Public attitudes to monetary policy and satisfaction with the Bank

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The Bank of England's success in achieving its monetary policy objectives will depend, in part, on the public's awareness and understanding of monetary policy. Results from the Bank/GfK NOP survey suggest that public awareness of the policy framework remains high and has changed little over the past year. A greater proportion of respondents to the Bank/GfK NOP survey were satisfied than dissatisfied with the way in which the Bank has set interest rates to meet the inflation target. But the extent of satisfaction has fallen since mid-2010.

The Bank of England's monetary policy objective is to maintain price stability. Stable prices are defined by the Government's inflation target, which is currently 2% as measured by the annual change in the consumer prices index. Subject to that, the Bank is also tasked with supporting the Government's economic objectives, including those for growth and employment. The Monetary Policy Committee (MPC) seeks to achieve those objectives by setting the level of Bank Rate and, since March 2009, by purchasing assets financed through the issuance of central bank reserves, a programme often referred to as quantitative easing.[2]

The MPC's success in achieving its objective of price stability will depend, in part, on the public's understanding of, and support for, the monetary policy framework. If people understand that the MPC's objective is for inflation to be at target in the medium term, then they may behave in such a way that deviations of inflation from target are more short-lived: households, for example, may moderate their wage demands and companies may be less likely to raise prices in response to higher costs.[3]

In recognition of the importance of public understanding in determining the effectiveness of the monetary policy framework, the Bank uses a variety of methods to explain the MPC's role of setting interest rates to meet the inflation target to the public. For example, it publishes the minutes of the MPC's monthly meetings and a quarterly *Inflation Report*. MPC members give speeches and interviews, and make regional visits across the United Kingdom. The Bank also has an education programme that covers school children of all ages.

The Bank has also sought to quantify the impact of its efforts to build general public support for price stability. Since 1999, the Bank has commissioned GfK NOP to conduct a survey of households' attitudes to monetary policy on its behalf. This article draws on results from the survey to assess the public's awareness of monetary policy and their satisfaction with the way in which the Bank has set monetary policy to control inflation.

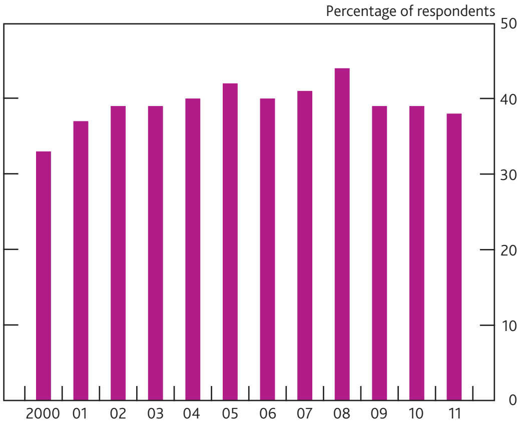
Public awareness of monetary policy

Public awareness of the institutional arrangements of the monetary policy framework appears to have been little affected by recent economic events. The proportion of respondents to the Bank/GfK NOP survey who knew, without guidance, that monetary policy[4] is set by either the Bank or the MPC has remained at about 40% since the survey began (**Chart 1**). And, when options are offered, around 70% of respondents tend to identify the Bank of England as the group responsible for setting interest rates, rather than government ministers, civil servants, high street banks or the European Central Bank.

The level of understanding among households of the way in which monetary policy affects inflation — the transmission mechanism of monetary policy — appears to have been broadly constant over time. According to the standard view in economics, a rise in Bank Rate would be unlikely to affect inflation immediately, because many wage and price decisions would already have been made. But a higher level of Bank Rate would tend to push down inflation one or two years ahead, for example by reducing demand and weakening

(1) The authors would like to thank Venetia Bell for her help in producing this article.
(2) For further discussion of the Bank's programme of asset purchases, see Benford, J, Berry, S, Nikolov, K, Robson, M and Young, C (2009), 'Quantitative easing', *Bank of England Quarterly Bulletin*, Vol. 49, No. 2, pages 90–100.
(3) For more information on the role of inflation expectations in the transmission mechanism of monetary policy, see 'Assessing the risk to inflation from inflation expectations' in this edition of the *Bulletin*.
(4) Respondents are asked about 'Britain's basic interest rate level'.

