Public attitudes to monetary policy

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This article examines the latest results from the Bank/GfK NOP survey concerning households' awareness and understanding of monetary policy, and their satisfaction with the way the Bank is conducting monetary policy. Results from the latest surveys indicate that public awareness of the policy framework has remained broadly constant over the past year at a reasonably high level. Satisfaction with the way the Bank sets interest rates in order to control inflation remains much lower than before the financial crisis. While remaining positive over the past year, net satisfaction fell to a series low in 2012 Q3, before recovering a little in subsequent surveys. The extent of satisfaction with the Bank has moved closely with changes in consumer confidence, which in turn is linked to a range of macroeconomic variables including GDP growth, inflation and unemployment.

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 (CPI). Subject to that, the Bank is also tasked with supporting the Government's economic objectives, including those for growth and employment.(2)

The Bank's success in meeting 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 the Monetary Policy Committee's (MPC's) objective, 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 monetary policy, the Bank uses a variety of methods to explain to the public the MPC's role of setting monetary policy to meet the inflation target. These methods include the publication of the minutes of their monthly meetings; the quarterly *Inflation Report*; speeches and lectures; research papers; appearances before parliamentary committees; interviews with the media; visits throughout the United Kingdom; and an education programme that includes the 'Target Two Point Zero' competition for schools and colleges. The Bank's twelve regional agencies also hold regular meetings with businesses throughout the United Kingdom, helping to build understanding of the monetary policy framework and the case for low and stable inflation.

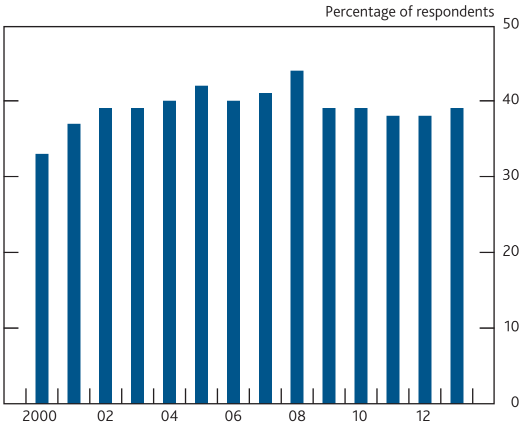
The Bank has sought to quantify the impact of its efforts to increase the public's understanding of, and support for, the monetary policy framework. Since 1999, the Bank has commissioned GfK NOP to conduct a quarterly survey of households' attitudes to inflation and monetary policy on its behalf.(4) This article, the latest in a series published in Q2 of each year, draws on the results from the latest surveys 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

In the February 2013 survey, 39% of survey respondents were able to name, unprompted, the MPC or the Bank of England as the group that sets the United Kingdom's basic interest rate level. That is a similar result to previous surveys (**Chart 1**). Also similar to previous surveys was the finding that 65% of respondents could identify the Bank of England as the group that sets interest rates, when asked to choose from a list which included, among others, government ministers and high street banks.(5) So public awareness of the institutional arrangements of the monetary policy framework appears to have remained broadly constant over time, at a reasonably high level.

(1) The author would like to thank Lewis Kirkham for his help in producing this article.
(2) The latest remit for the Monetary Policy Committee reaffirms that monetary policy should be set to meet the 2% inflation target but in a way that avoids undesirable volatility in output. See www.gov.uk/government/publications/monetary-policy-remit-2013.
(3) For more information on inflation expectations, see 'Do inflation expectations currently pose a risk to the economy?' on pages 110–21 in this edition of the *Bulletin*.
(4) Data from the survey are available on the Bank's website at www.bankofengland.co.uk/publications/Pages/other/nop.aspx. The spreadsheets show the precise wording of the questions.
(5) These questions are asked only once a year, in February.

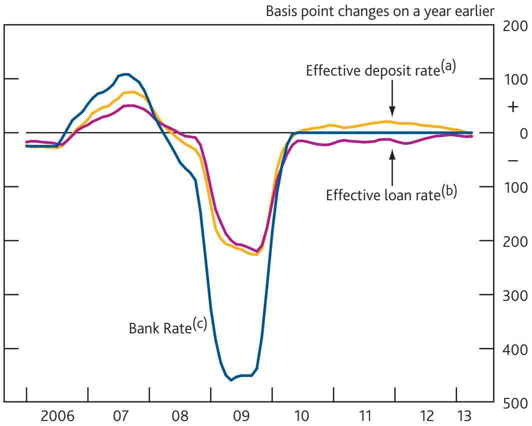
Chart 1 Indicator of public awareness of the monetary policy framework[(a)]



Source: Bank/GfK NOP survey.

