



**BANK OF ENGLAND**

# News release

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## **The economic outlook – speech by Charlie Bean**

In a speech delivered at the Council of Mortgage Lenders' Mortgage Industry Conference & Exhibition in London, Charlie Bean – Deputy Governor for Monetary Policy and a member of the Monetary Policy Committee – explains why the MPC chose to re-start its Quantitative Easing (QE) programme and what it expects QE to achieve.

Charlie Bean begins by providing the context for the MPC's 6 October decision to extend QE. He notes the slowing of growth in the second half of 2011, and emphasises that it is a global phenomenon. He attributes it to two factors: the tension in financial and bank funding markets, heightened by the twin forces of the euro area banking and sovereign debt crises; and the rise in energy and other commodity prices during late 2010 and the first half of 2011.

He turns to inflation and recognises that it has been squeezing real personal incomes. But the 5.2% rate reached by CPI inflation in September is likely to be temporary; the MPC's central view is that it will fall back sharply during the next year, easing the squeeze on household incomes, thereby supporting more consumer spending and mortgage demand. Even so the economy is likely to remain weak, and in the absence of further monetary stimulus "inflation would have been more likely to undershoot rather than overshoot, the 2% target in the medium term". These expectations led the Committee to undertake further QE.

After noting the empirical evidence regarding the impact of the first phase of QE, Bean goes on to acknowledge recent public debate on whether the effectiveness of QE could be enhanced by buying something other than government debt. He considers in particular the idea of sending every household a voucher that can be spent and subsequently converted by the retailer into cash. Bean notes that "economic theory, as well as considerable empirical evidence, suggests that such a temporary increase in disposable income would be likely to be very largely saved."

### **Key Resources**

**The economic outlook – Full speech**