BANK OF ENGLAND

Speech

Does Sterling Still Matter for Monetary Policy?

Speech given by

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I would like to thank Andrew Holder and Nicola Scott for research assistance and invaluable advice. I am also grateful for helpful comments from other colleagues. The views expressed are my own and do not necessarily reflect those of the Bank of England or other members of the Monetary Policy Committee.

I am delighted to have the opportunity to speak here at the CBI headquarters at Centre Point, and I would like to thank the CBI staff involved – in particular Ian McCafferty and Doug Godden – for organising this event.

It is nearly fifteen years since I was last here giving a presentation in the Methuen Room at Centre Point, shortly before I left my position as the CBI's Director of Economic Affairs. In late 1993, I presented to CBI Council a paper entitled "The conduct of UK monetary policy". Its most significant recommendation was that the CBI should support the transfer of the control over monetary policy to an independent Bank of England committed to maintaining low and stable inflation. I could hardly have imagined then that I would be returning – many years later – as a member of the Monetary Policy Committee (MPC) which has indeed been charged with exercising independent control over UK monetary policy. It is a funny old world!

One of the key reasons that CBI members supported the case for an independent Bank of England in 1993 was the widespread business dissatisfaction with the conduct of monetary policy over many years in the UK. There were serious mistakes in economic management and many changes of policy regime. From the late 1960s until the early 1990s, inflation was not well-controlled and the economy went through three large boom and bust cycles – with the latest of these coinciding with my time at the CBI in the late 1980s and early 1990s.

Fortunately, the business experience of UK monetary policy over the past decade and a half has been much better. Inflation has been kept low and stable and we now have a consistent monetary framework, with processes and institutions which have served us well over the last decade. This underpinning of greater monetary stability has improved the business climate and the performance of the UK economy has improved as a result.

In response to this better experience, there has been a sea-change in business attitudes to monetary policy since my time here at the CBI. In the eighteen months while I have been on the MPC, I've had the opportunity to visit and meet with hundreds of businesses around the country. I have been heartened by the positive view within the business community of our current monetary policy framework and the processes and institutions which underpin them. That contrasts greatly with the mood of hostility and frequent criticism of monetary policy when I was here at the CBI. Of course, not all businesses in the land will agree with every decision that the MPC makes. But I have found within business strong and widespread support for keeping our economy on a low and stable inflation course and for the delegation of interest rate-setting to an independent and expert body such as the MPC.[1]

Current challenges

However, I have also learned over the last eighteen months that monetary policymakers cannot rest on their laurels. It is clear from recent events that the real world has a habit of throwing up new and interesting challenges for us to face.

The turbulence on global financial markets which has been dominating the economic news since last summer is a major challenge for the MPC. And it is not the only one we face at present. The task of responding to this turbulence has been greatly complicated by two other features of the current economic situation which threaten to push up inflation, at least in the short term. First, we are facing strong upward pressure on inflation from rising global energy and commodity prices. Second, the pound has fallen sharply since last summer, particularly against the euro. Whereas the strength of sterling helped to dampen imported inflationary pressures in the last wave of energy and commodity price inflation from 2004 to 2006, the weakening pound is now adding to the upward pressures on costs and prices from global markets.

Monetary policy must steer a course which takes account of all these influences with the aim of keeping the economy on a low and stable inflation path over the medium term. That is certainly not easy in the current climate.

[1] See Sentance (2007a) for a fuller discussion of changing business attitudes to UK monetary policy.

Recent economic commentary has focussed mainly on the difficult balancing act of responding to the two big shocks from the global economy – energy and commodity price inflation and the financial turmoil.[2] This evening I want to discuss in more detail the third ingredient in the equation – how our response should also take into account the recent decline in the pound.

Through my time here at the CBI in the late 1980s and early 1990s, the value of the pound was centre-stage in UK monetary policy. In the late 1980s, the government adopted a policy of informally shadowing the deutschemark, and then made membership of the ERM the key anchor for UK economic policy from October 1990 until September 1992. Under our current framework of inflation targets, sterling no longer has that role as the lodestar of monetary policy. But movements in sterling can still be significant for monetary policy, influencing economic growth and inflation, through their impact on business costs and competitiveness.

So this evening I want to focus particularly on the recent fall in the pound and its significance for the difficult monetary policy balancing act that the MPC is currently undertaking. I'll try and answer three questions. First, how significant is the recent decline in the pound, in relation to its recent history? Second, why has the pound moved in the way it has? And third, how does the recent decline affect the monetary policy judgements that the MPC has to make in the current economic situation?

[2] See Sentance (2007b) and Bean (2008) for analysis by MPC members of the "twin shocks".