(a) Percentage of respondents answering that either the Bank or the MPC set Britain's basic interest rate level. From 2001, this question was only asked in the Q1 survey.

Chart 2 Bank Rate and effective household interest rates



(a) Effective deposit rate refers to the average interest rates paid on the outstanding stock of time and sight deposits with banks and building societies, weighted by their share in total outstanding deposits. The measure shown is a three-month moving average.
(b) Effective loan rate refers to the average interest rates paid on household secured and unsecured borrowing from banks and building societies, weighted by their share in the total loan stock. The measure shown is a three-month moving average.
(c) Three-month moving average.

The level of understanding among households of the way in which monetary policy affects inflation — the transmission mechanism of monetary policy — also 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 companies' ability to charge higher prices. That view was shared by 35% of respondents to the February 2013 survey, who 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 was a similar result to the February 2012 survey, although slightly below the series average of 39%.

The Bank/GfK NOP survey monitors public awareness of interest rate changes. Households are asked how they think interest rates on things like mortgages, bank loans and savings have changed over the preceding twelve months.[(1)] During the period from 2010 to 2012, the biggest group of respondents (around one third in each survey, on average) said that interest rates had remained about the same. In February 2013, the proportion of respondents reporting unchanged interest rates rose to a series high of 39%, before falling back slightly to 36% in the May survey. These results may reflect the fact that Bank Rate has remained unchanged since March 2009, and that there has been little change over the past year either in the average interest rate paid on the stock of outstanding household deposits (that is, effective deposit rates), or in the average rate paid on the stock of outstanding household borrowing (that is, effective loan rates) (**Chart 2**).

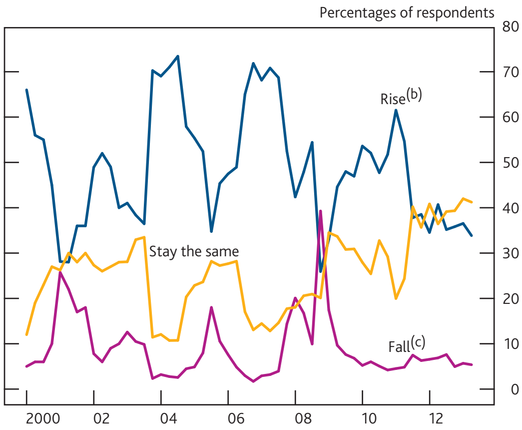
Quoted interest rates on *new* borrowing and deposits have fallen markedly over the past year. For example, the average quoted rate on a two-year fixed-rate 75% loan to value mortgage has declined by around 100 basis points. But only 20% of respondents to the May 2013 survey reported that interest rates had decreased. As households take new borrowing and savings decisions relatively infrequently, it may take time for the falls in quoted interest rates to be reflected in public perceptions. In the 2012 NMG Consulting survey, for example, only 12% of households in the survey had applied for a loan over the past year.[(2)]

The survey also asks households about their expectations for interest rates over the next twelve months. In May 2013, 41% of respondents — close to a series high — reported that they expected rates to stay about the same (**Chart 3**). Around one third of respondents expected interest rates to rise, with the vast majority of those respondents reporting that interest rates would rise 'a little'.

