BANK OF ENGLAND

Press Office
Threadneedle Street
London EC2R 8AH
T 020 7601 4411
F 020 7601 5460
press@bankofengland.co.uk
www.bankofengland.co.uk

News release

12 June 2009

The Road to Recovery and the Inflation Target - Speech by Paul Fisher

In a speech given today at the Annual Conference of the Coventry & Warwickshire Chamber of Commerce, which is discussing 'The Road to Recovery', Paul Fisher - Executive Director Markets and a member of the Monetary Policy Committee - looks at the events of the worldwide economic slowdown and the role and reaction of monetary policy.

Paul Fisher cites a number of factors identified in the May Inflation Report that should support a recovery in the United Kingdom. He notes that there has been some better news on the economy more recently but cautions that '...we should not be complacent - there are likely to be bumps in the road ahead, with many twists and turns.' He goes on to explain the Monetary Policy Committee's expansion of the money supply through the issuance of central bank reserves and the Asset Purchase Facility. He describes how the effect of increasing the money supply can work through different channels, namely portfolio effects, bank lending, expectations and improved market function and then highlights some constraints the APF has to work within.

Turning to whether the inflation targeting has been successful, Paul Fisher observes that 'It is not clear to me that any monetary policy regime, or any setting of Bank Rate, could have prevented a UK recession of some degree in these circumstances.' He draws comparisons between the path of monetary policy in the current and previous recessions and notes the relative speed and scale of the MPC's reaction. Such an 'aggressive' monetary policy is both consistent with the inflation target in the medium term and with helping to stimulate the economic recovery in the short term.

Paul Fisher sees '.the major downside to output growth in the UK as stemming from difficulties in the financial sector ..' and raises the need for additional tools to meet new financial stability objectives, which include a macroprudential' policy instrument. He says '...the Bank would like to see a substantial debate about what the objectives of such an instrument should be, and hence how it should be designed.' He also calls for a debate around international policy co-ordination to address the problems caused by global imbalances. But he cautions that even additional tools '...would not be enough to guarantee that there cannot be future recessions.'

In concluding, Paul Fisher says that there are reasons to think that the inflation targeting regime '...is proving a flexible and effective framework for guiding the economy through to recovery.'

http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech393.pdf