The recent decline in sterling

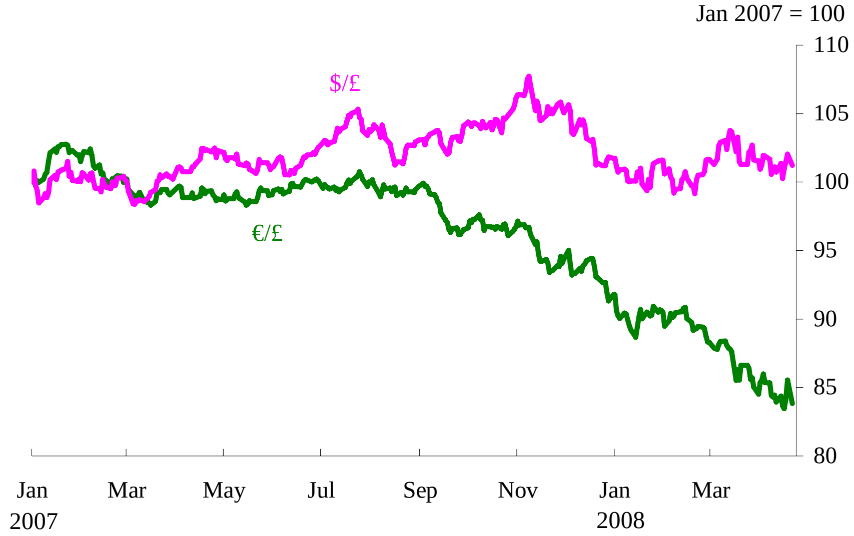
Chart 1: Sterling Effective Exchange Rate

Source: Bank of England

In late July last year, in an economic world somewhat different from the one we currently inhabit, sterling hit a short-term peak against a trade-weighted basket of currencies – 105.8 on the exchange rate index calculated by the Bank of England. As Chart 1 shows, this was not quite as strong as the level the pound achieved in January 2007, on the back of a rise in interest rates which surprised the markets. But it was still nearly 6% above the average level of the pound during the period in which the MPC has been setting interest rates. Since then, sterling has been on the slide. The pound has fallen about 13% against the trade-weighted basket of currencies. So from being just under 6% above its average value over the last decade, sterling has moved to over 7% below.[3]

[3] The sterling exchange rate index (January 2005=100) averaged 100.1 over the period since May 1997. Its average level in the week commencing 14th April 2008 was 92.3, compared with 105.8 on 25th July 2007.

Chart 2: Sterling exchange rates against dollar and euro



Source: Bank of England

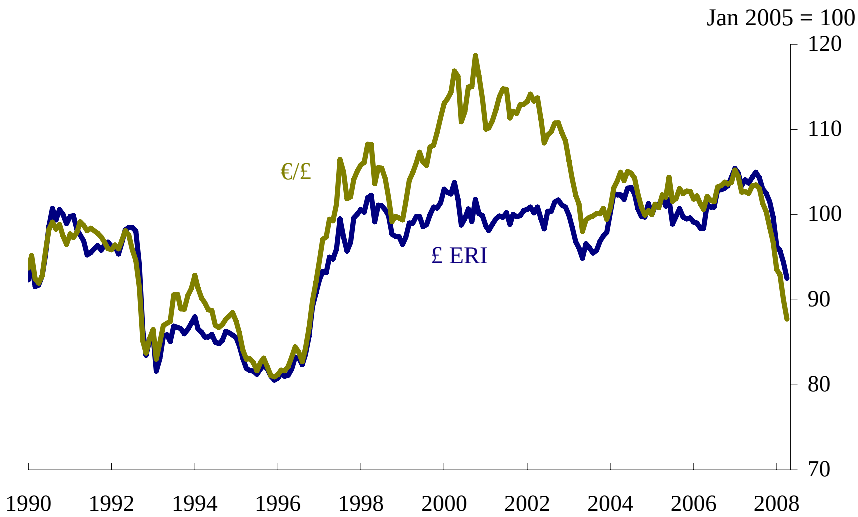
There has also been a pronounced regional bias to the recent downward shift in the pound, as Chart 2 shows. Sterling has fallen by over 16% against the euro, which is the most important single currency for UK trade, as the countries which make up the euro area account for about half of total UK exports and imports.[4] On the other hand, sterling has hardly weakened at all against the dollar and the current value of close to $2 to the pound is strong in relation to its level over the last two decades. Exporters who are heavily dependent on the US and other dollar-related markets will not be feeling the same competitiveness benefits as companies selling into European markets.

Despite this relative strength against the dollar, the recent downward shift in sterling appears to be very significant, as Chart 3 shows. Against the trade-weighted basket of currencies, the pound has moved to its lowest value while the MPC has been in

[4] In 2007, trade with euro-area countries accounted for 51.4% of UK goods exports and 47.6% of UK goods imports.

existence. It is also at its lowest value against the euro since that currency was launched in 1999.

