That was the year that was – speech by Dave Ramsden

Given at Bank of England Watchers' Conference organised by the Money Macro Finance Society and King's Business School at King's College London

24 November 2022

Speech

Thank you for the invitation to speak today. I am particularly pleased that I have close links with the two institutions, the Money Macro and Finance Society and Kings College London, who have organised this first Bank-watchers' conference.

In the spirit of the sixty year old TV programme that inspired my title I want to give my personal review of why the economy, and in particular inflation, turned out to be very different over the past year, and suggest some potential consequences for the MPC's approach to forecasting the economy and setting policy to hit the 2% inflation target. As a member of the MPC I hope to be able to do justice to how our thinking has evolved but I should stress at the outset that these are personal observations, which will nevertheless hopefully help set the scene for discussions at this conference.

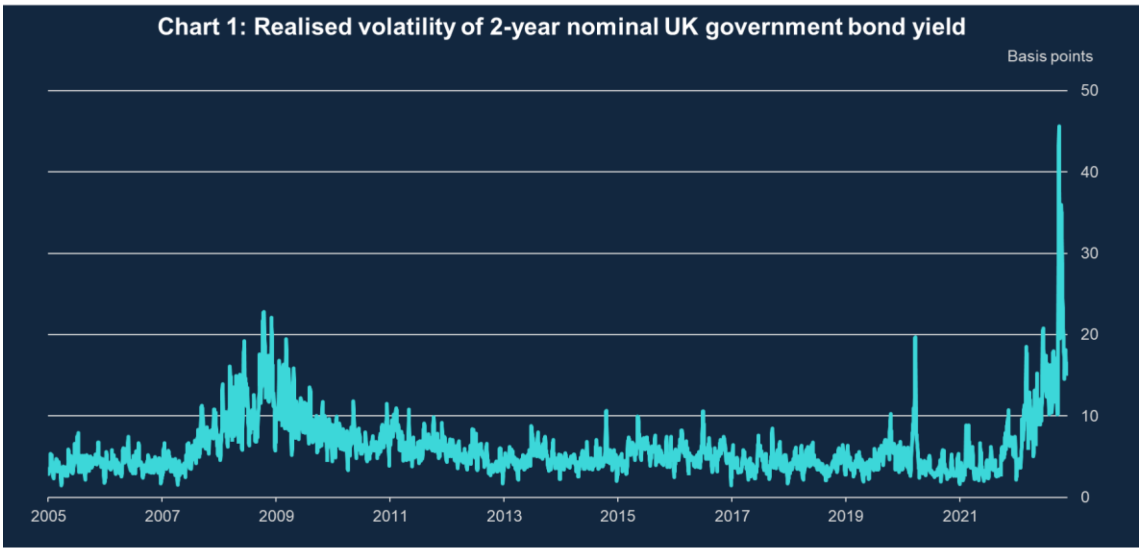
In my other monetary policy speeches this year I've focused on the impact of shocks. Today I'm going to look more through the lens of the uncertainty generated by those shocks, which has made the course of the economy in general and inflation in particular increasingly hard to predict[1]. Uncertainty has come not just from new shocks hitting the economy, most notably huge increases in energy prices, but also from unexpected developments, particularly in the labour market, as well as from other sources, like the on-going impact of Brexit and the pandemic.

Economic uncertainty can be illustrated in various ways**. Chart 1** shows a market-based measure of volatility two years ahead, the horizon for monetary policy, which has been on a sustained and steeply rising trend over the last year, and spiked very recently at a much higher level even than during the global financial crisis.

Without wishing to downplay the audience today, the Bank-watchers who matter most for whether the MPC meets its target of getting inflation back to 2% are households and businesses. Uncertainty is impacting directly on them, undermining their confidence to make decisions and plan ahead, adding to what is already a very challenging economic situation in the face of the cost of living crisis and tightening financial conditions.

[1] In economics, the concepts of 'risk' and 'uncertainty' are usually distinguished using the terminology of Frank Knight (1921). Risk refers to cases where we know the potential outcomes and the probability of them happening. Uncertainty refers to cases where we don't know the possible outcomes (or their probabilities) in advance. Another broad approach has been suggested by Kay and King (2020) in their book on 'radical uncertainty'. They argue that successful decision-making under such uncertainty relies on collaborative processes, judgement, close attention to reliable data, and the use of narrative, rather than an overreliance on economic models.

I want to frame my observations by going back twelve months. At that point the economy was recovering from the worst of the Covid pandemic and CPI inflation had started to rise. Market expectations showed a 50:50 chance that Bank rate would be increased from 0.1% to 0.25% at the upcoming December 2021 MPC meeting.



Source: Bloomberg L.P., Tradeweb and Bank calculations
Notes: Realised volatility is a 5-day moving average of the difference between the highest and lowest 2-year nominal UK government bond yield within a day.

The MPC had recently published its November 2021 MPR, summarised in **Table 1**. The MPC forecast that GDP would continue to grow, though at a slowing rate, at 2.9% in the year to 2022Q4. CPI inflation would rise in the short term reaching a peak of 4.3% in 2021Q4, before falling back to 3.4% by 2022Q4 and be close to the 2 per cent target by

Table 1: November 2021 MPR central projections

	2021 Q4	2022 Q4	2023 Q4	2024 Q4
GDP	6.7	2.9	1.1	0.9
CPI Inflation	4.3	3.4	2.2	1.9
LFS unemployment rate	4.5	4.0	4.1	4.4
Excess supply/excess demand	$1/4$	$1/4$	0	$-1/2$
Bank Rate	0.2	1	1.1	1
Energy prices direct contribution to CPI inflation	$1\,1/4$	$3/4$	0	0
Average weekly earnings	$3\,1/2$	$1\,1/4$	$2\,1/4$	$2\,3/4$

2023Q4. Other forecasters were predicting a similar outlook for activity, although their average CPI inflation forecast for 2022Q4 was somewhat lower at 2.7%[2] .

