



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

28 July 2004

Global Demographic Change: Some Implications for Central Banks - Speech by Charlie Bean to the Institute of Economic Affairs

Speaking today at the Institute of Economic Affairs in London, Charlie Bean, Chief Economist and Member of the Monetary Policy Committee at the Bank of England, said that "the immediate economic outlook appears brighter than it has done for a while".

There has been much recent media commentary about excessive consumer spending and a "debt time bomb", but Mr Bean notes that "the household savings rate has not been unusually low". He points out that the household debt build-up has been primarily associated with asset accumulation rather than consumption and that is largely a by-product of developments in the housing market: first-time buyers and those trading up the housing chain have been willing and able to take out larger mortgages, while last-time sellers and those trading down have been investing the housing equity thereby released into financial assets rather than spending it. The risks to the outlook posed by heavily indebted households are consequently less significant than has been suggested.

Mr Bean observes that, when interest rates are a long way from "normal", forecasts for inflation and growth assuming that rates follow a path implied by the financial markets provide a more plausible picture of prospects than assuming interest rates remain constant, and he announced that "in future Inflation Reports (the MPC) will be placing the primary emphasis on the projection based on market rates".

Mr Bean notes that deciding how quickly interest rates should return to normal requires balancing a number of arguments, some of which point to a gradualist approach and others to a somewhat more aggressive strategy. He goes on to say that the "neutral rate of interest", while a useful organising principle, "cannot be pinned down with any confidence and so is not very helpful in deciding the precise level of interest rates".

Key Resources

Global Demographic Change: Some Implications for Central Banks

Speech by Charles Bean, Chief Economist at the Overview Panel, FRB Kansas City Annual Symposium, Jackson Hole, Wyoming

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2004/speech224.pdf>