Chart 3: Sterling Effective Exchange Rate and euro/£



Source: Bank of England

Note: Chart based on monthly average data; April 2008 is based on average up to 21st April. Before 1999 a synthetic €/£ exchange rate is shown, based on 1999 conversion rates and weighted by the country shares of extra euro-area trade.

Looking back further, it is interesting to compare recent movements in sterling to the 1990s when we last saw big swings in the value of sterling – downwards in the early 1990s and upwards later in the decade. Chart 3 shows this comparison, both for the exchange rate basket and the euro – which has been synthetically recreated for the period before 1999. Two interesting points stand out from this comparison.

First, the fall in the average value of the pound over the last nine months is now on a par with the post-ERM drop in sterling. Against a trade-weighted basket of currencies, the downward shift is broadly equivalent – though the recent drop against the euro is significantly larger than the 12% drop against the equivalent European currencies we saw in the wake of the ERM exit in 1992.

Second, a substantial part of the significant appreciation of the pound in the late 1990s has now been unwound. Over the last decade, the average value of the pound has been around 20% above its level in the mid-1990s. About half of that increase has now been eroded by recent movements.[5] However, the move against the euro is more striking. In relation to continental European currencies, we appear to be back to where we were in the mid-1990s, when the pound was very competitive against the rest of Europe. The euro is currently worth around 80 pence, whereas the average value of a synthetic euro over the period 1993-96 would have been 81 pence. In old money, the pound is now down to about DM2.50 which was regarded as a very competitive exchange rate in the 1980s and the 1990s. If this position is sustained, it should provide a significant competitive advantage for UK exporters selling into European markets over the next few years.[6]

Why has the pound fallen?

So why has the pound fallen so dramatically since late July last year? Accounting for movements on currency markets is not easy. No single theory can explain the behaviour of the exchange rate. Long-term fundamentals, medium-term factors such as the balance of payments, and short-term fluctuations in demand, financial flows and interest rates all appear to play a part. However, the importance of different factors can change over time and market sentiment plays a significant part in the relative valuation of currencies. This makes it hard to account for exchange rate movements and almost impossible to forecast them![7]

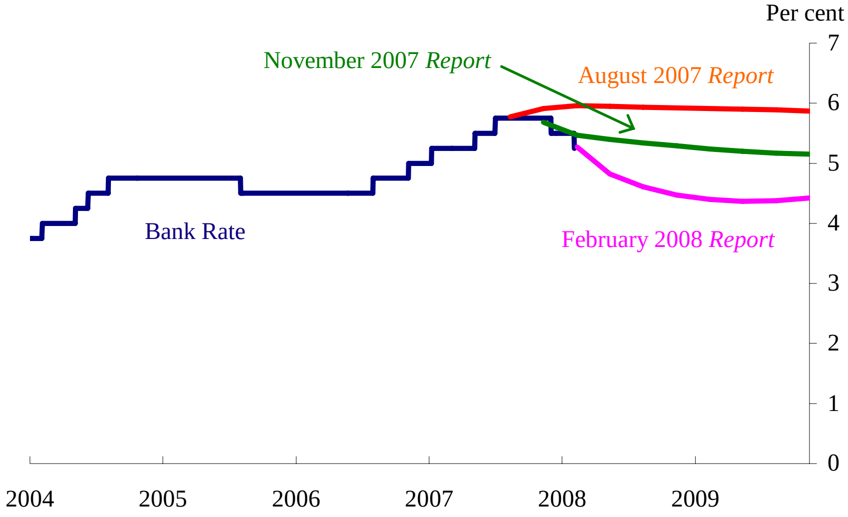
However, it is surely not a coincidence that this latest period of sterling weakness is almost exactly contemporaneous with the period of financial turbulence which started last summer. It has also been noticeable that sterling has taken a number of lurches downwards when there has been bad news or unhelpful rumours relating to financial

[5] The sterling exchange rate index (January 2005=100) has averaged 100.1 since May 1997 compared with 84.4 for 1993-96. The average value of 92.3 last week (w/c 14th April 2008) is almost exactly midway between these two values.
[6] Longer-term comparisons of competitiveness should also take into account differences in relative inflation by comparing movements in real exchange rates. However, differences in inflation rates across major economies have been limited since the early 1990s and real and nominal exchange rates have moved broadly in line over this period.
[7] See Taylor (1995) for a comprehensive review of exchange rate theory and evidence. See Wadhwani (1999, 2000) and Vickers (2000) for previous assessments of exchange rate movements by MPC members following sterling's appreciation against the euro in the late 1990s.

markets or the health of financial institutions. For example, sterling dropped around 2% in value in the week following the run on Northern Rock, and fell sharply again in the wake of the rescue of Bear Sterns.