The MPC has historically sought to achieve its objectives by setting the level of Bank Rate. In March 2009, the MPC voted to cut Bank Rate to 0.5%, and, in addition, began a programme of asset purchases, financed through the issuance of central bank reserves, commonly referred to as quantitative easing (QE). QE aims to inject money directly into the economy, boost nominal demand, and prevent inflation from falling below the target in the medium term.[(3)] In July 2012, the Bank and the Government launched the Funding for Lending Scheme (FLS), in order to boost the incentives for banks and building societies to lend to UK households and

(1) These questions are asked in each quarterly survey.
(2) See Bunn, P, Johnson, R, Le Roux, J and McLeay, M (2012), 'Influences on household spending: evidence from the 2012 NMG Consulting survey', *Bank of England Quarterly Bulletin*, Vol. 52, No. 4, pages 332–42.
(3) For further discussion of QE, see Joyce, M, Tong, M and Woods, R (2011), 'The United Kingdom's quantitative easing policy: design, operation and impact', *Bank of England Quarterly Bulletin*, Vol. 51, No. 3, pages 200–12. Public awareness of quantitative easing was discussed in last year's *Quarterly Bulletin* article on public attitudes to inflation and monetary policy.

Chart 3 Interest rate expectations over the next twelve months[(a)]



Source: Bank/GfK NOP survey.

(a) Respondents who answered 'no idea' are not shown on the chart. On average, around 15% of respondents answer in this way.
(b) Percentage of respondents who thought that interest rates would rise 'a lot' or 'a little'.
(c) Percentage of respondents who thought that interest rates would fall 'a lot' or 'a little'.

non-financial companies. That Scheme has recently been extended. More information on the FLS is available on the Bank's website.[(1)]

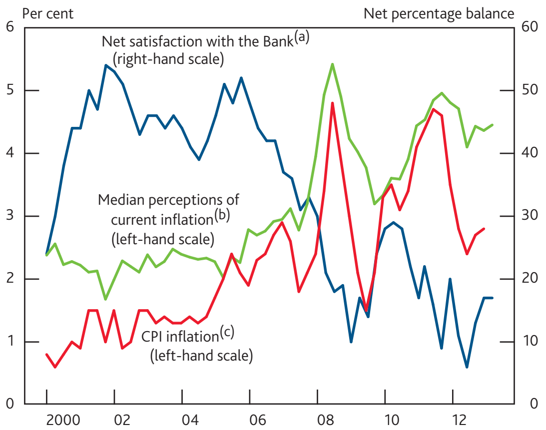
The Bank/GfK NOP survey asks some questions to gauge public support for the Bank's objective of maintaining low and stable inflation. Respondents are asked whether the inflation target of 2.0% is too low, too high or about right. In May 2013, 48% of respondents thought that the target was about right. That is slightly lower than the series average of 53%. But it is much higher than the proportion of respondents who thought the target was too high, which was 22% in May 2013, and the 15% of respondents who thought it was too low.

Satisfaction with monetary policy at the Bank of England

The survey asks respondents how satisfied or dissatisfied they are with the way the Bank is doing its job to set interest rates in order to control inflation. Over the past year, net satisfaction has remained positive, with around 35%–40% fairly or very satisfied, and around 20%–30% fairly or very dissatisfied. Net satisfaction dipped to a series low of +6 in August 2012 before recovering in subsequent surveys to +17 in May 2013 (shown by the blue line in **Chart 4**).

Households' satisfaction with the Bank has tended to be lower when their perceptions of the current rate of inflation, and measured CPI inflation, have been higher (**Chart 4**). Higher rates of both perceived and measured inflation since 2008 are likely to be part of the explanation for why satisfaction with the Bank has fallen. Households' perceptions of inflation have fallen back since 2011, though by less than the decline in measured CPI inflation. The MPC's latest forecast for inflation is set out in the May 2013 *Inflation Report*.

Chart 4 Satisfaction with the Bank, CPI inflation and inflation perceptions



Sources: Bank/GfK NOP survey and ONS.

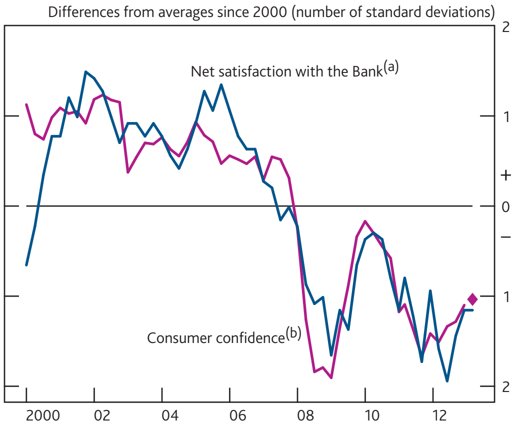
(a) The percentage of respondents who were fairly or very satisfied with the way in which the Bank of England is doing its job to set interest rates in order to control inflation, less the percentage who were fairly or very dissatisfied. Data are to 2013 Q2.
(b) Respondents were asked how they thought prices had changed over the past twelve months. Data are to 2013 Q2.
(c) Quarterly data. Data are to 2013 Q1.

