

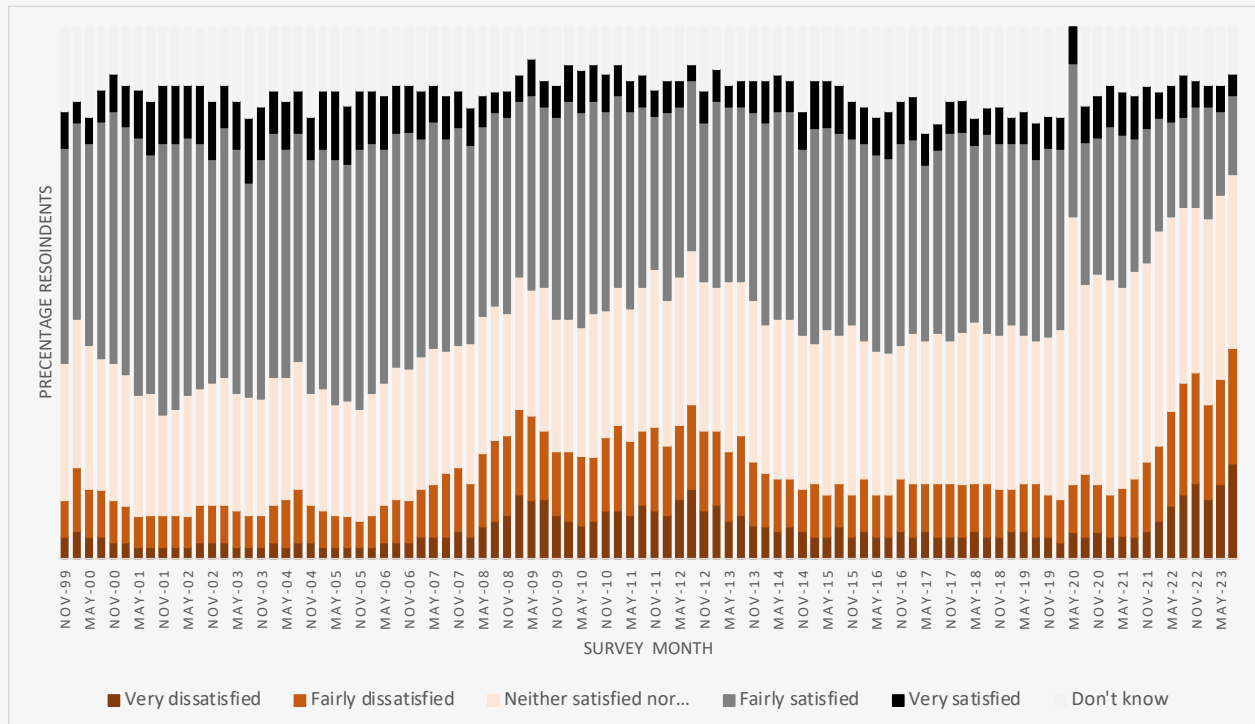
Box A: Public Confidence in the Bank of England

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Introduction

Even though inflation has consistently fallen in the past two quarters, public confidence in the Bank of England's ability to bring inflation down and closer to its target has reached its historical low since the Bank started recording these data (figure A1). These results from the Bank's Inflation Attitudes survey are surprising because when the survey was conducted, inflation had just reached its lowest rate in 15 months, falling from 11 per cent in October 2022 to 6.8 per cent in July 2023. This change was also reflected in the respondents' expectations about inflation, suggesting that they were aware of this improvement in inflation outcomes.

Figure A1 Responses to “Overall, how satisfied or dissatisfied are you with the way the Bank of England is doing its job to set interest rates in order to control inflation?”



