

Box 3 Transparency and accountability of Bank of England

Inflation target

The Bank of England has an inflation target of 2½%, a target set by the government. The Bank is allowed a divergence of ±1%, among other things to reflect its incomplete control over inflation (for further discussion on inflation targets, see Pétursson, 2000).

Monetary Policy Committee

The government has appointed a nine-member Monetary Policy Committee (MPC) which makes decisions on monetary policy. The MPC comprises the Governor, two Deputy Governors, the Chief Economist and the Head of Market Operations, together with four members nominated by the government. These four are selected solely on the basis of academic qualifications in monetary economics and major central bank issues. In practice, most have been well-known professors at British universities. Each is appointed for a term of three years. A Treasury representative attends the MPC's meetings in a non-voting capacity.

Minutes of MPC meetings

The MPC meets monthly according to a pre-announced timetable. Decisions are based on a simple majority. Results of meetings are announced immediately afterwards and the minutes and results of voting are officially published two weeks after each meeting.

Inflation forecasts and accountability towards the public

All decisions by the MPC are based on the Bank's inflation forecast. This forecast, together with an assessment of the forecast uncertainty and forecasts for other key variables which are considered to have an impact on inflation are published in an in-depth quarterly Inflation

Report. The aim of publishing the MPC's minutes and record of voting, alongside its regular publication of the Inflation Report, is to make the Bank's policy as transparent as possible and thereby fulfil its accountability towards the public.

Open letter to the government

Each time inflation exceeds the threshold ±1% value, the Bank of England is required to write an open letter to the Chancellor stating the reason for the deviation from target, what actions the Bank plans to take to get inflation back to target, how long it will take and how this is compatible with the Bank's remit. The Bank is required to write another letter three months later if it has still not succeeded in bringing inflation back to target.

The government's response to such a letter will depend on the economic situation at the time. It needs to take into account that a variety of reasons may underlie a failure to hit the inflation target at all times. In some cases, for example if the economy suffers serious supply shocks, hitting the target at all cost may even be undesirable.

Accountability towards parliament

Members of the MPC are required to meet the Treasury Select Committee quarterly, answering questions about the Bank's monetary policy and explaining its actions. Furthermore, the Bank's annual report is debated in parliament every year.

The bank is also made accountable towards the Court of the Bank which comprises the Governor and two Deputy Governors, plus 16 non-Executive Members, representing the views of British industry, commerce and finance.