

A Charm offensive by the Bank of England

George West and I were among an audience of business people, local councillors and reporters at a meeting called by the Bank of England at the National Space Centre near Leicester to explain its role. It was one of a series being held throughout the country to improve the bank's image and public relations.

We were addressed by the elegant Deputy Governor, Minouche Shafik. She explained how the bank had now taken over regulation of the banking and insurance sectors with a duty to maintain stability in a turbulent international situation. The bank, she said, was politically neutral and independent of the government.

I had an opportunity to mention that the members of the Campaign for an Independent Britain felt that the Governor, Mr Carney, had stepped outside that brief by his strong intervention on the "Remain" side during the referendum. I hoped she would make it clear to him that we felt that this had been unhelpful and beyond the functions of the bank, as described by her.

She explained that quantitative easing was a means of putting more cash into the hands of banks for financing increased business activity. The bank did this by buying assets such as government and latterly corporate bonds. She admitted that the money for this was effectively conjured out of thin air. Having been in the food business, I asked whether this was not equivalent to watering the milk and would we not face massive inflation as a result? She replied that inflation was low and that the introduction of this liquidity into the market plus the very low rate of interest had, in their view, avoided a recession turning into depression.

In reply to questions from other businessmen, she explained that those banks which did not increase their loans would face higher interest rates on their borrowings from the bank. Some of the new "challenger" banks felt that the regulation they faced was too onerous and hindering their efforts to provide finance which would stimulate growth.

On the way home, I heard very trenchant comment on Radio 4 News from an American financier, talking down Sterling very hard and emphasising the perils of Brexit and the uncertainties until the deal was done. There was a spirited rejoinder from Roger Bootle. It was then reported that Mark Carney, the Governor of the Bank of England, had announced that he was going to allow the inflation rate to rise above the bank's target of 2% to stimulate growth. I have to admit to feeling uneasy about that. Inflation is, in fact, a tax on the thrifty saver by the borrower – and the most feckless and reckless borrower is Her Majesty's Government. We have not had nearly enough austerity to reduce government borrowing and we have an appalling balance of payments deficit on our trade.

Let us hope that the lower value of Sterling will help to put that right before long.