



BANK OF ENGLAND

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Speech by Ian Plenderleith, Member of the Monetary Policy Committee

In a speech today in the Midlands to the Stafford Chamber of Commerce and Industry, Ian Plenderleith, an Executive Director of the Bank of England and a member of the Monetary Policy Committee, was optimistic about the prospects for continued growth in the UK economy:

"There are now some signs that the pace of activity may be moderating to a more sustainable level. Growth overall in the year to the first quarter was running at around 3% a year, still somewhat above long-run trend. Inflation is currently running somewhat below our target of 2.5%. But cost pressures are still evident, particularly in the labour market, and may be reinforced if the exchange rate continues to ease, as it has in the past month. We need to remain vigilant, but, provided we take no risks with the progress we have made in recent years in maintaining low inflation, the prospect is for continuing growth overall on a basis that can be sustained into the medium term."

Mr Plenderleith stressed the importance of maintaining low inflation:

"Our first, and continuing, priority has to be to continue to deliver the stable monetary framework - of interest rates directed at maintaining low inflation - as a platform on which commerce and industry throughout the country can build their businesses and generate the growth in output and employment the country needs if we are to prosper on a continuing and sustained basis."

However he recognised the unwelcome strains caused by the strength of sterling, and noted the dilemma this posed for the MPC:

"... the effects have fallen most acutely on the manufacturing sector. The frustration felt by those who have built up efficient and competitive businesses, only to find their market position threatened by a rise in the exchange rate over which they have no control, is entirely understandable."

"In judging how far, and how fast, to moderate domestic demand, we have taken into account the weakness of the UK's external sector, and the impact particularly on manufacturing, as an immediate factor offsetting in part the buoyancy of domestic demand. But we have also had to take into account the possibility further

ahead that, if the exchange rate moves back to more realistic levels, as we expect, the boost that could bring to external demand could only be accommodated, without strains on the supply capacity of the economy as a whole, if domestic demand has moderated."

But he suggested that the exchange rate strains may now be abating with the recent recovery in the euro:

"...it is reasonable to expect that the euro may in due course move back to more realistic levels; and that does indeed appear to have been happening in some part over the past month. Whether that will continue is hard to judge, but there are reasonable grounds for believing that some of the more extreme strains we have been experiencing from exchange rate movements may be abating."

He touched on another, more positive, dilemma faced by the MPC, the 'new economy'. Mr Plenderleith noted:

"The reason why these advances, if they are translated into actual improvements in our economic performance, are so exciting is that they represent scope for improvements in the supply side of the economy: they hold out the possibility that the economy might be able to grow faster than recent historical experience without jeopardising price stability."

But added that caution was important here:

"...it will be extremely important that we do not anticipate the process and begin to award ourselves the benefits before we have seen concrete evidence that they have been captured in improved economic performance."

Mr Plenderleith concluded:

"The job of the MPC is to deliver a platform of continuing price stability so that business and industry across the country can continue to deliver the goods and services the market place wants."

Key Resources

The work of the Monetary Policy Committee – Full Speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2000/speech90.pdf>