In its November 2021 MPR, the MPC stressed that there was a high level of uncertainty around the outlook, including for energy prices. The Bank's forecasts at the time were conditioned on the declining futures curves for energy prices for the first six months of the forecast but were assumed flat thereafter. On that basis the MPC concluded that "while the risks around energy prices are judged to be to the downside those towards wage growth are judged to be skewed to the upside".

Fast forward a year and the November 2022 MPR forecast shows just how much has changed for the worse **(Table 2)**. Inflation is now expected to peak at 10.9% in 2022Q4, over three times higher than was forecast only a year ago, before falling sharply from the middle of 2023, to well below target by 2024Q4. With the economy already likely to be in a recession which is forecast to be prolonged, GDP growth is negative in the year to 2023Q4 and 2024Q4, to 7.5 per cent below what was forecast a year ago[3]. Despite much weaker growth, unemployment looks likely to be lower in 2022Q4 than was forecast a year ago and wage growth is forecast to be much higher, 5 ¾% compared with 1 ¼%. As the recession is forecast to deepen, unemployment rises sharply throughout the forecast period, a significant degree of spare capacity opens up and wage growth falls back.

Table 2: November 2022 and November 2021 forecasts compared:

	2022 Q4		2023 Q4		2024 Q4		2025 Q4
GDP	0.2	(2.9)	-1.9	(1.1)	-0.1	(0.9)	0.7
CPI Inflation	10.9	(3.4)	5.2	(2.2)	1.4	(1.9)	0
LFS Unemployment rate	3.7	(4.0)	4.9	(4.1)	5.9	(4.4)	6.4
Excess supply/excess demand	$^{3}/_{4}$	($^{1}/_{4}$)	-2$^{1}/_{2}$	(0)	-3	(-$^{1}/_{2}$)	-3
Bank Rate	3	(1)	5.2	(1.1)	4.7	(1)	4.4
Energy prices direct contribution to CPI inflation	3$^{3}/_{4}$	($^{3}/_{4}$)	1	(0)	0	(0)	-$^{3}/_{4}$
Average weekly earnings	5$^{3}/_{4}$	(1 $^{1}/_{4}$)	4 $^{1}/_{4}$	(2 $^{1}/_{4}$)	2 $^{3}/_{4}$	(2 $^{3}/_{4}$)	2

[2] This was the average outside forecast included in the November 2021 MPR. The November 2021 Treasury Comparison of Independent forecasts, included an average of forecasts produced over the last three months of CPI inflation of 2.8% for 2022Q4 and a range from 1.8% to 5.1%.

[3] Among the components of GDP, the most striking downwards revision is to business investment which is forecast to be 18% lower in 2022Q4 then was forecast a year ago. There is various evidence to show business investment is particularly affected by uncertainty.

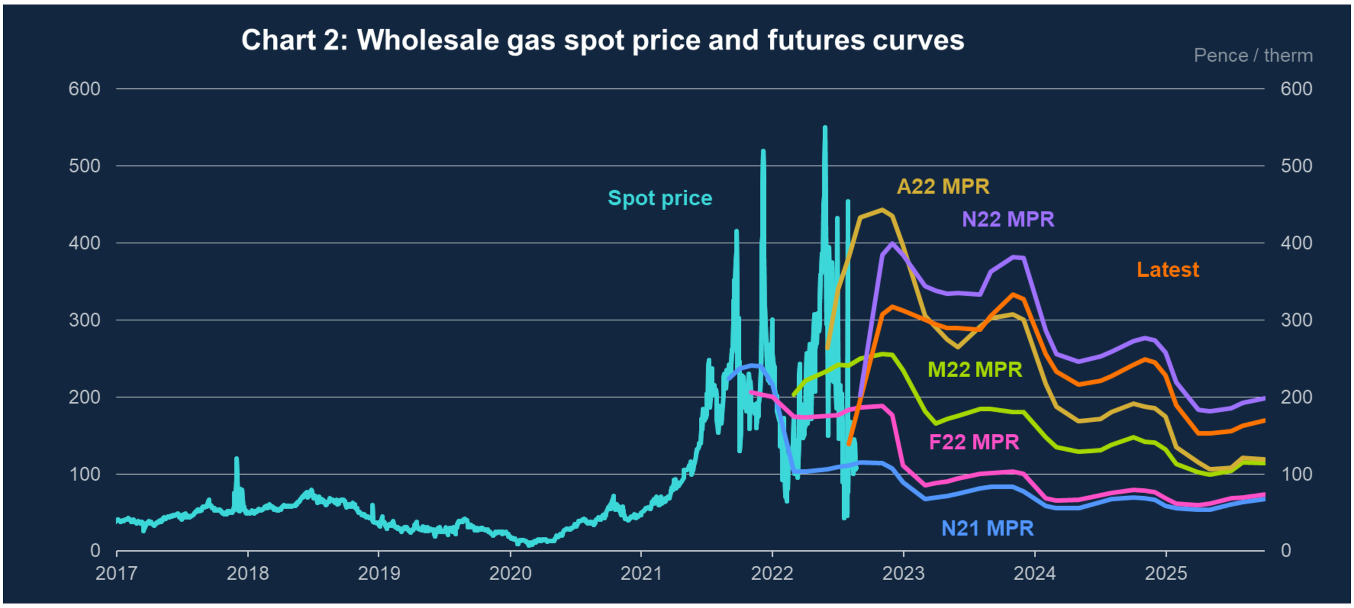
In response to significantly higher and more persistent inflation the MPC has increased Bank Rate at every meeting in the intervening twelve months, from 0.1% to 3.0%. The latest forecasts were conditioned on market expectations showing Bank Rate peaking at 5.25%, over 4% higher than the peak expected a year ago.

