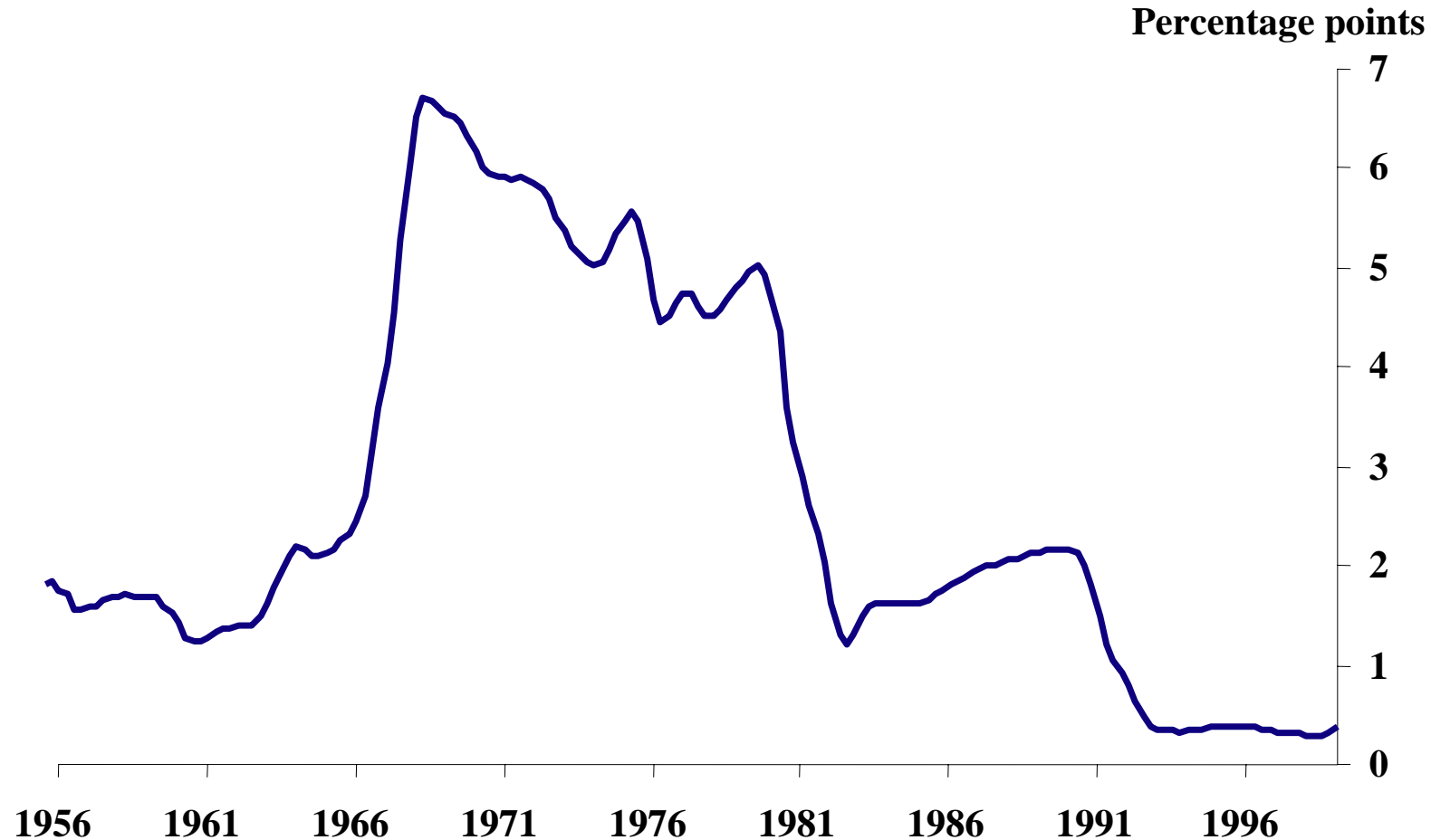


The Bank of England's experience of inflation targeting

**Presentation for the Czech National Bank
conference,**

8 April 2008

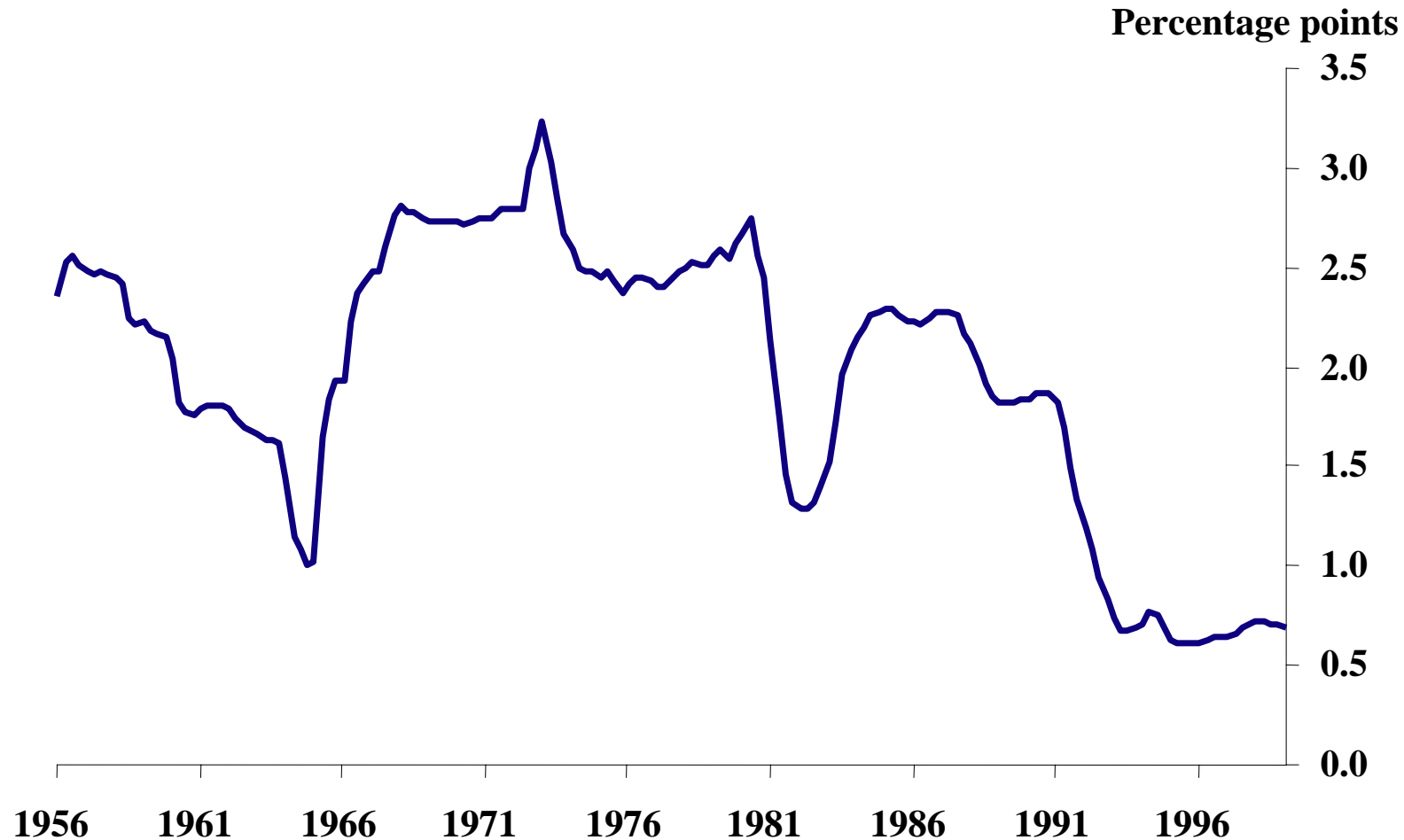
Chart 1: Volatility of UK inflation^(a)