There appear to be three main factors behind the current weakness of the pound and all can be linked in some way to recent financial market turbulence.

Chart 4: Bank Rate and market interest rate expectations



Source: Bank of England and Bloomberg

Note: Futures curves are estimates of market participants' expected path for UK short-term interest rates. See Chart 1.1 of Bank of England Inflation Report, *February 2008 for full explanation of how these curves were derived.*

First, demand prospects in the UK economy have weakened significantly over the last nine months, leading market participants to expect significantly lower interest rates, as Chart 4 shows. Over the last nine months, forecasts of the growth of demand and output for the UK economy in 2008 and 2009 have been revised down significantly. There is accumulating evidence that the pressures in the financial markets are affecting the availability and cost of credit, particularly mortgage lending. And this has reinforced a downward trend in property markets which started to emerge last year. Meanwhile, survey evidence shows consumers and businesses becoming more cautious about future prospects.

All this negative news about future demand prospects has persuaded market participants that interest rates would fall significantly this year against the background of a slowing economy. And that expectation has been reinforced by the interest cuts which have already taken place – last December, in February and this month. Of course, it remains to be seen if these interest rate expectations are correct. But this change of view gives currency investors less reason to hold sterling in relation to other currencies such as the euro – where the weakening of demand is expected to be less marked and the view of future interest rates has not come down as much as in the UK and the US.

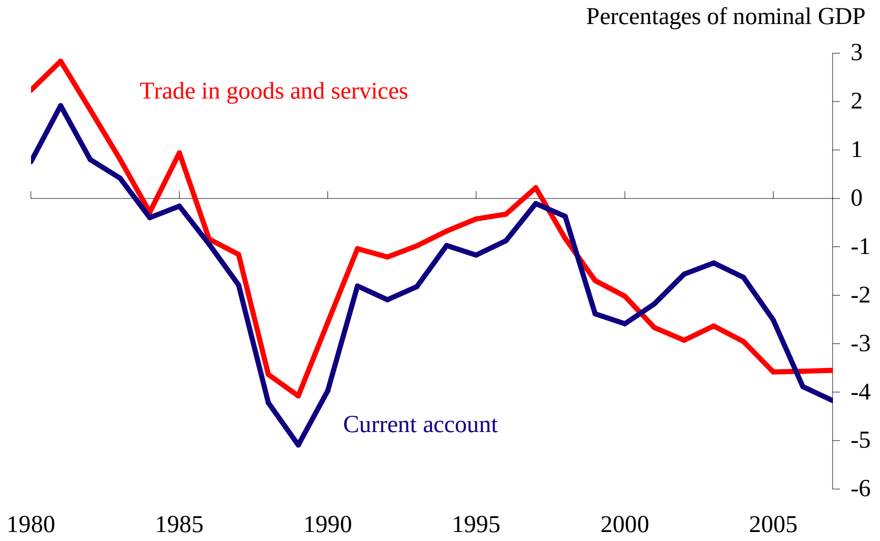
This shift in interest rate views provides a reasonably good explanation of the fall in sterling last year, particularly against the euro. But it does a less good job of explaining why sterling has continued to fall this year and has dropped so far. So some other factors are clearly at work.

A second possible reason why sterling may have weakened so sharply in response to the financial turmoil is that recent developments seem to have increased the perception of risk associated with the UK economy and sterling assets. Evidence that this risk perception is affecting sterling can be found in the forward currency markets. There is a downside skew to the current structure of options contracts – with the market charging more for protection against a fall in sterling relative to the forward rate than it requires to insure against a rise.

This increased perception of risk appears to be associated with the view that the UK might share some of the financial vulnerabilities which have affected the US economy and its housing market. In support of this proposition, investors can point to the fact that both the UK and US economies have highly developed and deregulated financial sectors, and both have seen strong lending growth associated with house price inflation. Both economies have seen individual financial institutions succumb to difficulties as a result of the recent turbulence. Evidence that the UK housing market is weakening sharply will have fuelled these parallels.

Now it is important to point out that this assessment of risks attached to the UK economy is not necessarily correct. There are some important structural and cyclical differences between the positions of the US and the UK too. However, financial sentiment does not have to be rational or well-founded for it to influence the behaviour and attitudes of market participants.

