

# The implications of money market reform for data published in *Monetary and Financial Statistics*

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*Following reforms to the Bank of England's money market operations, several new tables have been added to this publication in order to incorporate changes to some data sets. This article gives an overview of the new tables and of data that have been discontinued.*

## Introduction

On 18 May 2006 the Bank of England introduced a range of reforms relating to its money market operations. As part of these reforms:

- i) A wide range of banks and building societies are able to hold a target level of voluntary reserve balances with the Bank. Each reserve account holder will undertake to meet this target, on average, over a maintenance period lasting from one scheduled MPC decision date to the day before the next;
- ii) Standing lending and deposit facilities are available on demand, with rates at a spread to the official Bank rate;
- iii) The Bank's short-term open market operations have moved to weekly operations of one-week maturity, with a routine overnight fine-tuning operation on the final day of the maintenance period.

Reserve balances are remunerated at the official Bank rate, which is also used in weekly and fine-tuning open market operations.<sup>1,2</sup>

The reforms have led to the inclusion of several new tables in this publication: Notes and coin and reserve balances (Table A1.1.1); a new version of the central bank's balance sheet (Bank of England 'Bank Return' in Table B1.1.1); Monetary policy implementation (Tables D2.1.1 and D2.2.1); and Collateral instruments (Table D2.2.2).

## Notes and coin and reserve balances (Table A1.1.1)

Table A1.1.1 contains separate series on sterling notes and coin and banks' and building societies' reserve balances. Monthly data are based on the averages of weekly observations at close of business on Wednesdays.

This table replaces the previous Table A1.1, which contained data on M0, consisting of sterling notes and

coin in circulation, plus bankers' operational deposits.<sup>3</sup> As proposed in 'Publication of narrow money data: the implications of money market reform',<sup>4</sup> data on M0 have been discontinued, as reserve balances are much larger than the former bankers' operational deposits and the economic inferences that may be drawn from growth in notes and coin and from growth in reserve balances differ greatly. The final month for which data for bankers' operational deposits and M0 are available is April 2006. These data were published on 8 May; both series will not be revised anymore.

## The new Bank Return (Table B1.1.1)

Each Thursday the Bank of England publishes on its website a summary balance sheet, known as the Bank Return, showing its main assets and liabilities at close of business on the previous day.<sup>5</sup> The Bank Return is reproduced monthly in Table B1.1.1 of this publication. In addition, the Bank's contribution to the MFI balance sheet is published monthly (in Table B2.2).

The new framework for monetary policy operations has altered both the structure and the size of the Bank of England's balance sheet. The Bank Return now comprises a consolidated balance sheet, as well as separate balance sheets for Issue and Banking Department. The new Issue Department statement includes detail on the different types of asset acquired under the new open market operations. New items shown on the Banking Department statement include the amount of reserve balances; open market operations; standing facility deposits and assets; and cash ratio deposits. To reflect these changes, Table B1.1.1 has been introduced in this publication. Consequently, the final observation for its predecessor Table B1.1 is 17 May.

<sup>1</sup> Balances at the Bank were previously unremunerated and from March 1997 to 17 May 2006 the official rate was termed 'the Bank's repo rate'.

<sup>2</sup> More details on the Bank's money market operations can be found at: <http://www.bankofengland.co.uk/markets/money/index.htm>, <http://www.bankofengland.co.uk/markets/money/publications/redbook0506.pdf> and in 'Markets and operations' (2006), *Bank of England Quarterly Bulletin*, Summer, pages 135-41 at <http://www.bankofengland.co.uk/publications/quarterlybulletin/mo06mav.pdf>.

<sup>3</sup> The weekly and monthly narrow money statistical releases (available at <http://www.bankofengland.co.uk/statistics/statistics.htm>) have changed accordingly.

<sup>4</sup> Available at <http://www.bankofengland.co.uk/publications/quarterlybulletin/qb050304.pdf>. Users of statistics were invited to comment on the proposals, but no responses were received.

