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Sustaining the recovery - speech by Charlie Bean

Speaking at the North East Chamber of Commerce President's Club Talk, Charlie Bean, Deputy Governor of the Bank of England, summarises the key issues facing the economy.

He notes that "much of the recovery has been on the back of higher consumer spending and housing investment". "For the recovery to be both sustained and sustainable, however, we really want to see three things happen…..business investment needs to pick up…..a revival in productivity growth….and an expansion in net exports".

Charlie Bean notes that business investment has started to pick up and survey data on investment intentions suggest that "this revival is likely to continue", especially since "lending and capital market conditions have improved". He notes that productivity growth has been weaker than the MPC had expected, but looking forward, "we ought to be able to return to something approaching our pre-crisis average rate of productivity growth".

Charlie Bean sees a need to reduce the UK trade deficit in due course, to compensate for the deterioration in the UK's net asset income from abroad, which appears to be "primarily down to a fall in earnings on European assets". The 25% depreciation in the sterling exchange rate "should have been sufficient to give a kick to net exports", but "the performance of exports, has been somewhat disappointing". "Any further appreciation of sterling, which has risen almost 10% in trade-weighted terms since March, would not be particularly helpful in terms of facilitating a rebalancing towards net exports".

Charlie then turns to the role for monetary policy in supporting the recovery. He takes the opportunity to repeat the MPC's guidance about the future course of policy. He suggests that what is useful for businesses "is our expectation that when Bank Rate does rise, it will probably do so only gradually and to a level that is likely to remain materially below its pre-crisis average of 5% for some while – I have something like a 2-3% range in mind here."

He concludes by saying that "It is now five years since we cut Bank Rate to its historic low of 0.5% and launched our asset purchase programme (QE). Those five years have been tough for both businesses and households. But they surely would have been even tougher had we not taken that action….. The MPC will be doing its utmost to ensure that recovery is not nipped in the bud. But when the time does come for us to start raising Bank Rate, we should celebrate that as a welcome sign that the economy is finally well on the road back to normality."