Chart 5: UK external balances

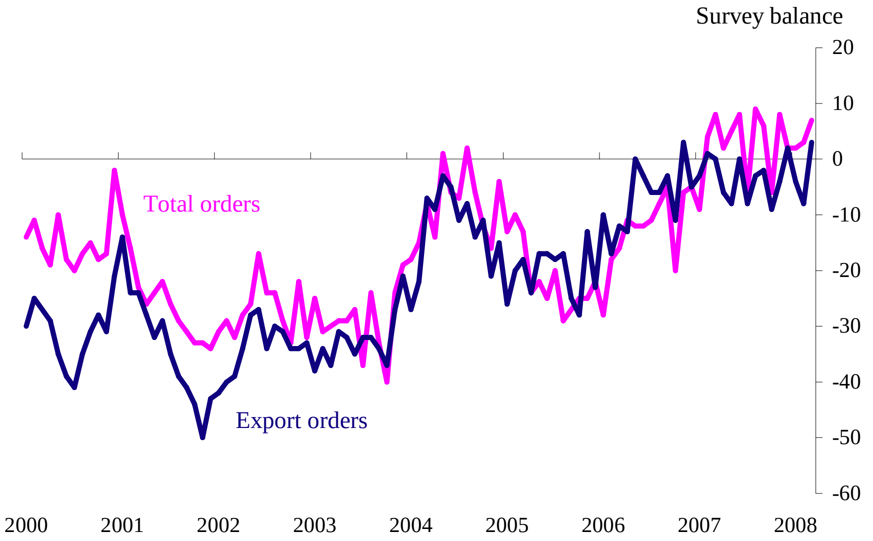


Source: Office for National Statistics

The third factor that has been contributing to the weakness of the pound is the growing perception that there will need to be a rebalancing of the sources of demand growth in the UK economy in the years ahead. Over the period since the late 1990s, the UK has seen a progressive increase in its trade deficit and a widening current account imbalance, as Chart 5 shows. Indeed, towards the end of last year, the Office for National Statistics significantly increased its recent estimates of the current account deficit – causing financial analysts to focus more closely on the imbalances in the UK economy.

Correcting this imbalance is likely to require an unwinding of the forces which created it. Chart 5 shows that this is exactly what happened in the mid-1990s when a competitive pound supported a rebalancing of the economy – closing the deficit created by the excesses of the late 1980s. Once again, strong domestic demand and a strong pound need to give way to a period of weaker growth of domestic spending, accompanied by a more competitive currency. This process of rebalancing is likely to benefit sectors more heavily dependent on overseas demand – such as manufacturing industry – with exports and import substitution playing a much stronger role in the growth of the economy than we have seen for most of the past decade. Offsetting this, it is also likely to require more subdued growth in consumer-oriented sectors of the economy than they have experienced in recent years.

Chart 6: Order books in CBI manufacturing survey



Source: CBI

Note: Chart shows the net balances of manufacturing firms that consider their order books to be above normal, excluding seasonal variations, in volume terms.

The evidence from the CBI's manufacturing survey, shown in Chart 6, suggests that this rebalancing may be already beginning to take place. Manufacturing order books have held up remarkably well in the face of evidence of weakening demand and export orders are at the highest level seen since the mid-1990s. It will be interesting to see what the CBI's quarterly Industrial Trends Survey reveals on this issue when it is released tomorrow.

A rebalancing of demand in the UK has been expected for some time, but there are two reasons why it may have started to have a bigger impact on sterling since the onset of the financial market turbulence. First, the uncertainty created by financial market events can often provide the trigger for currencies to move in response to a case for a currency shift which has been building for some time. We saw this, for example, in the Asian currency crisis and in the re-evaluation of the prospects for the dollar which has taken place since the early 2000s. Second, the impact of the turbulence on borrowing costs, the availability of credit, consumer attitudes to debt and the housing market all make the rebalancing more likely. A significant slowdown in UK consumer spending has increased in likelihood since last summer, and with it the prospect that the UK economy will need an offsetting boost to demand from a more competitive pound.

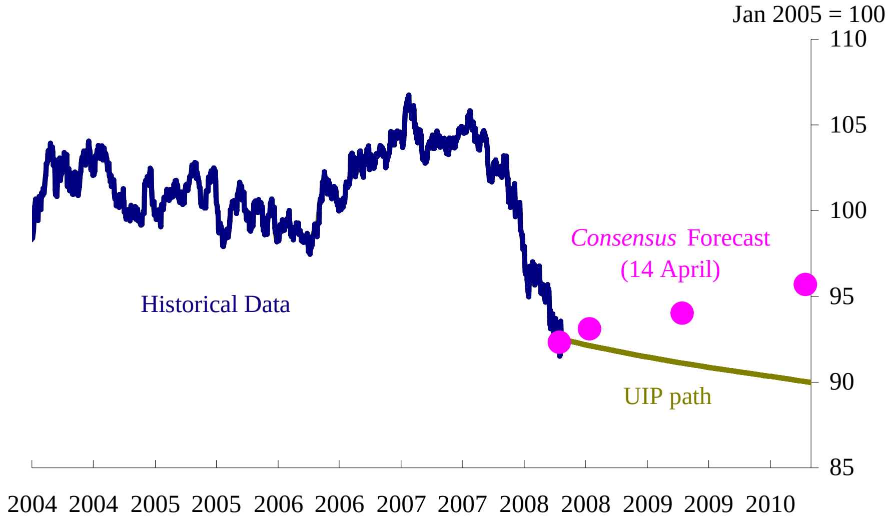
So to sum up, three ingredients appear to underpin the recent decline in sterling. First, demand prospects have weakened, closing the expected interest rate gap with the euro area in particular. Second, perceptions of financial risks have increased in relation to the UK economy and sterling assets. And third, a period of rebalancing in demand now appears more likely, warranting a more competitive pound to act as a counterweight to more subdued consumer demand.