(a) Rolling eight-year standard deviations of four-quarter RPIX (RPI before 1976) inflation. Standard deviations are leading, ie 1997 Q1 observation shows standard deviations from 1997 onwards (for eight years).

Source: ONS

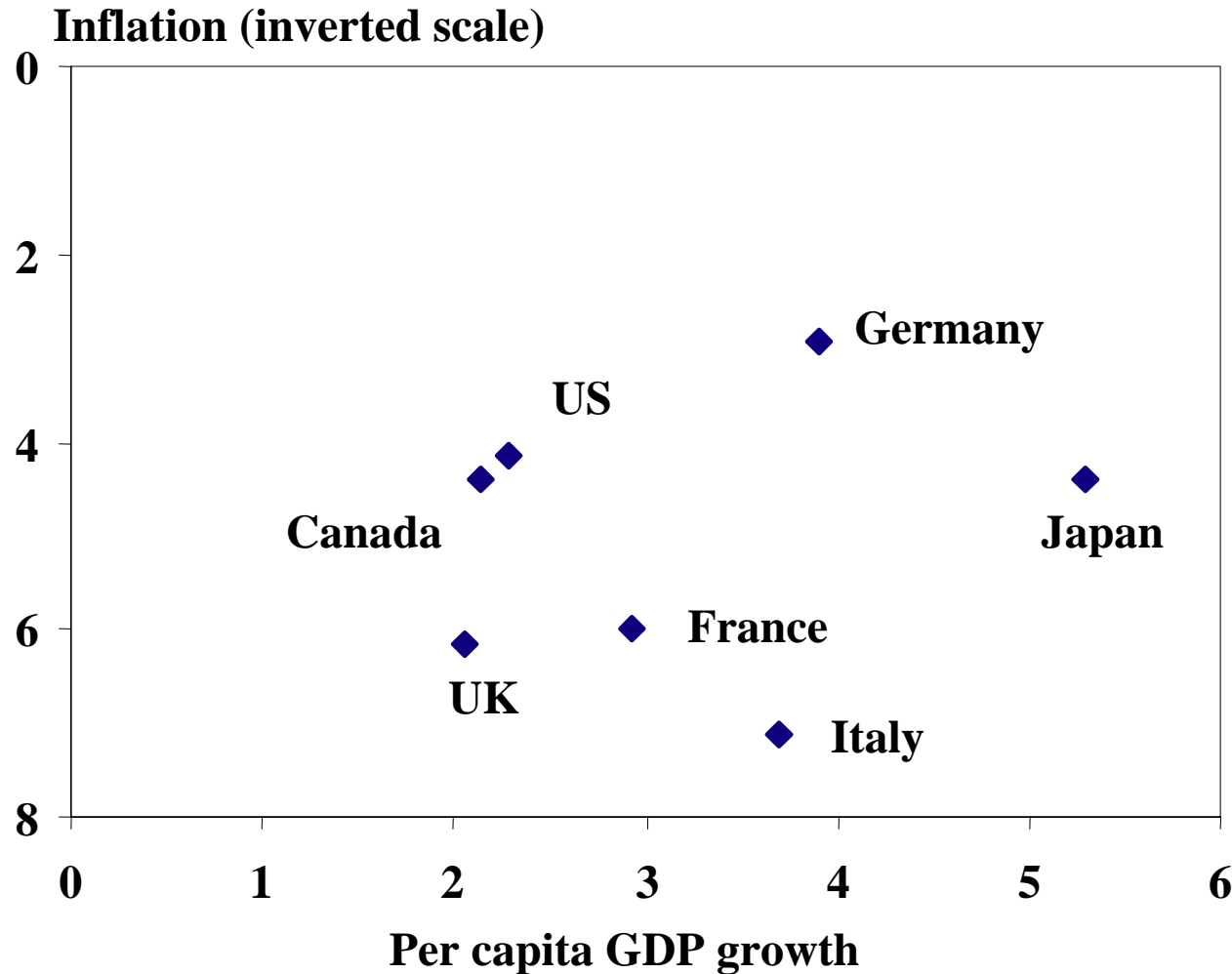
Chart 2: Volatility of UK GDP growth^(a)



