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News release

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The economic outlook: some remarks on monetary policy - speech by Paul Fisher

In a speech to contacts of the Bank's Agency for Scotland, Paul Fisher – Executive Director Markets, member of the Monetary Policy Committee and member of the interim Financial Policy Committee - sets out his current thinking on monetary policy.

The economic recovery has been characterised by slow growth and high inflation, a combination which Paul Fisher describes as posing a significant challenge for both policy makers, and businesses and households up and down the country. But he believes there was little monetary policy could have done to offset the various inflationary shocks that have hit over the past couple of years. "Given that changes in Bank Rate (or asset purchases) take a long time to have their full effect on the economy, monetary policy needs to be forward looking...". "Trying to respond to every short-term movement in prices would probably be futile and would certainly involve a lot of unnecessary volatility."

Paul Fisher says that the UK economy has been on a gradual, if bumpy, path of recovery – something that is consistent with the pattern witnessed in previous recessions. But, "Until underlying growth resumes, we can't be certain that it will, of its own accord. At the very least, that makes me pause to consider when policy should start to be normalised or even whether further loosening might be justified." He moves on to discuss his views around the outlook for consumer spending, where he expresses concern that the recent soft patch could turn into a more prolonged weakness in demand, posing an immediate downside risk to the growth outlook. He then discusses his views on spare capacity, noting that the margin of slack is likely to shrink, either as demand growth picks up, or as potential supply is eroded further. Finally, he sets out his interpretation of the evidence on inflation expectations, where he notes that there has been little change in market participants' expectations.

Paul Fisher believes that the risks to medium-term CPI inflation are broadly balanced, around the 2% target. In particular, he expects that the upside risk from any deterioration in the level of potential supply is broadly offset by the downside risks to consumer spending. While there are certainly upside risks to the outlook from higher inflation expectations, those are not of immediate concern to him.

He is concerned, however, that the risks around consumer spending mean that "…putting up Bank Rate could be exactly the wrong thing to do at this precise moment". And while Bank Rate will have to rise at some point, "...for now, I believe there remains time to allow the economy to recover before the eventual tightening begins".

Key Resources

The economic outlook: some remarks on monetary policy – Full speech