However, foreign exchange markets are notoriously volatile. Could the weakness of sterling prove temporary and unwind quickly? This seems unlikely, and would not be a safe assumption for policy, for a number of reasons. First of all, the consequences of the "credit crunch" and the associated impacts on financial markets are likely to be with us for some time. Already, the impact of financial turbulence has been longer and more sustained than seemed likely when it first appeared. And even when financial markets settle down, it would be reasonable to expect longer-lasting impacts on demand through a much more cautious attitude to lending that could persist for some time. Second, the rebalancing of the UK economy will take time to unfold. The fall in the value of sterling which helped underpin the economic rebalancing in the mid-1990s was sustained for about four years.

In addition, market participants do not appear to expect a significant rebound in sterling. As Chart 7 shows, though Consensus forecasts do suggest a little scope for sterling to rebound over the next few years, forecasters expect the bulk of the recent depreciation to be sustained. By contrast, if sterling follows the path suggested by forward exchange markets based on interest rate differentials, it could weaken further.

In reality, the prospects for sterling are still very uncertain. But there does not appear to be much evidence to support a quick and sustained unwinding of the recent decline.

Chart 7: Outlook for sterling ERI



Source: Bank of England and Consensus Economics Inc.

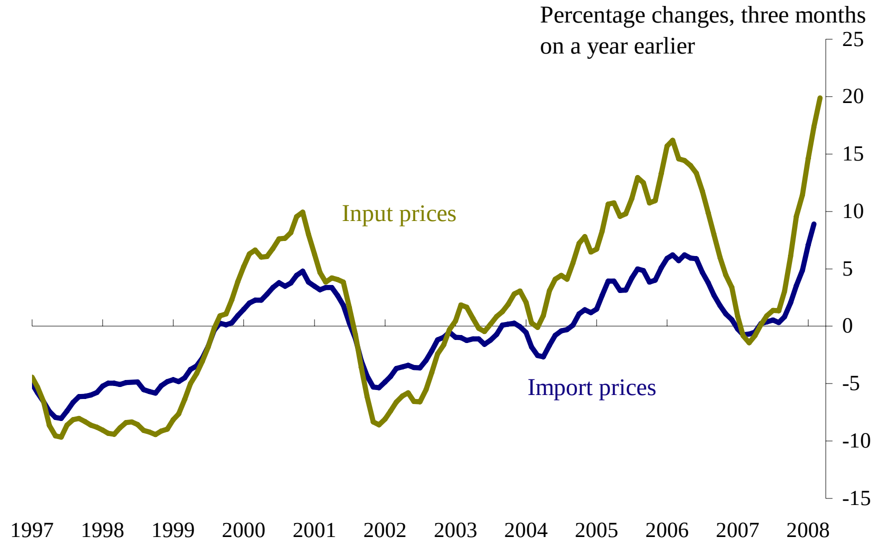
Note: The ERI projection (UIP path) is based on interest rate differentials between the UK and countries represented in the ERI basket.

How should monetary policy respond?

So, on the assumption that the weakness of sterling does not unwind, how should monetary policy respond? Our monetary policy framework is focussed on achieving price stability, defined in terms of a target of 2 percent CPI inflation. The remit for the MPC recognises the reality that we cannot hit the inflation target at all times. However, we should ensure any deviations of inflation from the target are not persistent and prolonged. If we are not able to do that, the credibility of the framework and the target will be undermined. So the key issue for the MPC is how will the decline in sterling affect the inflation outlook, and how do we stabilise inflation over the medium term even if there are short-term fluctuations.