Chart 1 Indicator of public awareness of the monetary policy framework(a)



Source: Bank/GfK NOP survey.

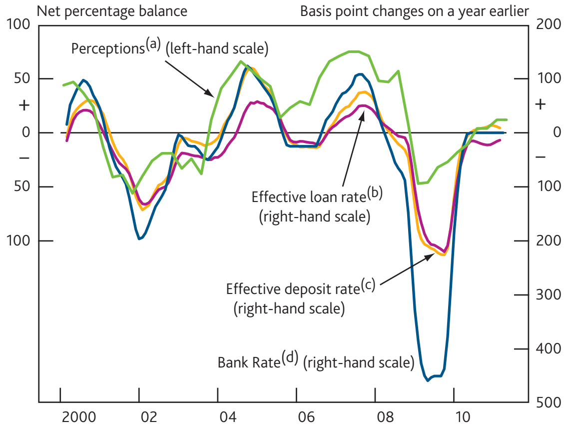
(a) Percentage of respondents answering that either the Bank or the MPC set Britain's basic interest rate level.

companies' ability to charge higher prices. That view is shared by some respondents to the Bank/GfK NOP survey. Around 40% of households surveyed in February 2011 either agreed or strongly agreed with the statement that 'a rise in interest rates would make prices in the high street rise more slowly in the medium term — say a year or two'. That is a similar proportion to previous years. Around 35% of households either agreed or strongly agreed with the statement that changes in interest rates would affect prices in the short term, of a month or two ahead.

The Bank/GfK NOP survey also monitors public awareness of the policy decisions that the MPC has taken in recent years. In 2009 and early 2010, a greater proportion of households perceived that interest rates on deposits, mortgages and loans had fallen in the previous twelve months than had risen. The net balance of respondents who perceived that interest rates fell over that period was similar to the period when rates fell in 2001 and 2002, despite the much larger falls in measured interest rates in the more recent episode (**Chart 2**). That may be because qualitative measures, such as net percentage balances, are unlikely to capture the size of movements in interest rates precisely. Since May 2010, households, on balance, perceived that interest rates had risen over the previous twelve months. That might, in part, have reflected a small rise in effective deposit rates during that period.

On balance, the proportion of households expecting interest rates to rise over the next twelve months has risen since the end of 2008 (**Chart 3**). But the pickup in the net balance of interest rate expectations has not been smooth: there were declines in the balance of households expecting rates to rise in May and August 2010 and again in May 2011. That might indicate that households revised their expectations in the light of information that the recovery of the UK economy from recession might be slower than previously expected.

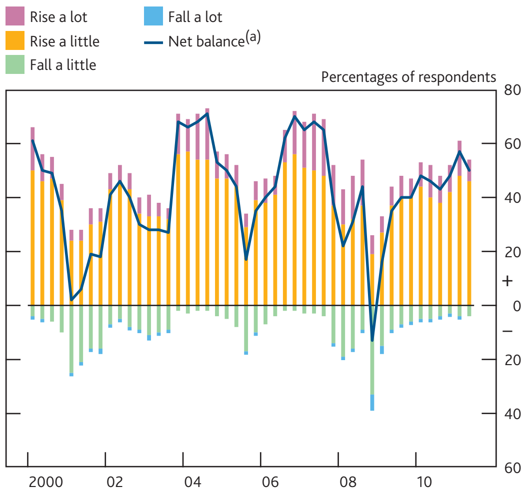
Chart 2 Interest rate perceptions and effective household interest rates



Sources: Bank of England and Bank/GfK NOP survey.

