective policy, but also for democratic legitimacy'.[7]

3. The BoE was eventually given full independence for monetary policy purposes in 1998 through the Bank of England Act 1998, even though, unlike in the case of other central banks, there is no 'declaration of independence' protecting the Bank from political interference.[8] The fact the Bank's independence is not enshrined in the Constitution can potentially make it easy to repeal it through ordinary legislation, although this is made unlikely by non-legal reasons.[9]

In the 1990s a broad consensus had emerged in relation to the economic benefits arising from granting central banks 'instrument independence' over monetary policy.[10] In this regard, a distinction was made between 'goal independence', referring to the central bank being free to set its monetary policy goals, and 'instrument independence', referring to the central bank being free to choose the means through which it tries to achieve its goals.[11] The second option was preferred also in the UK and accordingly, with the 1998 Act, the BoE was given statutory objective(s) for maintaining price stability and, subject to that, supporting the Government's economic policy.[12] Against this backdrop, the MPC was created and provided with instrument independence in conducting monetary policy.

On these grounds monetary policy is performed in the UK as follows: '1) Parliament sets the Bank the goal of maintaining price stability;[13] 2) Parliament empowers HM Treasury to define this on an annual basis;[14] 3) the Bank has operational independence in setting policy to achieve price stability (and is accountable to HM Treasury and Parliament for doing so); 4) yet this operational independence is not immutable and can be overridden by HM Treasury in extreme economic circumstances; 5) but should HM Treasury wish to do so, it can only do so transparently and with the approval of Parliament'.[15]

4. As a legislative response to the global financial crisis of 2007-2009, the Financial Services Act 2012 was adopted to give to the BoE responsibility for overseeing the UK financial system as a whole.[16] Accordingly, the FPC was established and a new regulator, the PRA, was set up, at the outset as a subsidiary of the BoE, and then it was incorporated within the Bank itself.[17]

Since with expanded responsibilities 'comes the need for effective transparency, genuine accountability and robust governance arrangements',[18] in 2014 the BoE proposed a series of changes aimed at enhancing its transparency, accountability and governance.[19]

In order to strengthen the ability of the Parliament and of the public to hold the Bank accountable for its actions, the latter proposed: 1) improvements to MPC transparency, including the publication of the minutes of its discussions and its Inflation Report alongside the announcement of its policy decision; 2) the publication of the minutes of Court of Directors meetings; 3) the simplification of the governance and structure of the Bank's Court of Directors; 4) the alignment of the status of the FPC and the PRA Board with that of the MPC.[20]

In relation to MPC transparency, the BoE, by accepting the recommendations formulated by Kevin Warsh, a former Governor of the Federal Reserve, in his Independent Review of the MPC's processes,[21] decided to publish, with an appropriate delay (i.e. 8 years), the transcripts of that part of its meeting at which policy is decided, as well as both the minutes of its policy meetings and the Inflation Report at the same time as its policy decision.[22]

The MPC decided also that it would have continued to meet monthly and to decide the stance of monetary policy at every meeting, but 'from 2016, eight of the twelve meetings will be roughly evenly spaced throughout the year, with one meeting roughly halfway between each quarterly Inflation Report. The remaining four meetings will be used both to decide the monetary policy stance and to hold joint MPC-FPC discussions on topics of mutual interest'.[23]

With regard to the cooperation between the MPC and FPC, both committees considered it appropriate to enhance their interaction by scheduling four joint meetings per year.[24]

Since April 2013, due to amendments to the 1998 Act, the Bank has published the minutes of its Court meetings six weeks after the meeting to which they relate, or, if there is no further meeting within that period, then two weeks after the date of the next Court meeting.[25] However, the minutes from 1914 to March 2013 had remained unpublished. Therefore, with a view to enabling the Parliament, through its Treasury Committee, to hold the Bank to account, the latter decided to publish also the minutes of the historical court meetings.[26]

The Bank also proposed to simplify its governance structure as direction and oversight were split between two statutory Boards, i.e. the Court and the Oversight Committee, with overlapping functions.[27] Based on previous experience gained over 18 months, the BoE thought that a single unitary board could have been more effective both in managing the Bank and in delivering a more convincing framework for accountability.[28]

The MPC was already a Committee of the Bank operating under objectives set in legislation, namely 'to maintain price stability and, subject to that, to support the economic policy of Her Majesty's Government, including its objectives for growth and employment.'[29] This structure was considered very effective and therefore it was suggested that also the FPC and PRC adopted the same structure.[30]

