



BANK OF ENGLAND

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Boring Bankers - Should We Listen? - Speech by Richard Lambert given at the Institute for Public Policy Research

In a speech today to the Institute for Public Policy Research, Richard Lambert, a member of the Bank of England's Monetary Policy Committee, discusses the importance of good communications to modern central banks.

Effective communications are very relevant at times like now, when inflation is subdued and nominal interest rates are low. Under circumstances when the scope for conventional policy actions may be limited, it becomes especially important for central banks to manage public expectations about the future direction of monetary policy. For this reason, the Federal Reserve Board and the Bank of Japan have given considerable thought to their communications strategy over the past year and more.

Lambert says that the way a central bank seeks to influence public expectations is determined by its history and its structure. One distinguishing feature of the Bank of England's Monetary Policy Committee is that its nine members are individually accountable to Parliament, by way of the Treasury Select Committee, and are expected to make their views known through regional visits and presentations. Unlike the Fed or the European Central Bank, the monthly meeting does not try to arrive at a consensus.

This explains why the most important methods by which the MPC communicates with the public are through its detailed monthly minutes and the quarterly Inflation Report. The minutes discuss how the Committee views the economic outlook and the news since its last meeting, and reflects the different arguments put forward by its members. The Inflation Report gives the MPC the chance to get to grips with big economic issues in much greater depth than is possible in the monthly round. And it is a way of communicating the Bank's views about economic developments to the general public.

Lambert discusses various suggestions that have been put forward for changes in the Bank's communications policy, such as monthly press conferences, or earlier publication of the minutes. And he argues that the Bank's approach to communications over the past year has been influenced by some special circumstances, including a change in the direction of interest rates last autumn and the adoption of a new CPI inflation target. He suggests that the biggest domestic uncertainty facing the MPC today is about the

outlook for the housing market, and the impact that house prices may be expected to have on consumption and inflationary pressures.

He concludes that it would be possible to confuse the markets, and damage credibility, by publishing too much information about the minutiae of monetary policy. But he says that there might be room for the Bank to build yet more public support for price stability by seeking to communicate to a greater extent than it now does with audiences outside the financial markets.

"As new generations grow up with no memories of what inflation did to society in the 1970s and 1980s, the Bank will continue to have to work hard to build the constituency for low inflation. Its long-term approach to communications will remain a critical part of this exercise."

Key Resources

Boring Bankers - Should We Listen? – Full speech

At the Institute for Public Policy Research, London on 22 April 2004

<http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2004/speech219.pdf>