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A few remarks on current monetary policy in a rebalancing economy - speech by Paul Tucker

Speaking in London today, Paul Tucker – Deputy Governor, Financial Stability, Member of the Monetary Policy Committee and Member of the Financial Policy Committee – discusses current monetary policy in light of the need for the economy to rebalance. He says: "Given the ferocity of the shocks that have already hit the economy, and the pervasive uncertainty that persists about global economic and financial conditions, these are circumstances where taking longer than usual to re-achieve the 2% target is warranted, so that the economy's supply capacity is not impaired by more than can be avoided." But he cautions that "...an absolute precondition for maintaining that support to demand, and so limiting the damage to the economy's supply capacity, is the credibility of monetary policy."

Paul Tucker explains that, even absent the monetary stimulus, rebalancing in the economy was not going to be easy. "The composition of demand in the UK was imbalanced for so long that the productive capacity of economy is unbalanced." That process is hindered by tight credit conditions, which he says are impeding the reallocation of capital across the economy. And it makes labour market conditions harder to interpret. In particular, subdued productivity growth over the past few years is difficult to explain. There is anecdotal evidence of labour hoarding, but that does not square easily with either surveys of business conditions reporting firms as carrying relatively little spare capacity or the observed growth in private sector employment during the first part of 2011. This puzzle is something the MPC and Bank staff are working to explain.

In conclusion, Paul Tucker says that "...if our monetary accommodation can help to ease the costs to firms and households of adjusting by smoothing the path of aggregate demand, then a waste of capital resources and of human livelihoods can be limited." He adds that over the next few quarters it will become clearer whether the Committee's judgement call on inflation – that it will fall rapidly from its current elevated level – will be proved correct. But he is keen to emphasise that "...the gloom should not be overdone. The record is that flexible economies with sound macroeconomic regimes recover from almost any crisis. The UK will recover. Meanwhile the MPC will continue to underpin demand, consistent with getting back to the 2% inflation target and so with sound money."

Key Resources

[A few remarks on current monetary policy in a rebalancing economy – Full speech](#)