



**BANK OF ENGLAND**

# News release

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## **Some Current Issues in UK Monetary Policy - Speech by Timothy Besley**

In a speech at the UBS Conference Centre, London, Professor Timothy Besley - external member of the Bank of England Monetary Policy committee - discusses some current issues in the UK economy and draws out their implications for monetary policy.

He notes that policy makers, "had for some time been balancing upside risks to inflation from shocks to commodity and energy prices against downside risks to inflation from the weakening of real activity associated with the credit crunch". Since last summer, "the sharp fall in commodity prices and the consequently more benign prospects for food and services inflation, as well as the substantial weakening in demand, imply that the upside risks to inflation have diminished significantly."

In the face of the severe global credit market shock, as ever, he continues, "it is essential for the right policy instrument to be used for the right purpose. A cut in Bank Rate, on its own, will not be a magic bullet. No single instrument can work to achieve all goals.. monetary policy should remain focused on achieving the 2 per cent inflation target in the medium term.. Monetary policy can play a role in conjunction with other policy responses to meet the current challenges."

Professor Besley argues, "The plan announced three weeks ago to recapitalize UK banks is a key measure as have been the extended liquidity operations of the Bank of England over the past year or so. Judgements on the right level of rates have to be made in the context of the wider outlook for the effectiveness of monetary policy and the way that other policy measures are having an impact on the economy". He discusses the extent to which the conventional channels for the effectiveness of cuts in Bank Rate on to the real economy are impaired, and he notes that the MPC's ability to influence market rates by changing Bank Rate is also limited while the interbank market continues to function imperfectly.

Professor Besley concludes, "As the impact of recent policy measures begins to have their desired effect, these traditional channels of monetary policy effectiveness will resume their role in transmitting policy decisions to economic activity. However, an element of patience is required. Far more significant over this period, in my view, will be indicators of the quantity of credit available rather than its price. The MPC will continue to play its role in setting an appropriate level of Bank Rate in the light of current economic conditions, but with a focus on the prospects for inflation in the medium term."

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2008/speech364.pdf>