I want to review four of the main sources of uncertainty over the last year and draw out their interactions as well as their implications for the persistence of inflation, since this is the key feature of the MPC's latest forecasts and the focus of monetary policy.

High and volatile energy prices

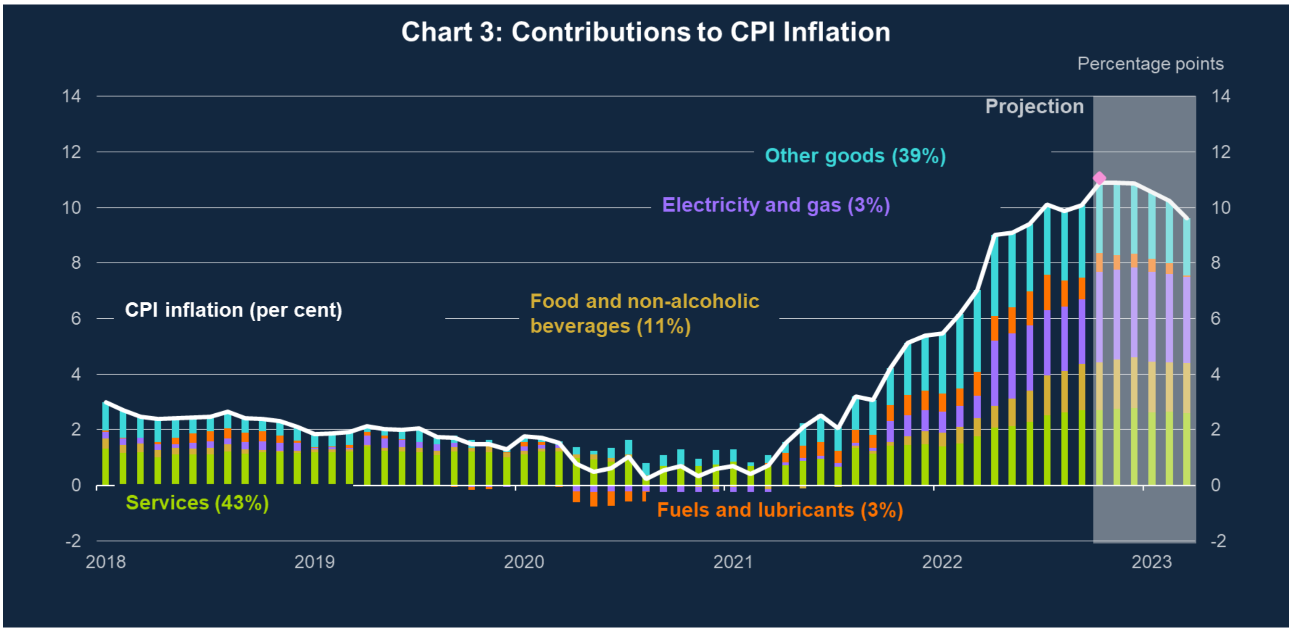
First energy prices. While these had started to rise from late 2020, gas prices in particular started to accelerate more quickly a year ago in the build up to Russia's invasion of Ukraine. This shock was unexpected, large and passed through quickly to consumer prices. As a net importer of energy the sustained terms of trade shock to the UK from persistently high energy prices – and from the smaller but still significant increase in food prices and manufactured imports which also took place - has left the UK economy poorer. These price shocks have been the single biggest driver of the recession and very high inflation the UK economy is having to contend with.

The ratcheting up in gas future curves has been a feature for most of this year **(Chart 2)**. At the time of the August 2022 MPR the futures curve peaked at 450 pence per therm which would have implied average household energy bills of £3500 from October 2022, nearly three times higher than a year earlier. Although the futures curve has fallen back since and remains on a declining trend into the medium term, persistence has become more evident.



Sources: Bloomberg Finance L.P. and Bank calculations.
Notes: Spot price is the one-day forward price of UK natural gas. Latest futures curve as of cob 21 November 2022.

In the November 2022 MPR the MPC moved to adopting the full futures curve for its conditioning assumption for the forecast of energy prices. In November 2021, energy prices directly accounted for only 0.8% of the inflation forecast for 2022Q4 compared to a direct impact of 3.8% in the latest forecast **(Chart 3)**.



Sources: Bloomberg Finance L.P., Department of Business, Energy and Industrial Strategy, ONS and Bank calculations.
Notes: Pink diamond represents October 2021 inflation outturn.

Energy prices are also the biggest driver of the sharp decline in CPI inflation forecast from the middle of next year, contributing 2.7 percentage points of the forecast fall of 5.7 percentage points in CPI inflation to 5.2% in 2023Q4.

Volatility of gas prices has also been a key feature. Greater security of European supply through this winter has helped ease pressures but there remains significant concerns about next winter, and in November the MPC flagged that a persistently higher path for energy prices remains a possible alternative scenario. And given the uncertainties and balance of upside risks, we incorporated an historically large upside skew on our inflation forecast.