The changes suggested by the BoE that needed legislative action to become effective have been implemented through the Bank of England and Financial Services Act 2016, whose most relevantelements are: 1) improvement of the accountability and governance of the BoE by making its Court of Directors a smaller, more focused and unitary board; 2) implementation of the recommendations of the Warsh Review by moving the MPC to a schedule of a minimum of 8 meetings a year; 3) finalization of the Governor's 'One Bank' reforms by bringing the PRA within the Bank, ending its status as a subsidiary, and establishing a new PRC; 4) changes to the FPC, through making it a statutory committee of the Bank, in line with the MPC and the new PRC; 5) appointment of a new Deputy Governor for Banking and Markets in legislation, adding the position to the Court of Directors and the FPC; 6) bringing the Bank within the purview of National Audit Office (NAO) value for money studies, improving transparency and accountability for its use of resources; 7) further coordination arrangements between the Treasury and the Bank in protecting taxpayers and the wider economy from bank failures.[31]

5. As mentioned, through the legislative initiatives adopted in the aftermath of the global financial crisis of 2007-2009, the BoE has been given a much broader set of functions and consequently of powers than it was previously the case. The Bank is indeed the monetary authority, the lender of last resort, the macro-prudential supervisor, the micro-prudential supervisor, the financial markets infrastructure regulator and the resolution authority. But as well-known, 'with power comes responsibility'.[32] Against this backdrop, accountability plays a pivotal function for a democracy to properly function. Despite its evanescence, accountability has been clearly defined as 'an obligation owed by one person or institution (the accountable) to another (the accountee) according to which the former must give account of, explain and justify the actions, omissions or decisions taken against criteria of some kind, and take responsibility for any fault or damage'.[33] For such an obligation to be properly discharged by

the accountable, which means for this system to work, then an accountee capable of holding the latter to account is needed. And in this regard, the existential question pertains to who can effectively act as the accountee, or in other words, 'to whom should the Bank of England be accountable?'.[34] In a parliamentary democracy, Parliament is regarded as the best-suited institution to play the role of guarding the guardians of monetary and financial stability.[35] Even though this is true from a purely theoretical perspective, in practice typically an issue arises. In fact, for such a check and balance system to effectively function, Members of Parliament (MPs) need to have a deep understanding of monetary and financial matters as, otherwise, the control would simply be ineffective.[36] An efficient mechanism to enable MPs to successfully perform this task, which was proposed back in 1997, is the creation by the Treasury Committee of a sub-committee with the specific role of monitoring the Bank.[37] Of course, this mechanism of control can work if the members of such a sub-committee have 'the technical expertise required to deal with monetary matters' and are multi-partisan, on the very assumption that 'accountability requires knowledge'.[38] Accordingly, those MPs, who are members of the Committee (or sub-committee), are meant to act as a 'filter for the house in holding the Bank of England accountable to Parliament'.[39]

The BoE is accountable to parliament (House of Commons), to judicial review and to audit control. And it should also be accountable to the Treasury.[40] In this regard, the most critical aspect relates to the balance to be struck between the right amount of independence that the Bank should be given and the degree of accountability which should be proportionate to the powers and functions assigned to it. 'Indeed, if too much independence can lead to the creation of a democratically unacceptable 'state within the state,' too much accountability threatens the effectiveness of independence'.[41] The importance of independence arises from the need to de-politicise the 'pursuit of monetary policy and financial stability'.[42] In this regard, 'Parliamentary accountability provides the democratic legitimacy that an independent central bank would otherwise lack'.[43]

Also, for an accountability mechanism to properly work, it needs to clearly set objectives or standards according to which an action or decision is to be assessed.[44] This is to say that 'accountability implies an obligation to comply with certain standards in the exercise of power or to achieve specific goals'.[45]

With specific regard to monetary policy, the BoE is meant to put in place measures with a view to reaching the inflation target set by the Chancellor. Such inflation target, therefore, 'provides a clear quantifiable indicator'.[46] By contrast, in the area of financial stability there are no universally accepted standards to comply with. And this of course creates an issue in terms of accountability, since with no criteria to follow, then the content of the obligation becomes vague and its discharging difficult to assess.[47]

Still, another important component of accountability relates to the distinction between ex ante accountability and ex post accountability, since accountability can be exercised either before/during the process of taking the decision/action, or after that the decision/action has been taken.[48]

Significant is also the relationship between transparency and accountability. In this regard, whereas 'accountability is an obligation to give account of, explain and justify one's actions', differently ‘transparency is the degree to which information on such actions is available’.[49] The main issue with transparency is that it can end up creating panic. Accordingly, certain supervisory decisions require a degree of confidentiality, given the psychological connotations of bank panic and contagion.[50] This, by contrast, is not the case in the area of monetary policy where the arguments in favour of transparency largely overcome the ones relating to confidentiality.[51]

A different issue pertains to the hierarchy between the different objectives that the Bank is meant to achieve and the possible conflict of interests between them. ‘Performance accountability is facilitated when there is one goal, rather than multiple goals, and when that goal is narrowly defined rather than formulated in broad terms. If there are multiple goals, a clear and unambiguous ranking is better than no ranking at all’.[52]

