

Don't fret on inflation, Bank of England governor insists

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[Bank of England](#) governor [Andrew Bailey](#) is sticking to his guns on [inflation](#), insisting it is under control as critics snipe.

Those critics lately include his own (departing) chief economist [Andy Haldane](#) who warned yesterday that inflation is rising fast and could reach 4% this year. That is double the Bank's 2% [target](#) and above the 3% Bailey and colleagues expect it to peak at.

In his [Mansion House](#) speech today Bailey said inflation will be a blip, although it might be high in some areas of a recovering [economy](#).

"Where the recovery in demand outstrips supply, it is entirely possible that we will witness temporary periods of excess demand, or what more commonly we might describe as "bottlenecks". This is especially likely within particular sectors, given the uneven nature of the recovery," he said.

"Consistent with this, we are seeing rebounds and normalisation of some commodity prices, though oil prices are now if anything rising above their averages of the last 5 or so years, while, for instance, in the US, lumber prices having risen sharply, are now retracting a sizeable part of that rise. There are plenty of stories of supply chain constraints on commodities and transport bottlenecks, much of which ought to be temporary."

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Some in the City think the Bank is behind the curve and needs to move to put interest rates up from record lows of 0.1%.

Bailey says that while he will “watch closely” for more sustained price rises but that the Bank has hard won credibility on global markets.

“I have set out the reasons why we expect this rise in inflation to be a temporary feature of the bounce-back. The reasons for taking this view are well-founded, it is not a vain hope or a matter of whistling in the wind. It is important not to over-react to temporarily strong growth and inflation.”

He added: “History has many examples of ineffective policy actions by weak institutions, and they don't end well. Our credibility and institutional resilience were hard won. Next year marks the 25th anniversary of the MPC and the adoption of the objective of price stability. Memories of the instability of the previous approaches may be fading with the passage of time. I can assure you Lord Mayor that our focus will remain firmly on taking the actions that are required to maintain price stability over time.”