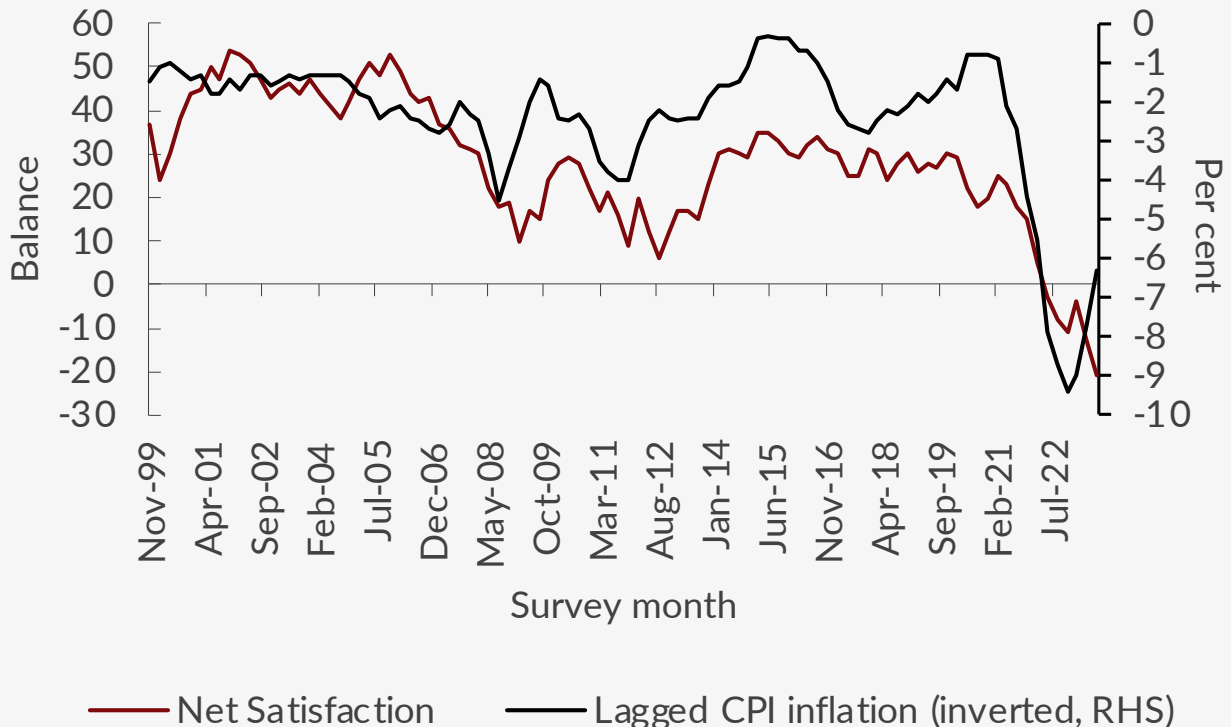
Source: Bank of England/Ipsos Inflation Attitudes survey.

This box explores the sociodemographic characteristics and perceptions of the respondents that are associated with satisfaction with the Bank’s performance. Satisfaction with the work of the Bank matters because it is a measure of trust in the institution – that is, confidence that the Bank will fulfil its role in a satisfactory manner (Hudson, 2006). Trust is especially important for central banks for several reasons. The effectiveness of central banks’ monetary policy measures hinges on anchoring inflation expectations. Furthermore, lack of satisfaction or trust in the central bank affects the Bank’s legitimacy (Baerg and Cross, 2022) and exposes the institution to public or political pressures that can potentially undermine their independence (Goodhart and Lastra, 2018).

Trends in aggregate data

The Bank of England conducts quarterly surveys of public attitudes towards inflation and opinions about the Bank. The last survey was fielded between 4 and 7 August 2023 by Ipsos in the United Kingdom on a sample of 2,042 people aged 16-75. This wave showed the highest levels of dissatisfaction: 40 per cent of respondents expressed their discontent with the Bank’s performance. The share of total dissatisfaction ranged between 33 and 35 per cent in the four previous quarterly surveys, above the two previous instances in which dissatisfaction had peaked – 28 per cent in the first quarter of 2009 and 29 per cent in the third quarter of 2012. More importantly, the net satisfaction balance, an indicator reported by the Bank of England as the percentage of satisfied minus the percentage of dissatisfied respondents, dropped from -13 per cent in the previous quarter to -21 per cent (figure A2).

