

Bank of England

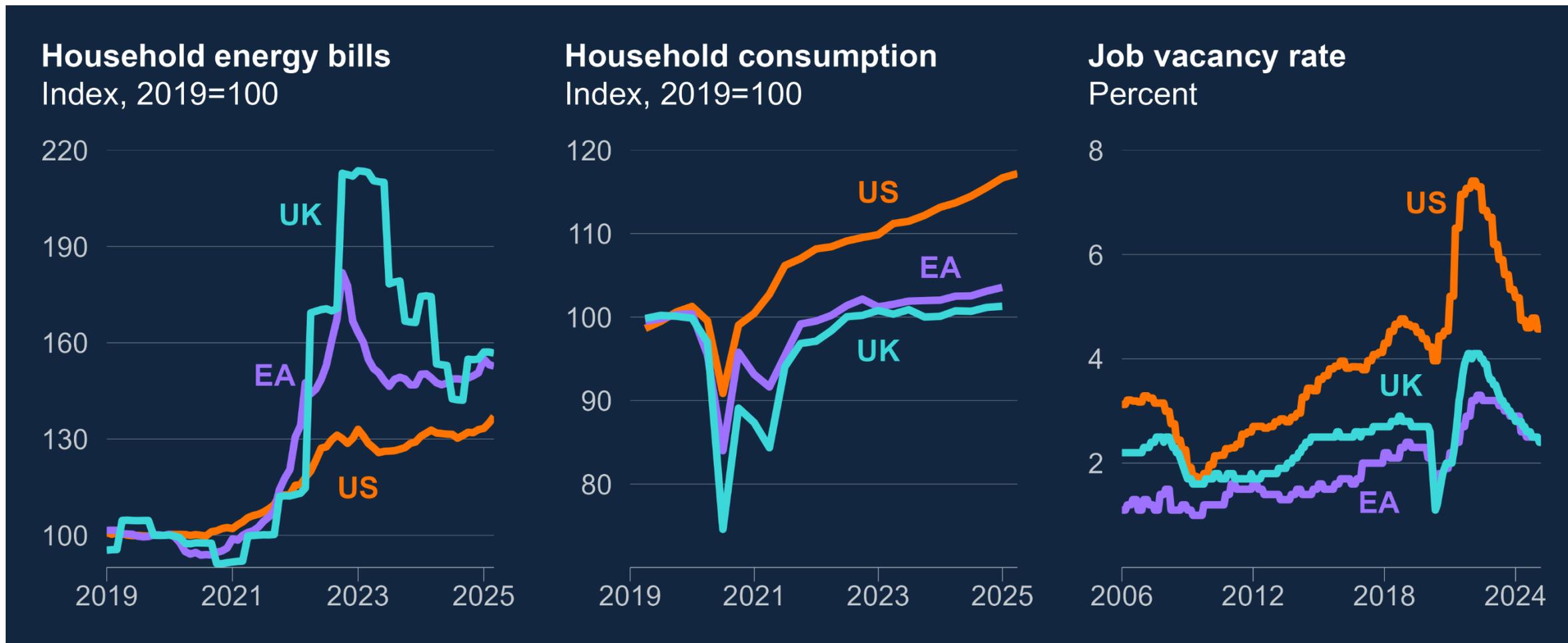
EU macroeconomic policy in an age of shocks: a view from the UK