Sustained labour market tightness

Back at the time of the November 2021 MPR, most MPC members were concerned that the end of the furlough scheme could be material for near-term developments in the labour market, as some of the estimated 1 million workers still on furlough when the scheme ended in September 2021 moved into unemployment. The November MPR forecast was for unemployment to rise to 4.5% in 2021Q4. As the economy recovered, employment remained resilient and unemployment fell to 4.1% after the end of the furlough scheme, only slightly higher than its level prior to the pandemic in Q4 2019.

Successive MPR forecasts in 2022 have remained too pessimistic about the near-term path of unemployment; rather than slowing as demand in the economy has slowed, demand for labour has remained resilient, at least until recently. Unemployment fell further and at 3.6% in the three months to September remains close to its recent 50-year low.

Although labour demand has eased more recently, the level of vacancies remains high and recruitment difficulties remain widely reported in surveys of firms. This sustained tightness has been driven by a much weaker recovery in the participation rate post-pandemic, in marked contrast to most OECD countries[4]. Evidence for this 'participation puzzle' for the UK only emerged in the spring[5]. Six months on, the causes remain unclear though the latest survey evidence suggests some of this inactivity reflects people with long term sickness and those who have decided to retire early. Many more people moving into inactivity now say they don't want a job compared to the period after the global financial crisis[6].

This points to the role of labour supply effects rather than cyclical weakness in labour demand and indicates that this increase may be persistent, as there is a much lower flow rate into employment compared to those who want a job. As such it is one example of a pattern for recent shocks to have as much or more impact on the supply side than the demand side of the economy, which further complicates assessment of the economy and the appropriate policy response[7].

As the MPC has learnt more about the labour market, the trough in unemployment has been revised down in successive forecasts over the last year **(Chart 4)**. However, such is the weakness of demand from the recession in activity that unemployment is forecast to rise from the start of 2023 throughout the three years of the forecast.

The sustained labour market tightness seen to date, together with the influence of much higher inflation, have led to nominal pay growth increasing materially through 2022, at a consistently faster rate than expected in successive forecasts **(Chart 5)**. Annual growth of private sector regular pay reached 6.6% in the three months to September. It is forecast to rise further in the near term before falling back as unemployment rises, spare capacity opens up and as inflation falls.

[4] See **Shocks, inflation, and the policy response − speech by Dave Ramsden | Bank of England**
[5] See **Treasury Committee oral evidence: Bank of England monetary policy reports May 2022**
[6] The Government announced a review of labour market developments in the Autumn statement.
[7] The MPC will be undertaking a supply stocktake in coming months to explore these issues in more detail.

Chart 4: UK unemployment and forecasts

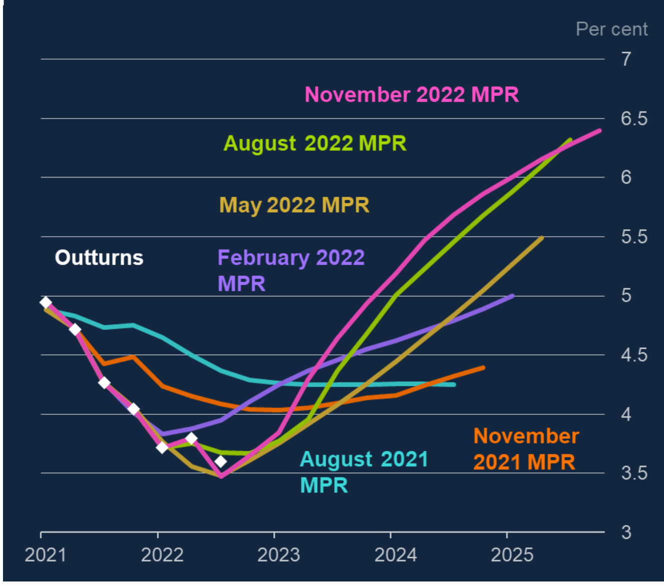
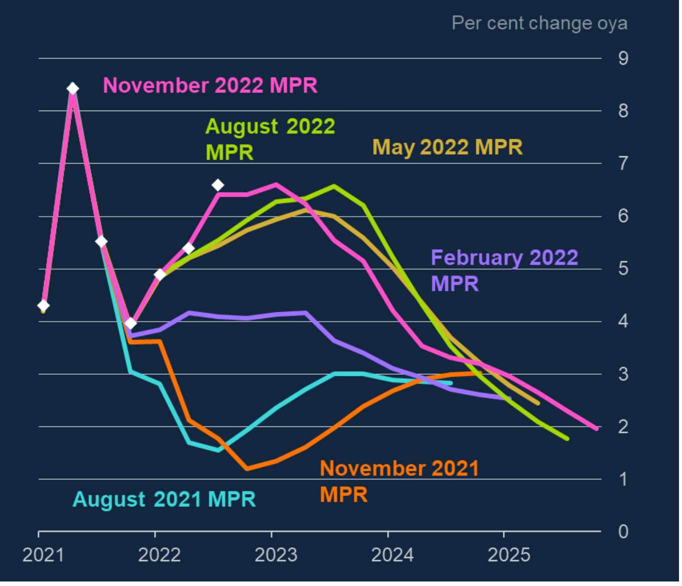


Chart 5: UK private sector regular pay growth and forecasts



Sources: ONS and Bank calculations

Increasing Inflation expectations

Increasing evidence of second round effects in wage and price setting has been a key focus of the MPC over the last year. Given the size and duration of the price increases from energy, food and other price shocks, this is not surprising. It has also been reflected, again not surprisingly, in the pickup in the various measures of short-term inflation expectations which the MPC monitors closely. What would be more of a concern is if increased short term persistence of actual inflation was reflected in an increase in medium-term inflation expectations, as this would suggest that inflation expectations might be becoming de-anchored from the 2% inflation target.

