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Monetary Policy: Addressing the Uncertainties – Speech by Ian Plenderleith

In a speech today to the Fort William Chamber of Commerce, Ian Plenderleith, an Executive Director of the Bank of England and a member of the Monetary Policy Committee, reviews the uncertainties facing the UK economy and the world economy as a whole.

He concludes that, "if we can strike the right balance in setting monetary policy, there is a reasonable prospect" of our coming through the present uncertainties resulting from the global slowdown "in good shape to resume the path of sustained growth looking ahead".

He notes that "it is undoubtedly helpful that the UK economy has, for the past several years, enjoyed an extended period of strong performance". But "undoubtedly the major influence we, in common with other economies, are experiencing at present is the economic slowdown in the US and its impact across the world economy as a whole". Moreover, "the nature of the slowdown the US, and the world as a whole, is currently experiencing is somewhat different from previous cycles...We are for the moment seeing a sharp contraction in investment, and it is hard to see how far this adjustment will need to run." In addition, "alongside the pervasive general effect of slower US growth, we are experiencing a world-wide sectoral slowdown in the ICT-related area".

Looking ahead at how quickly we could reasonably look for some signs of recovery, he argues that, while "no one can make any confident judgment, ... the evidence has been far from entirely negative". He suggests that "in many of the major economies, there have been tentative signs that we might be at, or approaching, the low point"; and, on the US, he cites the strength of consumption spending and the interest rate and tax cuts. He suggests: "We may be unsure how long the process will take, but my own view is that no one should underestimate the resilience of the American people and the underlying strengths of the US economy. There remains every reason to be confident that those strengths will come through".

In reference to last week's tragic events in New York and Washington, he says that the Bank of England has been "working closely with the Federal Reserve and other central banks to help the financial system overcome the immediate dislocation, and it bears testimony to the resilience of the financial infrastructure

that essential financial activity, and importantly the critical processing of payments and settlements, has continued to function without significant problems".

On the UK economy, he notes that the Bank of England has cut interest rates five times this year. "This has helped to sustain activity in the economy as a whole. But it has inevitably served to increase the imbalance in the economy, between the weakness being experienced in those parts of the business sector directly exposed to the slowdown in world growth and the continued buoyancy of domestic consumption spending". He argues that "for [UK] monetary policy going forward, the challenge we face is to try to continue to strike a balance between divergent conditions faced in different parts of the economy. We have one considerable advantage in trying to strike this balance - inflationary pressures have remained low".

He concludes on the UK that "the fact that inflation remains low, and that the underlying competitive strengths of the major economies remain in place despite the present slowdown, are in my view reasons to believe that we can steer our way through the present uncertainties to more stable conditions of sustained growth. The road, as I have said, will inevitably be a bumpy one, but if we continue to try to strike an appropriate balance in our policy stance, I believe that we can meet the challenge".

Key Resources

Monetary Policy: Addressing the Uncertainties – Full speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2001/speech143.pdf>