(a) Rolling eight-year standard deviations of four-quarter GDP growth. Standard deviations are leading, ie 1997 Q1 observation shows standard deviations from 1997 onwards (for eight years).

Source: ONS

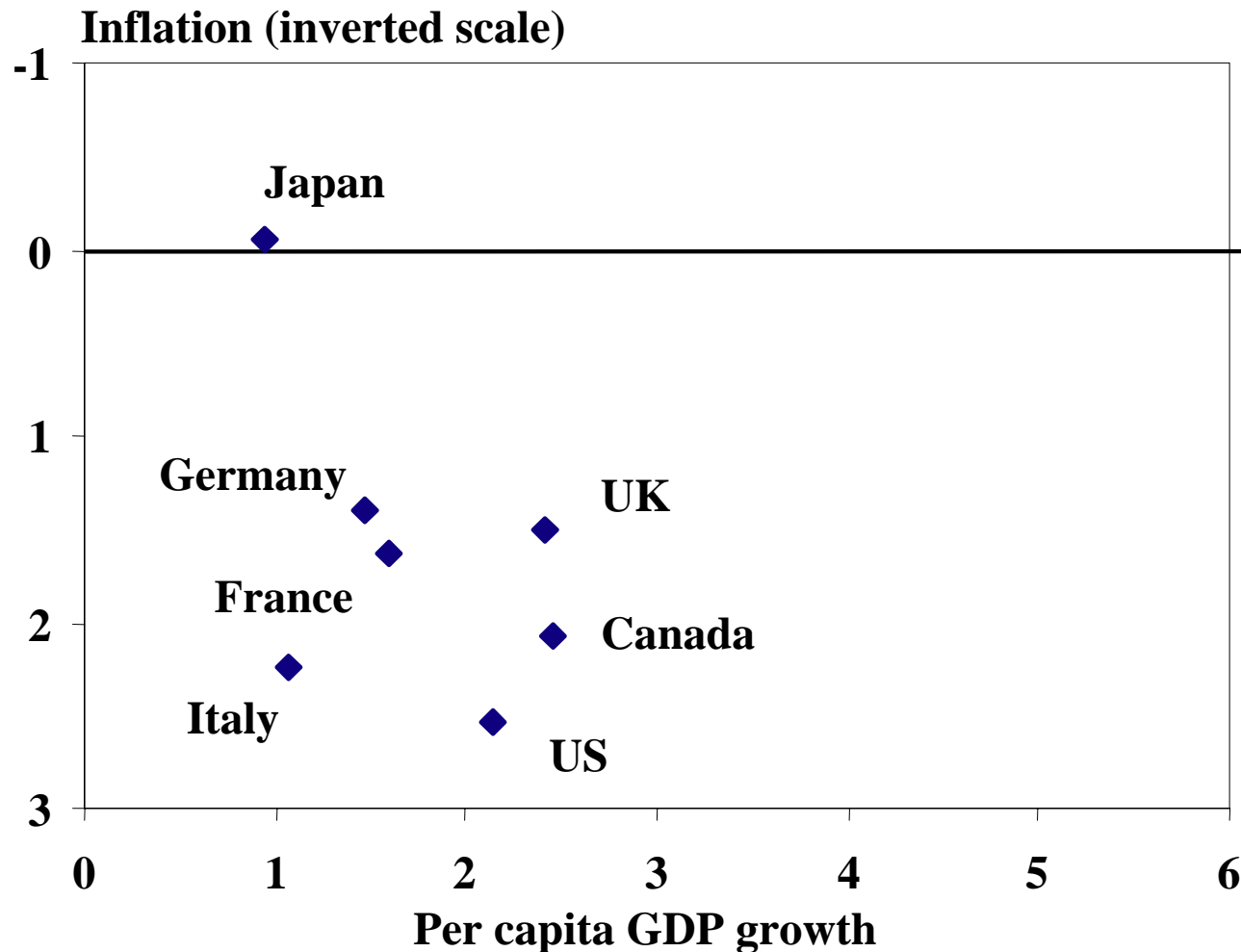
Chart 3a: G7 inflation and GDP growth, 1950-1996^(a)



(a) Monthly CPI data and annual per capita GDP data

Sources: GDP per capita data are from national sources, OECD, Madison tables and IMF *International Financial Statistics*. CPI data are from national sources, IMF *International Financial Statistics* and Global Financial Data.

