

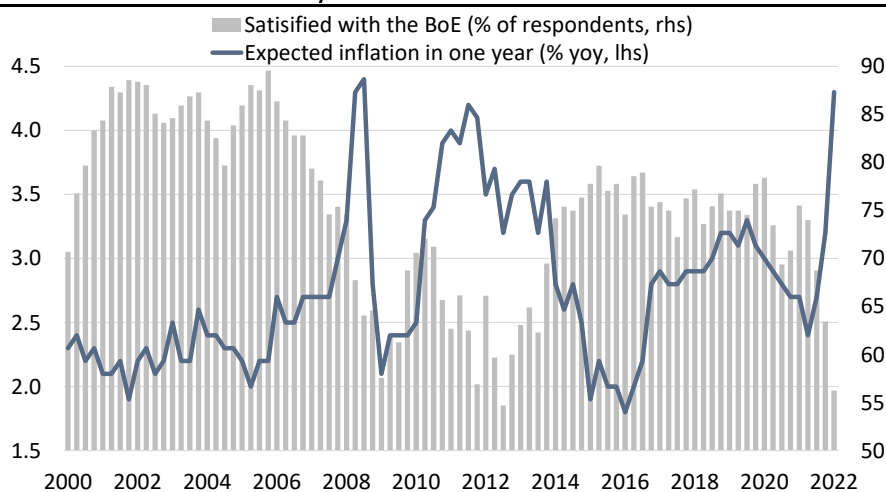


Kallum Pickering, Senior Economist | Kallum.pickering@berenberg.com | +44 20 3465 2672

BOE: SELF-INFLICTED CONFUSION OVER POLICY OUTLOOK

Berenberg Macro View

BoE inflation attitudes survey



Respondents asked: 1) 'Q. 2a How much would you expect prices in the shops generally to change over the next 12 months?' – median-response; and '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?'. Satisfaction series total based on all satisfied or dissatisfied responses but excludes 'neutral' and 'don't know'. Quarterly data. Source: BoE, Ipsos

[Click here for full report and disclosures](#)

- **Failing the key test:** The biggest surge in inflation in 40 years has put the Bank of England's (BoE's) monetary policy framework for price stability to the test. How well is it doing? Unfortunately, the evidence is not favourable.
- **Inflation uncertainty:** Inflation expectations are unanchored, despite efforts to contain them via tighter policy. Public perceptions of the BoE have plunged – see Chart 1. These failures come amid a major push since 2014 to improve policy outcomes by increasing “openness” and “transparency”.
- We analyse the impact of two changes to the BoE's communications since 2013:
 - 1) explicit forward guidance – which provides signals about future policy; and
 - 2) the huge increase in information published by the BoE alongside policy decisions.
- We also assess the BoE's forecasts and argue that the decision to produce multiple projections distorts, rather than strengthens, policy signals.
- **Playing catch up:** The BoE has reacted too late to an inflation problem that it still does not fully understand, in our view. But instead of providing clarity about how it may react in case of future inflation surprises, its overly complex approach to forecasting and communication blurs the bank's reaction function, adds to economic uncertainty and undermines credibility.
- **Complexity begets uncertainty:** A well-designed framework should preserve credibility when the economy is hit by unexpected shocks. Instead, we think that recent events have demonstrated that the BoE's overly complex framework – designed during an era of low and stable inflation – is not fit for a world of high and uncertain inflation.



BERENBERG

PARTNERSHIP SINCE 1590

MACRO NEWS

- **Bad policy amplifies downside risks:** Unless the BoE opts for a leaner and more pointed communication strategy, financial and economic actors will continue to struggle to understand the BoE's reaction function or predict what the bank may do next, in our view. In turn, inflation expectations are likely to remain unanchored for longer, that is until price pressures begin to ease on a sustained basis due to positive global supply developments or until the BoE produces disinflation by raising interest rates well above their neutral rate – which would probably tip the UK into a recession.



BERENBERG
PARTNERSHIP SINCE 1590

MACRO NEWS

Disclaimer

This document was compiled by the above mentioned authors of the economics department of Joh. Berenberg, Gossler & Co. KG (hereinafter referred to as “the Bank”). The Bank has made any effort to carefully research and process all information. The information has been obtained from sources which we believe to be reliable such as, for example, Thomson Reuters, Bloomberg and the relevant specialised press. However, we do not assume liability for the correctness and completeness of all information given. The provided information has not been checked by a third party, especially an independent auditing firm. We explicitly point to the stated date of preparation. The information given can become incorrect due to passage of time and/or as a result of legal, political, economic or other changes. We do not assume responsibility to indicate such changes and/or to publish an updated document. The forecasts contained in this document or other statements on rates of return, capital gains or other accession are the personal opinion of the author and we do not assume liability for the realisation of these.

This document is only for information purposes. It does not constitute investment advice or recommendation to buy financial instruments. It does not replace consulting regarding legal, tax or financial matters.

Remarks regarding foreign investors

The preparation of this document is subject to regulation in the United Kingdom. The distribution of this document in other jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

United Kingdom

This document is meant exclusively for institutional investors and market professionals, but not for private customers. It is not for distribution to or the use of private investors or private customers.

United States of America

This document has been prepared exclusively by the Bank. Although Berenberg Capital Markets, LLC (“BCM”), an affiliate of the Bank and registered US broker-dealer, distributes this document to certain investors, BCM does not provide input into its contents, nor does this document constitute research of BCM. In addition, this document is meant exclusively for institutional investors and market professionals, but not for retail investors or private customers. It is not for distribution to or the use of retail investors or private customers. BCM accepts responsibility for this research document’s contents and institutional investors receiving this research and wishing to effect any transactions in any security discussed herein should do so through BCM and not the Bank. Please contact Berenberg Capital Markets, LLC (+1 646 949 9000) if you require additional information.

Copyright

The Bank reserves all the rights in this document. No part of the document or its content may be rewritten, copied, photocopied or duplicated in any form by any means or redistributed without the Bank’s prior written consent.

© 2021 Joh. Berenberg, Gossler & Co. KG