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# News release

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## The UK economy and the world economy - speech by Ben Broadbent

In a speech at the Institute for Economic Affairs, external Monetary Policy Committee member Ben Broadbent discusses the relationship between UK and global growth. He stresses the importance of developments in the global economy and international capital markets for both short-run domestic demand and economic performance over longer horizons. He concludes that, while the influence of the rest of the world can mean that "problems that arise in one part of the world can rapidly arrive on our own shores", this influence "can just as easily be positive as negative".

Ben notes that, despite the UK having a long history as an open economy, "the public discourse about our economy tends to focus disproportionately on domestic considerations, domestic policy in particular." While this is understandable for several reasons, he believes that "there's still a risk that, even after the experience of a financial crisis that was so clearly global in nature, we under-appreciate the consequences of living in a global economy."

Ben shows that UK domestic demand is strongly correlated that in the rest of the world. That is likely to be due to "the rising degree of openness in global capital markets…As it's become more integrated, the international financial system has become better at sharing, and distributing, economic shocks, thereby increasing the degree of co-ordination between economies". He also presents evidence that financial conditions in the UK are susceptible to global developments: for example, he finds that surprises in US employment releases have had a bigger impact on longer-term UK rates than indicators of UK economic activity.

Ben notes that there is "both good and bad in this". "The good is that country-specific risks get shared" – in particular, "integration allows the UK to diversify its own domestic risks too". The potential bad is that "the international financial system doesn't just spread risk but creates and amplifies it" – Ben points to the losses made by UK banks on their overseas balance sheets, which "contributed significantly to their need to cut back on domestic lending and the subsequent economic downturn in the UK", as an example. Either way, he argues, these relationships increase the inter-dependence of our economies so that, "Together with the existence of economic disturbances that are truly global, an integrated financial system means the impact of world on the UK economy goes far beyond its demand for our exports."

He then turns to the behaviour of the UK economy over the longer run, at horizons over which activity depends more on supply and productivity than on demand. He cites evidence which indicates that greater openness allows countries to converge more quickly to higher levels of productivity. That could be driven by open capital markets allowing countries to tap other sources of finance, or international investment bringing with it intangible benefits such as the underlying knowledge and ideas that drive productivity.

Overall, therefore, Ben believes that "it would be a big mistake to imagine that the [integrated global financial] system brings us only problems" as it means the UK can export, as well as import, country-specific risks. The cyclical risk inherited from rest of the world can just as easily be positive as negative: he says that "Over the last year or so, for example, I think that receding near-term risk in the euro area has been a significant contributor to our own economic recovery." Furthermore, Ben believes that, while there is no inevitability that the UK productivity can recover the ground it has lost in recent years, it is likely to do so if international capital markets remain open: "On balance…we are surely likely to benefit from our exposure to the world."