Figure A2 Net satisfaction balance and CPI inflation

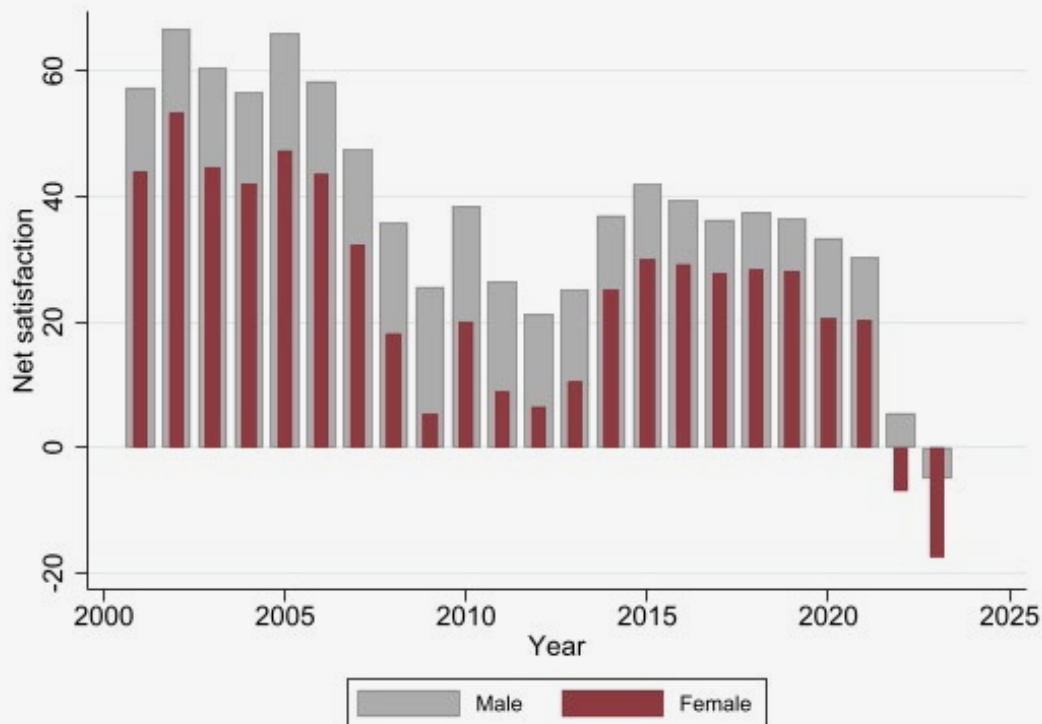


Sources: Bank of England/Ipsos Inflation Attitudes survey and ONS Data.

Although satisfaction does not directly follow current inflation rates, there is some correlation between satisfaction and consumer price index (CPI) inflation in the longer run. Figure 2 shows the annual CPI inflation rate, lagged by one quarter (reversed for presentation purposes). Interestingly, Net satisfaction maps closely with the movement of CPI inflation in the year prior to the surveys, suggesting that respondents have a longer horizon in mind when evaluating the Bank’s performance – instead of just the data released immediately prior to the survey.

At the aggregate level, descriptive data suggest two salient dimensions that distinguish attitudes to the Bank of England. First, there is a gender difference in the net satisfaction regarding the work of the Bank (figure A3). Historically, more men than women tend to express positive views about the Bank. Since 2000, the share of men expressing positive views regarding the Bank is larger than the share of women– while a larger share of women have generally expressed negative views. The largest gap was right after the Global Financial Crisis: in 2009, the net satisfaction was 25.6 among men, and 5.3 among women. The net satisfaction of respondents who identify as women has been consistently negative in 2022 and 2023, while it is only in 2023 that male respondents have had negative net satisfaction. Although female respondents in 2023 have lower net dissatisfaction than male respondents, the gap in the share of respondents with negative evaluations is closing: in the last wave of the survey (August 2023), 43 per cent of male respondents and 43.6 per cent of female respondents expressed negative evaluations of the work of the Bank of England. In other words, the gender difference in net satisfaction is driven by a higher percentage of male respondents expressing satisfaction with the Bank’s work.