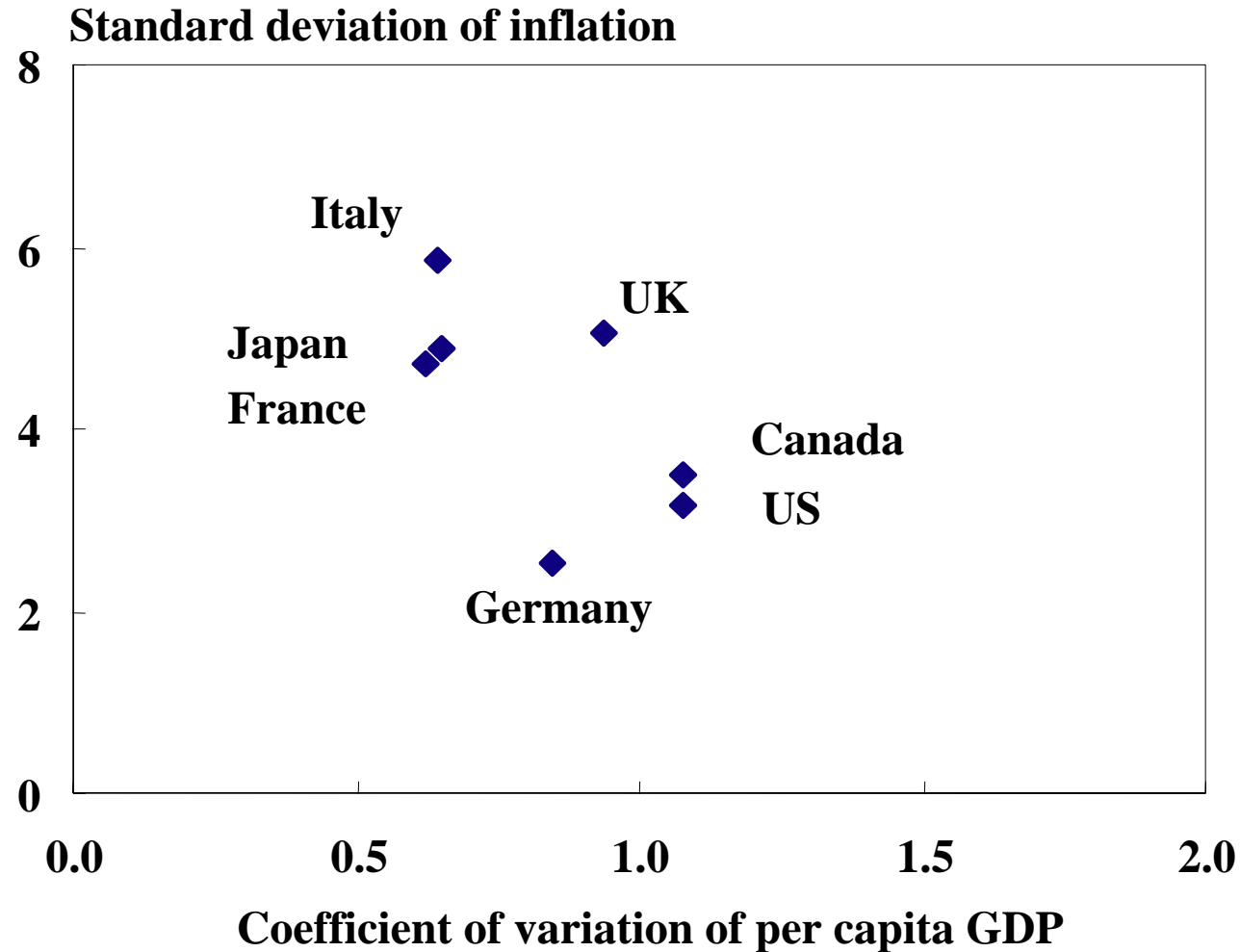
Chart 3b: G7 inflation and GDP growth, 1997-2006^(a)



(a) Monthly CPI data and annual per capita GDP data

Sources: GDP per capita data are from national sources, OECD, Madison tables and IMF *International Financial Statistics*. CPI data are from national sources, IMF *International Financial Statistics* and Global Financial Data.8

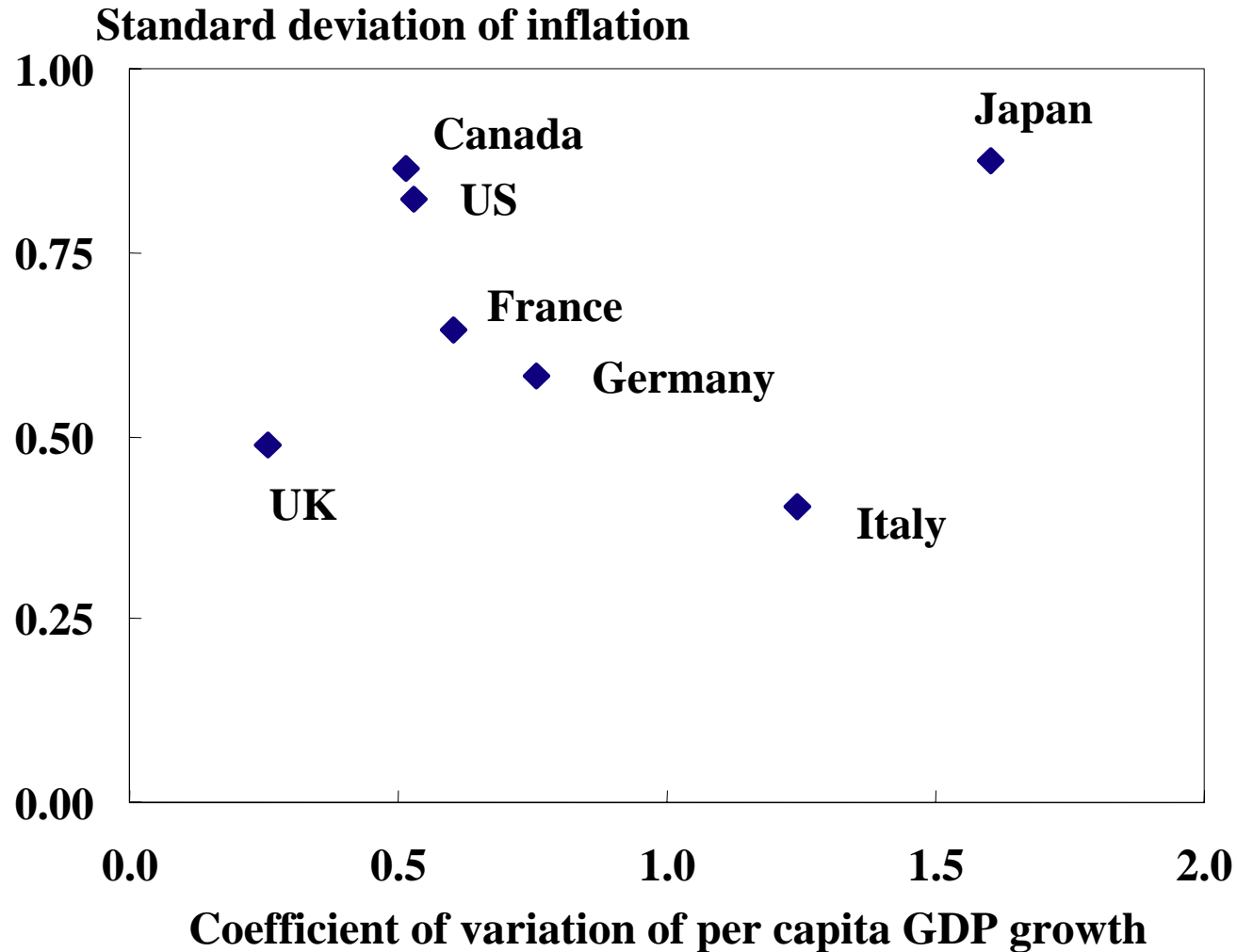
Chart 4a: G7 inflation and GDP volatility, 1950-1996^(a)



