



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

13 October 2010

Sustaining the Recovery - Speech by Andrew Sentance

In a speech to the British American Business Council, Dr Andrew Sentance - an external member of the Bank of England's Monetary Policy Committee - discusses the challenge of creating the right conditions for a "...sound and sustained recovery".

He explores the extent of the recovery so far and how it compares with previous recoveries. Andrew Sentance finds "...grounds for encouragement". In particular, he notes that the "resilience of employment ...should help to sustain consumer confidence. It is also a positive indicator about medium-term economic prospects" and "... should also give us encouragement that the private sector can generate job growth that will more than offset the public employment cuts that may be in prospect...".

A second positive feature of the early stages of this recovery is that "...we have seen some evidence of rebalancing in the UK economy" as manufacturing output growth over the last year has been the strongest rate in over 15 years. Andrew Sentance says: "The ability of British manufacturing industry to provide strong impetus to private sector growth will be an important offset to the drag to domestic demand from the rebalancing of public finances over the next few years." So, his verdict on the recovery is "so far, so good".

Andrew Sentance then explores three elements to concerns about the sustainability of growth: the prospects for the global economy; the impact of the government's fiscal tightening; and the legacy of the financial crisis. After commenting on the importance of the supply side he then concludes.

"In the years ahead, we will see much tighter restraint of public spending as the large deficit which built up over the recession is reined in. That process of deficit reduction is necessary to ensure longer term confidence in the future stability of the economy in financial markets and more generally. In this environment, it is the private sector which will be the engine of growth for the UK economy - just as it was in the 1990s recovery and the previous recoveries we have experienced here in the UK. Confidence that inflation is being kept under control is a key factor in sustaining that private sector engine of growth.

My view remains that we should be starting now to make a gradual adjustment of monetary policy. The improvement we have seen in the economy over the last year and the above-target inflation we have

experienced point to the need to begin the process of withdrawing the very substantial level of monetary stimulus which was put in place to counter the big financial shocks we experienced in late 2008 and early 2009.

Such a policy should not be a threat to the recovery. In my view it is the key to sustaining the recovery. It is the right response to an economy which is growing but experiencing persistent above-target inflation. It would reduce the risk of a future shock to confidence if current above-target inflation does become more deeply embedded and interest rates then need to rise more sharply to combat it. And it would provide more confidence to the public and the business community that the MPC takes its remit seriously and is determined to ensure that this recovery is built on the solid foundation of price stability."

Key Resources

Sustaining the Recovery – Full speech

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2010/speech452.pdf>