

A TALE OF TWO SHOCKS: GLOBAL CHALLENGES FOR UK MONETARY POLICY

SUMMARY

'A tale of two shocks' was a speech made by Andrew Sentance, a member of the Monetary Policy Committee (MPC), published in the Bank of England's Quarterly Bulletin for the last quarter of 2007.

Andrew Sentance discusses the challenges facing the MPC in assessing the impact of two major global shocks – rises in oil and other commodity prices, and the recent, high profile problems faced by financial markets. In particular, the MPC is concerned with the problems of upward pressure on inflation, caused by rising oil and food commodity prices, and the risk to growth as a consequence of recent financial turmoil.

According to the report, the UK economy has already begun to show signs of weakening although currently in a strong position with consumer spending remaining resilient. Recent momentum of global growth has also been strong thanks to the performance of Asian economies. The future of UK economic growth will be determined by the impact of financial market developments upon consumer and business spending, and the performance of European economies which account for nearly 60% of total UK exports. Also of importance is the role of inflation expectations which may be affected as a result of further upward shocks. There is some evidence that wages have started to rise suggesting that employees and employers expect increasing inflation, and this in turn will push up the price level.

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