(a) Monthly CPI data and annual per capita GDP data

Sources: GDP per capita data are from national sources, OECD, Madison tables and IMF *International Financial Statistics*. CPI data are from national sources, IMF *International Financial Statistics* and Global Financial Data.

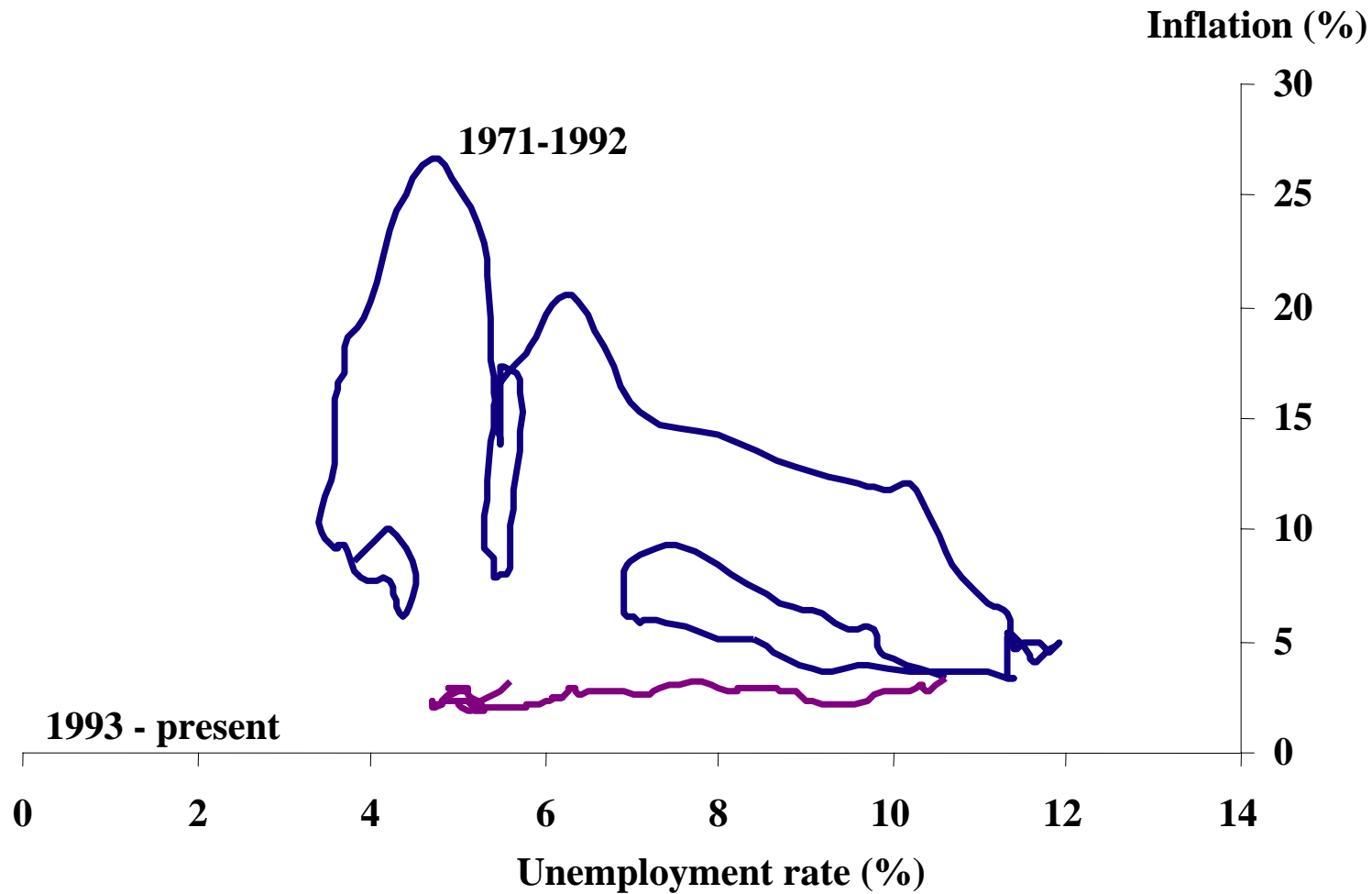
Chart 4b: G7 inflation and GDP volatility, 1997-2006^(a)



(a) Monthly CPI data and annual per capita GDP data

Sources: GDP per capita data are from national sources, OECD, Madison tables and IMF *International Financial Statistics*. CPI data are from national sources, IMF *International Financial Statistics* and Global Financial Data.