New Economics Foundation
15 May 2025

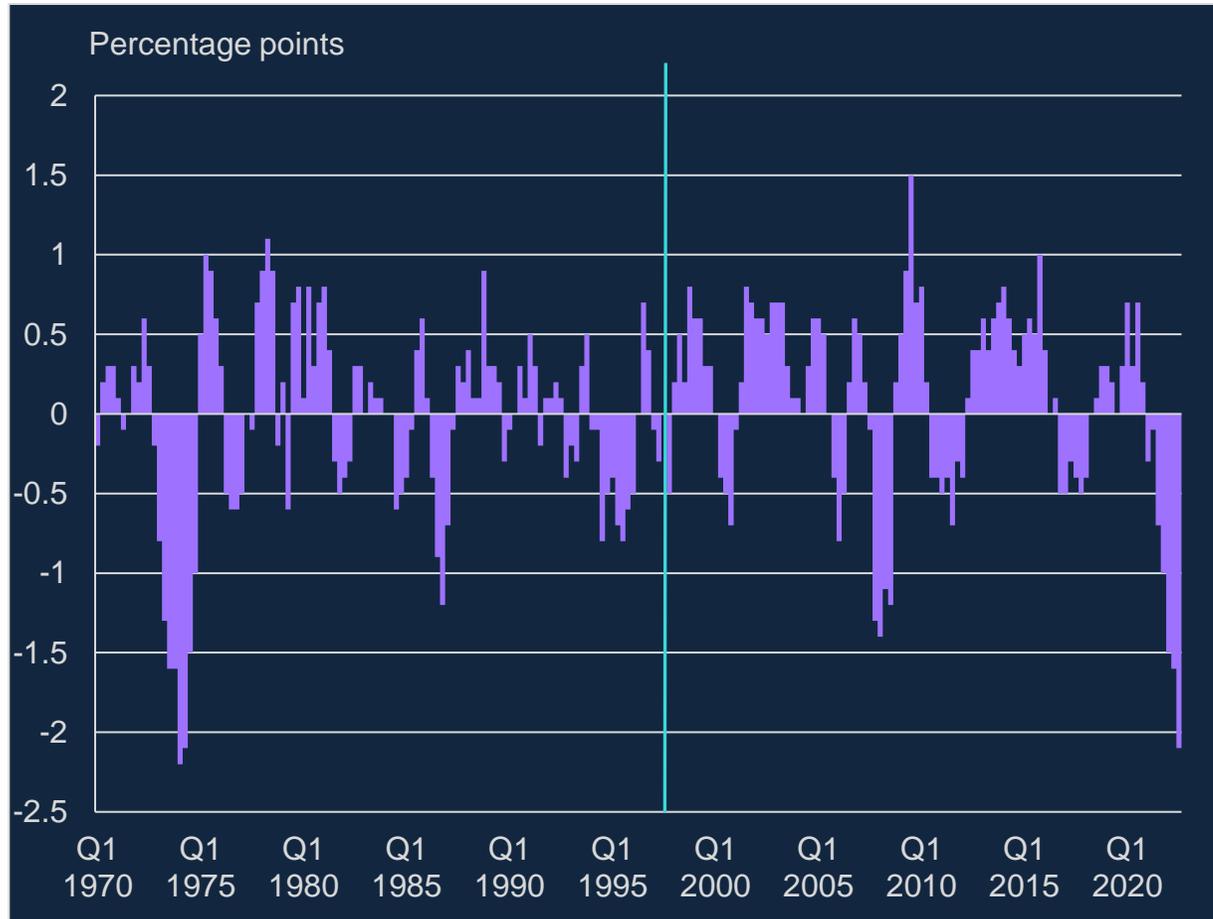
Swati Dhingra
External Member of the Monetary Policy Committee