In terms of procedures or mechanisms to enable parliamentary accountability, the following are regarded as useful instruments: 1) a full annual report of the Bank’s operations and accounts to be first debated by the Treasury Committee and then submitted to the House of Commons with an explanatory note drafted by the Committee itself; 2) a report drafted by the Court of the Bank once per year reviewing performances and procedures of the MPC to be presented first to the Treasury Committee and then submitted to the House of Commons with an explanatory note; 3) special reports which could be requested by the Treasury Committee and/or by the House of Commons in emergency situations or special occasions; 4) appearances of the Governor, Deputy-Governors and Members of the MPC before the Treasury Committee and the House of Commons both on a regular basis and in special circumstances; 5) the advice of the Treasury Committee to be requested for the appointment of the Governor and the Members of the MPC; 6) inflation targets, to be set by the Chancellor, should be first discussed by the Treasury Committee and then by the House of Commons.[53]

6. The relationships between the Treasury and the Bank are based on strong cooperation and coordination between the two. ‘Accordingly, there is a broad suite of formal and informal mechanisms to manage when different views on issues of policy or a course of action to be taken emerge’.[54]

The BoE operates in accordance with a statutory framework set by Parliament. Such a framework is designed to ensure that the Bank is free from day-to-day political influence and direction. Still coordination becomes particularly important in areas placed at the border between fiscal policy, monetary and financial stability. In this regard a review on the monetary policy framework conducted by the Treasury in 2013 ‘highlighted that the development of new unconventional instruments (such as Quantitative Easing) should include consideration with Government of appropriate governance and accountability arrangements to ensure that the respective objectives of the government and central bank are clear and transparent’.[55] The need for such fiscal central bank coordination in relation to such instruments is important because the instruments risk blurring the line between monetary and fiscal responsibilities, as such policies can 1) involve credit risk (which ultimately has implications for the taxpayer as governments back the public sector balance sheet) and 2) influence credit allocation (which raises the question about the appropriate role of central banks in such decisions).[56]

On top of all this, a wide range of supporting coordination mechanisms are in place between HM Treasury and the Bank, specifically in relation to the three statutory committees and also more generally.[57]

However, in specified circumstances, HM Treasury has a set of backstop legal powers to override the Bank.[58] The four powers of direction that HM Treasury has over the BoE are: 1) general power of direction 'in the public interest', introduced as part of the post-war legislation that took the Bank into public ownership in 1946; 2) reserve power over monetary policy 'in extreme economic circumstances', retained by the Treasury at the time the Bank was granted operational responsibility for monetary policy in 1998; 3) power to direct the Bank to comply with EU law or other international obligations in the field of firm supervision, granted in 2012; and 4) specific power of direction as a crisis-management tool where public money is at risk, introduced as part of post-crisis legislative reforms.[59]

These powers and their extension have led commentators to argue that 'the Bank of England's independence from HM Treasury is a complicated affair, and one which has evolved over time in a piecemeal fashion'.[60]

7. In the face of the first negative effects of the pandemic on the British economy, the BoE has immediately intervened by taking a number of vigorous monetary policy measures aimed at achieving the price stability objective (inflation target of 2%),[61] on one side, and at limiting the recessive impact of the crisis, on the other side.[62]

The main technique deployed to implement such measures has been the remarkable expansion of the Bank's balance sheet[63] through creating reserves,[64] which has been further justified by the consideration that the BoE is meant not only to keep price stability but also to maintain financial stability, (and secondarily to support the Government's economic policy, including growth and employment).[65]

The most relevant measures so far adopted by the BoE have been: 1) Term Funding Scheme with additional incentives for SMEs (TFSME);[66] 2) Covid Corporate Financing Facility (CCFF);[67] 3) Asset Purchases Facility (APF);[68] 4) interest rates reduction from 0,75% to 0,1%;[69] 5) Contingent Term Repo Facility (CTRF);[70] 6) extension of the Ways and Means facility.[71]

The BoE's action has been supported by HM Treasury since the very beginning. Such close interaction between the two institutions has been particularly important to implement the CCFF, that is a tool meant to provide liquidity to large companies hardly hit by the crisis. The financing takes place through the purchase of commercial papers. The BoE acts on behalf of the Treasury that, therefore, bears the borrowers' risk of default.[72] The CCFF is thus a Government program since it is the Government that decides the amount of the financing, the beneficiaries and the terms. The latter releases a guarantee to the BoE that in turn implements the Government's decisions by creating reserves.[73]

7.1. On 19 March 2020, the MPC decided to increase the size of the quantitative easing program already on-going up to the amount of 645 billion pounds,[74] equal to 7,4% of the British GDP.[75] The main reason for this decision was the condition in which financial markets ended up in March 2020. Indeed, they experienced a tremendous shock that could be dealt with only through a massive quantitative easing program.[76] Interestingly, the program has been subsequently further increased of additional 100 billion pounds on 17 June 2020[77] and of additional 150 billion pounds on 5 November 2020, reaching the total amount of 895 billion pounds.[78]

