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Monetary Challenges in a New Economy

In a speech to be delivered on October 12, Dr Sushil Wadhvani, a member of the Monetary Policy Committee, argues that the UK economy might be behaving differently now relative to the past. He points to the fact that economic forecasters have tended to under-predict GDP growth while simultaneously over-predicting inflation since 1992.

Dr Wadhvani presents evidence suggesting that inflation forecasts in the 1990s would have been more accurate if they had incorporated evidence that the degree of product market competition was intensifying.

He also offers two different examples of measurement issues which might have led forecasters to underestimate the supply potential of the UK economy. For example, a new, preliminary set of estimates of the flow of capital services has shown twice the growth that has been seen in a conventional measure of the capital stock in recent years.

To take another example, alternative assumptions about the measurement of spending on computers and software suggest that GDP growth might have been underestimated by a significant and growing amount in recent years.

Key Resources

Monetary Challenges in a New Economy – Full Speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2000/speech103.pdf>