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News release

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Communicating Monetary Policy in Practice - Speech by Marian Bell at the Manchester Business School's Vital Topics Lecture

In a speech tomorrow evening, as part of the Manchester Business School's series of Vital Topics Lectures, Marian Bell, an external member of the Monetary Policy Committee, will reflect on the process and communication of monetary policy in the United Kingdom.

"In my experience the MPC is straightforward in its communications. The MPC doesn't spin. Nor are we disingenuous" she will say. There is an "inevitable tension between the expression of individual views and the expression of a clear message ….. but individual accountability is an important factor in the strength of the current framework". Bell will go on to say "If I have formed one overwhelming impression from my years on the MPC it is of the importance of individual accountability, and of the respect accorded to the integrity of Members' individual views among the staff of the Bank and within the process itself". Furthermore she will say that "it is important that both the Minutes and the Inflation Report adequately reflect the breadth of debate and views on the committee".

Bell will present evidence to suggest that a multiplicity of individually accountable voices speaking in the period leading up to some interest rate decisions could have led to a misinterpretation of the majority position and been a factor contributing to interest rate 'surprises'. She will caution that "The expression of an individual view between meetings has to be regarded as just that – an individual view," and notes that "The Committee does not coordinate a communications strategy" to get a collective message across.

However, it is unlikely that interest rate 'surprises' can be eliminated altogether. New work at the Bank (by Lavan Mahadeva of the External MPC Unit) suggests that we might expect surprises to occur in a transparent monetary policy regime. "If monetary policy announcements contain new information on the state of the economy, and hence the likely future stance of policy, then transparency might increase the extent to which financial markets react to policy announcements. This might occur if the policymakers are better placed to interpret what news means for inflation and output, and for policy. Policy announcements would then act as a beacon, helping the private sector understand the economic conjuncture. This would suggest that we might expect the relative incidence of surprises to have increased following Bank of England independence, reflecting both the increased transparency of the decision-making process and the role of experts in setting the policy rate." The evidence from four 'surprises' examined by Bell is that "the rate decisions played a role in signalling the monetary policy implications of economic news".

However, she emphasises that monetary policy deals with risks and uncertainties and "the nuanced probabilistic language of possibilities and likelihoods" can be over-simplified or over-interpreted by commentators, keen for a direct steer on the next interest rate decision. But, she will say, "a speech or interview is rarely a direct hint about the next vote. It would be a foolhardy hostage to fortune if it were".

Key Resources

Communicating Monetary Policy in Practice - Speech by Marian Bell at the Manchester Business School's Vital Topics Lecture on 17 May 2005
http://www.bankofengland.co.uk/archive/Documents/historicpubs/speeches/2005/speech244.pdf