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# News release

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## Asset prices, saving and the wider effects of monetary policy – speech by David Miles

In a speech delivered at the pro.Manchester Business Conference, David Miles – External Member of the Monetary Policy Committee – describes how he sees the current stance of monetary policy. He considers how asset purchases might be affecting the economy, and assesses the view that such asset purchases are causing particular harm to those saving for retirement.

Miles begins by discussing the inflation projections outlined in the February *Inflation Report*. The inflation projection fan chart is based on the assumption that the first increase in Bank Rate might not come until the second half of 2014, which is what is implied by current market yields. Miles notes that different assumptions about monetary policy could deliver an inflation projection with the risks around the inflation outlook, relative to the target, broadly balanced by the end of the forecast period. "For example, it is possible that a path for policy that was looser in the near term but was then tightened at an earlier point would result in a similar outturn for inflation as in the fan chart. And it might be the case that a path such as that could be a better one for the economy. Aggressively loosening monetary policy now might bring us closer to the point at which Bank Rate could be moved back towards a more normal level. This is an argument which influences the way I see monetary policy today."

Miles reiterates that the objective of asset purchases is to stimulate demand for goods and services and to prevent demand falling so much behind supply that inflation would fall below target and stay below it. He highlights two criticisms made about the strategy of buying gilts: that it is an ineffective means of boosting demand; and that it is having adverse side effects, particularly on people saving for retirement.

Miles discusses the two main channels by which he believes asset purchases boost demand. He argues that: "...focusing on gilt yields risks both exaggerating and simultaneously understating the impact of the central bank's asset purchases. It understates the impact because I think more of the effect of asset purchases works through changing the demand for *other* risky assets and that shows up in rather big shifts in their yield spreads over gilts; it exaggerates the impact of asset purchases because other factors have certainly been at work in driving the yield on UK government bonds lower."

Miles goes on to discuss the impact of asset purchases on those saving retirement. He says that: “...it cannot be right to assess the impact of monetary policy upon the retirement resources of people by just focusing on what has happened to gilt yields and noting the impact on annuity rates. The impact... must depend also [on] what it does to the value of the retirement savings of those about to buy annuities.”

Miles’ analysis leads him to conclude that “it is implausible to see the increase in equity and corporate bond prices in the UK over the past few months as unrelated to the policy actions of the Bank of England and other central banks. And those increases in asset values will have boosted the assets of pension funds, and others savers, relative to a situation without asset purchases.”

“Nonetheless, it is inevitable that there are some people that have been made worse off by the direct impact of the Bank’s asset purchases on gilt yields...It will not be any comfort for people in this position to be told that any monetary policy action will have some distributional impacts...But if monetary policy actions could be vetoed so long as someone was made worse off then there could be no monetary policy.”

“In the absence of the Bank’s asset purchases I am sure that investment and consumer spending would have been significantly weaker than they have been. Many more people would be much worse off. Unemployment would have been higher than it currently is.”

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