



14 March 2001

NAPF Investment Conference Speech

In a speech today to the National Association of Pension Funds Investment Conference, Ian Plenderleith, an Executive Director of the Bank of England and a member of the Monetary Policy Committee, reviews the prospects for the UK economy.

He identifies three main areas of uncertainty:

(i) "First, the slowdown in the US is an important area of uncertainty because, if the downside risk of a deeper or more prolonged slowdown materialises, we would face slower growth and lower inflation in the UK than we are projecting on our central projection. That would, of course, be grounds for us to contemplate further easing in our monetary stance. That follows because our inflation target is, importantly, a symmetrical one." He notes that "growth in the US needed to slow somewhat, to alleviate imbalances in the economy. So part of what is happening should be helpful in providing a sounder base for sustainable recovery." He argues that "the new economy is, in the US, a reality" and this should provide a basis for a recovery in US growth when the present adjustment has run its course." He also notes that "the overall picture is that the markets as a whole are "looking through" the present slowdown, on the basis that they see a reasonable prospect for a recovery in US growth after the present adjustment."

(ii) Secondly, there is "the question of whether changes in the supply-side of the UK economy mean that we can hope to achieve higher rates of sustainable growth, consistently with our inflation target, than has been possible in the past." He notes that "the strength of demand in the economy does seem to have exercised less upwards pressure on prices over the past two years or so than we would have expected from earlier experience". He concludes: "my own view is that supply-side improvements are delivering benefits, but the process is a gradual and progressive one, rather than any sudden leap forward. Miracles in the real world are pedestrian affairs, arriving step by step. The appropriate response for us in setting interest rates, therefore, is to try to stay in step and keep pace - not running ahead, but equally not lagging behind."

(iii) These two areas of uncertainty "could provide grounds for the monetary stance to provide more stimulus to the economy, depending on how events develop. But a third area of uncertainty - the underlying strength of demand in the UK - could point to less need for stimulus." Noting the welcome evidence of a healthy and

thriving economy, he says that "with inflation remaining low, it is a performance that can be sustained without immediate risk of overheating. But it is also a situation in which cost and price pressures can begin to build up. The task of the MPC is to ensure that this does not happen".

He concludes that: "the uncertainties lie in both directions: the economy could grow more strongly or less strongly than we currently project, though the risks lie predominantly on the downside. The uncertainties are probably rather greater than normal just at present, but we can take some confidence from the underlying soundness of the economy. So we address the uncertainties from a position of strength."

Key Resources

Monetary Stability as a Foundation for Sustained Growth - Full Speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2001/speech118.pdf>