

## THE MPC AND THE BANK'S STERLING MONETARY FRAMEWORK

This paper sets out a framework for engagement between the Bank's Executive and the Monetary Policy Committee (MPC) with regard to the Bank's Sterling Monetary Framework (SMF), in particular with regard to those operations that affect monetary conditions. The framework was agreed by the Bank's Executive and the MPC on 28 June 2017, and updated in June 2018.

The Bank's Monetary Policy Objective is to maintain price stability within the United Kingdom and subject to that, to support the economic policy of Her Majesty's Government including its objectives for growth and employment. The MPC has responsibility within the Bank for formulating monetary policy. It must therefore have sufficient control, at the margin, of sufficient instruments capable of affecting overall monetary conditions – defined broadly as the quantity of inside money and the general level of market interest rates – in order to achieve the remit set by the Government.

Accordingly, the MPC has decision-making authority, at the margin, in respect of the deployment of all instruments and facilities that are varied over time with the primary intention of affecting overall monetary conditions in order to achieve the inflation target. At the present juncture, that includes variations in Bank Rate, the volume of asset purchases financed by the issuance of bank reserves and foreign exchange intervention. In the event that some key parameters of the SMF are varied with the primary intent of affecting monetary conditions, then their control will pass to the MPC. The MPC will also approve the selection of schemes and structures primarily designed to deliver monetary policy aims.

The MPC has no responsibility in respect of the risk profile of the Bank's balance sheet. That responsibility lies with Court, or as may be delegated by Court to the Governor and the Bank's Executive. For this reason, the MPC does not have sole decision-making authority over changes to the risks on the balance sheet or key parameters of the SMF determining those risks.

On questions which do not come to the Committee for approval, the Executive is obliged to inform at an early stage and to consult fully with MPC regarding prospective changes to the SMF and the design and operation of any new SMF facilities, for whatever purpose, in so far as they may materially affect monetary conditions.

To foster regular two-way engagement between the MPC and the Executive, the following procedures have been agreed:

**Approval.** The MPC will approve the selection of schemes and structures primarily designed to deliver monetary policy aims.

**Information exchange.** The MPC will be provided with information on the impact of regular SMF operations on monetary conditions as part of each monetary policy round, and the Bank's Executive stands ready to supplement that information as required in the light of developments.

**Periodic review.** The MPC will be given the opportunity to comment on the design and operation of the SMF from a monetary policy perspective periodically and in the event of material developments.

**Consultation.** On questions which do not come to the MPC for approval, the MPC will nevertheless be informed at an early stage and consulted fully if the Executive is planning an alteration to the SMF that is likely to result in a material change in monetary conditions. On occasion such consultation might need to occur at short notice if the change is prompted by urgent market developments.

The MPC has no responsibility in respect of the provision by the Bank of financial assistance to financial institutions, either individually or more generally. That responsibility also lies with Court (or as may be delegated by Court), although the Financial Policy Committee may make recommendations about the provision by the Bank of collective assistance. This does not, however, preclude consultation with MPC concerning any implications of such operations for monetary conditions, which would be for the Governors to initiate, bearing in mind circumstances at the time.