(a) Percentage of respondents who thought that interest rates had risen over the past year less the percentage who thought that rates had fallen. Data are quarterly observations.
(b) Effective loan rate is the three-month average of household secured and unsecured borrowing effective stock rates weighted by the outstanding balances.
(c) Effective deposit rate is the three-month average of household time and sight deposit effective stock weights weighted by the outstanding balances.
(d) Bank Rate is the three-month average.

Chart 3 Interest rate expectations over the next twelve months



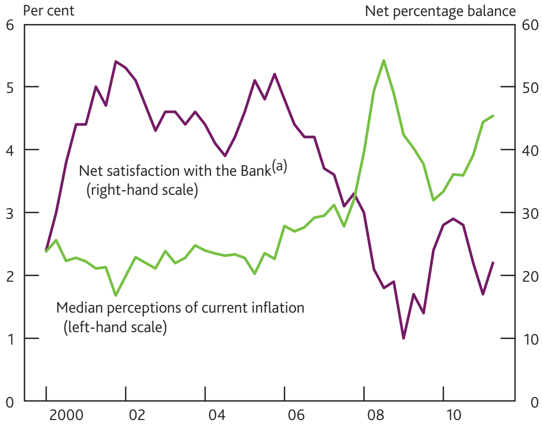
Source: Bank/GfK NOP survey.

(a) Percentage of respondents who thought that interest rates would rise less the percentage who thought that rates would fall.

Satisfaction with the Bank

More respondents to the Bank/GfK NOP survey have been satisfied with the way in which the Bank has set interest rates to control inflation than have been dissatisfied in all surveys since the question was first asked in 1999 (**Chart 4**). But the net balance of households satisfied with the Bank has been lower since the onset of the financial crisis in 2007. And the extent of satisfaction has fallen since mid-2010, in part reversing an increase during 2009.

Chart 4 Satisfaction with the Bank and inflation perceptions



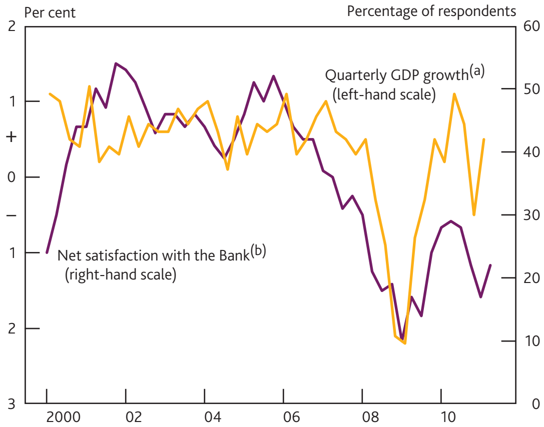
Source: Bank/GfK NOP survey.

(a) The percentage of respondents who were fairly or very satisfied with the way in which the Bank of England is doing its job to set interest rates in order to control inflation less the percentage who were fairly or very dissatisfied.

Households' satisfaction with the way in which the Bank has set interest rates to control inflation has tended to be lower when their perceptions of the current rate of inflation have been higher. Across time, changes in net satisfaction have broadly mirrored changes in household perceptions of changes in prices over the past twelve months, as reported in the same survey (**Chart 4**). And, across individuals, households with higher inflation perceptions tend to be more likely to report that they are dissatisfied with the Bank.

But other factors may also have affected satisfaction. For example, households may have become less satisfied with the Bank following the financial crisis and the associated falls in aggregate demand (**Chart 5**).

Chart 5 Satisfaction with the Bank and real GDP



Sources: Bank/GfK NOP survey and ONS.

(a) Chained-volume measure at market prices.
(b) See footnote (a) to **Chart 4**.

Conclusion

The level of public awareness of the monetary policy framework remains high and appears to have been little affected by recent economic events. And households' perceptions of changes in interest rates reflect movements in deposit and loan rates fairly well.

Despite a modest improvement in the May 2011 survey, the extent of public satisfaction with the way in which the Bank has set interest rates to control inflation has declined since the middle of 2010, perhaps in part reflecting a rise in households' perceptions of inflation over that period.