The increase of the program is a remarkable element but what is even more significant is the underlying reasoning which supports the inherent decisions. In this regard, it has been argued that in a crisis like the one provoked by the pandemic it is better to err by adopting excessive measures which can then be reduced, rather than to take insufficient initiatives which could leave the economic system paralysed by low or even absent inflation.[79] The reason justifying such an approach is that should the economy stagnate due to low growth and absent inflation, monetary policy would not have effective instruments to intervene to reach the 2% target. Therefore, monetary authorities must act asymmetrically; namely, a reduction of monetary policy measures must be gradual, whereas, should a monetary stimulus be necessary, this should be provided very quickly.[80] Indeed, if thanks to expansive measures the economy were to be able to recover through sustained growth, monetary authorities would have the tools to reduce the measures before that excessive demand could create inflation. In the opposite scenario, by contrast, if the stimulus provided were to be insufficient, the economy would end up in a deflationary spiral almost impossible to handle, which in turn could provoke high costs in the long run, such as business failures and unemployment.[81] In other words, the main concern within the MPC is that the economic recovery could be to slow since this might result particularly expensive due to the inability of the economic system to fully operate.[82]

It is also worth noticing that, although currently in the context of the quantitative easing program the purchase of financial instruments can take place only on secondary markets, the BoE has expressively declared that it will keep on assessing the appropriateness of buying instruments also on primary markets.[83] Such a position has made some commentators argue that the BoE could eventually change paradigm and purchase treasury gilts and corporate bonds at the time of their issuance.[84]

7.2. In this context even the decision jointly made by the BoE and the Treasury to remove the cap to the so-called Ways and Means facility is very significant. The latter is a credit line provided by the BoE to the Treasury which used to be capped to the amount of 400 billion pounds.

Through the removal of such cap, the aim is to enable the Treasury to borrow with no quantitative limitations from the BoE, that is thus meant to finance the former through the creation of reserves. The use of such credit line has been, nevertheless, limited through some restrictions aimed at preserving the Bank's independence. Accordingly, the facility will be available only until the end of 2020 and will allow the Treasury to rely on extra financial resources should the market for Treasury gilts freeze due to the pandemic. This is particularly relevant in light of the massive public intervention put in place by the British Government to support the economy which in turn will determine a significant increase of the deficit and thus of public debt.[85]

From the balance sheet perspective, the way of working of this facility is not different from a quantitative easing program in which public debt is bought by the central bank. In both cases, the central bank issues reserves that are then used to finance the government.

Yet, the very difference is that whereas in a quantitative easing program the initiative is taken by the central bank, in the case of the Ways and Means facility, after its granting and the removal of size limitations, the decision to draw it is made by the Government on its own.[86]

Despite the introduction of some restrictions to its use (primarily its expiration at the end of the year), such a decision has opened up a lively debate among scholars, policy-makers and commentators principally focused on two main interrelated aspects. The first criticality relates to the potentially inflationary effect of such a credit line. The second one is that this measure can end up being pure monetary financing since the BoE creates central bank money to finance (at least potentially) the State's deficit. The most serious concern pertains to the risk that the BoE's independence could be reduced or affected, thereby undermining the very raison d'être of a central bank with monetary policy functions separated by the Government.

Both criticalities have been analysed, discussed and tackled by the BoE. Particularly, according to the MPC, currently, there is no risk of inflation, since the Covid-19 crisis, by negatively affecting both demand and supply of goods and services,[87] will significantly decrease inflation, which could reach its target level of 2% only in 2022.[88] On top of this, because of its limited duration such a credit line will not be able to influence the BoE's monetary policy and thus its ability to reach the inflation target.[89]

In relation to the monetary financing concern, the BoE has publicly intervened arguing that this is mostly an issue of definitions.[90] The term 'monetary financing' is not always understood and interpreted in the same way, and according to the definition used by the BoE, the latter has stated there is no monetary financing taking place in the UK.[91]

According to a commonly accepted interpretation, monetary financing takes place when public expenditures are financed through central bank money instead of through issuing sovereign bonds on the market. However such a characterisation would also qualify other monetary policy measures where the central bank creates reserves to finance the purchase of sovereign debt. Hence, the crucial point relates to the limit above which such a financing technique is no longer sustainable. Before the pandemic, the amount of central bank money in the UK was equal to 12% of the public debt while now it has reached 26%. Nevertheless, in Japan this ratio is 42%. This allows to argue that there is not a commonly accepted threshold beyond which the central bank's financing of public debt is considered excessive. What seems to be relevant in this regard, on the contrary, is the investors' confidence in the public finance of a given country and its sustainability in the long run resulting from the former willingness to keep on buying public debt. A reliable indicator is the interest rate charged to issue public debt.[92]

The main concern in relation to monetary financing pertains to the creation of hyperinflation.[93] Yet, the difference between cases such as the Weimar Republic and cases of effective monetary policy to reach the inflation target is to be found in the central bank's independence from the government.[94] The risk of hyperinflation could arise when the decisions of the central bank are influenced by the government that tries to pursue fiscal objectives without caring about inflation, thereby creating a phenomenon called fiscal dominance.[95]

On these grounds, the BoE has argued that a facility like the Ways and Means, although without any cap, cannot be qualified as monetary financing since it is temporarily limited and granted by an independent central bank.[96]

8. The BoE has faced the Covid-19-provoked crisis by implementing extraordinary and non-conventional monetary policy measures. Such expansive measures have been adopted also on the grounds that there is no perceived risk of inflation.

