



**BANK OF ENGLAND**

# News release

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10 July 2007

## **UK Monetary Policy: Good for Business? - Speech by Andrew Sentance**

In a speech to an audience hosted by Dow Jones, Andrew Sentance – external member of the Monetary Policy Committee – talks about some key issues relating to the impact of monetary policy on business, drawing both on his recent experience as a policy-maker and his two decades working as a business economist.

In the speech, he discusses the current business attitude to monetary policy, which he believes is strongly supportive of the present framework based on an independent central Bank targeting low inflation. Sentance argues that this support flows from the experience of low and stable inflation and the greater stability in the real economy that has resulted.

“Monetary policy has delivered what was promised on the tin - a prolonged period of low inflation,” he notes. “Firms can have more confidence planning into the future and the signals provided by changes in relative prices are clearer in a low inflation world - reducing the risk of bad business and investment decisions.” He also points out that the conduct of monetary policy has also become more business-like, resulting in more transparency and predictability.

However, Sentance argues that “while monetary policy can help stabilise the economy as a whole, it cannot shield individual businesses or sectors from structural change driven by changing patterns of demand, technology or changing competitive forces.” Manufacturing industry, in particular, has seen very major structural changes over the last decade driven by global competition, with a loss of 1¼ million manufacturing jobs over this period.

He believes that businesses have responded much more successfully to these recent challenges than in earlier periods, particularly in the 1980s. “The current generation of manufacturers has become used to living with the pressures of competitive international markets and have developed strategies for coping with them. One of the key strategies they employ is outsourcing lower value-added activities to lower cost locations. ... Another is a high level of automation. ... Many successful UK manufacturers have established strong positions in niche markets where they are less vulnerable to competition from lower cost producers.”

Turning to the current conjuncture, Sentance argues that UK business conditions are being strongly influenced by the global economy at present. “We have to look back over thirty years to find a period of such strong and persistent expansion in the global economy.” Global growth has been accompanied by a recovery in business investment and a recovery in consumer spending from the slowdown in 2005, boosting UK demand.

“Strong global demand is putting upward pressure on a wide range of energy and commodity prices, including the price of oil and many foodstuffs.” Sentance points out. “Goods price inflation has now replaced deflation, as energy prices have picked up, and the recent official data and business surveys show more inflation in the pipeline in the manufacturing sector. ... To bring inflation back to target over the medium-term, we either need to see goods price inflation fall back again, or an offsetting fall in services inflation.”

In setting monetary policy, Sentance argues, “the business interest lies in the lasting stability which comes from low inflation over the medium term. My concern over the nine months I have been on the Committee has been to respond to strengthening demand and a rise in inflationary pressures in a timely way. Failure to do that would create the risk that there might need to be even higher interest rates and a more pronounced slowdown further down the track.”

“The benefits which business should look for from the successful conduct of monetary policy lie not in a temporary respite from higher interest rates, but in achieving a sustained climate of low inflation and economic stability.” he concludes. “In that respect, the record of the MPC has been a good one to date, and if we can keep the economy on the same steady track, UK monetary policy will indeed be ‘Good for business’”.

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2007/speech317.pdf>