

Speech by

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BANK OF ENGLAND

GETTING BACK TO BUSINESS

Lunch hosted by the Bank of England and CBI, Hilton Hotel, Belfast

24 November 2010

I would like to thank Tomasz Wieladek and Matt Corder for research assistance and 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.

It is a great pleasure to be back here in Northern Ireland for the fourth time in my capacity as a member of the Monetary Policy Committee. As a former business economist, I greatly value the opportunity to visit individual businesses and meet with business groups in different parts of the UK, as I am doing on this two-day visit to Northern Ireland. And I would like to thank Frances Hill and her colleagues at the Bank's Northern Ireland Agency for all the work they do with the business community here and for organising this visit.

It is over twenty years since I first came to Belfast when I was working for the CBI in the late 1980s. It was so long ago that Nigel Smyth was not yet then the CBI Director here in Northern Ireland! And it may even have been before Nigel joined the CBI as Deputy Director to Alasdair MacLaughlin, over twenty years ago. Indeed, I would like to acknowledge in particular today the very substantial contribution that Nigel has made to the business community here in Northern Ireland over the past two decades, in the face of many challenges and over a period of great change and opportunity.

The Northern Ireland economy has made great progress since those days in the late 1980s and early 1990s when I came here with my CBI economist hat on. Through the 1990s and in the 2000s prior to the financial crisis, Northern Ireland achieved an average rate of growth of 3% a year - significantly above the growth rate recorded in the UK as a whole.¹ Unemployment fell by two-thirds, from over 12% of the labour force in the early 1990s to just 4% in the mid-2000s. As in the rest of the UK, the unemployment rate here in Northern Ireland has risen in the recession. But it remains below the UK average – in contrast with the 1980s and 1990s when unemployment here was significantly above the national average.

There are clearly some particular challenges facing the economy here in Northern Ireland as we move into the recovery phase of the cycle. Compared with the rest of the UK, employment is more dependent on the public sector and the participation rate in the labour force is lower. Ireland's fiscal and banking problems may well have a bigger impact on the economy here than elsewhere in the UK. However, the political and economic progress made over the last two decades, as well as some of Northern Ireland's traditional economic strengths – a high-quality education system, a close-knit business community and a strong

¹ Average annual growth of Gross Value Added in real terms in Northern Ireland in the years 1990 to 2007 averaged 3.0%, compared with 2.4% in the UK over the same period.

manufacturing tradition - should provide grounds for encouragement about recovery prospects, despite these challenges.

Here in Northern Ireland, and throughout the rest of the UK, it is the strength and vitality of business which will determine how well the economy recovers from recession. After a period in which the public sector has played an important role in helping to support demand in the aftermath of the financial crisis, government spending now needs to be restrained to put public finances on a sounder footing. Against that background, the key challenge now facing the UK economy is to ensure that the private sector and the nation's business community can be a powerful and sustained engine of job creation and growth as the public sector rebalances.

I can think of no better place to discuss this challenge of "getting back to business" than at an event jointly hosted by the CBI, the UK's leading business organisation – which I am still very proud to have been associated with earlier in my career. In my speech today, I will highlight three grounds for optimism that a healthy, business-led recovery can be sustained in the UK while public spending is restrained and the deficit is brought down: the progress of the recovery so far; the resilience of UK businesses through the recession; and the experience of the previous recovery in the mid-1990s, when there was also a significant rebalancing of public finances. However, for a healthy recovery to be sustained, it also needs to build on a platform of low and stable inflation. And this, in my view, has implications for the way in which the MPC should be responding to the current economic situation – an issue I will come back to later in this speech.

Progress of the recovery so far

Since the second half of 2009, the UK economy has been recovering from recession. This recovery has not been uniform across different sectors of the economy, with manufacturing growing faster than services. There has also been some variability in growth rates from quarter to quarter, with relatively weak growth through last autumn and winter, but much stronger growth over the spring and summer of this year. GDP has risen by 2.8% over the last year, a faster pace than the 2% or so seen in the first year of the previous two recoveries.² A recovery has also started at an earlier stage in the cycle than in the early 1990s, when the

² In the year to 1982Q1, GDP in the United Kingdom grew by 2% and in the year to 1993Q2, it grew by 2.1%. In this and subsequent reference to the latest GDP growth data, the figures quoted in the text do not take account of any revisions published in the second GDP release on Wednesday 24th November.