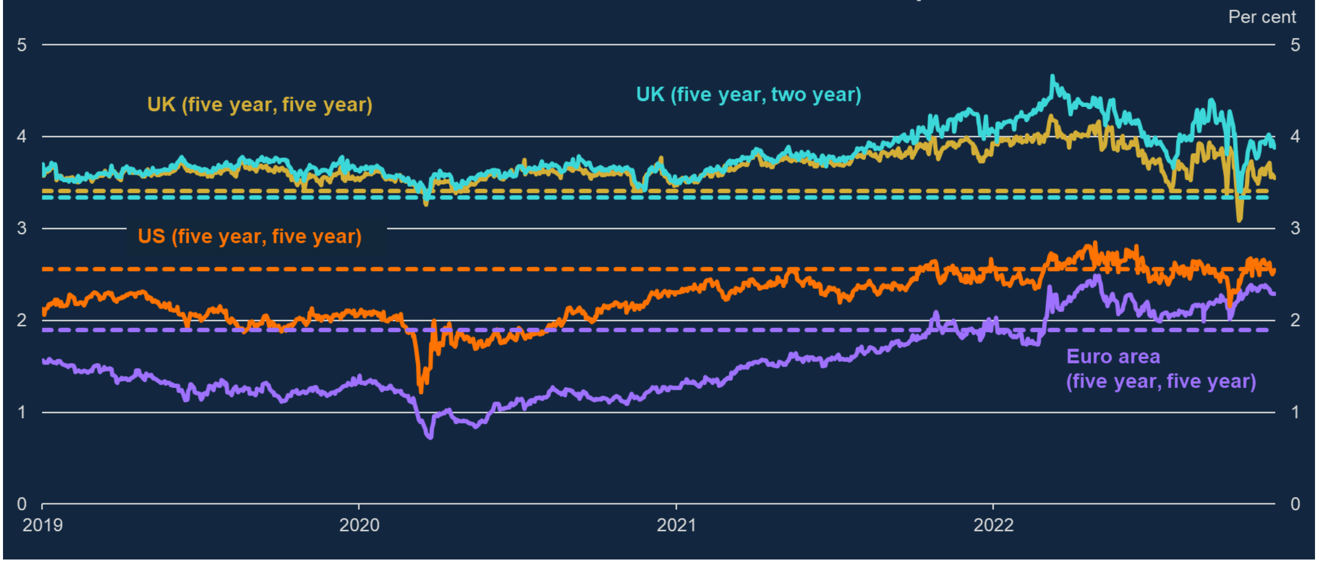
Having increased during much of 2022 for households and businesses, medium to longer-term measures of inflation expectations have shown signs of easing back more recently. The October Decision Maker Panel survey of businesses showed that three-year ahead CPI inflation expectations fell from a peak of 4.8% to 4.0%. Households' inflation expectations as measured by the YouGov/Citigroup survey eased from August highs.

The most reliable market-based measure of longer term inflation expectations was on a sustained upwards trend through 2021 and into 2022, peaking at 4.7% in March[8]. It has been volatile around a declining trend since, albeit one distorted by the LDI episode. But

[8] This is currently the 5yr2yr swap as it does not extend beyond 2030 where the index is being referenced by the UK inflation linked instruments shift from RPI to CPIH as a result of the RPI reform. The 5yr5yr inflation swap, which was previously the reference measure, currently does not provide a good signal for inflation expectations as it incorporates both RPI and CPIH components.

while this latest trend is encouraging it remains well above its long run average, and further above its average than the equivalent measure for the Euro area **(Chart 6)**.

Chart 6: Financial market measures of inflation compensation



Sources: Bloomberg Finance L.P. and Bank calculations.
Notes: Five-year inflation, five years ahead and two-year inflation, five years ahead, derived from swaps. The instruments are linked to the UK RPI, US CPI and euro-area HICP measures of inflation respectively. UK RPI is due to be aligned with CPIH from February 2030, which will affect the pricing of the UK five-year, five-year measure. Since 2000, annual CPIH inflation has averaged 90 basis points lower than RPI inflation.

In a higher inflation environment, some research has found that the distribution of inflation expectations can also matter. Views differ about the salience of this kind of historical research for the UK's current situation but it does suggest that during periods of high inflation, such as those experienced in the US in the 1970s, the change in the standard deviation and skew of expectations in survey results might signal risks to a de-anchoring of inflation expectations, even if the median doesn't change[9]. In the UK, we have seen some signs, from the Bank's Market Participants survey[10] and the Decision Maker Panel survey of businesses, of expectations becoming more skewed to the right over 2022 relative to previous years, with a larger share of respondents expecting higher inflation in the medium term.

There is a range of views among members of the MPC as to whether developments in inflation expectations and the potential for them to become de-anchored add to the other risks around the inflation outlook[11]. My concerns about the emergence and embedding of an inflationary mentality has been one of the factors contributing to my minority votes for a faster pace of tightening, first in February and again in September this year.

[9] **See The Burst of High Inflation 2021-22: How and Why Did we Get Here, Reis June 2022** and **Losing the Inflation Anchor, Reis Oct 2021**
[10] See **Market Participants Survey results – November 2022 | Bank of England**
[11] **Inflation expectations, inflation persistence, and monetary policy strategy – speech by Catherine L. Mann | Bank of England**

Market reactions to UK monetary and fiscal policy

Global financial markets have been increasingly volatile over the last year, in particular as markets have responded to increased evidence of persistence in inflation and central banks' policy actions and communications in reacting to it. The last year has been characterised by large moves in exchange rates and falls in risky asset prices but the repricing of government bonds and of expectations for monetary policy have been particularly striking.