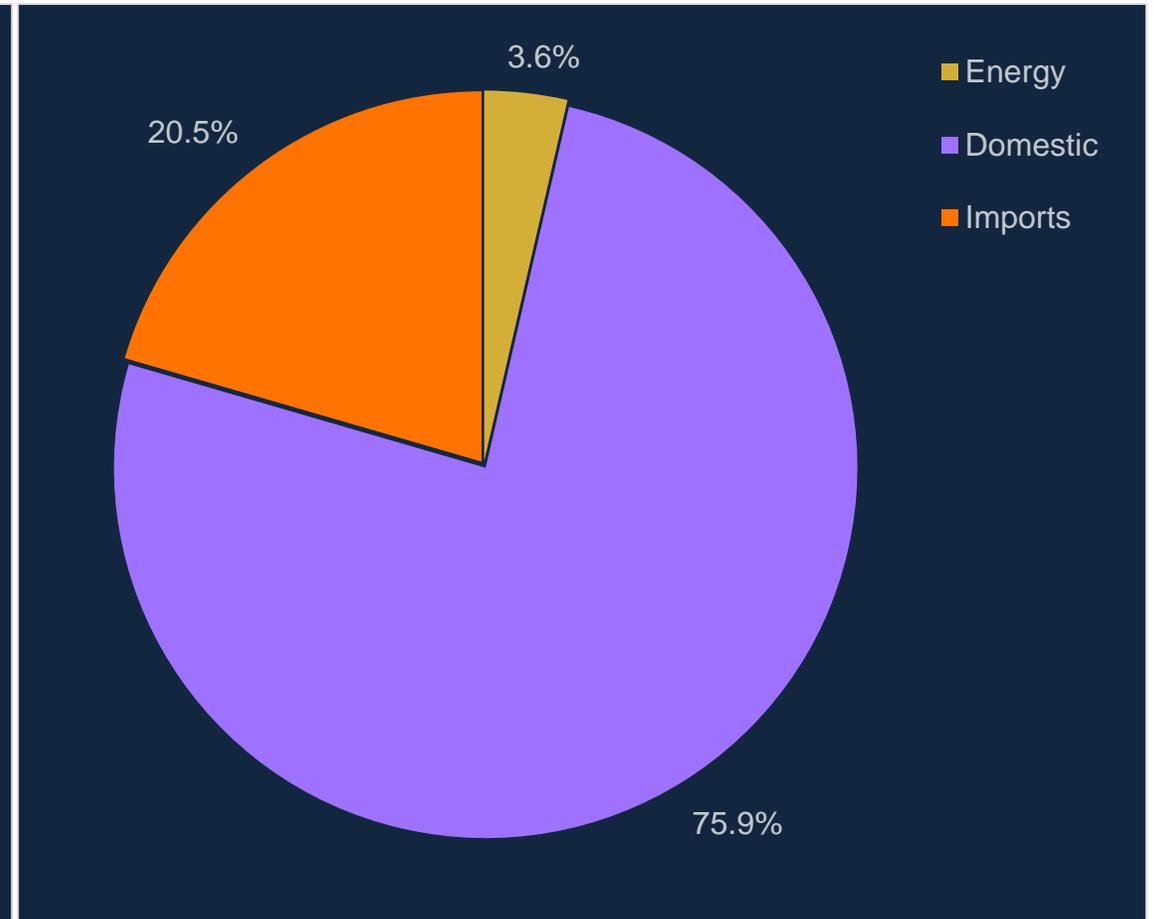
Shocks and adjustment after pandemic/war differed across regions



Purchasing power of UK GDP fell by 2.1% in 2022, even though energy and imports were a quarter of the consumption basket

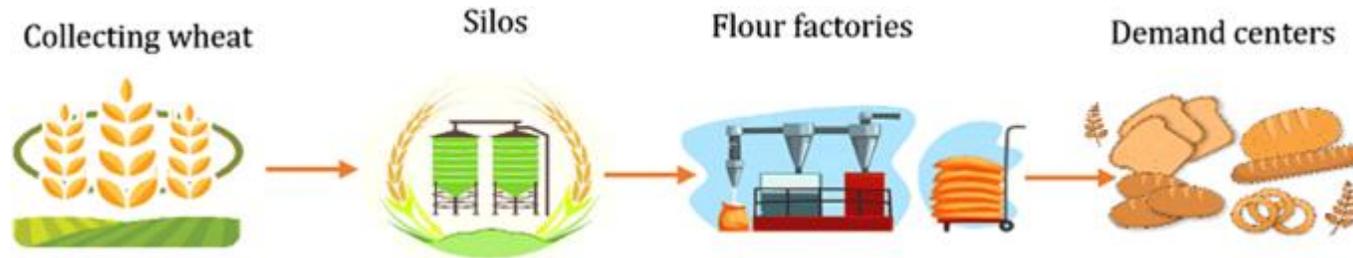


Notes: Percentage point difference in 4-quarter growth rates of UK Gross Domestic Income and GDP, Q1 1970 to Q3 2022. Source: ONS (2022).



Notes: Share of energy and imports (excluding energy) in the UK consumption basket in 2022.

