



**BANK OF ENGLAND**

# News release

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## **Prospects for the British Economy after the Financial Storm - Speech by Andrew Sentance**

In a speech given at Royal Holloway, University of London, this evening, Dr Andrew Sentance - an external member of the Bank of England's Monetary Policy Committee - discusses the economic volatility of the past 18 months, the uncertainties that will affect the way in which the recovery might develop, and the monetary policy choices that will need to be made.

Andrew Sentance begins by reviewing a wide body of evidence that suggests that growth has resumed. He sets out four elements to support this view: signs of growth across the global economy; positive news from a range of business surveys; improvements in consumer spending and confidence; and, an apparent levelling-off of unemployment. But he cautions that: ".though we have seen a wide range of signs of recovery.we are still in the very early stages of a resumption of growth."

He goes on to say that while it is natural to be nervous about the early phase of recovery, there are two areas of particular concern stemming from the impact of the financial crisis and recession. First, the pace of global economic recovery. Andrew Sentance says that while: ".we cannot expect Asia and other emerging markets to shoulder the whole burden of global recovery," a synchronised recovery has the potential to lead to the re-emergence of ".strong upward pressure on world energy and commodity prices".

A second concern is the need for domestic rebalancing, between the public and private sectors, given the size of the UK public sector deficit. He says: ".cutting the government deficit will be a major challenge for the British economy", but he draws comfort from the experience of the 1990s. He says that episode of rebalancing ".was accompanied by reasonably healthy GDP growth of over 3% a year, with unemployment gradually falling". He cautions however that the legacy of the financial crisis has produced a number of headwinds that could act on this process.

Turning to the outlook, Andrew Sentance believes: ".we have yet to see the potentially significant impact that Quantitative Easing could have on spending by households and firms." He notes that there will come a point where monetary policy will need to be tightened, but there are major uncertainties to when that will be. He says: "As we look further out. the Inflation Report projections are highlighting the risk of keeping policy too

loose for too long." He adds that the MPC ".are hopefully now moving from the role of fire-fighters in the recession to a more familiar role - steering the economy through an upswing underpinned by low inflation."

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2009/speech411.pdf>