Significant UK specific factors emerged in September and October, which have been covered in detail elsewhere[12]. The UK policy premia which opened up have now disappeared. The cumulative increase in yields on UK 10 gilts over the last year is now very closely in line with the change in US and German 10 year bonds **(Chart 7)**. Having peaked at 4.6% in late September yields on 10 year gilts were back down at 3.2% at close yesterday, their level at the start of September.

Chart 7: Change in 10-year government yields

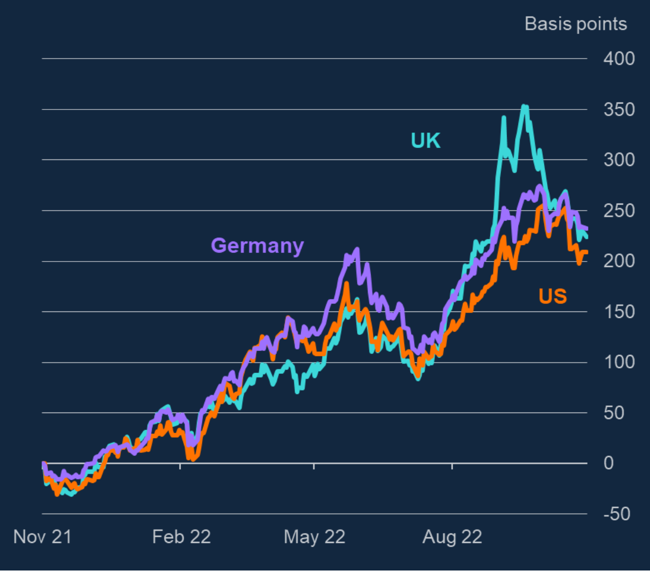
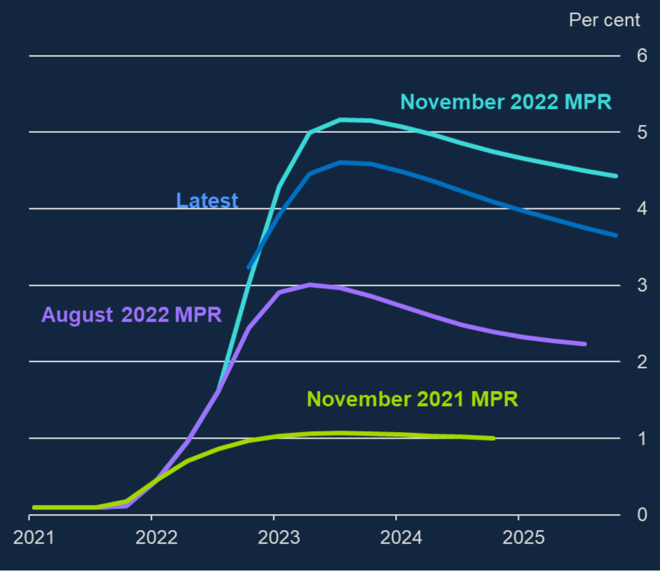


Chart 8: Market implied path for Bank Rate



Source: Bloomberg L.P., and Bank calculations
Notes: The path for Bank Rate implied by forward market interest rates are based on overnight index swap rates. Latest yield curve refers to forward market interest rates at cob 21 November 2021.

UK fiscal policy developments in response to the energy price shock have been a key contributor to the outlook for inflation. In early September the Government announced an Energy Price Guarantee (EPG) for households (and a business equivalent) to cap average energy bills at £2500 up until April 2023. In the Autumn Statement on 17 November, the Government announced an increase in the cap to £3000 for the year to April 2024. Energy

[12] See https://committees.parliament.uk/publications/30347/documents/175455/default/ and https://committees.parliament.uk/publications/30347/documents/175455/default/

prices would otherwise have been significantly higher and more volatile given expected wholesale gas prices, as embodied in the futures curve.

The Autumn Statement extension of the EPG looks broadly consistent with the working assumption that the MPC made in the November MPR forecast. Overall as set out in the November MPC, the EPG provides much more certainty about the near term path for inflation, reducing the peak in CPI inflation by more than 2 per cent and bringing it forward to Q4. The EPG and the accompanying more targeted measures also provide more support for household incomes and demand and therefore more upwards pressure on inflation in the medium-term.

The Autumn Statement also included a number of measures that will significantly tighten the fiscal position in the medium-term pushing down on activity and inflation. However, the vast majority of these measures do not come into effect until April 2025 so will have very little effect over the MPC's three-year forecast horizon, relative to what was assumed in the November MPC. The MPC will be able to take full account of the Autumn Statement in its December policy round, and its February forecast.

However, given the ongoing uncertainties, global and UK markets remain febrile and sensitive to economic and financial developments. Those putting a forecast together recently have faced the challenge of what to assume about the market implied path of interest rates. In the November MPR forecasts, the MPC shortened the window for the conditioning assumption on market expectations of Bank Rate[13] **(Chart 8)**. This gave a path for expected Bank rate which still peaked at 5.25% and which, together with all the other assumptions and judgements, resulted in a forecast for a more prolonged recession and forecast inflation declining to well below the 2% target by the end of the second year of the forecast and to zero by the end of the third year. In response the MPC took the unusual collective step of communicating that we thought the assumption for Bank rate on which the forecasts were conditioned was too high.