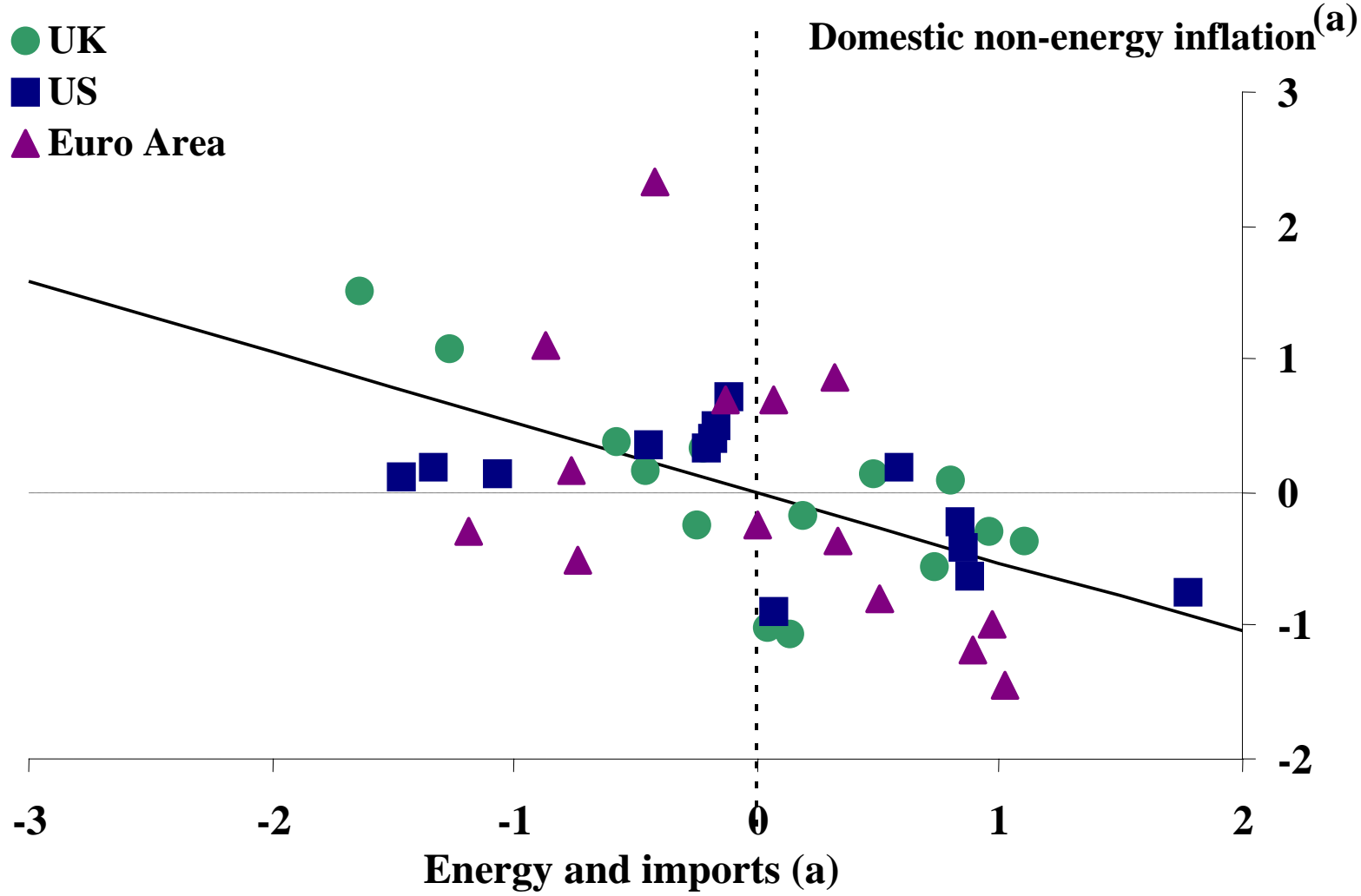
Chart 5: Inflation and unemployment (a)



(a) LFS unemployment rate and four-quarter RPIX (RPI before 1976) inflation.

Sources: ONS

Chart 6: Contributions to CPI inflation (a)



(a) Percentage point contributions to annual CPI inflation, deviations from 1993-2006 means.

