



**BANK OF ENGLAND**

# News release

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## **UK Monetary Policy - How Long Should "The Song Remain the Same"? - Speech by Andrew Sentance**

In a speech to the Thames Valley Chamber of Commerce in Reading, Dr Andrew Sentance - an external member of the Bank of England's Monetary Policy Committee - explains how his view of economic prospects has shifted and why he voted for a small rise in interest rates in June.

Andrew Sentance begins by explaining that last year the economic backdrop was one of sharp falls in demand and rising unemployment, uncertainty about recovery prospects and a general expectation of persistent below target inflation. "A year on, however, the economic situation has changed," he says. Andrew Sentance describes a number of features of the current economic situation that he believes are very different from the expectations of last summer.

He argues that the world economy has bounced back strongly, and while uncertainties persist, ".worries about possible uneven-ness in the pace of global growth should not be confused with signs of a 'double-dip' recession". In turn, he believes that ".the UK economy has also turned around since last summer". He points to a reverse in the downward shift in money spending as well as positive business survey outturns as evidence of a rebound. He also believes that expectations of large margins of spare capacity have not been borne out by the available data. And he suggests this may, along with the depreciation of sterling, help to explain the failure of inflation to drop back in the way the MPC expected a year ago.

Andrew Sentance concludes by saying: "In my experience, recoveries have momentum. While growth might not be totally steady and even across sectors, as recovery progresses, various mechanisms begin to operate which can give it added momentum". He adds: "A year ago, the predominant worry was that inflation could be significantly depressed by the impact of the recession. That risk did not materialise. And while I'm not yet worried that we face a major and serious risk in the opposite direction, I do think we need to adjust the policy settings we put in place to head off the downside risks to inflation identified in the immediate aftermath of the big financial shocks in late 2008 and early 2009."

## Key Resources

UK Monetary Policy - How Long Should "The Song Remain the Same"?

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2010/speech440.pdf>