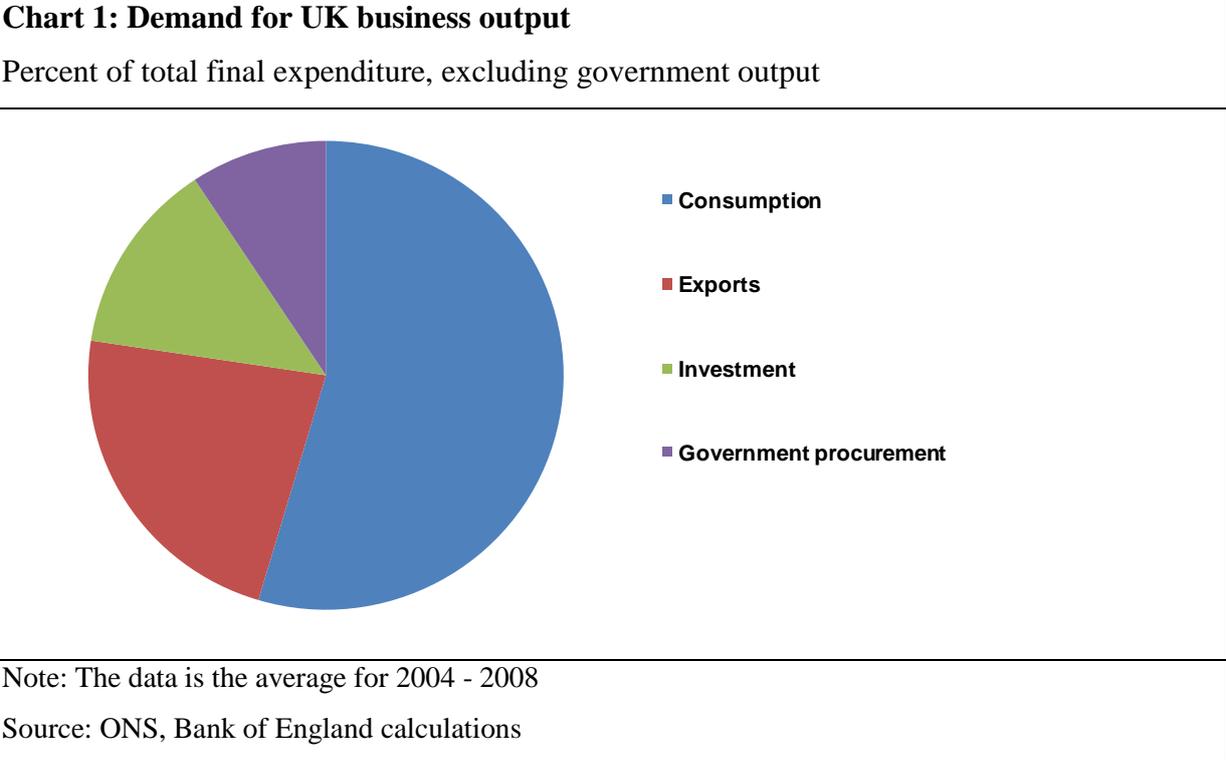
economy “bumped along the bottom” for a number of quarters before growth became firmly established.

It is particularly encouraging that manufacturing output has been growing particularly strongly, up by 5.3% on a year ago in the third quarter. This is the strongest year-on-year manufacturing growth we have seen since the end of 1994, sixteen years ago. The latest business surveys are generally positive about the continuation of the growth of manufacturing output. And the CBI’s latest quarterly Industrial Trends Survey, released last month, shows the strongest investment intentions in manufacturing since 1997 and the most significant employment growth since 1989. These are all encouraging signs for the rebalancing of the UK economy – towards manufacturing and away from services - which most economic analysts have suggested is likely to be needed over the course of this recovery.

These rates of growth – across the UK economy as a whole and in manufacturing – would not be possible unless the demand climate had changed very significantly over the course of the last 12-18 months. The global economy has bounced back strongly, with the IMF now projecting world growth of 4.8% this year and 4.2% next year. Asia and a number of other emerging market economies are providing a powerful engine of growth to the world economy at present. Though the news is more mixed from the US and Europe, their economies are still on a recovery track. Indeed, the current gloomy mood about the US economy does not seem to be borne out by the most recent economic data – with the value of retail sales up by 7.3% on a year ago in October and manufacturing output up by 6.1% over the same period. Within Europe, a strong performance from the “core” European economies is outweighing the drag from the fiscal and banking problems of some countries on the periphery. The German economy has been particularly resilient, with GDP up nearly 4% on a year ago in the third quarter and unemployment down to its lowest level since 1992.

This strong performance in overseas markets, coupled with a competitive exchange rate, has lifted the volumes of UK non-oil goods exports by close to 15% over the past year and is supporting the rebound we are seeing in the manufacturing industry. Chart 1 shows that overseas markets account for nearly a quarter of the demand for the output of UK businesses, with domestic demand from the private sector - consumer spending and investment – accounting for a further two-thirds. Exports and domestic private sector spending therefore make up over 90% of the demand for the output of the business sector in the UK with public

sector procurement and capital spending accounting for less than 10% of the total. So while the global economy continues to perform strongly and as long as private sector demand is still growing at a reasonable rate, UK plc should be well-placed to cope with the squeeze on public spending flowing from the October Spending Review (OSR).



Alongside the recovery in overseas markets, domestic demand in the UK economy has also bounced back following the sharp declines seen in late 2008 and early 2009. In cash terms, domestic spending in the UK economy by consumers, government and business grew by 6.8% in the year to the second quarter of 2010. As I pointed out in a speech last month, this is relatively strong demand growth by comparison with the decade prior to the financial crisis, when the growth of domestic demand in money terms averaged 5.8%.³

These data do not suggest that lack of demand is the main problem currently facing the private sector in the UK. We may see some slowdown in demand early next year as the fiscal measures announced in the Budget and the spending review take effect and consumers adjust to a higher rate of VAT. But this variability in the growth rate should not be confused with a genuine double dip which is still a remote possibility in my view. That would only be a

³ See Sentance, A., “Sustaining the Recovery” Speech hosted by British American Business Council and RSM Tenon in London, 13 October 2010. Available on the Bank of England website.

problem if the world recovery faltered seriously. While Asia and emerging markets continue to power ahead, and the US and the European Union are also recovering steadily, we should not expect to see a significant interruption to growth across the world economy.

