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Since we last appeared before the Committee, the prospects for growth in the short run have deteriorated, and inflation has risen. Financial market conditions are worsening and the banking system as a whole remains short of capital. As a result, credit conditions have tightened and lending is being restricted.

This is true not only in the United Kingdom, but also in most advanced industrial economies. All our economies are experiencing a difficult adjustment. For the world as a whole there are two elements in the required adjustment. First, following the shock last year to the financial system, the balance sheets of the financial sectors in advanced countries need to contract. Second, following a long period of rapid growth, there was a need for a slowing of demand to reduce overheating and ease pressure on commodity prices. That two-part adjustment presents one of the most complex challenges that the world economy has faced for a very long while.

In the UK we face a difficult, but temporary, period during which inflation will remain high for a while and output growth at best weak. It would be most surprising if, next week, I were not required to write a further open letter to the Chancellor explaining why inflation is more than a percentage point away from target. But provided we do not impede the required adjustment we will come through this temporary period and resume a path of normal economic growth with inflation close to target.

The two global factors that I referred to are having an obvious impact on our own economy. A sharp reduction in the growth of money and credit is now bearing down on the level of activity and inflation in the economy. And perhaps of even greater significance for demand, real take-home pay has been squeezed by rises in energy and food prices, so holding back household spending.

The rise in CPI inflation this year largely reflects sharp increases in global energy and other commodity prices, which have been compounded by the depreciation in the sterling exchange rate. Our task on the MPC is to ensure that these changes in relative prices do not lead to sustained inflation. Although the MPC has maintained Bank Rate at 5% at each of its past five meetings, we will continue to reassess each month the balance of risks to the inflation outlook.

Chairman, I know that the Committee and others will be anxious to learn how we intend to reform our money market operations in the light of experience over the past year. The Special Liquidity Scheme was only ever intended as a temporary measure, and the window for placing assets into the Scheme will close as previously announced on 21st October. Of course, the provision of liquidity created by the Scheme will continue to be provided to the banks for a period of three years. We intend to consult on reforms to our Red Book, including, as I announced in June, plans for a permanent liquidity insurance facility, and to publish a consultation paper by the end of next week. At the same time we will also set out arrangements to ensure the banking system as a whole will continue to be able to access liquidity insurance from the Bank of England from October 22nd. The objective of the new facility will be to provide short-term liquidity insurance to smooth the adjustment of financial institutions hit by unexpected shocks.

The facility will be an important part of the contribution which the Bank can make to enhance the stability of the banking system. But it is not the purpose of central bank liquidity insurance to provide a source of long-term funding to the financial system – indeed it cannot do that. Only private savers or taxpayers via the government can provide such funds. So I hope everyone will understand that the proposals to be published next week, important though they are, will not and cannot solve the shortage of funding to finance bank lending, including mortgage lending.

Chairman, we are in testing times. But our medium term framework was designed to cope with such times. Provided we focus on bringing inflation back to target, our present difficulties will prove to be temporary. Inflation will fall back, and growth will resume.

I am grateful for the opportunity to make these remarks. Before I finish I would like to remind Committee members that the minutes from last week's meeting have not yet been published and so I hope you will understand that we cannot comment on how we voted last week. With that caveat, I and the other members of the MPC here today stand ready to answer your questions.