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

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News release

27 March 2009

Tough Times, Unconventional Measures - Speech by Spencer Dale

This morning, Spencer Dale - Chief Economist and member of the Monetary Policy Committee - talks about the tough times the UK economy is currently experiencing. He notes that: "Output fell at its fastest rate in nearly thirty years in the final quarter of 2008, and a similar fall in output in the first quarter of this year appears likely". He argues that "the pace, breadth and spread of the global downturn suggest that tighter credit conditions were not the only force at work. It seems clear that a pronounced and widespread collapse in confidence also played a major role."

He goes on to consider the near-term prospects for the economy, stressing the considerable uncertainty surrounding the economic outlook. Nevertheless, he remarks that "the darkest hour is just before the dawn." Spencer argues that, "as we go through 2009.it is most likely that the pace at which output is contracting will ease and that we will see some signs of recovery by around the turn of this year". This view "is based on the substantial stimulus that is already starting to flow through the pipelines of our economy", which is "significantly greater than that seen at comparable stages of the recessions in the 1970s, 80s or 90s."

He explains that the degree of stimulus is not the only difference from earlier recessions. The causes of this downturn are also unique, but in addition the structure of the UK economy has evolved. "The UK economy has undergone extensive reforms and deregulation, and businesses have been transformed by the implementation of new technology and the effects of globalisation." He warns that these changes and others "highlight a danger of viewing the current recession through the prism of previous ones".

Turning to the MPC's decision to employ unconventional measures, he explains how asset purchases will help the Committee to meet its inflation target, by boosting nominal spending. He refers to the decision to purchase both gilts and high-quality corporate debt as a 'twin-track' approach, which "allows for asset purchases to stimulate nominal spending in a variety of different ways". He adds that "such a pragmatic strategy seems entirely sensible given that this is the first time these unconventional tools have been used in the UK". He argues that it is "too soon to come to a firm judgement about whether this programme of asset purchases is having the desired effect" but "there are.some encouraging signs."

He concludes by identifying an exit strategy from this period of exceptional monetary stimulus. "The objective guiding the Committee's decisions has remained the same: the need to keep inflation on track to meet the

Government's 2% inflation target". This means that: "The outlook for inflation relative to the inflation target provides the natural guide...Importantly, this exit strategy is clear, transparent and open to public scrutiny." He stresses that the inflation target is symmetric. "The Committee adjusted monetary policy boldly and decisively on the way down in order to meet the inflation target. And, let me assure you that, when the time comes, we will be prepared to respond with equal vigour on the way back up."

http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech383.pdf