

## BOE'S KING THINKS U.K. INFLATION COULD SLOW MORE SHARPLY THAN EXPECTED



The Bank of England Governor Mervyn King recently said that inflation could fall more sharply than currently expected due to spare capacity and "substantial risks" to the outlook for the economy. "While we can be confident about the direction of change of inflation over the coming months, we remain uncertain about the precise pace and extent," King said in a letter sent to the Chancellor of the Exchequer George Osborne published in London today. It is "possible that inflation could fall back more sharply given the existing margin of spare capacity in the economy, the substantial risks around the global economic recovery and the implications" for the U.K. Today, the data showed that the inflation from last month eased more than economist's forecasts to 5 percent. In October, the Bank of England is in the second of a four-month program of bond purchases it started to support the recovery, and King said that the Monetary Policy Committee "stands ready to respond accordingly to changes in the balance of risks to the inflation outlook." After King's letter was published before regaining some ground, the pound extended its decline against the dollar. As of 10:46 a.m. in London, it traded at \$1.5852, down 0.4 percent on the day. King said, that while inflation remains above the central bank's 2 percent limit, policy makers expect it to slow "sharply" in the next six months and reach the goal by the end of 2012. In October, the Bank of England left the target for asset purchases at 275 billion pounds (\$436 billion) this month after increasing it by 75 billion pounds; it also kept its benchmark rate at a record low of 0.5 percent. With the economy under such pressure from the government's tight budget and Europe's sovereign debt turmoil, King will face questions at a press conference tomorrow on the central bank's use of a so-called quantitative easing to prevent another recession. King will be presenting the Bank of England's Inflation Report includes economic projections. It forecast that consumer-price gains would slow below its 2 percent target by the first quarter of 2013, in August. "The main risk facing the U.K. economic continues to come from the uncertain global economic outlook, and the extent to which weaker global economic conditions threaten the recovery," King said earlier today. "The MPC can use bank rate or asset purchases to help ease the adjustment of the U.K. to these shocks, but there is a limit to what it can achieve when real adjustments are necessary." "I understand that the balance of risks around the medium-term outlook for U.K. inflation has changed as a result of world growth slowing and the increased uncertainty about the prospects for global economy, and in particular the euro zone," Osborne wrote. "The institutions and leaders of the euro zone need to act without delay" to resolve this crisis.

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