Price of a loaf of sliced white bread rose from 108p in January 2022 to 139p in January 2023 = 30% bread price inflation



Price per loaf = Unit Costs per loaf for the Bakery + Profit Margin per loaf for the Bakery

Unit Costs per loaf for the Bakery = Wheat flour + Palm Oil + Electricity + Staff Costs per loaf of the Bakery

Price of Wheat Flour = Unit Costs of Domestic Mill + Profit Margin per unit for the Domestic Mill

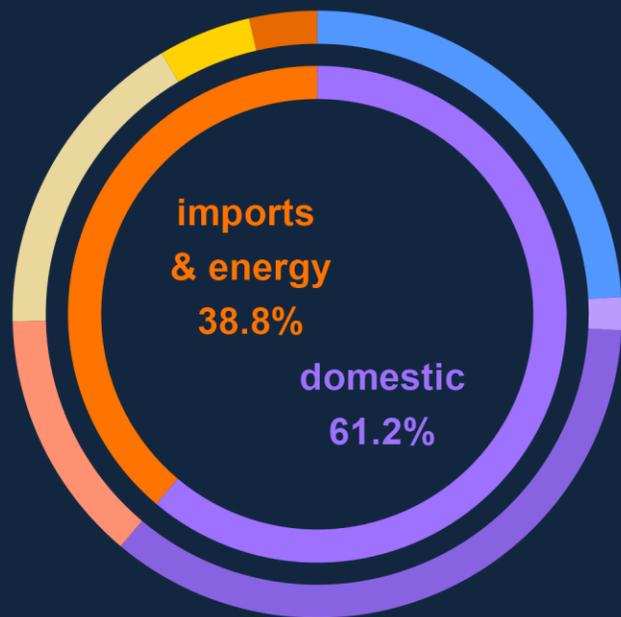
Unit Costs of Domestic Mill = Wheat + Electricity + Worker Costs per unit of the Domestic Mill

Price of Electricity = Unit Costs of Electricity Provider + Profit Margin per unit of Electricity Provider

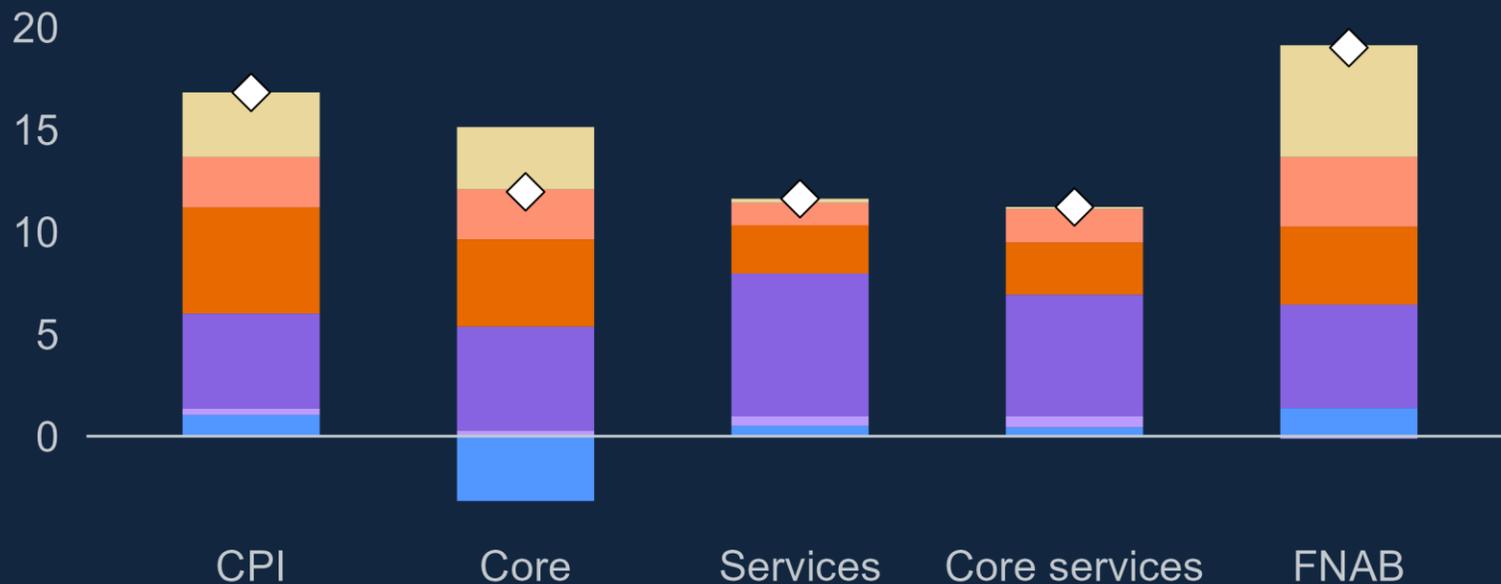
Unit Costs of Electricity Provider = Natural Gas + Staff Costs per unit of the Electricity Provider