The experience of the Bank of England is relevant also in relation to the concept of monetary financing by showing that there are different characterisations of such phenomenon. The latter is typically understood as public expenditures' financing granted through the creation of central bank money. The main concern in this regard is about the risk of creating hyperinflation.[97] However such a risk might arise when the central bank's monetary policy measures are heterodetermined by the government to reach fiscal objectives paving the way to a phenomenon called fiscal dominance.[98]

With regard to quantitative easing programs, nevertheless, it has been observed that they do not automatically qualify as monetary financing[99] since they are mostly a monetary policy instrument used to reach the inflation target and support growth and employment.[100] Such extraordinary measures are typically adopted when interest rates reduction (id est a conventional measure) is no longer possible or it is insufficient to reach the target.

Similar considerations have been advanced with regard to credit lines granted by the central bank to the government. According to the BoE, the crucial point in this regard is the level beyond which this financing technique is no longer sustainable. Since there is no universally adopted threshold, what is relevant from this perspective is the investors' confidence in the country's public finance as well as their willingness to keep on lending money to the government.

**References:**

[1] See VLIEGHE, Monetary policy and the Bank of England's balance sheet, Speech – Bank of England, 23 April 2020, arguing that 'The ultimate aim of monetary policy, as it always is, is to meet the inflation target, by ensuring that aggregate demand grows sustainably in line with the economy's potential. The economy's potential is severely disrupted at the moment but, once the pandemic is over, and other things equal, in principle it should return approximately to the pre-virus trajectory. A persistent undershoot of the economy relative to its pre-virus trajectory is, in my view, most likely to be disinflationary. So the current priority for monetary policy, with a lot of help from fiscal policy, is to return the economy to that pre-virus trajectory as soon as possible'.

[2] See CAVALLINO – DE FIORE, Central banks' response to Covid-19 in advanced economies, Bank for International Settlements – BIS Bulletin no. 21, 5 June 2020, 1, assessing the measures adopted by central banks in the US, Euro Area, Japan, UK and Canada.

[3] Before that, the Bank was in private hands for the first 252 years of its existence and then nationalized with its capital stock transferred to HM Treasury in 1946; see Bank of England Act 1946, 9 & 10 Geo. 6 c. 27, § 1(1) (UK). The shares are held by the Treasury Solicitor on behalf of HM Treasury. See BANK OF ENGLAND, Who Owns the Bank of England?, available at https://www. bankofengland.co.uk/knowledgebank/who-owns-the-bank-of-england.

[4] See UK Government, Bank of England and Financial Services Bill given royal assent. Parliament passes the Bank of England and Financial Services Act 2016, 4 May 2016, https://www.gov.uk/government/organisations/hm-treasury, stating that 'The Financial Services Act 2012 dismantled the failed tripartite system, putting the Bank of England at the centre of a new framework of financial regulation'.

[5] See LASTRA – ALEXANDER, The ECB Mandate: Perspectives on Sustainability and Solidarity, In-Depth Analysis Requested by the ECON committee of the European Parliament, Monetary Dialogue Papers, June 2020, 8, arguing that 'In the UK, financial stability is a statutory objective of the Bank of England on a par with price stability (twin mandate)'.

[6] See GOULDNING – Abley, Relationship management in banking, London 2018, 137.

[7] See Bank of England, Transparency and accountability at the Bank of England, 11 December 2014, 1.

[8] See Salib – Skinner, 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, who also emphasise that there is 'no oath that its political masters must swear requiring them to respect central bank independence'.

[9] Id., 913 who recall the words of Chancellor Lawson saying that 'there would be a powerful market sanction against that: the mere announcement of the intention to do so would in itself be so damaging to market confidence that any Government would be extremely reluctant to attempt it'.

[10] See Balls – HOWAT – STANSBURY, Central Bank Independence Revisited: After the Financial Crisis, What Should a Model Central Bank Look Like?,13–14, Harvard Kennedy School Mossavar – Rahmani Centre for Business & Government, Working Paper No. 67, 2016, available at https://www.hks.harvard.edu

[11] See Debelle – Fischer, How Independent Should a Central Bank Be?, in Goals, Guidelines, and Constraints Facing Monetary Policymakers: Proceedings of a conference held in June 1994, 195 – 197.

[12] See Salib – Skinner, Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, supra, 929.

[13] More in general and beyond monetary policy, 'Parliament sets the Bank's statutory objectives in legislation and the Bank then has the operational independence to pursue these objectives, principally through its three statutory committees'; see Salib – Skinner, Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, supra, 921.