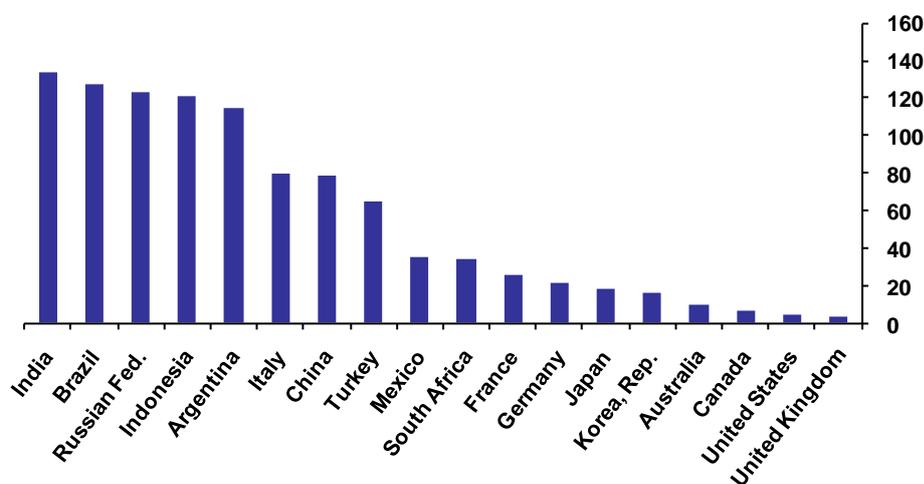
Business resilience through the recession

The turnaround that we have seen in the UK economy over the last year mainly reflects a change in demand conditions. But economic growth cannot be generated simply by stimulating demand if the supply side of the economy is not in good shape and able to respond. In the UK, we saw this most clearly in the 1970s and early 1980s, when British business was encumbered by problems of poor industrial relations, low productivity and inflexible labour markets – the symptoms of what became known as “The British Disease”. Since that time, we have seen quite a bit of evidence that the supply side of the UK economy has indeed become more flexible and supportive of growth. Surveys of the business climate in the UK, which aim to take into account the impact of regulation and other factors as barriers to doing business, show that we are well placed internationally, as the latest “Doing Business” survey from the World Bank shows (see Chart 2).⁴

⁴ The index measures the impact of a range of regulations dealing with starting a business, property and construction transactions, contract enforcement, tax payment, etc. For latter details see <http://www.doingbusiness.org/rankings>

Chart 2: Barriers to doing business across the G20

World Bank Doing Business Survey Index, 2010



Note: A low number represents fewer barriers to doing business

Source: World Bank

The performance of the economy through the recession and in the early phases of the recovery has provided further encouraging evidence of the resilience and strength of British business. There are three particularly positive features which should make us relatively optimistic about the supply-side performance of the UK economy in this recovery.

The first is the resilience of employment through the recession and evidence of a pick-up in jobs at a relatively early stage of the recovery. Though the GDP figures currently suggest that the downturn in output in the UK in the 2008/9 recession was relatively severe, the latest labour market data suggest this has been a much milder recession than earlier episodes in terms of employment.⁵ At this stage of the economic cycle in the early 1980s and early 1990s, employment was about 5% down on its peak. As Chart 3 shows, the latest data from the Labour Force Survey suggest that UK employment is currently just over 1% down on its peak level, and over the last six months, employment has risen by 350,000.⁶ As a result, the unemployment rate has stabilised at below 8% of the workforce – and has recently edged down slightly - whereas it had risen to over 10% at this stage of the cycle in the early 80s and

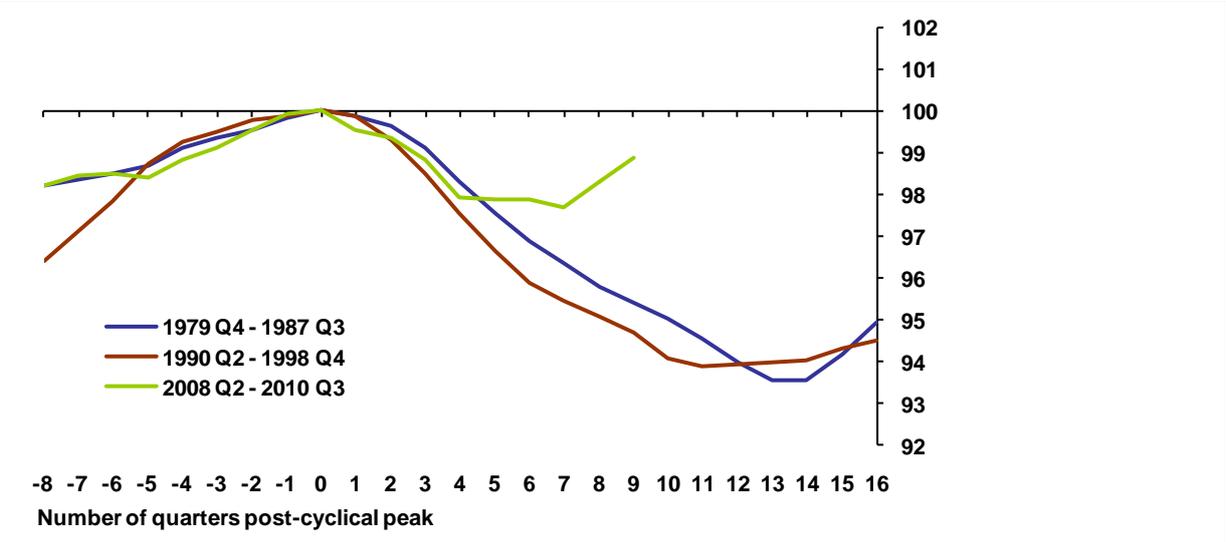
⁵ It is possible that this discrepancy between the different view of the recession given by GDP and employment data could be reconciled by future upward revision to the GDP estimates, which also occurred after the early 1990s recession.