Sources: Thomson Financial DataStream and Bank calculations

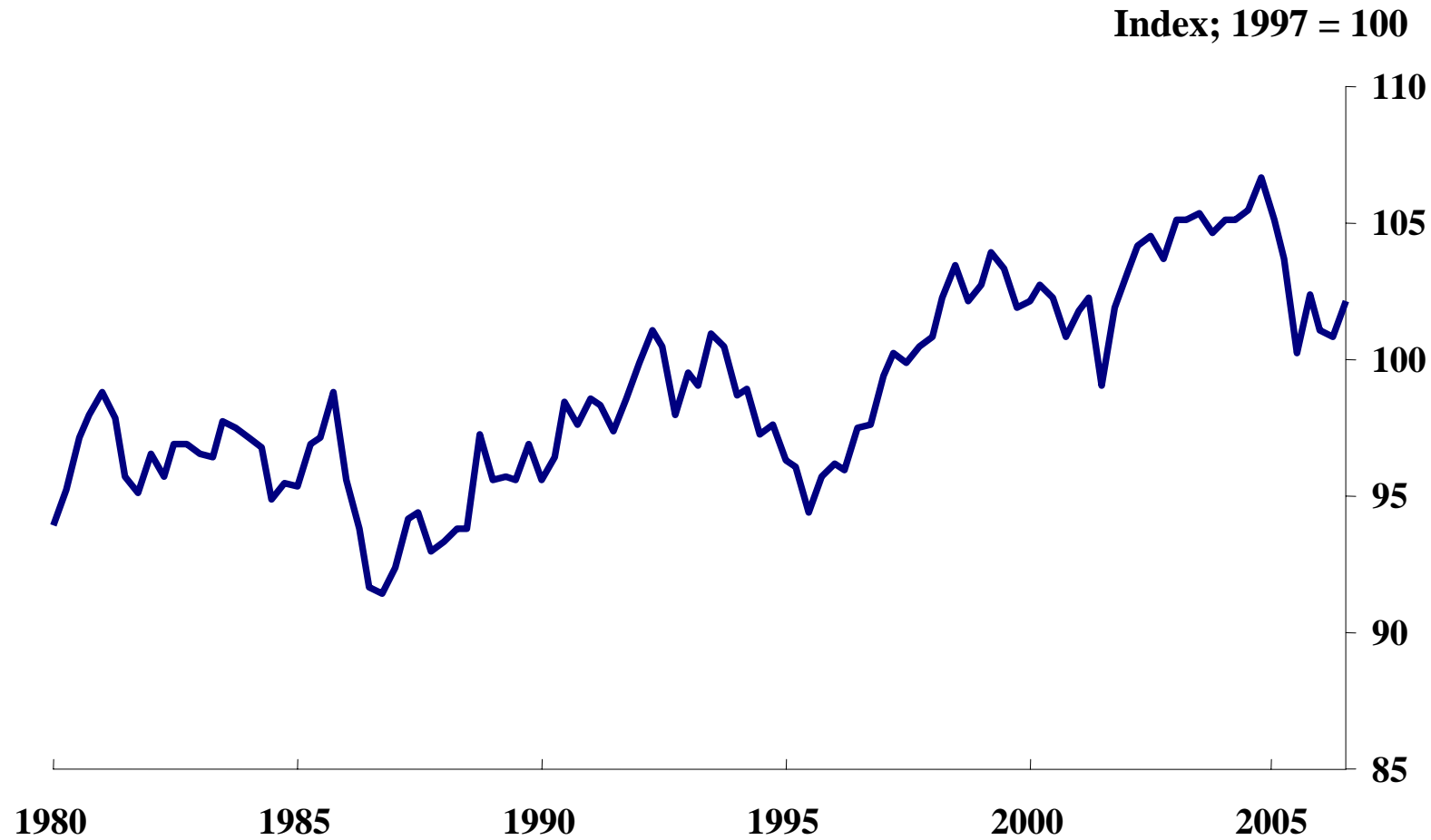
Chart 7: Long-run inflation expectations (a)



(a) Five-year RPI inflation towards from UK gilts.

Source: Bank of England

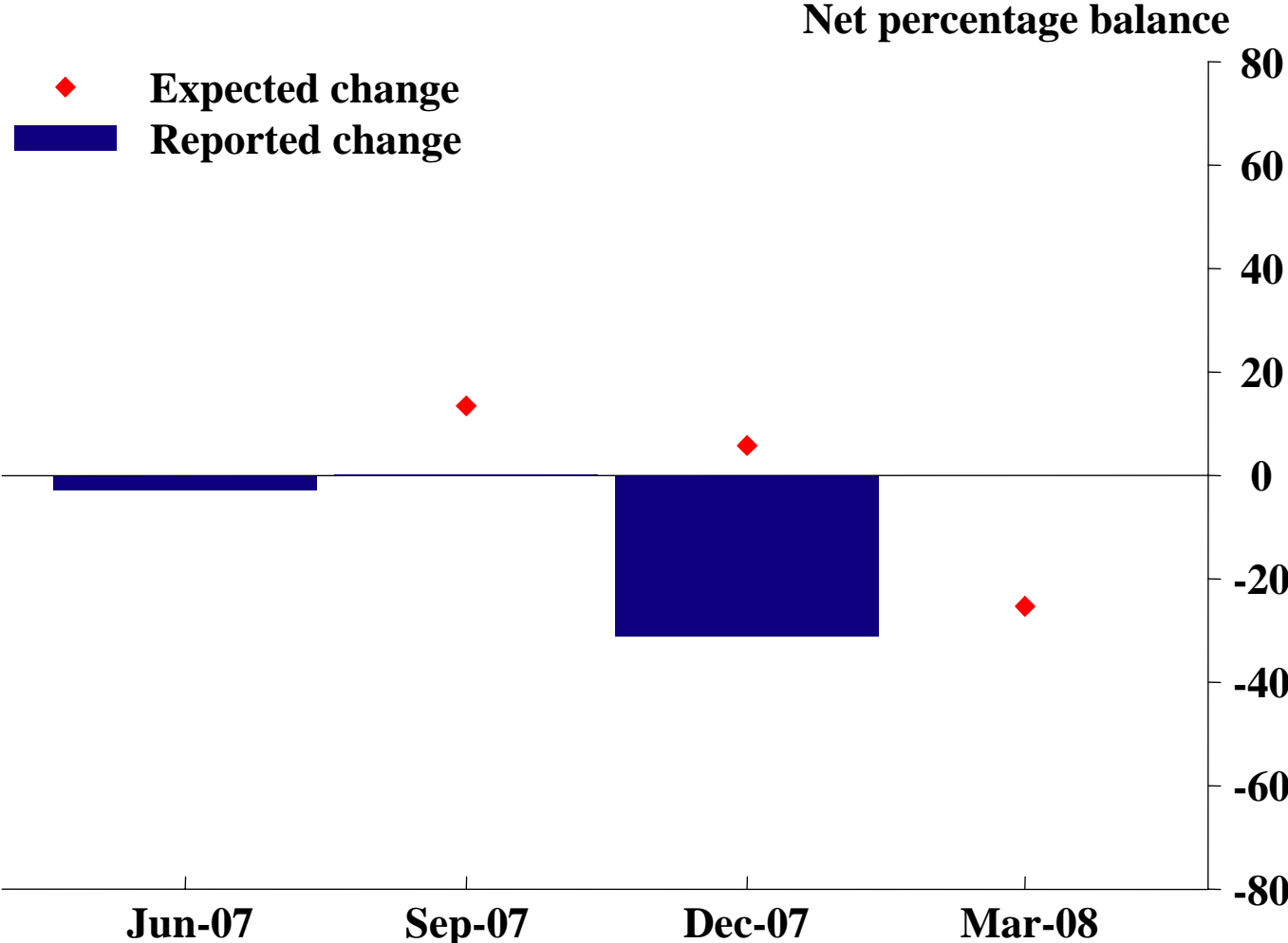
Chart 8: UK terms of trade^(a)



