Lecture presented at the University of Nottingham by Dr Andrew Sentence, Bank of England Monetary Policy Committee

More effective financial regulation and oversight of the global economy by international institutions is needed to avoid future financial booms and busts, Dr Andrew Sentence, of the Bank of England’s Monetary Policy Committee, told an audience at the University of Nottingham.

The globalisation and liberalisation of the banking sector had increased the risk of economic volatility across the world economy, he told a seminar.

Though many economies – including the UK and US – had enjoyed a prolonged period of steady growth and low inflation, this had not reduced the risk of economic cycles being driven by financial imbalances and the growth of credit.

Dr Sentence – an external member of the MPC, which sets interest rates in the UK – was the third member of the committee to speak at the university in a matter of weeks.

In January Mervyn King, Governor of the Bank of England, addressed members of the CBI at the East Midlands Conference Centre on the University campus and in the same month Professor David ‘Danny’ Blanchflower spoke as a guest of the Globalisation and Economic Policy Centre.

Dr Sentence joined the MPC in 2006. Prior to that his career as an economist included senior positions at the CBI, the London Business School and at British Airways, where he was Chief Economist and Head of Environmental Affairs.

In his introduction, Vice Chancellor David Greenaway said Dr Sentence was “uniquely well placed” to deliver the address, entitled ‘The Global Financial Crisis: Causes and Consequences’.

The crisis was preceded by very rapid growth of bank lending – particularly in the middle years of this decade, said Dr Sentence. A combination of economic and financial factors had come together to create the international credit bubble, including the globalisation and liberalisation of the financial system, an excess of global savings in the wake of the Asian crisis of the mid-1990s, and a relaxation of global monetary policy earlier this decade. Strong global growth, sustained property price inflation and an underestimation of risks, had given added momentum to bank lending, said Dr Sentence.
Triggers that contributed to the bursting of the bubble included falling house prices and slowing growth in the US and beyond, concern about sub-prime mortgages that hit lending to banks, creating a knock-on effect on the availability and cost of finance across the economy as a whole. The sharp rise in oil and commodity prices in the first half of 2008 had also reinforced the slowdown in the global economy.

Beyond the global recession and immediate policy responses to the crisis, longer term implications included a realisation that low and stable inflation were not sufficient to put an end to boom-bust cycles and that the financial system could be a powerful driver of fluctuations in the ‘real’ economy.

It was now understood globalisation and liberalisation of the financial system added to the risk of economic volatility and, he said, regulatory frameworks needed to be adapted to limit this. In recognition of this new reality, bodies charged with monitoring the global economy also needed to be strengthened.

*This Lecture was organised by the School of Contemporary Chinese Studies, University of Nottingham.*