[14] Accordingly, 'Parliament empowers HM Treasury to elaborate on the Bank's statutory objectives. In practice, this takes the form of letters from the Chancellor to the statutory committees, which are issued and published on a regular basis. As one would expect, the scope of the letter varies depending on the committee'; see Salib – Skinner, Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, supra, 922, who also stress that 'the Chancellor's remit to the MPC, which must be issued at least once every twelve months, defines price stability (since the regime's inception, an inflation target) and specifies the economic policy of the government. Since 1997, the remits have required an exchange of "open letters" between the Governor and the Chancellor if inflation moves away from the target by more than 1% in either direction'.

[15] Id., 931-932.

[16] See Lastra, Accountability mechanisms of the Bank of England and of the European Central Bank, Study for the Committee on Economic and Monetary Affairs, Policy Department for Economic, Scientific and Quality of Life Policies, European Parliament, Luxembourg, 2020, 15.

[17] Id., 15.

[18] See Bank of England, Transparency and accountability at the Bank of England, supra, 1.

[19] Id., 1.

[20] Id., 1, also stating that these changes were expected 'to enhance the Bank's ability to fulfil its mission to promote the good of the people of the United Kingdom by maintaining monetary and financial stability'.

[21] See Warsh, Transparency and the Bank of England's Monetary Policy Committee, December 2014, passim, who identified four distinct objectives of monetary policy transparency, (1. sound policy, 2. effective communication, 3. public accountability and 4. accurate historical record-keeping), and made recommendations with respect to each of them.

[22] See Bank of England, Transparency and accountability at the Bank of England, supra, 2.

[23] Id., 3.

[24] Id., 3.

[25] Id., 4.

[26] See Lastra, Accountability mechanisms of the Bank of England and of the European Central Bank, supra, 16.

[27] Id., 16.

[28] See Bank of England, Transparency and accountability at the Bank of England, supra, 4-5.

[29] Id., 5.

[30] SeeLastra, Accountability mechanisms of the Bank of England and of the European Central Bank, supra, 17.

[31] See UK Government, Bank of England and Financial Services Bill given royal assent. Parliament passes the Bank of England and Financial Services Act 2016, supra, passim.

[32] See Lastra, Keeping tabs on the Bank. Or, as they say, Quis custodiet ipsos custodes?, Parliamentary Brief, July 2011, 20, recalling that 'Lord Acton's dictum resonates in the background of the corridors of power, as a key reminder of the importance of accountability'.

[33] Id., 20.

[34] Id., 20.

[35] See Lastra, Accountability of the Bank of England. First Report. House of Commons – Treasury Committee, Session 1997-1998, London, 27 October 1997, 28, clearly saying that 'in a democracy, an

independent central bank needs to be accountable to the elected representatives of the will of the people, i.e. to Parliament'.

[36] See Lastra, Keeping tabs on the Bank. Or, as they say, Quis custodiet ipsos custodes?, supra, 20, who also stresses that in order to properly perform this task MPs need 'time, information and resources'.

[37] See Lastra, Accountability of the Bank of England, supra, 28-29.

[38] See Lastra, Keeping tabs on the Bank. Or, as they say, Quis custodiet ipsos custodes?, supra, 20, also suggesting that this sub-committee should have either three or five members.

[39] See Lastra, Accountability of the Bank of England, supra, 28, emphasising that the members of the Committee should explain in clear terms to the House whether the Bank has managed to achieve its goals or not.

[40] See Lastra, Keeping tabs on the Bank. Or, as they say, Quis custodiet ipsos custodes?, supra, 20.

[41] Id., 20.

[42] Id., 20.

[43] See Lastra, Accountability of the Bank of England, supra, 28.

[44] See Lastra, Keeping tabs on the Bank. Or, as they say, Quis custodiet ipsos custodes?, supra, 21.

[45] Id., 21, who also underlines that 'the more complex the activity, the more difficult it is to establish clear standards of conduct and specific outcomes. And complexity frustrates accountability'.

[46] Id., 21.

[47] Id., 21, also mentioning some proposals advanced by economists to assess the pursuit of financial stability.

[48] Id., 21, who underlines that 'the appointment procedures of central bank officials, if such procedures require parliamentary approval, and the parliamentary debate of inflation targets (when such a parliamentary debate is required) can be regarded as ways of exercising accountability ex ante'; while 'the reporting requirements and the appearances of the central bank governors or central bank officials in front of parliamentary committees are ways of exercising accountability through control or ex post'.

[49] Id., 21.

[50] Id., 21, 'for instance, the need for covert assistance in the case of lender of last resort operations is of particular importance to contain a crisis, since the belief in a panic is self-fulfilling and the fact that an institution is known to require official assistance may trigger the very run the authorities are keen to prevent, and thus 'stigmatize' the provision of such assistance'.

[51] Id., 21.