(a) Excluding Missing Trader Intra-Community (MTIC) fraud.

Source: ONS

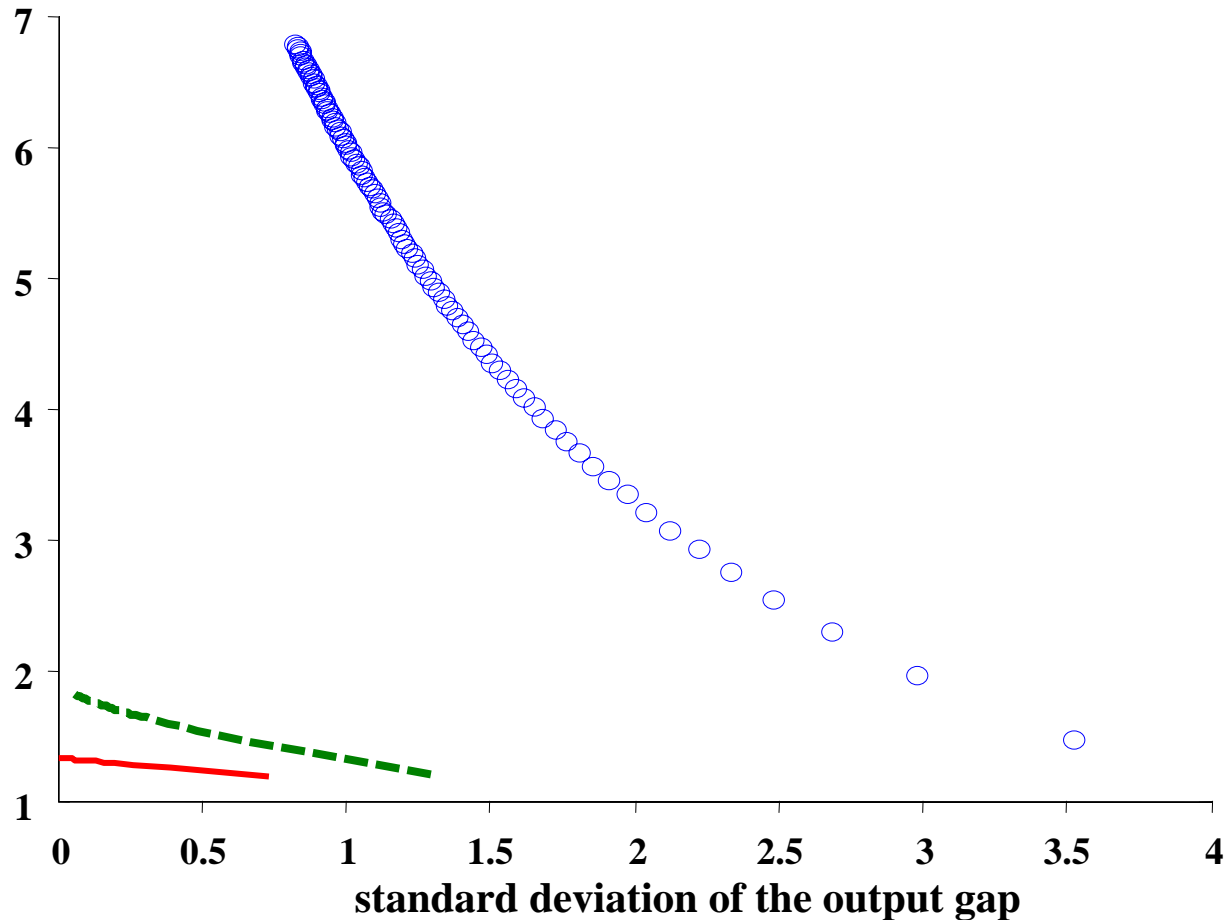
Chart 9: Bank of England 2008 Q1 Credit Conditions Survey; Overall secured credit availability



Source: Credit Conditions Survey 2008 Q1, Bank of England

Chart 10: Feasible combinations of inflation and output volatility

standard deviation of
annual inflation



Red line – expectations equal to the target; Dashed green – ‘rational’ expectations;
Circles – backward-looking (de-anchored) expectations