Figure A3 Net satisfaction with the Bank of England and gender

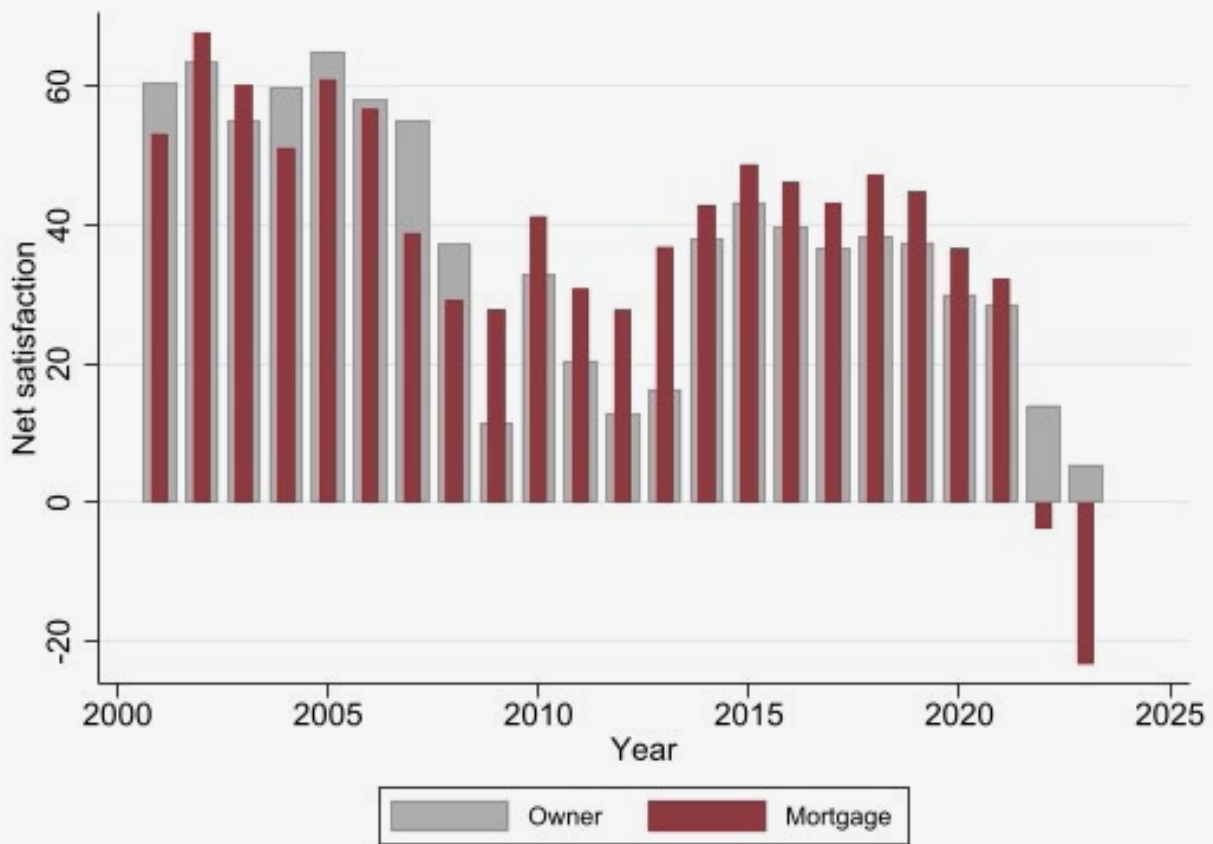


Note: The chart omits data on respondents who did not identify themselves as male or female.

Source: Bank of England/Ipsos Inflation Attitudes survey.

The second dimension of interest is the housing status of the respondents. At the individual level, the survey data identify four groups of respondents: those who own outright (Owner), those who own buying with a mortgage or loan (Mortgage), those who rent from local authority/housing association (Council Rent) and Other. Figure A4 shows that between 2009 and 2021, mortgage holders have expressed higher net satisfaction than owners. In the past two years, this tendency has not only reversed, but net satisfaction became negative among mortgage holders, the group most affected by the rise in interest rates. Of note, the last survey is the first time in which Owners’ net satisfaction is negative (-3.3), but there is still a remarkable contrast with a -40 net satisfaction among Mortgage respondents (54.6 per cent of respondents who hold a mortgage expressed dissatisfaction with the Bank).