⁶ The total number of people aged 16 or more in employment was 29.19 millions in July-September 2010 according to the Labour Force Survey, compared with 28.84 millions in January-March 2010.

90s.⁷ Given the personal difficulties and waste of resources created by high unemployment, the fact that employment has held up well in the recession - and is now rebounding – is very encouraging.

Chart 3: Employment following UK recessions

Employment relative to level at cyclical peak



Source: ONS, Bank of England calculations

Though we do not have fully up-to-date estimates, the most recent figures do not suggest that recent jobs growth has been in the public sector.⁸ Instead, it is the private sector – which employs over three-quarters of the workforce in the UK – which has been increasing employment over the first half of this year. It might be unrealistic to expect the recent rate of job growth to continue – and business surveys do suggest that employment growth is easing. But recent employment trends provide positive indications of the flexibility of the UK labour market and the confidence of business about future economic prospects.

Why have we seen a much better employment outcome in this economic cycle than following previous recessions? One reason is the rapid policy response here in the UK and worldwide, which communicated to businesses that policy-makers were actively seeking to reverse the downturn in demand – using monetary policy, fiscal policy and direct interventions in the

⁷ The latest Labour Force Survey measure of unemployment is 7.7% of the workforce. By contrast, unemployment peaked at 11.9% in mid-1984 and 10.6% in early 1993. Approximately two years after the start of the recession in both cases, unemployment was 10.2% at end-1981 and 10.4% at end-1992.

⁸ The latest figures available show public sector employment falling from a peak of 6.10 millions at the end of 2009 to 6.05 millions in June 2010.

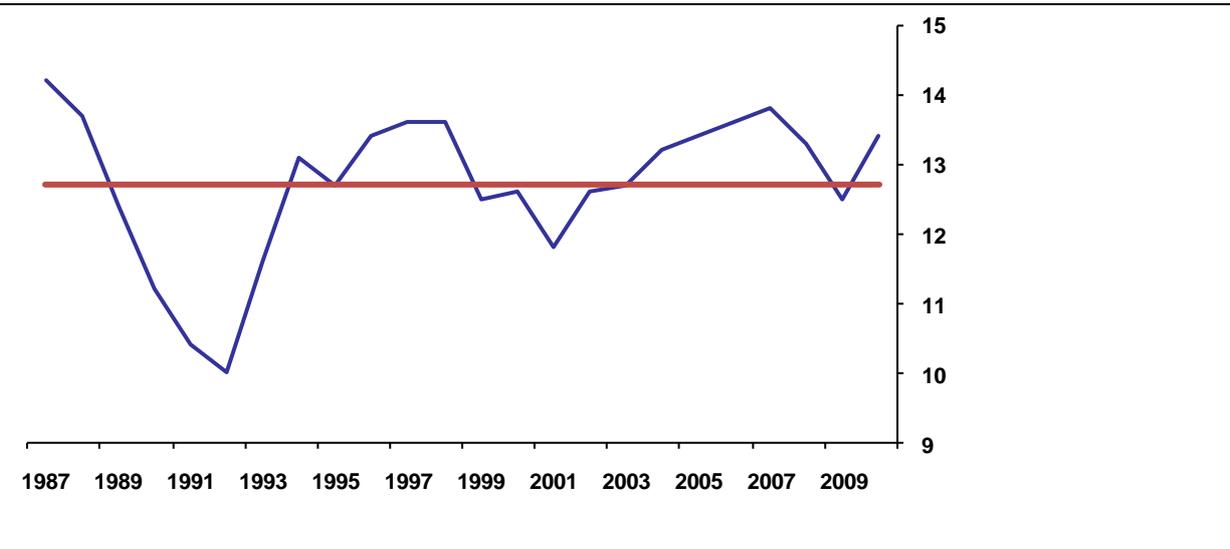
financial sector. This contrasts with earlier recessions in the UK in which the downturn was preceded by a surge in inflation and economic policy could not be relaxed so readily because of the need to bear down on inflation.

Another factor supporting employment has been the flexibility in wages and working hours which helped companies weather the stresses and strains of recession. Many companies imposed or negotiated pay freezes, and in the downturn employees were willing to accept reduced working hours or a pay sacrifice in order to help preserve their jobs. This points to a high degree of flexibility about pay and conditions of employment in the short-term. But the likely “quid pro quo” of this approach is that, when company fortunes improve, employees will expect to share in the benefits of the upswing to compensate for sacrifices made in the downturn. For this reason, I would expect private sector wage growth to pick up now that the economy is recovering, returning quite quickly to the rates we saw before the recession.

