



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 Quarterly Bulletin - Summer 2004

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

Assessing the stability of narrow money demand in the United Kingdom

It is widely accepted that the introduction of cash-saving technologies and the growing network of automated teller machines contributed to a prolonged upward shift in the velocity of circulation of narrow money (M0) towards the end of the 20th century. For the past ten years or so, however, velocity appears to have been a reasonably stable function of the short-term interest rate. The analysis suggests that this might plausibly be because the rate at which cash-saving financial innovations are being introduced has slowed somewhat.

Deriving a market-based measure of interest rate expectations

The existence of a risk premium can mean forward rates are a biased measure of expected future interest rates. This article uses survey data of interest rate expectations to derive a measure of the risk premium, which implies a significant and time-varying difference between forward rates and expected interest rates. The article also proposes a simple model of the survey-based risk premium, using data available on a daily basis, to provide a closer reading of the market's expectation of the path of future short-term interbank interest rates than the forward curve alone.

The economics of retail banking - an empirical analysis of the UK market for personal current accounts

This article studies the competitive process in the UK market for personal current accounts between 1996 and 2001. In particular it analyses the evolution of banks' market shares and the speed with which this changes in response to price differentials. The results suggest that the level of a bank's market share was a significant determinant of the price(s) it set, with a positive relationship between level of market share and price, consistent with the presence of 'switching costs' in this market. Since the end of the sample period, a number of initiatives have been introduced to facilitate switching between accounts, including improvements by banks to the logistics of the switching process and steps being taken to raise consumer awareness of the potential benefits of changing banks.

The financing of smaller quoted companies: a survey

This article summarises the results of a survey commissioned by the Bank designed to answer questions about the financial policies of mid-market companies in the UK. It suggests that the broad generality of UK smaller quoted companies are not currently experiencing any major difficulties in accessing either debt or equity finance, although generally security has to be offered to banks and loans tend to be of shorter maturity than for larger companies.

Also in the Summer 2004 Bulletin:

- a regular commentary on 'Markets and operations';
- articles on 'Recent developments in surveys of exchange rate forecasts' and 'Sterling money market funds';
- reports on 'The new Bank of England Quarterly Model' (previously published), 'Public attitudes to Inflation', 'Perfect partners or uncomfortable bedfellows? On the nature of the relationship between monetary policy and financial stability', 'A review of the work of the London Foreign Exchange Joint Standing Committee in 2003' and 'Reform of the Bank of England's operations in the sterling money markets' (previously published);
- summaries of recent Bank of England working papers and speeches from the Bank.

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 Bank's Quarterly Bulletin pages.