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# BoE's Blanchflower sees sharp UK recession this year

- \*BoE's Blanchflower: surveys point to sharp 2009 recession
- \*Blanchflower: monetary policy needs to be loosened quickly
- \*Blanchflower: "bullish" on sterling
- \*Blanchflower: BoE now has power to "print money" {Wraps in comments on sterling, unemployment, adds byline}

By David Milliken

NOTTINGHAM, England, Jan 29 (Reuters) — Britain's recession is set to deepen this year and monetary policy needs to be loosened fast, Bank of England policymaker David Blanchflower said on Thursday.

The BoE should keep all options on the table now that it had been granted the power effectively to print money to boost the economy, even if it was too early to speculate if or when it would do so, Blanchflower said.

"With Bank Rate at a historic low of 1.5 percent, we must consider the options available to monetary policymakers in case we approach the zero bound in the near future," he told students at the University of Nottingham's Globalisation and Economic Policy Centre.

Blanchflower is the most dovish member of the BoE's rate-setting monetary policy committee, and was the only one to call for a full percentage point cut in rates at last month's meeting, instead of the half percentage point move.

"I believe monetary policy needs to be loosened further and quickly," he said in his lecture.

"Forward-looking surveys suggest the severity of the recession will sharpen in 2009. ... There is now a plausible possibility that the current UK recession may be even more severe than the recession in the early 1980s."

The International Monetary Fund forecast on Wednesday that Britain would be the worst-performing major economy this year, contracting by 2.8 percent.

The BoE has already cut interest rates to a historic low of 1.5 percent and is widely expected to cut again to 1 percent next week to tackle sliding output.

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The one bright spot, Blanchflower said, was that the rapid fall in British employment might mean that most job losses were done at the start of the downturn, clearing the way for a speedier recovery.

Earlier on Thursday British finance minister Alistair Darling gave the BoE the go-ahead to buy up financial assets to pump cash onto banks' balance sheets for them to lend on. The BoE said it would consult banks before going ahead.

"For the first time in your lifetime the Bank of England... has the power to print money, to raise the money supply," Blanchflower told students.

"I'm not going to speculate about whether we're going to do it, when we're going to do it. Hopefully if and when we do it it will be very effective," Blanchflower said.

Blanchflower said a key reason policymakers were considering unconventional policy measures was that the transmission of monetary policy had become impaired and many money markets that had been key sources of funding were effectively closed.

"When money markets are dysfunctional, asset purchases by a central bank can help to reduce liquidity premia and restore activity and lending," he said. "Money supply growth has fallen and you need to get markets back to normal."

#### STERLING-"UNDERVALUED"

One major casualty of Britain's sharp economic downturn has been sterling, which has slid against the euro and the dollar losing a fifth of its value versus the U.S. currency in the last three months of 2008 alone.

This fall has prompted complaints from France and Germany, which fear for the competitiveness of their exports, and from some Britons worried about a run on the pound as in the recession of the early 1990s.

But Blanchflower was positive about the outlook for sterling, when asked about this in a question-and-answer session after his talk.

"I'm bullish on the pound. I actually said the other day I was bullish on the pound. It's undervalued."

Nonetheless, sterling's steep drop over the past year could cause some degree of



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imported inflation, though the slowdown in world demand was having a "clear disinflationary effect," he said.

However many foreign firms may choose to squeeze their profit margins instead and the risk to inflation was firmly on the downside, he added. (Editing by James Dalgleish)

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