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News release

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No Country is an Island – Speech by Mervyn King

In a speech to be delivered at the Institute of Petroleum Annual Dinner on 21 February, Mervyn King, Deputy Governor Monetary Stability and a member of the Monetary Policy Committee, discusses developments in the world economy and their possible impact on the UK economy.

Mr King argues that despite volatility in the international economy in recent years, the UK economy has seen greater stability, and achieved a post-war record of uninterrupted economic growth, falling unemployment and lower inflation. He notes that the recent stability of inflation owes much to the fact that economic shocks from overseas have tended to offset each other, and that it will not necessarily be easy in the period ahead to keep inflation within the 1% range within which it has moved in the last five years. However, he emphasises that the Monetary Policy Committee will always act to maintain stability by focusing on the 2 ½% inflation target.

He goes on to discuss two clouds currently looming on the international economic horizon: the recent slowdown in the United States and its consequences for the international economy, and the risk of further financial crises in emerging market economies.

In respect of the USA, while noting that the speed of the slowdown in the United States was a surprise, he points out that it is not clear that it will have a significant impact on the UK economy, and that the recovery in the USA could be equally speedy.

On the risk of further financial crises in emerging market economies, Mr King says that while deep and liquid international capital markets offer opportunities for greater risk diversification, they also increase the risk of contagion from one country to another. He suggests that there remains an urgent need for the international financial community to raise its game in both preventing and resolving such crises. On prevention, much has already been achieved by focusing on transparency, while on resolution, more weight is rightly being given to the involvement of private sector creditors. It is now time to put in place a more systematic framework for the prevention and resolution of financial crises, to enable emerging market economies to take their rightful place in the international economy.

Mr King concludes that the impact of these clouds on the UK economy is uncertain, but notes that the differences between recent developments in the UK and USA are more significant than the similarities, in particular, the remarkable resilience of business and consumer confidence in the UK in recent months. Although further weakness of the world economy could change the outlook, Mr King remains confident that the British economy can withstand the storms of the international economic weather.

Key Resources

No Country is an Island - Full Speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2001/speech114.pdf>