Responding to increased uncertainty

I've set out some of the key sources of uncertainty over the last year and how the MPC adapted our forecast assumptions and judgements in response. Now I want to bring together in one place some personal observations on how the MPC has developed its approach to the forecast and to setting and communicating monetary policy, and how that has framed my thinking.

[13] The Office of Budget Responsibility used a similar approach for their forecasts.

In a speech I gave back in July 2021, I set out the hope that as the influence of the pandemic waned, the MPC would be able to rely more on its forecasts to navigate a path for setting policy to meet the inflation target. Things haven't turned out that way. The modal forecast presented in the text, tables and charts of this speech, together with the mean forecast where we introduced a skew, remains the best collective judgement of the MPC and a useful framing device. But speaking for myself it remains further away than it was a year ago from determining my thinking on the economy and therefore my policy response.

At different times and particularly since the pandemic struck in March 2020, the MPC has made increasing use of scenarios, as a way of illustrating alternative possible futures on the basis of different assumptions or judgements, assuming other things equal. Over the last year I have increasingly thought of the forecast as more of the baseline scenario out of a range of possible scenarios representing the future.

But given the high degree of uncertainty, at present, the assumption of all else equal, is harder to maintain, particularly the further one gets into the future. To give an example, over the next two or three quarters my assessment is that unemployment is likely to stay close to its current level and perhaps move up to 4%, as demand and GDP in the economy remains weak. But I am materially less confident that after that unemployment will pick up quite markedly to end 2023 at close to 5% as in the MPR forecasts, which are consistent with the past relationship between GDP and unemployment. There are many other judgements in the forecast where the risks for me are more balanced but similarly uncertain given the sources of uncertainty present.

I am not advocating ignoring the forecast in the framing and setting of policy and relying instead on current, spot economic data. But I do support the MPC continuing to be more explicit in recognising the uncertainties inherent in the future path of the economy and in the forecasting process. One consequence of this approach is that I am more sensitive to errors in the short-term forecast than I am to forecast changes further out.

A cross-check on the MPC forecast is to compare with other forecasters, which we facilitate by including an annex on other forecasters expectations in every MPR **(Chart 9)**. Because the period running up to the November MPC was marked by particular volatility in financial markets, other forecasts were more likely than usual to be based on different assumptions to the MPR forecasts. Even allowing for that, the differences are noteworthy though also reflective of the uncertainties forecasters have to contend with at present, both on the demand side and the supply side.

All other forecasts for GDP in each of the three years from 2023 to 2025 were above the MPC's modal projection. There was a similarly marked difference after the first year of the forecast period for unemployment. For inflation the MPC's modal forecast was in the top half of the range for outside forecasts in 2023Q4 but below the bottom of the range in 2024Q4 and 2025Q4.

Chart 9: Projections for GDP, the unemployment rate and CPI inflation

Notes: Thirteen respondents submitted projections. There are 12-13 projections for each variable at the one-year horizon, and 7-8 for each variable at the two and three-year horizons.

Both the setting of monetary policy and the language used to communicate it have developed significantly over the last year, which has seen the MPC increase Bank Rate at every one of the eight meetings by a cumulative 2.9% to 3.0%. By contrast, the MPC's approach to quantitative tightening has not changed. Consistent with the MPC's strategy first set out in the August 2021 MPR, Bank Rate has been the active policy tool for tightening monetary policy, while quantitative tightening has been conducted gradually and predictably in the background, starting in March 2022[14].

As the MPC has become increasingly focused on the prospect of more persistence in inflation, it has tightened policy more sharply. In the five meetings from December 2021 to June 2022, Bank rate was increased by 1.15 percentage points in total. In the three meetings from August 2022 to November 2022 Bank rate has been increased by a cumulative 1.75 percentage points.

[14] See **Monetary Policy Report-August 2021**, **Monetary Policy Report- August 2022** and **House of Commons Treasury Committee, Reappointment of Sir Dave Ramsden as Deputy Governor for Markets and Banking, Bank of England**

The MPC's accompanying language has also developed significantly, communicating a shortening time-frame for the outlook for interest rates and progressively strengthening our language, while consistently emphasising data dependency.

Up until May 2022, when Bank rate rose to 1% the MPC's collective or majority communication still took what I would describe as a form of conditional forward guidance; emphasising that some degree of modest or further tightening in monetary policy was going to be appropriate in the coming months, depending on the balance of risks to inflation and growth. Whereas since June 2022 we have consistently emphasised the risks to more persistence in inflation and also made clear our willingness to act more forcefully if required by key developments; which I think of as signalling more of a reaction function based approach.

On my interpretation, our conduct of monetary policy has been in line with the literature on Robust Control, in a world of increased uncertainty[15]. Such an approach is consistent with policy aiming to achieve the best outcomes in the worst-case scenario, in this context, inflation expectations becoming de-anchored and leading to persistently above target inflation.

Before concluding let me provide a brief update on how my thinking on the immediate outlook for the economy and policy is developing. Some near term sources of uncertainty have eased but others remain. Because of the Government's Energy Price Guarantee there is more certainty about the outlook for energy prices and Government policy more broadly is on a more stable and predictable footing. This has been reflected in pricing in financial markets. The labour market remains tight and services inflation has hit 30-year highs and is contributing more to overall inflation. I am not yet confident that domestically generated inflationary pressures from increased costs and firms' pricing are starting to ease. Encouragingly survey and market based medium term inflation expectations have fallen back from their peak, though they remain elevated.