<sup>5</sup> See <http://www.bankofengland.co.uk/publications/bankreturn>. Each Monday, the latest weekly Bank Return data will be added to the full time series on the Statistical Interactive Database (<http://www.bankofengland.co.uk/mfsd/iadb>). A weekly statement in a statutory format is also published in the London Gazette (<http://www.gazettes-online.co.uk>).

## Monetary policy implementation (Tables D2.1.1 and D2.2.1)

Two new tables (D2.1.1 and D2.2.1) have been introduced to reflect the Bank's new operations in the money market. The final observations for their respective predecessors are 17 May (Table D2.1) and April 2006 (Table D2.2).

The top section of Table D2.1.1 provides a summary of the interest rates at which Bank operations were conducted over the previous 'maintenance period' (running from one scheduled MPC decision date to the day before the next), as well as high level aggregate information relating to reserve accounts, which is a new area of the Bank's balance sheet. Each reserve participant chooses a reserve target which they undertake to meet, on average, over each maintenance period. Reserve account holders are not required to hit their reserve targets exactly, but accounts must be within +/- 1% of the target for the reserve balance to be fully remunerated at the official Bank rate. The middle section of Table D2.1.1 provides a daily time series of new and maturing business in all Bank operations (weekly, fine-tune and longer-term repos, standing lending and deposit facilities). In addition, this section shows daily data on the aggregate reserves level and the daily change to aggregate reserves. The daily flow in autonomous factors reflects changes in Bank of England assets and liabilities not covered in this table. The most important of these is normally the change in Bank of England notes in circulation.

The final section of Table D2.1.1 provides additional detail on new and maturing longer-term repos over the previous maintenance period. Longer-term repos are undertaken as a variable rate tender with funds allocated in descending order of offered interest rates (i.e. bids at the highest rate are accepted first and subsequent bids with successively lower rates are accepted until the total amount of liquidity to be allocated has been exhausted). Therefore, in addition to the date of the tender and the amount allocated at each maturity, the table includes the weighted average accepted rate and lowest accepted rate for new longer-term repos.

Table D2.2.1 contains summary information relating to Bank of England assets and liabilities in completed maintenance periods, as well as the official interest rates relevant to Bank operations. The assets section includes the average amount outstanding in Bank operations to provide financing to the market (weekly, fine-tune and longer-term repos) and the average use of the standing lending facility. The liabilities section includes the average amount of funds lent to or deposited at the Bank (i.e. use of the standing deposit facility, liquidity absorbing fine-tune repos and reserve balances). The table also includes the average reserve target and corresponding upper and lower boundaries for the target reserves range for each maintenance period.

The latest data for both tables will be added to the Statistical Interactive Database on the Monday following the end of a maintenance period, before being reproduced in this publication each month.

## Collateral instruments (Table D2.2.2)

In many of the operations described in Table D2.2.1 central bank money is being provided against collateral. Table D2.2.2 gives information on the collateral involved. The left-hand side analyses collateral according to the operations in which it is used, and the right-hand side shows the forms which the collateral takes.

Technically, these operations are in the form of repo, in which securities are sold with an undertaking to buy back equivalent securities at the maturity of the operation. The table records (as 'collateral') the securities that are due to be delivered at the maturity of the operations.

In its short and longer-term repos and in its overnight standing lending facility the Bank is lending against collateral provided by its counterparties. In fine-tuning repos the Bank may be lending against collateral or providing collateral against cash taken overnight from counterparties. In Table D2.2.2 collateral provided by the Bank is netted off against collateral provided to the Bank by its counterparties.

The Bank protects itself against credit risk by requiring counterparties to provide collateral with a greater market value than the loans they receive. The amount of collateral recorded in Table D2.2.2 is thus greater than the outstanding value of the transactions recorded in Table D2.2.1. Changes in the market value of the collateral during the life of a repo may trigger adjustments in the amount of collateral provided. These are recorded in the 'Margin calls' column of Table D2.2.2.

Details of collateral were previously included in Tables D2.1 and D2.2. The final observations for these tables are 17 May and April 2006 respectively. The latest data for Table D2.2.2 will be added to the Statistical Interactive Database on the Monday following the end of each reserves maintenance period, before being reproduced in this publication.