



BANK OF ENGLAND

News release

Press Office

Threadneedle Street

London EC2R 8AH

T 020 7601 4411

F 020 7601 5460

press@bankofengland.co.uk

www.bankofengland.co.uk

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Bank of England Open Market Operations: Overnight Deposit Facility

The Bank of England is announcing today a technical adjustment to its open market operations. With effect from 27 June 2001 the Bank will supplement its daily open market operations with a daily collateralised liquidity withdrawal facility (in effect, an overnight deposit facility).

The new deposit facility is designed to moderate any undue softness in overnight rates. It will complement the existing facility the Bank already extends at the end of each day to lend overnight in order to moderate any undue tightness in overnight rates. The deposit facility will thus put the Bank's overnight operations at the end of each day on a symmetrical basis and help to moderate volatility in either direction in overnight rates.

Like the existing overnight lending facility, the deposit facility will be available at 3.30 pm to the Bank's money market counterparties. To ensure that the facility does not discourage active market trading, the interest rate which the Bank will pay on overnight deposits will initially be 100 basis points below the Bank's repo rate; for similar reasons the interest rate the Bank charges on its existing 3.30 pm lending facility is 100 basis points over the Bank's repo rate. In all other respects the Bank's daily open market operations remain unchanged.

The new deposit facility provides the market with an additional option, but counterparties will be free to determine for themselves what use they make of it. The Bank will monitor closely the use and effectiveness of the new facility and will be ready to consider adapting its features in the light of experience and in response to feedback from market participants.

The Bank has written today to its money market counterparties informing them of the details of the new facility. The full technical details are contained in a supplement to the Bank's Operational Notice, which can be found on the Bank's website.

Notes to Editors

The Bank's principal open market operations are conducted in two daily rounds at 9.45 am and 2.30 pm. At these times the Bank stands ready to supply liquidity to its money market counterparties, broadly at a two-week maturity, through repo or outright purchase of specified securities. These operations are conducted at the repo rate set by the Monetary Policy Committee. No change is being made in these operations.

The Bank's operations at 3.30 pm, where the new deposit facility is being introduced, are designed to square off any remaining market imbalance at a penal rate on an overnight basis.