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BANK OF ENGLAND

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London, Money and the UK Economy - Speech by John Gieve

In a Hart Brown lecture today at the University of Surrey, John Gieve - Deputy Governor of the Bank of England - discusses three topics: (i) the impact of London's growth as an international financial centre on the wider economy; (ii) the effect of that and financial innovation on the interpretation of economic data; and (iii) particularly the significance of the growth in money and credit for the economy.

He argues that ".internationalisation and technology favour the clustering of financial markets in London so we should expect London to continue to prosper relative to the financial industry worldwide and to the rest of the UK economy". That will tend to reinforce the medium term trends of recent years with a continuing shift of resources into the financial sector and a continuing pressure for higher office rents and higher rewards for those with the right combination of talent and experience. But we are also likely to see a marked cycle in profits, pay and employment.

He notes that the growth of the City and new financial markets is affecting the interpretation of some of the core statistics used to monitor and assess how the economy is developing: the growing importance of bonuses in the financial sector make it harder to judge the underlying trend in earnings; measuring the output of financial firms tends to be more difficult than in other sectors; and advances in structured finance account for some of the recent monetary growth.

After allowing for these effects, he concludes that there have been shifts in the supply of money and credit in recent years. Some of these reflect lasting changes in the economy and technology. But some are clearly cyclical and are unlikely to be sustained. The questions for policy makers are: where are we in the cycle, and is the present stance of monetary policy sufficient to bring it back to a sustainable trend?

He concludes that he voted for a further increase in the Bank rate earlier this month partly because he ".was not convinced that current rates would be sufficient to bring credit growth and nominal demand back to their long term sustainable path" and he felt that ".the impact of moving too slowly on the credibility of the regime and thus the future prospects for the economy was of greater concern, given the robust rate of growth, than an unnecessary slowdown in activity." He ends by saying, "In reviewing the position again in future months I will be watching the trends in the growth of credit and money carefully".

http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2007/speech314.pdf