A change in the value of sterling is likely to have an impact on the inflation rate in two main ways. First, it will affect the prices of imported goods which will eventually feed through the supply chain into higher prices for consumers – though the speed of the pass-through does depend on whether a squeeze in margins or other costs cushions the impact. We already see the beginnings of this process in relation to the recent decline in sterling. Chart 8 shows that the prices of imports have risen sharply and this is feeding through into rising input costs for producers. This sharp rise in input costs also reflects the impact of increasing oil and other energy prices. But even excluding oil, import prices are now rising at their fastest rate since 1995.[8]

Chart 8: Import costs and manufacturing producer input prices



Source: Office for National Statistics

The second influence is through the impact of a change in the value of the pound on demand. In the case of a fall in sterling, this demand effect is the product of two elements working in different directions. Manufacturers and other firms which compete with overseas producers in home and export markets will receive a boost to their competitive position, adding to their profits and supporting labour incomes in the internationally tradable sectors of the economy. Working in an offsetting direction is the negative impact that higher import prices could have on real household incomes and spending as they feed through into the prices paid by consumers. However, consumers also tend to cushion short-term changes in real incomes by adjusting saving and borrowing. So the dampening effect of a weaker pound on consumption

[8] Non-oil import prices in the three months to February 2008 were 4.8% higher than a year earlier – the fastest rate of increase since January 1996.

depends on the extent to which consumers believe their incomes have been squeezed in the longer term – which is often difficult for them to gauge.

In the short term at least, therefore, we would expect producers to respond to the gain in competitiveness from a lower pound – generating stronger demand and higher economic activity for a period of time. If the change in the value of the pound is sustained for long enough and consumers eventually adjust to the fact that their living standards have been squeezed, the longer-term impact on demand may be more neutral.

For the setting of monetary policy, these two effects both create upside risks to inflation which could persist into the medium term. The temporary rise in inflation could create a knock-on impact through its effect on wage increases and expectations of inflation more generally. In addition, the decline in the pound is likely to create a net addition to demand, by providing a boost to competitiveness. If other elements of demand do not change to offset this, there is likely to be some upward pressure on domestic costs and prices. These two risks are not unrelated because if wages rise to compensate for a temporary increase in inflation, either because employees resist a squeeze on their real incomes or because they begin to expect higher future inflation, there is much less likely to be a squeeze on consumer spending to offset the demand boost from increased competitiveness.

However, these risks cannot be seen in isolation from the other factors which are influencing the inflation outlook at present – the disruption to financial markets and the surge in global energy and commodity prices. The fall in the pound will aggravate the inflationary impulse coming through from higher global energy and commodity prices. The upside risk to inflation expectations will therefore be increased by the fact these factors have come together – producing a bigger and possibly more sustained short-term surge in inflation.

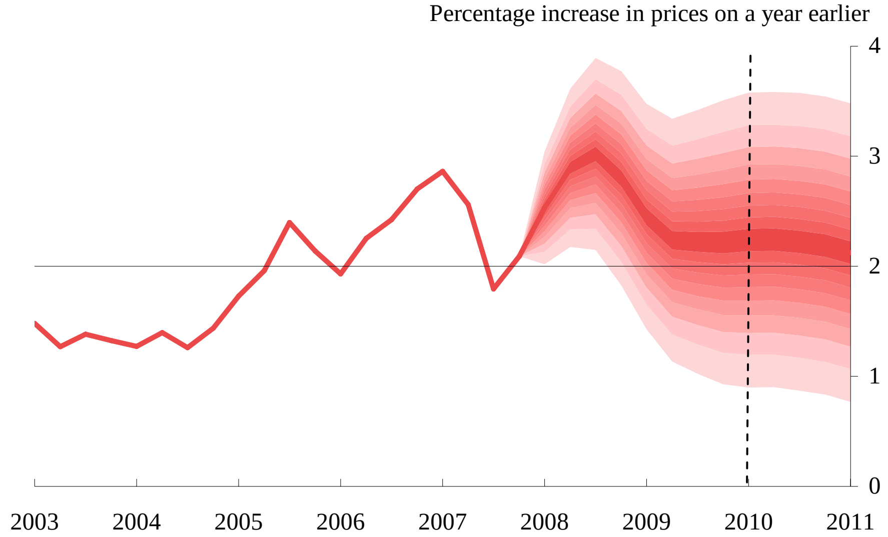
At the same time, the fall in the pound will also provide some demand offset to the negative impact of the "credit crunch" and other financial market developments. It is unlikely to provide a total offset and it would be undesirable if it did. In relation to the healthy growth we saw last year, a significant weakening in domestic demand is needed to provide a countervailing influence to short-term inflationary pressures and the risks that these pose to wage growth and inflation expectations. However, there remains a great deal of uncertainty around how much demand will weaken over the year ahead and the potential impact of a weaker pound is a further ingredient adding to this.

So how should the MPC respond in the light of this analysis? It is clear that there are no simple rules to guide monetary policy in these circumstances. But I would draw four broad conclusions for my policy judgements as a member of the MPC going forward.

First, sterling does matter for the control of UK inflation. Even though UK monetary policy is no longer organised around an explicit objective for the value of sterling, the balance of risks for inflation can change when the external value of the pound moves significantly. The recent decline in the pound creates additional upside risks for inflation which need to be taken into account in the overall policy judgement.

