



BANK OF ENGLAND

News release

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Bank of England Quarterly Bulletin - Q1 2008

The 2008 Q1 issue of the Bank of England *Quarterly Bulletin* is published today. It contains the following articles and reports:

- *Foreword* by Charles Bean, Chief Economist and Executive Director of Monetary Policy.
- *Markets and operations*. This regular quarterly commentary discusses recent developments in global capital markets, and reviews the Bank's official operations, including co-ordinated actions with other central banks.
- *Capital flows into EMEs since the millennium: risks and the potential impact of a reversal*. This article describes the strength of capital flows to emerging market economies in recent years, concluding that a reversal of these inflows is less likely than in the past. Stronger economic fundamentals and policy frameworks have enabled emerging market economies to attract more foreign direct investment and issue debt denominated in their own currency. Nevertheless, some countries in central and eastern Europe, which have attracted large foreign currency debt inflows to the private sector as the counterpart to their current account deficits, remain potentially vulnerable.
- *Recent developments in portfolio insurance*. This article describes how portfolio insurance works and how it has evolved over recent years, allowing investors to limit the downside risk to the value of their portfolios to enable efficient risk sharing. It goes on to discuss how portfolio insurance could, in certain circumstances, interact with market frictions, such as illiquidity or imperfect information, to increase market volatility. The Bank's market contacts have indicated that strategies followed by institutions issuing portfolio insurance are unlikely to have contributed significantly to the volatility in financial markets since last summer.
- *The Agents' scores: a review*. The Bank's Agents play a key role in providing the MPC with timely information. This article reviews how the Agents' numerical scores and qualitative economic intelligence are used to support the formulation of monetary policy, highlighting the

value of direct information from business people on how they are responding to changes in the economic environment.

- *The impact of low-cost economies on UK import prices.* This article estimates the quantitative impact on UK import prices of the increase in the share of UK imports sourced from the emerging market economies, such as China. Although these developments have pushed down on the prices of manufactured goods in the UK, the expansion of manufacturing production by economies like China has also put upward pressure on other prices, such as energy and raw material costs.
- *The Society of Business Economists' survey of MPC communications.* Effective communication is at the heart of a successful monetary policy. As part of its efforts to monitor and improve its monetary policy communications, the Bank last year asked the Society of Business Economists to conduct a survey of its members' views. This article presents the results of this survey and discusses recent changes made to the discussion of the outlook and risks in the *Inflation Report*. The survey was first discussed in a lecture - The MPC Ten Years On - at the Society of Business Economists by the Governor, Mervyn King in May 2007.

Note to Editors

The *Quarterly Bulletin* is available on

<http://www.bankofengland.co.uk/publications/Pages/quarterlybulletin/default.aspx>

Copies of the *Quarterly Bulletin* are available from:

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