Households' satisfaction with the Bank is also likely to be affected by wider economic conditions, including the prevailing rate of economic growth and the level of unemployment. Surveys of consumer confidence appear to be a fairly good summary of the information in a range of macroeconomic variables.[(2)] And measures of consumer confidence are very closely correlated with satisfaction with the Bank (**Chart 5**). In the recent past, satisfaction with the Bank has been a little more volatile than consumer confidence, but the recent modest improvement in satisfaction has coincided with an increase in the confidence indicator.

Satisfaction with the Bank is likely to vary across groups of respondents. **Chart 6** shows the distribution of responses to this question by age in May 2013. The results show that it is the youngest and, in particular, the oldest age groups who are currently least satisfied with the Bank. For the youngest groups, the lower levels of satisfaction may in part reflect greater uncertainty about employment and income prospects. Alternatively, it could reflect tight credit conditions; the 2012 NMG Consulting survey indicated that these appear to have particularly affected the younger age groups. Lower levels of satisfaction among the oldest age group are likely to reflect, in part, the impact of low interest rates on savers, since this age group tends to have more savings and less debt than their younger counterparts. In May 2013, 45% of people in the oldest age group said it would be best for them personally if interest rates rose over the next few months, but only 21% of that age group thought it would be best for the UK economy if interest rates increased.

(1) See also Churm, R, Leake, J, Radia, A, Srinivasan, S and Whisker, R (2012), 'The Funding for Lending Scheme', *Bank of England Quarterly Bulletin*, Vol. 52, No. 4, pages 306–20.
(2) See Berry, S and Davey, M (2004), 'How should we think about consumer confidence?', *Bank of England Quarterly Bulletin*, Autumn, pages 282–90.

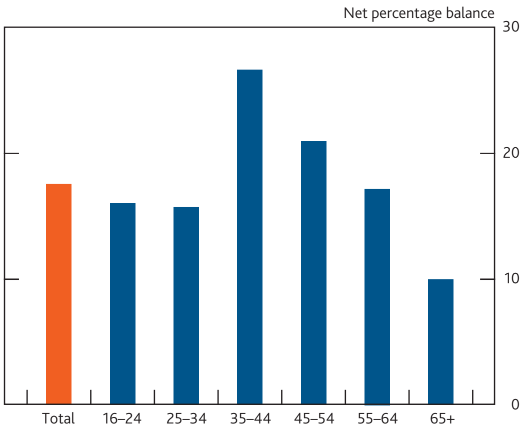
Chart 5 Satisfaction with the Bank and consumer confidence



Sources: Bank/GfK NOP survey, research carried out by GfK NOP on behalf of the European Commission and Bank calculations.

(a) See footnote (a) to **Chart 4**.
(b) The aggregate consumer confidence index is derived by averaging the answers to questions 1, 2, 3, 4 and 8 in the GfK NOP survey carried out on behalf of the European Commission. Quarterly averages of monthly data. The diamond is an average of the April and May observations.

Chart 6 Satisfaction with the Bank by age group in May 2013[a]



Source: Bank/GfK NOP survey.

(a) See footnote (a) to **Chart 4**.

Conclusion

The level of public awareness of the monetary policy framework, and households' understanding of the way in which monetary policy affects inflation, remains at similar levels to those that have prevailed since the survey was introduced in 1999. In the May 2013 survey, more respondents thought that the Bank's inflation target was about right than those who thought it was too high or too low. A relatively high number of respondents reported that interest rates had been unchanged over the past year, and that they expected them to remain so over the next twelve months.

Satisfaction with the way in which the Bank has set interest rates to control inflation remains much lower than before the financial crisis. Net satisfaction, while remaining positive over the past year, fell to a series low in 2012 Q3, before recovering a little in subsequent surveys. Movements in net satisfaction are closely correlated with measures of consumer confidence, which themselves reflect developments in a range of macroeconomic variables.