Second, the impact of a decline in the pound cannot be judged in isolation from other factors affecting the inflation outlook. Monetary policy must be set in relation to the overall balance of risks. That means judging how far the shift in sterling will help to offset negative demand influences from financial markets and the US economy and how it will interact with the other inflationary impulses from global markets.

Chart 9: CPI projection based on market interest rate expectations



Source: Bank of England Inflation Report, *February 2008*

Note: The fan charts depict the probability of various outcomes for CPI inflation in the future, with the darkest central band and each pair of the lighter red bands representing 10 per cent; and the entire fan chart representing 90 per cent.

A key vehicle through which the MPC produces and communicates its assessment of the balance of risks is the quarterly *Inflation Report* forecast. Chart 9 shows the MPC's assessment of the inflation outlook published in February. Then, our central forecast suggested a rise in inflation in the short term to close to 3 per cent, followed by a fall back towards the target as one-off price rises dropped out and the spare capacity created by an economic slowdown helped to counter imported inflationary pressures. Our assessment in February was that on the market's view of interest rates, inflation would not fall back to target on the central forecast – sounding a cautionary note about the market's expectation of future interest rate cuts. But given the uncertainty around the projections, reflected in the width of the fan charts, it was also clear that the MPC would be heavily reliant on the unfolding economic data to inform its assessment of the balance of risks.

We are now updating our assessment for the May *Inflation Report* and that should enable us to more systematically analyse the impact of recent developments. Since the February *Inflation Report* we have seen significant upside news for inflation in the short term from continued rises in oil prices, a further drop in the pound and rising producer prices. We will need to weigh this against the more downbeat news on credit conditions, from the housing market and from some business and consumer surveys. The policy response to these developments should reflect the news on both sides of the inflation account – recognising the increased upside risks from a rising short-term inflation profile as well as the potential downside risks from weaker economic activity and the “credit crunch”.

The third main conclusion I would draw about our response to the weakening of sterling is the critical importance of subdued wage growth. In our February forecast, this was a key stabilising influence on medium-term inflation prospects in the face of short-term inflationary pressures. The muted response of pay growth also underpinned the benign inflation outcome in the early 1990s, when inflation did not rise as much as many forecasters expected following the UK’s exit from the Exchange Rate Mechanism. However, in that episode, the experience of a recent recession and unemployment of around 3 million provided a strong countervailing influence to any pay pressures. We hope not to have to rely on such strong offsetting factors this time round. Instead, the track record of low inflation over the past decade and the credibility that has attached to the current monetary framework as a result should help to keep inflation expectations better anchored than would have been the case in the early 1990s.

So far wage growth has been remarkably steady even though some widely used measures of inflation – such as the retail prices index – have been elevated for some time. This is a reassuring indicator for the medium-term inflation outlook, even though there has been evidence of upward pressure on other shorter-term measures of inflation expectations. However, developments on the pay front will need to be watched closely by the MPC as we move through another spike in CPI inflation over the course of this year.

The final conclusion I would highlight from my analysis is that with a weaker pound, consumer spending is likely to bear more of the burden of keeping demand in check in the future than in the past. Not only should we expect consumer spending to slow in response to recent economic developments, but it may need to be subdued for some time while the economy rebalances, as was the case in the mid-1990s. A consequence of this rebalancing is that some sectors may be more significantly affected by the slowdown in the economy than others. Activities more dependent on the UK consumer and with strong links to property and financial markets are likely to see a more marked change in demand. By contrast, UK manufacturing and other sectors more dependent on overseas markets will see an offsetting benefit from a more competitive pound

In many sectors of business, though, life may well become rather uncomfortable this year and next, as companies seek to manage a period of slowing growth, accompanied by short-term cost pressures. Even though inflation is being pushed up in the short term by global inflationary forces and by a declining pound, the MPC's job is to bring it back to target again. That is likely to require relatively weak growth in 2008 and 2009 – as the turbulence in financial markets takes its toll and the economy begins to rebalance – and we cannot guarantee that this period of adjustment will be smooth.

The MPC has a difficult balancing act to strike in judging the level of interest rates best designed to keep inflation on target in the face of the potential downside impact on inflation of the "credit crunch" and the upside risks to the medium-term inflation outlook from short-term inflationary pressures. In striking this balance, you should not be surprised to see occasional differences of judgement between Committee members about individual interest rate decisions – as today's minutes show.

But on one thing I believe all members of the Committee are united, and on this I hope we can make common cause with the business community. Our objective is to keep the UK economy on a course underpinned by low and stable inflation. That approach has provided a much better climate for business than when I was here at the CBI in the late 1980s and early 1990s. And that must remain the focus of our policy actions as we aim to steer the UK economy through some rather turbulent waters.

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