Assuming that in the near term the economy evolves broadly in line with the latest MPR projections and given my assessment of the balance of risks, then I expect that further increases in Bank rate are going to be required to ensure a sustainable return of inflation to target. Considerable uncertainties remain around the outlook and if the outlook suggests more persistent inflationary pressures then I will continue to vote to respond forcefully.

At the same time I am mindful that there are other uncertainties that I haven't covered today, for example relating to the transmission mechanism for policy. We have increased Bank Rate very rapidly over the last year and on past experience a change in interest rates has its peak impact on inflation only after around 18-24 months. But it is possible that the increased proportion of households on fixed rate mortgages means the full effect of

[15] See **Hansen and Sargent (2008)**

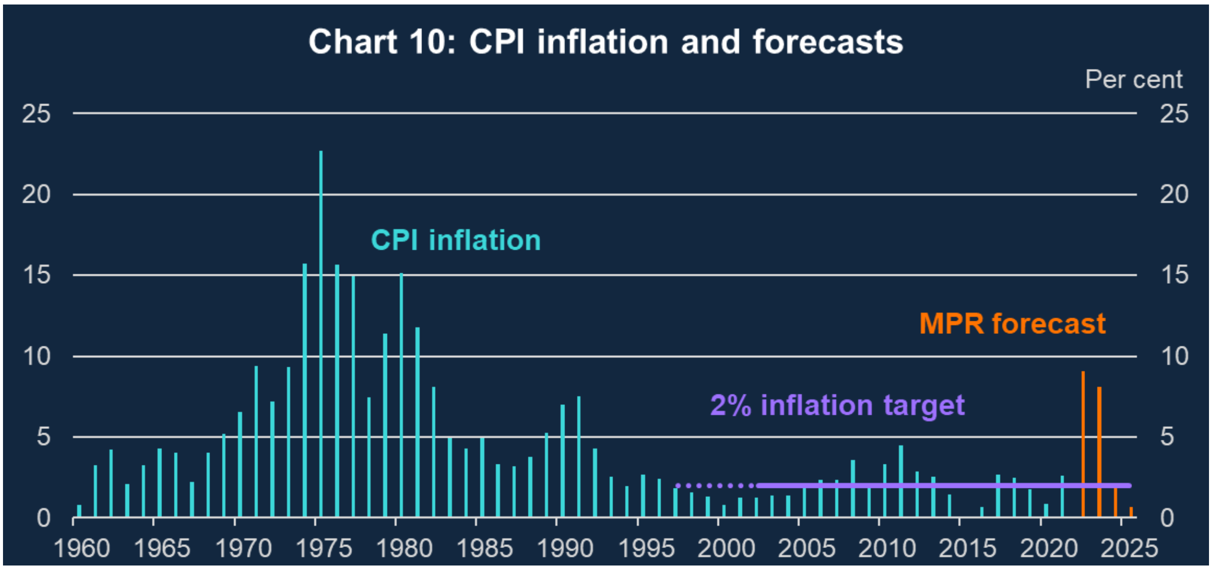
policy takes longer to come through and/or is larger when it does, such that inflation comes down more quickly through 2023[16].

Given the uncertainties we face it is important also to be humble about what we don't know or still have to learn. I favour a watchful and responsive approach to setting policy[17]. Although my bias is towards further tightening, if the economy develops differently to my expectation and persistence in inflation stops being a concern, then I would consider the case for reducing Bank Rate, as appropriate.

Conclusion

Let me conclude with two salutary tales. First a personal one. In a speech I gave in February 2022, I repeated the MPC's collectively agreed line that some further modest tightening was likely to be appropriate in the coming months. I stressed the word modest as being significant and went on to say that "I do not envisage Bank rate rising to anything like its pre-2007 level of 5%, let alone to the kind of levels we used to see before the MPC was formed in 1997". That speech was on 22 February, two days before Russia's invasion of Ukraine. Given the experience of the last year, we have to expect and plan for there being further shocks and be ready to respond accordingly.

Second a historical one. That Was The Week That Was was a popular TV programme which ran for two series in 1962 and 1963. That was the time when inflation was just starting to rise and although it averaged well below 5 per cent throughout the 1960s it picked up sharply in the early 1970s and didn't fall back to below the MPC's current 2% target until 1998 **(Chart 10)**.



Sources: ONS and Bank calculations.

[16] See **The path to 2 per cent – speech by Silvana Tenreyro | Bank of England.**
[17] See **Shocks, uncertainty, and the monetary policy response- speech by Dave Ramsden I Bank of England**

2022 has been a very challenging year for the UK economy. Millions of households and businesses are experiencing great hardship as a result of the cost of living crisis. As a member of the MPC I am acutely conscious that our actions are adding to the difficulties caused by the current situation.

The past history of the UK economy demonstrates the damage to households and businesses that would result if high inflation persisted. Unlike these earlier periods of high inflation, exacerbated by ineffective policy and policy frameworks, we now have a monetary policy framework which empowers us to take action. However challenging the short term consequences might be for the UK economy, the MPC must take the necessary steps in terms of monetary policy to return inflation to achieve the 2% target sustainably in the medium term. By restoring low inflation, consistent with its remit, the MPC can best contribute to securing stability and certainty, the foundations for sustainable growth.

With thanks to Rupal Patel for her assistance in preparing these remarks, and to my fellow MPC members and numerous Bank colleagues, including Callum Ashworth, John Barrdear, Kieran Dent, Izzy Dought, Swasti Gupta, Zish Jooma, Zaar Khan, Simon Kirby, Nades Raviraj, Kate Reinold, Andrea Rosen, Harry Rigg, Saugata Sen, Fergal Shortall for their many helpful contributions.