Public attitudes to monetary policy and satisfaction with the Bank

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The past few years have been an extraordinary period for the UK economy and monetary policy. This article examines how that has affected households' awareness and understanding of monetary policy. Results from the Bank/GfK NOP survey suggest that public awareness of the policy framework has remained broadly constant throughout the life of the survey, but that the Bank's asset purchase programme appears to be less well understood than the setting of interest rates. Satisfaction with the way the Bank sets interest rates has fallen since the onset of the financial crisis, but remains positive. That may, in part, reflect ongoing concerns about the economic outlook.

Introduction

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.

The Monetary Policy Committee (MPC) has historically sought to achieve its objectives by setting the level of Bank Rate. But in March 2009, the MPC voted to cut Bank Rate to 0.5%, and at that time judged that further reductions would be ineffective at providing additional stimulus to the economy.[2] The Committee, therefore, began a programme of asset purchases, financed through the issuance of central bank reserves — commonly referred to as quantitative easing (QE). The purpose of the asset purchases was, and is, to inject money directly into the economy in order to boost nominal demand. Without that extra spending in the economy, the MPC thought that inflation would be more likely than not to undershoot the target in the medium term.[3]

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 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.[4]

In recognition of the importance of public understanding in determining the effectiveness of monetary policy, the Bank uses a variety of methods to explain the MPC's role of setting monetary policy to meet the inflation target to the public (such as speeches, academic papers, interviews, op-eds and panel sessions).

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 survey of households' attitudes to inflation expectations and monetary policy on its behalf.[5] This article 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. In particular, the results are examined in the light of the recent period of low interest rates, expansionary monetary policy and above-target inflation.

Public awareness of monetary policy

The past few years have marked an extraordinary period for the UK economy and monetary policy. GDP growth contracted sharply and deeply during 2008. It gradually picked up between 2009 and 2010. But by late 2011 the prospects for the UK economy had deteriorated, prompting

(1) The authors would like to thank Alice Pugh for her help in producing this article.
(2) For more information, see March 2009 MPC minutes.
(3) For further discussion of QE, see the box on pages 12–13 of the November 2011 *Inflation Report*.
(4) For more information on inflation expectations, see 'How has the risk to inflation from inflation expectations evolved?' in this edition of the *Bulletin*.
(5) 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.

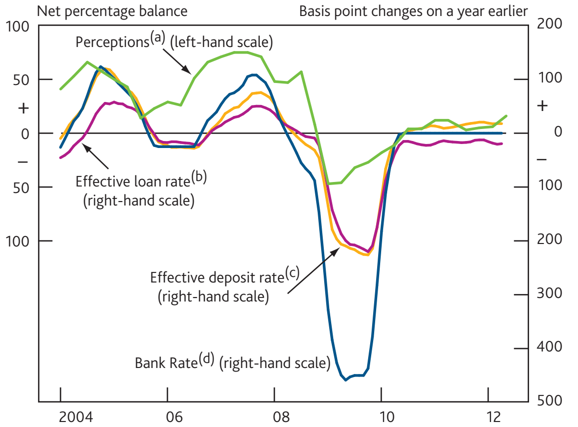
the MPC to resume its asset purchase programme in October 2011, and again in February 2012. Inflation has been above the 2% target for much of the past four years, hitting a peak of 5.2% in September 2011. More recently, inflation has fallen and annual CPI inflation stood at 3% in April 2012. Output has been broadly flat since early 2011, and growth is likely to remain subdued in the near term (see the May 2012 *Inflation Report*).

Public awareness of the United Kingdom's monetary policy framework has been broadly constant over time. The percentage of respondents who are able to name, unprompted, the MPC or the Bank of England as the group that sets the United Kingdom's basic interest rate level has remained at around 35%–40% since the survey began. And throughout the life of the survey, around 70% have selected the Bank of England as the group that sets interest rates when asked to choose from a list which includes, among others, government ministers and high street banks.

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, although it dropped slightly in the February 2012 survey.[1] 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 is shared by some respondents to the Bank/GfK NOP survey. Around 35% of households surveyed in February 2012 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'. But that is a slightly smaller proportion than in recent years.