Employment has also been sustained by the long-term confidence of management in the viability and future success of their businesses. In past recessions, when this longer-term confidence was much weaker, employment has fallen more sharply. For example, in the early 1980s, UK manufacturing companies entered the recession facing many problems of low productivity, poor industrial relations and an unstable macroeconomic environment, with high cost and price inflation. It was therefore not surprising that the early-80s recession was the last straw which saw many UK manufacturers closing down operations and international businesses shifting their production bases elsewhere. In the recent downturn, the bulk of UK businesses have felt more confident about their longer term prospects and have sought to retain their resources of skilled labour and experienced workers so they would be well placed to benefit from the upswing when it came. That attitude and approach is in my view a positive signal for our future prosperity and business success.

Chart 4: Retained profits of private companies

Private non-financial companies' financial balance, % of national income



Notes: The financial balance measures the trading and non-trading surplus of companies, less dividends and interest. 2010 observation is an average of 2010 Q1 and 2010 Q2. The red line is the average private sector financial balance between 1987 and 2010.

Source: ONS

A second positive aspect of UK business performance through this recession has been the ability of companies to maintain their financial strength through the downturn. As Chart 4 shows, the retained profits of private companies in the UK fell only slightly during the downturn and have already begun to recover. In the first half of 2010, the financial balance of the private sector (excluding financial companies) was back above its average level over the last two decades, as reduced interest payments offset a squeeze on profits. Companies have also sustained profits by exploiting flexibility in their cost base – including measures to contain labour costs. They also conserved cash during the recession by aggressive de-stocking and holding back on investment.

This more healthy financial position puts the corporate sector in a better position than it has been coming out of previous recessions to increase investment as they see demand recovering. The most recent reports from the Bank of England Agents around the country are relatively positive about the investment outlook and this is consistent with investment intentions indicated by other business surveys.⁹ These indications of rising business investment also

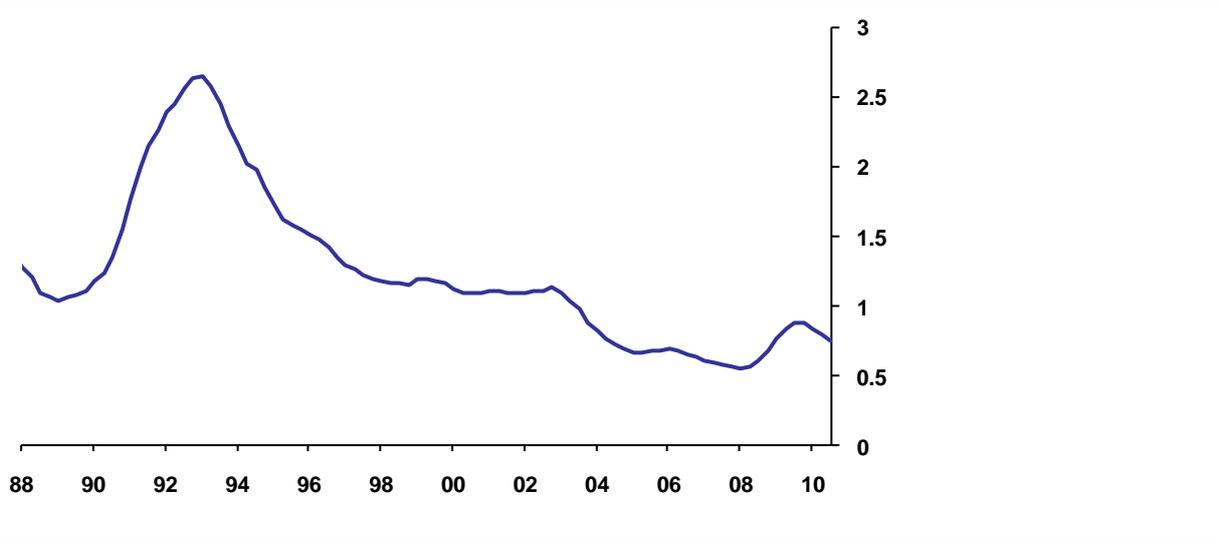
⁹ The Bank of England Agents' Report for November shows investment intentions back to the level last recorded in late 2007 and early 2008, before the recession. For more details, see the Bank of England website:

suggest that constraints in the banking sector – which are making it more difficult for many small and medium sized companies to obtain finance – are not acting as a serious obstacle to a recovery in business investment.

The third positive development for the supply-side of the UK economy following the recession is the low level of company failures. Company failure rates are normally pushed up by a recession and in the early 1990s the liquidation rate peaked at close to 3% of the number of UK companies. However, as Chart 5 shows, the failure rate of businesses has remained below 1% in this recession and has recently turned down as the economy has begun to recover. Even adjusting for changes in the legal framework for insolvencies in the mid-2000s, the rate of company liquidation is lower than in the last recession and the increase during the recession has been much lower than expected when the recession first hit.

Chart 5: UK company liquidations

Percent of total number of UK companies



Source: Insolvency Service and Bank of England calculations

With the pressures on the banks following the financial crisis, we might have expected the opposite result. If the banks had quickly sought to realise value from bad loans made in the global credit boom, we might have seen more business failures. One reason that this has not happened is because of government interventions in the banking sector which have encouraged UK banks to sustain lending to companies from which they might otherwise have

<http://www.bankofengland.co.uk/publications/agentssummary/agsum10nov.pdf>. The CBI Industrial Trends Survey shows that in manufacturing industry investment intentions are the strongest recorded since 1997.

withdrawn support. Another mitigating factor against business failures in the recent downturn has been the willingness of the government to allow greater flexibility for companies in making tax payments to ease cash flow constraints. And a further supporting influence has been the relative strength of company cash flows I commented on earlier.