[52] Id., 21.

[53] See Lastra, Accountability of the Bank of England, supra, 29.

[54] See Salib – Skinner, Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, supra, 920.

[55] HM TREASURY, Review of the Monetary Policy Framework, 2013, 4–5, available at https://assets.publishing.service.gov.uk/

[56] See Salib – Skinner, Executive Override of Central Banks: A Comparison of the Legal Frameworks in the United States and the United Kingdom, supra, 922, who argue that 'a practical example of such coordination is the public exchange of letters between the Bank and HM Treasury when the Bank commenced gilt purchases via its Asset Purchase Facility in 2009. See Letter from Alistair Darling, Chancellor of the Exchequer, HM Treasury, to Mervyn King, Governor, Bank of England (29 January 2009), available at https://www.bankofengland.co.uk/-/media/boe/files/letter/2009/chancellor-letter-290109; Letter from Alistair Darling, Chancellor of the Exchequer, HM Treasury, to Mervyn King, Governor, Bank of England (3 March 2009), available at https://www.bankofengland.co.uk/-/media/boe/files/letter/2009/chancellor-letter-050309. The letters set out the monetary policy purposes and operation of the facility, and the delegation of the instrument of asset purchases financed by the issuance of central bank reserve to the MPC. HM Treasury also undertook that 'the Government will not alter its issuance strategy as a result of the asset transactions undertaken by the Bank of England for monetary policy purposes'.

[57] Id., 923-924, making the example of an HM Treasury official being permitted to attend and speak at MPC and FPC meetings, yet without voting rights. Additionally, there are formal memoranda of understanding explaining the financial relationships between the two Institutions and their responsibilities regarding resolution planning and financial crisis management.

[58] Id., 909.

[59] Id., 914.

[60] Id., 913.

[61] See BANK OF ENGLAND – MONETARY POLICY COMMITTEE, Monetary Policy Report, May 2020, passim, where it is said that 'The MPC has statutory objectives to maintain price stability and, subject to that, to support the economic policy of the Government including its objectives for growth and employment. In the current circumstances, and consistent with the MPC's remit, monetary policy is aimed at supporting businesses and households through the crisis, and limiting any lasting damage to the economy'.

[62] See SAUNDERS, Covid-19 and monetary policy, Speech – Bank of England, 28 May 2020, 4.

[63] See BAILEY, The central bank balance sheet as a policy tool: past, present and future, Speech – Bank of England, given at the Jackson Hole Economic Policy Symposium, 28 August 2020, 2.

[64] See VLIEGHE, Monetary policy and the Bank of England's balance sheet, supra, 3; see also CAVALLINO – DE FIORE, Centralbanks' response to Covid-19 in advanced economies, supra, 6.

[65] According to the Financial Services Act 2012 the BoE is also meant to pursue the objective 'of protecting and enhancing the stability of the financial system of the United Kingdom'. Furthermore the BoE 'is committed to sustain financial stability whose purpose is to maintain three vital functions of the financial system (1) the payments mechanism (2) financial intermediation (3) insuring against and dispersing risk'; see LASTRA – ALEXANDER, The ECB Mandate: Perspectives on Sustainability and Solidarity, supra, 5, arguing that 'Following the GFC of 2008, the rediscovery of financial stability as a key central bank objective (as well as being an objective for the government and for financial regulatory and supervisory agencies) has inspired legislative reforms around the world'.

[66] See BANK OF ENGLAND, Term Funding Scheme with additional incentives for SMEs (TFSME) – Market Notice, 11 March 2020, available at https://www.bankofengland.co.uk/markets/market-notices/2020/term-funding-scheme-market-notice-mar-2020.

[67] See BANK OF ENGLAND, Covid Corporate Financing Facility (CCFF): information for those seeking to participate in the scheme, 17 March 2020, available at https://www.bankofengland.co.uk/markets/covid-corporate-financing-facility.

[68] See BANK OF ENGLAND, Asset Purchase Facility (APF): Asset Purchases and TFSME – Market Notice, 19 March 2020, available at https://www.bankofengland.co.uk/markets/market-notices/2020/apf-asset-purchases-and-tfsme-march-2020.

[69] See BANK OF ENGLAND, Monetary Policy Summary for the special Monetary Policy Committee meeting on 19 March 2020, 19 March 2020, available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/monetary-policy-summary-for-the-special-monetary-policy-committee-meeting-on-19-march-2020; see also CAVALLINO – DE FIORE, Central banks' response to Covid-19 in advanced economies, supra, 1.

[70] See BANK OF ENGLAND, Activation of the Contingent Term Repo Facility – Market Notice, 24 March 2020, available at https://www.bankofengland.co.uk/markets/market-notices/2020/activation-of-the-contingent-term-repo-facility.

[71] See BANK OF ENGLAND, HM Treasury and Bank of England announce temporary extension to Ways and Means facility, News release, 9 April 2020, available at https://www.bankofengland.co.uk/news/2020/april/hmt-and-boe-announce-temporary-extension-to-ways-and-means-facility.