The Bank/GfK NOP survey monitors public awareness of interest rate changes in the past and going forward. Households are asked how they think interest rates on things like mortgages, bank loans and savings have changed over the preceding twelve months. From May 2010 to May 2012, the biggest group of respondents (around one third in each survey) said that interest rates had remained the same. That could, in part, reflect the fact that Bank Rate has remained at 0.5% over this period. The number of respondents saying that interest rates had risen, increased in the most recent survey. That might, in part, reflect the slight pickup in average rates paid on outstanding deposits (ie effective deposit rates) over the past twelve months. It may also reflect the recent rises in interest rates charged on new mortgages, even though interest rates on outstanding borrowing (ie effective loan rates) have fallen over the past twelve months. Overall, the net balance of respondents who thought interest rates had risen over the past year increased in the most recent survey (**Chart 1**).

Chart 1 Interest rate perceptions and effective household interest rates

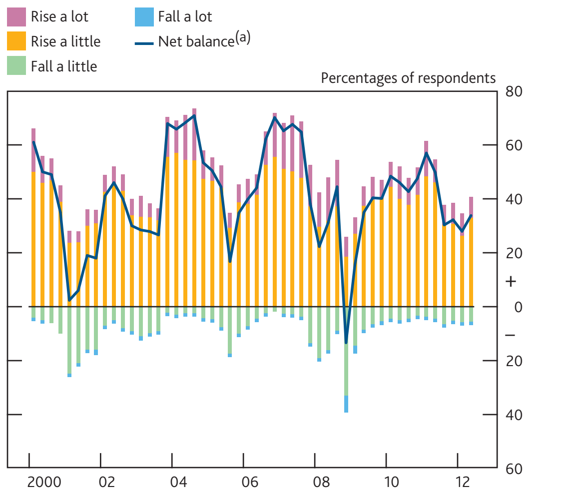


Sources: Bank of England and Bank/GfK NOP survey.

(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 rates weighted by the outstanding balances.
(d) Bank Rate is the three-month average.

Households' expectations of future interest rates have varied somewhat over the past year. The net balance of respondents expecting a rise in interest rates over the subsequent twelve months fell from 50% in May 2011 to around 35% more recently (**Chart 2**). That may, in part, reflect the deterioration in economic prospects over the past year, and the recent fall in CPI inflation. Around a third of households expect interest rates to stay the same over the next twelve months. That is in line with financial market implied measures of expected interest rates which are also broadly flat over that time frame (see Chart 1.1 of the May 2012 *Inflation Report*).

Chart 2 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.

(1) These questions are asked only once a year, in February.

To gauge the public's awareness of the primary objective of the programme of asset purchases announced by the MPC in October 2011 and February 2012, a new question was included in the February 2012 survey. As previously stated, the primary objective of asset purchases is to stop inflation from falling below the target in the medium term. Selecting from a list of options, around 26% of respondents thought that the primary objective of the expansion in QE was to increase confidence in the UK economy (**Table A**). That is reassuring in that confidence in the economy is necessary for achieving the primary objective of QE. But only 9% of households thought that the primary objective was to stop inflation falling below target in the future. Thirty-six per cent of respondents answered 'don't know' to this question. The MPC has agreed that explaining QE should continue to be an important area for the Bank's communication strategy. The box on page 127 describes how to find out more about QE.

Table A Perceptions of the primary objective of quantitative easing[(a)]

Objective	Percentage of respondents
Stop inflation falling below target in the future	9
Increase access to finance for companies/households	9
Increase confidence in the UK economy	26
Support the UK Government	6
Support the UK banking system	10
None of these	5
Don't know	36

Source: Bank/GfK NOP survey.