Figure A4 Net satisfaction with the Bank of England and housing tenure



Notes: The survey asks finer questions, but the public data does not allow us to identify ‘part own and part rent’ (ie, shared ownership), and ‘rent privately’. Pooled responses from the three surveys conducted in 2023.

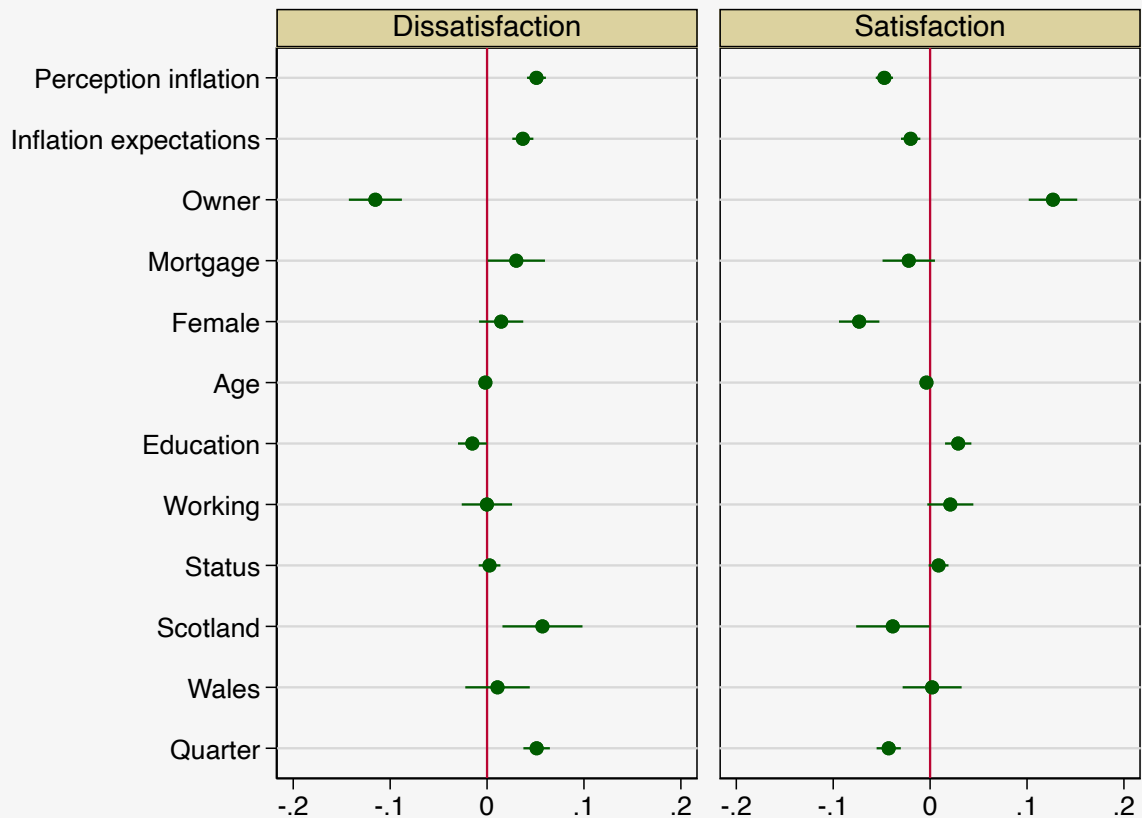
Source: Bank of England/Ipsos Inflation Attitudes survey.

At the aggregate level, more people declared disappointment at the Bank’s work in 2022, and these negative views have increased throughout the three surveys conducted this year. Dissatisfaction seems correlated with inflation performance, gender, and housing tenure. However, it is possible that gender or housing tenure overlap with other characteristics at the individual level. The next section examines 2023 data at the individual level, controlling for potentially confounding characteristics.

Mapping dissatisfaction at the individual level

Figure A5 shows the characteristics associated with satisfaction or dissatisfaction regarding the Bank of England’s work, pooling data from the three 2023 surveys (February, May, and August) and estimating the correlations in a multivariate baseline analysis. Estimates to the right of the vertical zero line indicate a positive association between the characteristic and the response.