[72] See CAVALLINO – DE FIORE, Central banks' response to Covid-19 in advanced economies, supra, 5, arguing that 'UK Treasury offered a guarantee of 100% of the stock of commercial paper purchased by the Bank of England through its Covid Corporate Financing Facility (CCFF)'.

[73] See VLIEGHE, Monetary policy and the Bank of England's balance sheet, supra, 12.

[74] See BANK OF ENGLAND – FINANCIAL POLICY COMMITTEE, Interim Financial Stability Report, May 2020, 8; see SAUNDERS, Covid-19 and monetary policy, supra, 4.

[75] See CAVALLINO – DE FIORE, Central banks' response to Covid-19 in advanced economies, supra, 4.

[76] See VLIEGHE, Yield Curve and QE, 2018, Speech available at: https://www.bankofengland.co.uk/speech/2018/gertjan-vlieghe-imperial-college-business-school-london; see also VLIEGHE,Monetary policy: adapting to a changed world, 2019, speech available at: https://www.bankofengland.co.uk/speech/2019/; see HAUSER, Seven Moments in Spring: Covid-19, financial markets and the Bank of England's balance sheet operations, Speech – Bank of England, 4 June 2020, 6.

[77] See BANK OF ENGLAND, Asset Purchase Facility: Gilt Purchases – Market Notice, 18 June 2020, available at https://www.bankofengland.co.uk/markets/market-notices/2020/asset-purchase-facility-gilt-purchases-june-2020, where it is underlined that 'On 17 June the MPC voted for the Bank of England to continue with the existing programme of £200bn of UK government bond and sterling non-financial investment-grade corporate bond purchases, and to increase the stock of purchases of UK government bonds, financed by central bank reserves, by an additional £100bn, to take the total stock of asset purchases to £745bn'.

[78] See BANK OF ENGLAND, Bank Rate held at 0.1% and asset purchases increased by £150bn – November 2020 – Monetary Policy Summary and minutes of the Monetary Policy Committee meeting, 5 November 2020, available at https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2020/november-2020.

[79] See SAUNDERS, Covid-19 and monetary policy, supra, 2, arguing that 'The costs of policy error are, to an extent, asymmetric at present. It is safer to err on the side of easing somewhat too much, and

then if necessary tighten as capacity pressures eventually build, rather than ease too little and find the economy gets stuck in a low inflation rut with increased hysteresis costs'.

[80] Id., 11.

[81] Id., 12.

[82] Id., 7.

[83] See BANK OF ENGLAND, Asset Purchase Facility (APF): Asset Purchases and TFSME – Market Notice, 19 March 2020, available at https://www.bankofengland.co.uk/markets/market-notices/2020/apf-asset-purchases-and-tfsme-march-2020.

[84] See SCHOMBERG – MILLIKEN, Bank of England ramps up bond-buying, cuts rates to near zero, Reuters, 19 March 2020.

[85] See GILES – SAMSON, UK public debt exceeds 100% of GDP for first time since 1963, Financial Times, 19 June 2020, passim; see CAVALLINO – DE FIORE, Central banks' response to Covid-19 in advanced economies, supra, 6.

[86] See VLIEGHE, Monetary policy and the Bank of England's balance sheet, supra, 10.

[87] Id., 2.

[88] See SAUNDERS, Covid-19 and monetary policy, supra, 4.

[89] See VLIEGHE, Monetary policy and the Bank of England's balance sheet, supra, 12.

[90] Id., 13.

[91] Id., 13.

[92] Id., 13.

[93] See SARGENT, The Ends of Four Big Inflations, in Inflation: Causes and Effects, University of Chicago Press, 1982, passim.

[94] See VLIEGHE, Monetary policy and the Bank of England's balance sheet, supra, 13.

[95] See BROADBENT, Government debt and inflation, Speech – Bank of England given at the Annual Meeting of the Central Bank Research Association – London School of Economics, 2 September 2020, 2; see VLIEGHE, Monetary policy and the Bank of England's balance sheet, supra, 14.

[96] Andrew Bailey, Governor of the BoE, has described monetary financing as ‘a permanent expansion of the central bank balance sheet with the aim of funding the government’, see GILES, Bailey rejects monetary financing as tool in virus crisis, Financial Times, 6 April 2020, passim.

[97] See SARGENT, The Ends of Four Big Inflations, supra, passim.

[98] See VLIEGHE, Monetary policy and the Bank of England’s balance sheet, supra, 14.

[99] See SAUNDERS, Covid-19 and monetary policy, supra, 13.

[100] See VLIEGHE, Monetary policy and the Bank of England’s balance sheet, supra, passim.

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Although jointly elaborated, this article has been drafted as follows: paragraphs 1, 3, 5, 6, 7, 7.1, 7.2 and 8 by Marco Bodellini and paragraphs 2 and 4 by Dalvinder Singh.