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Monetary Policy in an Uncertain World - Speech By Charles Bean To Oxonia

At the Oxonia Distinguished Speaker seminar in Oxford this evening, Charles Bean, Chief Economist and member of the Monetary Policy at the Bank of England, said that "uncertainty is an ever-present feature of the economic landscape that monetary policy makers cannot escape". Mr Bean notes that monetary policy makers are affected by three types of uncertainty: uncertainty about the data; uncertainty about the nature and persistence of shocks; and uncertainty about the structure of the economy.

On uncertainty about the data, Mr Bean says that "the MPC recognises that early releases of data are prone to revision and combines it with other information", including business surveys. He goes on to discuss the difficulties in evaluating the margin of spare capacity in the economy and notes that "the inherent uncertainty around any given measure (of the output gap) means that it should always be employed with a considerable degree of caution and an appropriate degree of scepticism."

The nature and persistence of shocks, and the response of economic agents to them, is also important: "Getting to the bottom of such puzzles is the daily task of those who work in central banks". He observes that one cannot assume that past correlations will be maintained if a shock is unlike the average of those impinging in the past and illustrates this with reference to the relationship between household spending and the housing market.

Mr Bean goes on to assess uncertainty about the structure of the economy, particularly in relation to unusual stability of inflation and output growth in the past decade or so. He notes that the UK "is not alone in having experienced such enhanced stability". There are a number of possible explanations, including plain good luck, structural changes in the economy and improved policy making. Mr Bean goes on to note that the short-run trade-off between inflation and activity seems to have flattened as inflation has stabilised at low levels and attributes this in part to improved monetary policy making. He observes that while this is not an exploitable relationship, it does complicate assessment of the level of potential output in the economy and that the consequent uncertainty about the limits to expansion points in the direction of caution.

Key Resources

Monetary Policy in an Uncertain World

Speech by Charles Bean at the Oxonia Distinguished Speaker seminar in Oxford

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<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2005/speech238.pdf>

Accompanying PowerPoint Slides - 22 February 2005

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/speeches/2005/CBOxonia050222.ppt>