Figure A5 Correlates of satisfaction and dissatisfaction with the Bank of England’s work (2023)



Note: Estimates of the likelihood of responding ‘very’ or ‘fairly dissatisfied’ (left-side plot) ‘very’ or ‘fairly satisfied’ (right-side plot) with the way the Bank of England is doing its job to set interest rates to control inflation. Multivariate pooled regression analysis using data from Bank of England/Ipsos Inflation Attitudes survey (N=6,884).

As one might expect, there is a significant correlation between perceptions about inflation in the past 12 months and of expectations about inflation in the next 12 months, with the responses stating satisfaction and dissatisfaction. People perceiving or expecting higher inflation are more likely to express dissatisfaction (and less likely to express satisfaction) with the work of the Bank of England. This association does not disappear when controlling for knowledge regarding who sets the interest rate (not shown in figure A5). In fact, this knowledge is not correlated with dissatisfaction, but it is associated with higher likelihood of having a positive opinion about the Bank. However, it is important to hold expectations and perceptions constant when analysing other socioeconomic and demographic characteristics.

The most influential factor affecting (dis)satisfaction is the housing status of the respondent. Those who are outright owners are less likely to be dissatisfied with the Bank, and more likely to be satisfied than other categories (mortgage holders, renting and others). Those holding mortgages are more likely to express dissatisfaction, and less likely to express satisfaction than owners (additional analysis), but do not have a different inclination to express satisfaction than people with other housing status.

Interestingly, in contrast with aggregate data showing a larger share of female respondents expressing dissatisfaction with the Bank, at the individual level women are not more likely to express dissatisfaction than men once other socioeconomic characteristics, and perceptions and expectations about inflation, are taken into consideration.

In contrast with the findings of Brouwer and de Haan (2022) and Hudson (2006) regarding the European Central Bank (ECB), neither age, employment, nor socioeconomic status are correlated with satisfaction or dissatisfaction in this baseline model, but separate analyses show that the youngest respondents (aged 25 or less) are more likely to express dissatisfaction. Finally, respondents in Scotland are more likely to express negative views (and less likely to express positive views) regarding the Bank's work.

Why does this matter?

The Bank of England is not the only central bank facing public distrust. Public trust in the ECB has been negative, even among those who support the euro (Bergbauer et al, 2020). Yet, the Bank of England is experiencing unheard of levels of dissatisfaction.

Lack of trust affects central banks in two ways. On the one hand, it undermines its ability to anchor inflation expectations. The data presented here show a correlation between trust in the central bank and inflation expectations (figure A5). This may in turn decrease the effectiveness of the central bank and further deteriorate satisfaction with its performance, and even lead to larger macroeconomic fluctuations (Bursian and Faia, 2018). On the other hand, distrust may result in challenges to the Bank's legitimacy: Baerg and Cross (2022) stress that the degree to which central banks fulfil their respective mandates is the most direct source of their legitimacy. This opens the door to pressures and challenges to the Bank's independence (Goodhart and Lastra, 2018).

What can be done?

Trends in satisfaction with the Bank of England should be interpreted in the broader context of general trust in the country's institutions. The data analysed here do not include information on the extent to which the public separates the Bank's performance from the government's effectiveness, for example, or other factors traditionally associated with trust in institutions. Consequently, this box needs to be read as a descriptive, not a causal, account of factors associated with lower satisfaction with the Bank's performance. This information however, points to areas that the Bank could target to improve satisfaction, to reinforce improvements in price stability.

Research shows the importance of financial knowledge and central bank communication for legitimisation and trust purposes. Central banks need to explain to the public what actions are within the scope of the Bank's mandate, and what are the reasons that made the Bank

unable to fulfil its purposes. Communication may also be tailored to be more accessible to (or relevant for) those who are less likely to have positive views about the work of the Bank of England. New research also stresses the effects of diversity in central bank's committees and in who delivers monetary information to reach different audiences (Bodea et al, 2021, D'Acunto et al, 2021).

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