The flip side of the fact that more companies have survived the recent recession is that there has been a fall-off in measured productivity. Instead of slack being created in the labour market through company failures and job losses, there is the possibility that more spare capacity has been retained within companies which have survived the recession – particularly in the services sector, which accounts for the bulk of business activity in the UK. However, the extent of this margin of spare capacity and the way it will impact on the performance of the economy going forward is a big uncertainty at present, as I will discuss later.

The 1990s recovery

A third reason for optimism about the private sector and business activity to drive the UK economy forward in the current recovery is the experience of the previous recovery from the early 1990s recession. Through the mid-90s, the UK economy grew healthily - with annual GDP growth averaging close to 3.5% while the public sector deficit was being brought down in a broadly similar way to the reduction planned by the current government. Though the latest Budget and OSR plans imply a somewhat bigger fall in the public spending share of GDP than in the mid-1990s, this is offset by a smaller rise in the tax burden. Taking tax and spending together, the projected impact is broadly similar. Public borrowing fell by over 8 percentage points of GDP between 1993/4 and 1998/9, compared with a 9 percentage point fall projected over the next five years in the coalition government 2010 Budget.¹⁰

It is also important to recognise the profile for total public spending conceals significant variations between different areas of spending. But the overall total is not being cut back as dramatically as some of the media headlines suggest. The broadest measure of public spending – Total Managed Expenditure – is still set to rise in cash terms at 1.5% per annum over the four years to 2014/15, not far below the targeted inflation rate of 2%. The profile for real spending in future years is not dissimilar to the mid-1990s when there was also a virtual

¹⁰ Public sector net borrowing was 7.7% of GDP in 1993/4, moving towards a surplus of 0.5% in 1998/9, a swing of 8.2% in the public sector financial balance as a share of GDP. The Budget plans show a 9 percentage point swing – from borrowing of 10.1% in the current financial year to 1.1% in 2015/6.

standstill in the real growth of spending. In the 1990s, the public spending squeeze was also accompanied by a significant reduction in employment in the public sector, not dissimilar to the figures currently projected by the Office of Budget Responsibility. Despite this, unemployment fell in the 1990s from over 10% of the labour force to around 5% later in the decade because the private sector generated many more jobs than were lost in the public sector.

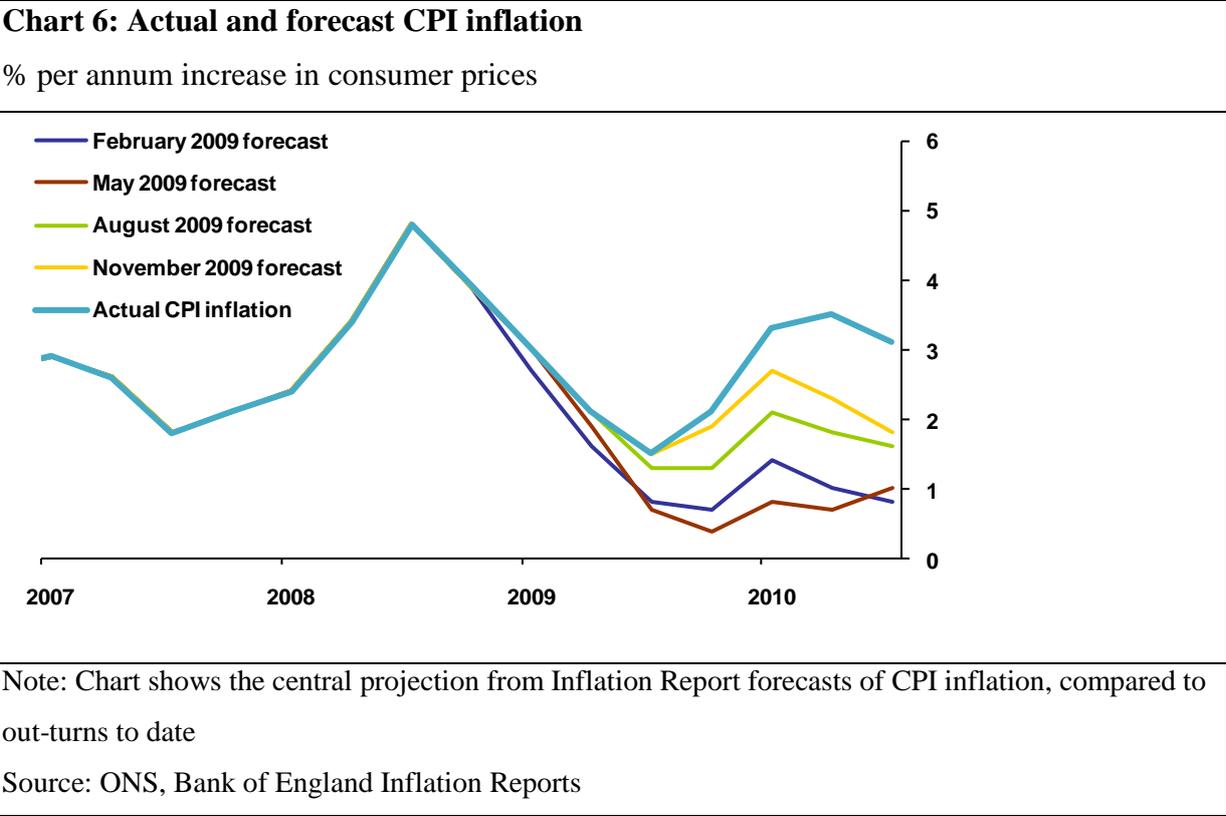
The private sector and a business recovery supported the growth of the UK economy following the early 1990s recession. And economic conditions we currently face are not that dissimilar from the world of the mid-1990s. If anything, the external stimulus to growth is stronger - the global economy has bounced back more strongly from the recent downturn and the sterling exchange has depreciated more sharply and at an earlier stage of the cycle than in the early 1990s. There is a worry that domestic demand could be held back by the legacy of the financial crisis and public sector deficit reduction. But that does not appear to be reflected in the most recent data for domestic demand and from the evidence on business investment intentions. And while we should expect a relatively muted recovery in consumer spending, the impact of high household debt levels should not be overstated. This was a major concern in the early 1990s too, when repossessions and mortgage arrears were higher than we have seen through this recession.¹¹

