



**BANK OF ENGLAND**

# News release

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## **Bank of England Quarterly Bulletin - Winter 2004**

The Winter issue of the Bank of England Quarterly Bulletin is published today. Among the articles and reports it contains are:

### **British household indebtedness and financial stress: a household-level picture**

This article summarises the results of a survey carried out for the Bank in September 2004 about household borrowing, housing wealth and attitudes to debt. The survey, which follows a study in October 2003 for unsecured debt only, provides a comprehensive and up-to-date picture of household indebtedness. The rapid accumulation of debt in recent years and the ability of people to repay what they owe are relevant to both monetary policy and financial stability considerations.

The latest survey looks at trends in both secured and unsecured debt. It finds that there are significant differences between homeowners and renters. Most debt is owed by homeowners, relatively few of whom show signs of having problems at present. This may be because low interest rates and a strong labour market, together with a buoyant housing market, have been favourable to them. Renters are more likely to have debt problems, but their share of total household debt is small. Notwithstanding the problems facing some individuals, the survey suggests that, overall, household debt remains affordable. Although circumstances can change suddenly, by the standards of the past decade relatively few households are currently close to a stressed position.

### **The new sterling ERI**

This article sets out the Bank's proposals for a new sterling trade-weighted index. This new index reflects recent trade patterns, and incorporates both trade in services and a broader range of trading partners. The Bank proposes to publish two main indices: a 'narrow' index and a 'broad' index, with the latter covering a relatively wide range of trading partners. Generally speaking, the narrow index will be the more useful for looking at issues of price competitiveness, at least in the short term. The article shows that the differences between the narrow index and the existing index are relatively small in both nominal and real terms. Although there is a bigger difference between the existing index and the new broad index in nominal terms, this largely reflects the depreciations experienced by emerging market economies in 1997 and 1998. In real

terms, movements in the broad index are far less marked. And it is real exchange rates that matter when assessing UK competitiveness.

The authors are inviting comments on the proposed method for calculating the new indices with a view to publishing the new index from Spring 2005.

### **The foreign exchange and over-the-counter derivatives markets in the United Kingdom**

In April the Bank of England conducted a three-yearly survey of turnover in UK foreign exchange and over-the-counter (OTC) currency and interest rate derivatives markets. This was part of the latest global survey co-ordinated by the Bank for International Settlements, published earlier in the year. This article presents the findings of the UK survey in detail, and compares them with the results of the global survey. The results show that the volume of foreign exchange activity in the United Kingdom has increased by nearly 50% since April 2001. Turnover in OTC derivatives has more than doubled in the same period.

Also in the Winter 2004 Bulletin:

- a regular commentary on 'Markets and operations';
- an article 'Using option prices to measure financial market views about balances of risk to future asset prices';
- summaries of recent Bank of England working papers and speeches from the Bank; and
- a report 'The external balance sheet of the United Kingdom: recent developments'.

### **Note to Editors**

Copies of the Quarterly Bulletin are available from the Publications Group, Bank of England, Threadneedle Street, EC2R 8AH (Tel: 020 7601 4030; fax 020 7601 3298) or from the Quarterly Bulletin pages.