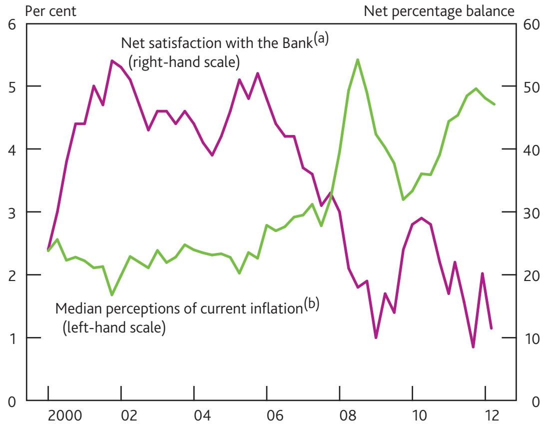
(a) Respondents to the February 2012 Bank/GfK NOP survey were asked what they thought was the primary objective of the increases in the MPC's asset purchase programme in October 2011 and February 2012. They were given a range of options as outlined in the above table.

Satisfaction with the Bank

The latest survey results show that satisfaction with the Bank remains positive. More respondents to the survey were satisfied with the Bank than were dissatisfied. But satisfaction is lower than it was before the onset of the financial crisis. It has also been more volatile in the past few quarters than has been observed previously. Net satisfaction dipped in November 2011 to a survey low, but remained positive. It picked up in February 2012, when the net balance of households satisfied with the Bank was around 20%. But in the most recent survey, satisfaction dropped again to 11%. This subsection looks at the factors which might be driving these movements in households' satisfaction with the Bank.

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 3**).

Chart 3 Satisfaction with the Bank and inflation perceptions

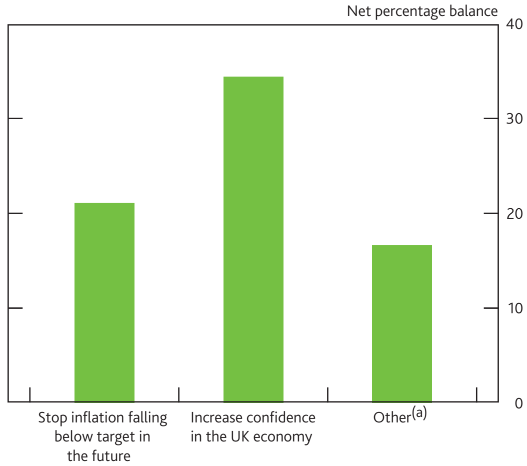


Source: Bank/GfK NOP survey.

(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.
(b) Respondents were asked how they thought prices had changed over the past twelve months.

Households' satisfaction with the Bank has also been related to their perceptions of monetary policy. Historically, those households who have perceived interest rates to have stayed the same or fallen, have been — on average — more satisfied with the Bank. Satisfaction was also higher among respondents who thought QE either boosts confidence in the UK economy or stops inflation falling below target in the future (**Chart 4**).

Chart 4 Net satisfaction with the Bank by primary objective of quantitative easing



Source: Bank/GfK NOP survey.

(a) The 'Other' bar includes all the other options households could choose from: increase access to finance for companies and/or households, support the UK Government, support the UK banking system, none of these and don't know.

But other factors are likely to have pulled down on satisfaction. For example, households may have become less satisfied with the Bank following the financial crisis and the associated weakness in demand (**Chart 5**). Movements in net satisfaction also appear to be closely related to general

How to find out more about quantitative easing

The Bank has actively taken steps to communicate the purpose and implementation of the asset purchase programme, or quantitative easing (QE).

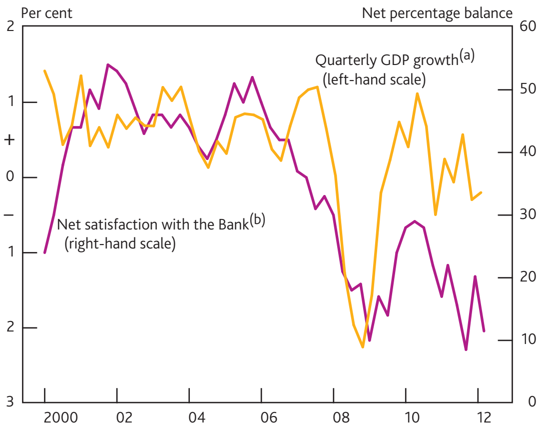
A range of resources are available on the Bank's website, which has a specific section collating all the information about QE.[1] These resources include a short animated film (*Quantitative easing — How it works*) and a pamphlet (*Quantitative easing explained*), both produced by the Bank. A page provides the most recent views of the Monetary Policy Committee (MPC) members on some of the more commonly raised questions on QE. These follow up on questions from the media, and also from queries that come into the Bank's Public Information and Enquiries Group. The website also provides specific information about the asset purchase programme for market participants, including a revised version of the 'Red Book',[2] which includes a chapter on QE.