Inflation and UK monetary policy

In my view, the business sector of the UK economy has shown a great deal of resilience through the recent financial crisis and global recession. Growth has bounced back more strongly than we might have expected in the depths of the crisis, and policy measures have played an important part in supporting this recovery. But we have also experienced relatively high inflation. That is contrary to the normal view of what should happen to inflation after recessions – when excess capacity generated in the recession is expected to depress increases in prices and costs. It is also not consistent with the forecasts made throughout last year by the MPC which suggested that inflation would be below 2% by now (see Chart 6) and would continue below target through 2011. Instead, the Governor has had to write four letters this year to explain why inflation is over 3%, and he may well have to write another four next year

¹¹ According to data from the Council for Mortgage Lenders, both house repossessions and arrears peaked in the recent recession at lower levels than in the early 1990s, and the numbers have been falling since early 2009.

as well, as the latest Inflation Report forecast suggests that inflation is set to rise further in the early part of next year and not be back close to the 2% target until 2012.

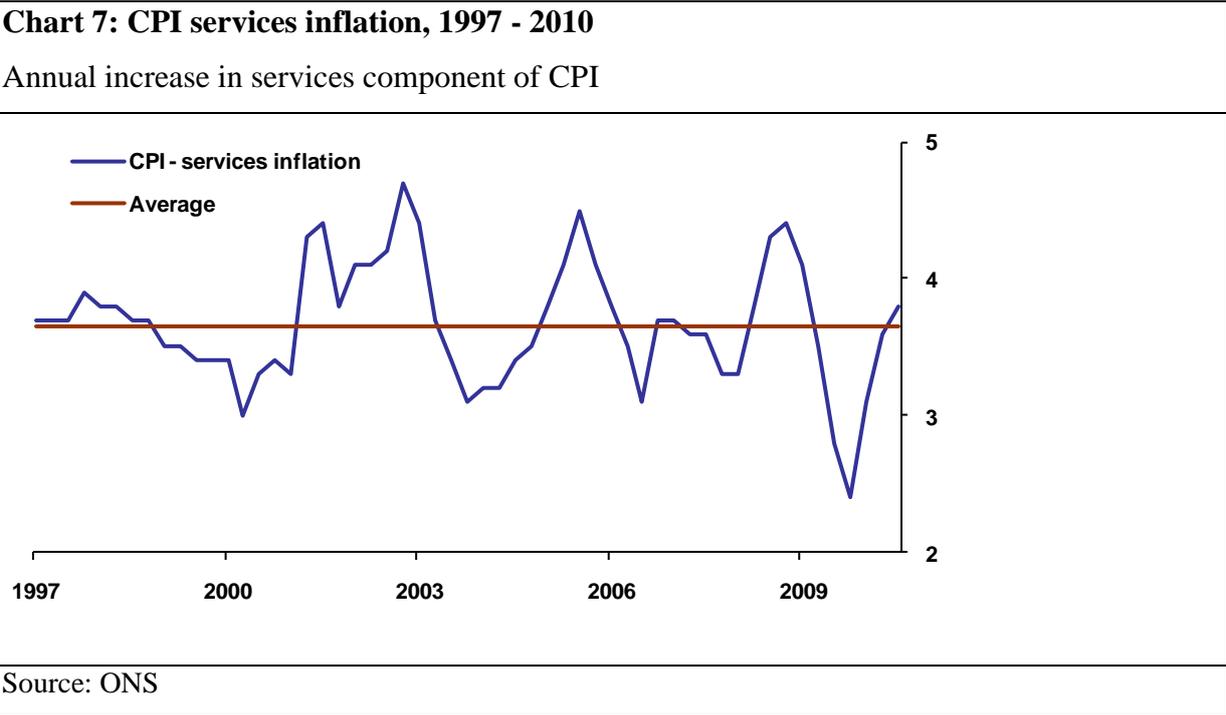


Part of the reason for this period of above-target inflation is that we are currently facing a period of upward price shocks from a range of different sources – the exchange rate, VAT rises and upward pressure on commodity prices. We could afford to accommodate these upside pressures on inflation last year when there were worries that a broader deflationary trend could emerge and the recession was threatening to deepen further. But the serious downside risks to the economic outlook we saw then have since receded. The UK economy has actually bounced back more strongly than in previous recoveries, supported by both domestic and overseas demand.