Huge terms-of-trade shock, 2022

CPI basket by input, 2022

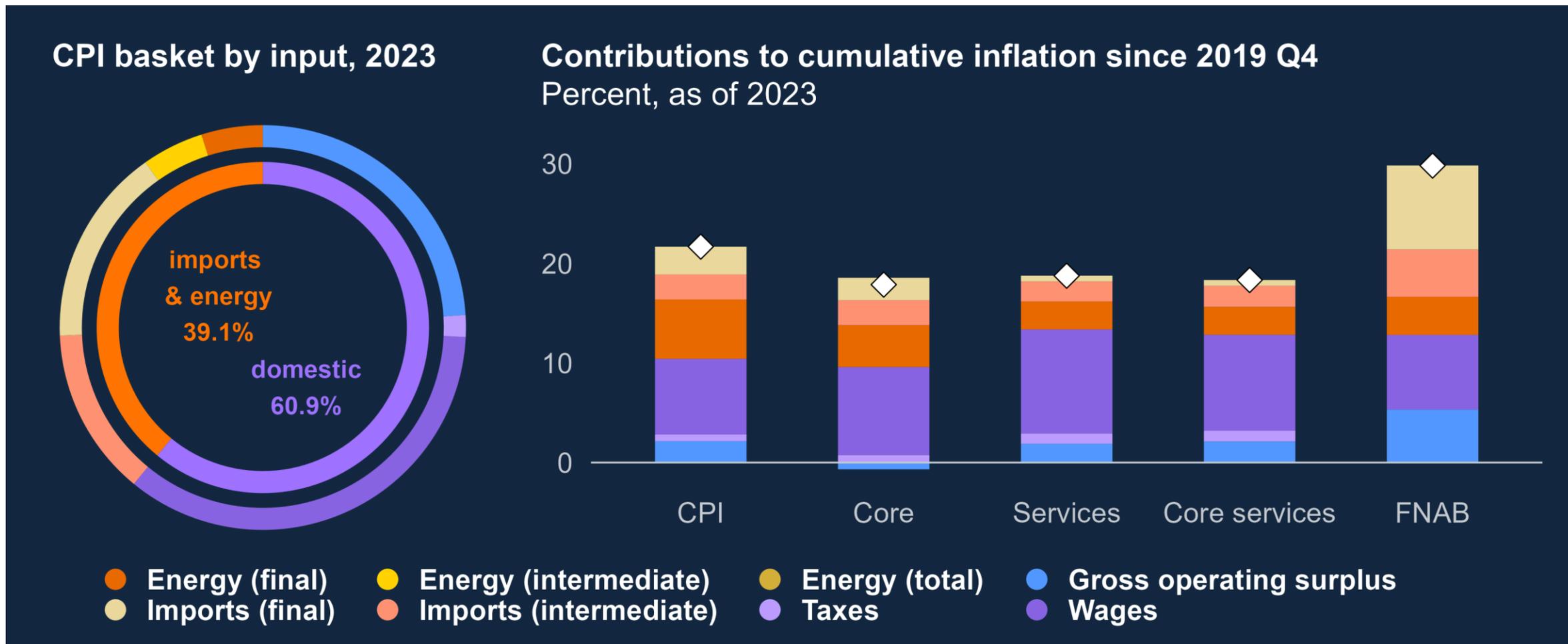


Contributions to cumulative inflation since 2019 Q4
Percent, as of 2022

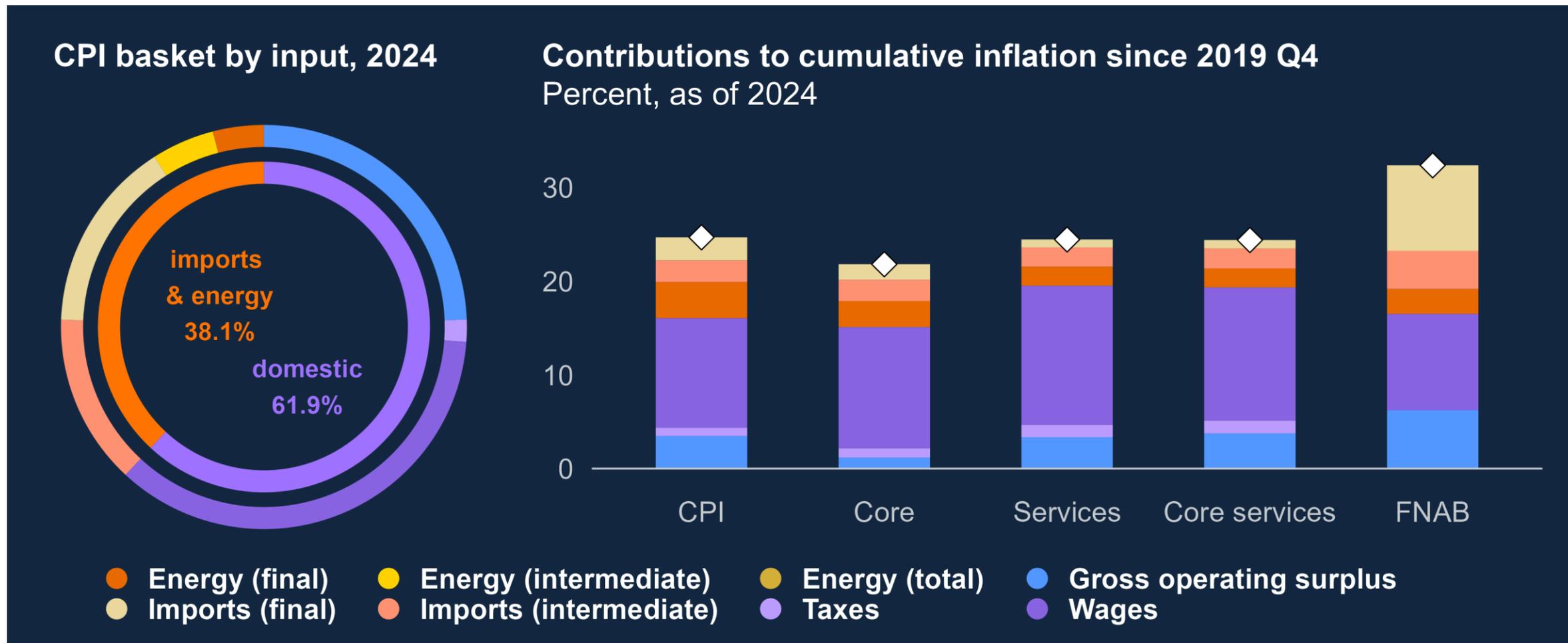


- Energy (final)
- Energy (intermediate)
- Energy (total)
- Gross operating surplus
- Imports (final)
- Imports (intermediate)
- Taxes
- Wages

Huge terms-of-trade shock, 2023



Huge terms-of-trade shock, 2024



Global and supply factors as drivers of inflation



Monetary policy

focus has been on domestic and demand-driven price dynamics in recent decades and over the last few years global and supply factors have seen a resurgence.



Inflationary Dynamics

can differ when inflation is driven by global and supply side factors, but data and modelling on these are less developed.



Central Bank Toolkits

are more effective in demand management, but going forward, geopolitics and climate change are likely to make global and supply side management more important.