Several of the Bank's major publications have contained material explaining QE including two *Quarterly Bulletin* articles, several working papers and regular commentary in the *Inflation Report*, including specific boxes. The minutes of the MPC meetings, which are published two weeks after the monetary policy decision, also provide an account of the reasoning behind the Committee's decision-making.

MPC members seek to explain their actions regularly on an individual basis through speeches, interviews and to parliamentary committees. And they speak to businesses and industries throughout the country several times a year as part of a programme of visits organised in collaboration with the Bank's twelve regional Agents. In 2009, shortly after the MPC embarked on the first tranche of asset purchases, Charlie Bean, Deputy Governor for Monetary Policy, undertook a special programme of visits to explain QE to a wide range of audiences across the country. When QE was voted for by the MPC in March 2009 and in October 2011, the Governor was interviewed by the major broadcasters on the day of the monetary policy decision in order to provide the public with an explanation of the Committee's thinking and actions.

(1) Available at www.bankofengland.co.uk/monetarypolicy/Pages/qe/default.aspx.
(2) Available at www.bankofengland.co.uk/markets/Pages/sterlingoperations/redbook.aspx.

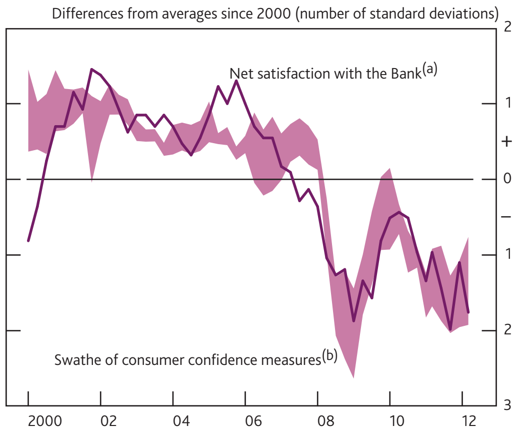
Chart 5 Satisfaction with the Bank and real GDP



Source: Bank/GfK NOP survey.

(a) Chained-volume measure at market prices.
(b) See footnote (a) to **Chart 3**.

Chart 6 Measures of consumer confidence and net satisfaction with the Bank



Sources: Bank/GfK NOP survey and GfK.

(a) See footnote (a) to **Chart 3**.
(b) Swathe includes: GfK consumer confidence balances on households' own financial situation over the past and future twelve months and expectations of unemployment over the next twelve months. The last data point is based on the average of April and May confidence balances.

economic sentiment, such as that conveyed in survey measures of consumer confidence (**Chart 6**).

Conclusion

The level of public awareness of the monetary policy framework has remained broadly constant throughout the life of the survey. But the survey indicates that the effects of QE are less well understood than interest rates. The MPC has agreed that explaining QE should continue to be an important area for the Bank's communication strategy.

Households' understanding of the way in which monetary policy affects inflation appears to have been broadly constant over time. The majority of respondents continue to think that interest rates have remained the same over the past year. And the net balance of respondents expecting a rise in interest rates over the subsequent twelve months fell from 50% in

May 2011 to around 35% more recently. A similar proportion of households expect interest rates to stay the same over the next twelve months. That is in line with financial market implied measures of expected interest rates.

Satisfaction with the way in which the Bank has set interest rates to control inflation has fallen since the financial crisis, but remains positive. It has also been more volatile in the past few quarters than has been observed previously. Following a survey low for satisfaction in November 2011, the net balance picked up in February 2012, but dipped again in May 2012. That may, in part, reflect ongoing concerns about the economic outlook.