These upside pressures on inflation from import prices and VAT have been one reason that inflation has not fallen back in the way we expected in the aftermath of recession. The other significant factor is that spare capacity has not exerted as much downside pressure on cost and price increases as expected. That is partly because the margin of spare capacity appears to be less than we have seen in previous economic cycles. In the labour market, this is the flip-side

of the resilience of employment and a lower level of unemployment relative to the early stages of previous recoveries.

But survey evidence also suggests that there is limited spare capacity within firms to take up the slack as demand recovers.¹² For example, the most reliable measure of capacity utilisation in manufacturing – the CBI Industrial Trends Survey – shows capacity utilisation at around its average level, which is quite surprising at this stage of the recovery. There is more survey evidence of spare capacity in the services sector. But this does not seem to be exerting much downward pressure on inflation. The CPI measure of services price inflation has picked up from 2.4% at the end of last year to average around 3.8% in recent months. This is considerably in excess of the 2% target and also slightly above the average rate of services price inflation we experienced during the decade prior to the financial crisis, as Chart 7 shows. This does not appear consistent with the view that spare capacity in the UK services sector is serving to hold down inflation.



With the economy recovering at home and abroad, inflation above target and set to rise further, I believe there are three powerful arguments for a gradual rise in interest rates which

¹² This lack of spare capacity in firms is hard to reconcile with the relatively sharp drop in GDP in the recession and the resilience of employment. However, it is possible that future data revisions may change the profile of GDP during the recession. It is also possible that underlying productivity growth trends were overestimated during the long expansion of the 1990s and 2000s, and that the economy was further above capacity in 2006/7 than was appreciated at the time.

have been evident for several months. First, the main elements of demand for UK businesses – overseas markets and domestic private sector spending – have been recovering for over a year now and look set to continue to grow. The outlook for growth suggests the UK economy should be able to withstand a gradual rise in interest rates, even taking into account the impact of fiscal consolidation. Indeed, it is worth noting that in 1994, when the early 90s fiscal consolidation began, the UK economy grew by over 4%, which is still the strongest rate of GDP growth we have seen in any calendar year since the late 1980s. The strength of growth surprised forecasters, who had greatly underestimated the momentum of growth which would be generated by a rebound in private sector demand, a strong world economy and a competitive exchange rate.¹³ There is a risk that we are making the same mistake again because of the preoccupation with downside risks following the financial crisis.

The second key argument is that higher interest rates should help to exert a brake on above-target inflation and keep inflation expectations anchored around the 2% target. There are significant upside risks to the forecast recently published in the Bank's *Inflation Report* which could sustain the period of above-target inflation into 2012 and 2013. Continued strong global growth could generate further upside pressure from rising energy and commodity prices. Wage growth could also pick up more quickly as the recovery proceeds, as pay settlements recoup some of the ground lost in the recession and employees seek compensation for relatively high inflation. And the longer this period of relatively strong growth in consumer prices continues, the greater is the risk of a more fundamental upside shift in future expectations of inflation.

Raising Bank Rate sooner rather than later would provide more protection against these upside risks, by restraining the ability of firms to pass through higher costs into domestic prices and helping to limit import price inflation through the effect on the value of the pound. With inflation significantly above target and set to go higher, such a policy would reinforce the credibility of the MPC's commitment to stable prices – helping to keep inflation expectations in line with the 2% target. It should also help build confidence that the Bank of England is “on the case” in terms of its remit, taking appropriate policy action to return inflation to target rather than appearing to just hope for the best.

¹³ For example, the average forecast for 1994 real GDP growth made by the Treasury “Panel of Wise Men” in October 1993 was 2.7%, over 1.5% below the out-turn of 4.3%.

The third important argument is the extremely low level of interest rates we are starting from. Taken together with the monetary stimulus from Quantitative Easing, there is still likely to be a considerable support for growth from monetary policy even if interest rates are raised somewhat from their current level. Indeed, it is most unusual for the UK to experience a period as long as eighteen months or more with no change in the official interest rate, as we have done since March 2009. The period over which Bank Rate has been held constant at 0.5% is now the longest period without a change in the official interest rate since 1951 (prior to which the Bank's official interest rate had been held at 2% since the 1930s). I do not believe that the current economic conditions justify a continuation of this policy. The longer we keep interest rates at an exceptionally low level, the greater is the risk that Bank Rate would need to rise sharply in the future – creating a serious setback to business and consumer confidence. We should seek to avoid such a sudden lurch in policy. A gradual transition to higher interest rates appears much more likely to provide a stable and predictable approach to policy-making which enables the business community to plan sensibly for the future.

As the private sector of the economy “gets back to business” and we get accustomed to a resumption in growth following the financial crisis, so monetary policy also needs to “get back to business”. It is quite right for the MPC to support the economy in recession when there are significant deflationary risks. But, as the economy recovers, a key task for the MPC is to maintain monetary discipline and confidence in a world of low and stable inflation. As the Governor wrote in his letter to the Chancellor last week, echoing the MPC remit: “price stability is a precondition for high and stable levels of growth and employment”. Confidence in a world of stable prices in the UK has been hard-won in recent years and we need to safeguard it carefully.

I worry that monetary discipline and confidence in the inflation target risks being eroded by keeping emergency settings for monetary policy in place for too long, when the growth and inflation outlook points in a different direction. That is why I have argued for a gradual withdrawal of monetary stimulus and why I will continue to do so, in the absence of material and significant changes in the economic outlook relative to the picture I have described today.