Bailey, early favourite who won with a late surge

The next Bank governor will inherit a testing in-tray from his predecessor and faces new challenges too. How will he handle the role?

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It is difficult to label Andrew Bailey as a dove or hawk on interest rates

Nearly two years ago, when Mark Carney said he would leave the Bank of England in the summer of 2018, Andrew Bailey embarked on a bit of a charm offensive. Some who did not know him were invited to take tea at the headquarters of the Financial Conduct Authority (FCA), then at Canary Wharf in London's Docklands. The Bank veteran and head of the City watchdog appeared a shoo-in to succeed Carney as governor — so much so that one bookmaker stopped taking bets on the outcome.

Then the government, keen to avoid disruption during the Brexit process, extended Carney's term, initially for a year and then to the end of next month. Now it has been extended again, to mid-March, to allow a smooth handover.

For Bailey, 60, the trail appeared to have gone cold last year. Sources close to the then chancellor, Philip Hammond, let it be known that the search for Carney's replacement would extend far and wide. International central banking superstars such as Janet Yellen, the former chairwoman of the US Federal Reserve, and Raghuram Rajan, who held the equivalent post in India, were mentioned. The aim was to demonstrate post-Brexit Britain's pulling power with a governor whose words would make the financial world sit up and take notice. The appointment of a firm of headhunters with all female partners also appeared to point the way to the Bank's first woman governor.

Now that the process has come full circle to Bailey, whose appointment was announced on Friday, the reaction of most people close to the Bank is relief. Bailey is one of theirs; Bank and Treasury officials are happy with the move. UK Finance, which represents the banking and financial industry, said he was "ideally placed to oversee financial stability and monetary policy through a potentially challenging time for the UK economy".

Silvia Dall'Angelo, a senior economist at Hermes Investment Management, hailed Bailey's "unparalleled experience with respect to monetary policy and financial regulation".

The election had opened up the possibility, however slim, of a Labour favourite as governor, while there were worries that a Boris Johnson government would opt for an openly Brexiteer governor. Though the successful candidate's views on Brexit were played down on Friday by Sajid Javid, the chancellor, there has been speculation that the former deputy governor Dame Minouche Shafik was ruled out because of her anti-Brexit views.

When Carney took over in summer 2013, the economy was getting back into its stride after a slow post-crisis recovery, and the question was how soon interest rates could be raised. Bank caution and Brexit got in the way of higher rates, and Carney decided his priorities were strengthening the banking and financial system and reorganising the Old Lady of Threadneedle Street.

Bailey faces a different set of challenges. Though figures on Friday showed a small upgrading of third-quarter growth from 0.3% to 0.4%, the economy has had its weakest two years since the crisis. Last week, two of the nine members of the Bank's monetary policy committee (MPC) voted to cut rates. They are gloomy about the prospects of the economy returning to stronger growth.

"The confirmation that Andrew Bailey will take over from Mark Carney doesn't change the outlook for monetary policy," said Paul Dales of Capital Economics.

"But Bailey will face many challenges during his eight-year term, such as navigating the choppy waters of Brexit and dealing with the next downturn with not much ammunition in the policy arsenal."

Martin Beck of Oxford Economics agrees: "Bailey will also need to tackle new problems, including the run-down of the Bank's balance sheet, overseeing the financial sector's future post-Brexit and pressures to address climate change."

Bailey's strength, based on his recent experience, is on the financial regulation and stability side, despite a few rocky episodes at the FCA. Those who were at the Bank during the financial crisis recall the pivotal role he played. Ivan Fallon, former deputy editor of this newspaper, describes in his book Black Horse Ride how, days before the Lloyds-HBOS merger was completed at the height of the crisis in 2008, the Treasury asked Credit Suisse to report on the amount of new capital banks would require from the government to stay afloat. When the team, led by James Leigh-Pemberton, arrived at HBOS's offices, they were impressed to find Bailey already there, calmly running his own model of the bank on his laptop.

Though Bailey first joined the Bank in 1985 and rose to deputy governor, he has not served on the rate-setting MPC. As a result, his views are a mystery to the markets, which will be watching his confirmation hearings next year with intense interest.

“Bailey is not a macroeconomist by trade but brings a wealth of experience in financial regulation,” said Allan Monks of JP Morgan. “As he has not previously sat on the MPC or expressed views on monetary policy, it is difficult to label him as a dove or hawk. He is known to be cautious, pragmatic and a safe pair of hands.”

A safe pair of hands may be the most important quality needed for the job.