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The Impact of the Financial Market Disruption on the UK Economy - Speech by Sir John Gieve

In a meeting with the London Chamber of Commerce and Industry, Sir John Gieve – Deputy Governor of the Bank of England – discussed the recent financial market disruption, its impact on the UK economy, and the increase in immediate inflation pressures from energy and food.

He said “growth is slowing quite sharply now, in part because of the rises in interest rates last year. That in itself might justify a progressive shift in policy – from restrictive to a more neutral stance. And the case for easing has been greatly strengthened by the disruption in global credit markets and in our own banking system which brings a risk of a deeper downturn.”

However, he noted that “we have also seen a big rise in the world prices of oil and food. That is being amplified in the UK by a fall in sterling and is now coming through in our food, petrol, gas and electricity prices. These are likely to raise our inflation rate well above target in the coming months at a time when short term inflation expectations remain uncomfortably high.”

He concluded that “these are testing times” for the MPC. “In reaching our decisions, the MPC always looks not just at the central projection for the economy but at the risks on either side. That will require not just difficult judgements but careful explanation in the months ahead.”

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2008/speech332.pdf>