Bank of England

First year report: good marks for Mark Carney despite interest rate anxieties

Business leaders and politicians praise inflation fall and economic rebound but forward guidance sows confusion

Angela Monaghan

When Mark Carney arrived for his first day as Bank of England governor on 1 July 2013, he carried with him the burden of high expectation. Wooed by George Osborne and an £874,000 pay package, the former Goldman Sachs executive and Bank of Canada governor was hailed as the rock star of central banking. Osborne described him as "the outstanding central banker of his generation".

His task was huge. It included, among other things, the shakeup of a 319-year-old institution, oversight of a raft of unprecedented powers, normalisation of monetary policy after the crisis response, and responsibility for putting the UK's economic recovery on a sustainable footing.

Below, a panel of experts give their verdicts on how Carney has done in his first year in the job.

PHOTOGRAPH: DANIEL LEAL-OLIVAS/EPA

John Cridland Director-general of the Confederation of British Industry

The governor's end of year report card is positive. The innovations in UK monetary policy he has spearheaded - in the form of forward guidance - have provided certainty to businesses, households and financial markets.

His time as governor has seen solid growth in the UK, which is set to continue. We expect economic growth to strengthen this year, to 3%, and to remain strong at 2.7% next year.

He has also presided over a beefing up of the Bank of England's financial stability role, making it one of the most powerful central banks in the world, and ensuring effective coordination between monetary and macroprudential policy.

Housing remains a critical issue up and down the country, and the governor has responded well to concerns about its impact on financial stability. As the old saying goes though, prevention is better than cure. What's important now is that any changes to monetary policy are clearly signposted and communicated to give businesses certainty as they invest to grow our economy.

Fionnuala Earley Residential research director of Hamptons International

Looking at where the UK economy and housing market were when the governor took over shows the juggling he's had to do. A year ago economic growth was only just picking up but was unbalanced. The corporate sector was struggling, yet the housing market was gathering momentum, although its recovery was - and largely still is - split between London and the rest of the UK.

Given limited tools, and a new regulatory setup, overall the governor has done a pretty good job for the housing market. Withdrawing the Funding for Lending Scheme for households did little, but it was trumped by the boost to sentiment from the introduction of Help to Buy. A small early rise in interest rates might have cooled demand in London, but probably not much given that most activity has been in higher price and income brackets. The real risk was that higher mortgage payments could have pushed existing homeowners into distressed selling, which would have halted any recovery and dashed confidence.

Sending messages about the housing market being at the top of the list of concerns also helps to dampen expectations - a crucial element of housing market bubbles. It's better that the governor barked about regulations and risk rather than used interest rate teeth.

Pat McFadden Labour MP for Wolverhampton South East

The Bank of England's policy of forward guidance on interest rates has left some people scratching their heads.

First it was expected that rates would not rise until 2016, possibly even later. Soon, the guidance was revised and markets expected a rise in 2015. After the Mansion House speech it looked like later this year. Finally at the Treasury select committee last week the talk was of spare capacity still to be used up before any rate rise would happen.

Forward guidance is supposed to give clarity on the future path of rate changes, but if the timing keeps bouncing around then that clarity becomes lost or at least damaged.

On the housing market the Bank has been given new powers to regulate lending. Its first use of these powers this week was tentative and more an insurance against a bigger bubble than a real attempt to restrain lending now. On this issue the governor has been right to point out that whatever the Bank of England can do on mortgage demand, it won't build a single house.

Sir Martin Sorrell Founder and chief executive of advertising giant WPP

I'd give him an A or A-minus. Clearly there have been concerns about inconsistencies in his communications. The problem is that you can't deliver one message to one audience and say something different to another. Nowadays everybody sees and hears everything.

But overall he has been a good communicator and seems relatively at ease with that aspect of the role.

More importantly, the UK economy is certainly in better shape.

This is good news for the government as it faces an election next year, and I doubt the economic situation is going to get any worse in the short term, so the problems with forward guidance and Mansion House speeches and grillings by the Treasury select committee recede in importance. That said, conditions do change and forward guidance is a pretty perilous thing to do, given the volatility in markets and the microscopic examination of anything the governor says or does. To achieve greater growth, there has to be less uncertainty.

Gerard Lyons Chief economic adviser to Boris Johnson, mayor of London

Mark Carney has only now reached the end of his honeymoon period, even though he has been there a year. Why? The key change has not just been the new man at the top but the considerable new powers given to the Bank.

Carney's high point was the clear message he sent on interest rates when he came in - that rates did not need to increase immediately, would rise gradually and peak low.

Recently his message has been more couched, as the UK needs to tread carefully on rates as recovery is too much driven by housing and debt.

He has made considerable organisational and people changes. Let's hope the newcomers are not all yes people and that his new setup reaches out beyond the Bank, understands the City, forecasts the economy properly and gets to grips with credit creation.

The governor must ensure the new areas work together: micro and macroprudential and traditional monetary policy.

Andrew Sentance Senior economic adviser at PwC and former MPC member

It has been an eventful first year. On the plus side, the UK economy has picked up and inflation has come down. The British economy now looks set to be the strongest growing of the G7 economies this year. Unemployment is down to just over 6.5% and the housing market has come back to life as the economy has rebounded.

But on the policy front, things have gone less well. The monetary policy committee (MPC) is now on the third iteration of its attempt to provide forward guidance. There is still a lack of clarity about the circumstances in which the Bank would raise interest rates, and how quickly it would do so.

When Mark Carney took over, the big challenge was to return interest rates to more normal levels without undermining the UK's economic recovery. A year on, that challenge remains.

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