Monetary control arrangements

Notice issued by the Bank of England on 19 July 1983.

1 The Bank has recently reviewed the working of the monetary control arrangements introduced in August 1981. It has concluded that there is no reason to change the basic structure of those arrangements, which have worked satisfactorily in a period of considerable interest rate volatility and against a background of unexpectedly large and persistent shortages in the money markets. It nevertheless proposes a number of changes to the detail of the arrangements.

2 The volume of funds which eligible banks undertake to hold, on average, with members of the London Discount Market Association (LDMA) and with gilt-edged jobbers and money brokers is now larger than was intended. This has arisen primarily because of the rapid growth of the total eligible liabilities of eligible banks, and would, if it continued, produce an undue bargaining advantage in favour of the takers of these funds. *The Bank therefore now proposes that eligible banks should, as the norm, hold 5% of total eligible liabilities with members of the LDMA and with gilt-edged jobbers and money brokers in place of the existing 6%.*

3 Secondly, the daily minimum percentage of eligible liabilities which eligible banks undertake to hold with members of the LDMA, currently two-thirds of the norm referred to in paragraph 2, can limit a bank's ability to call funds from the discount market, and so the ability of the banks collectively to position the day's cash shortage in the discount market. While the Bank still considers a minimum necessary to ensure a continuous minimum source of funds to the makers of the bill market, *it now proposes that the minimum be set at half of the norm, ie at $2\frac{1}{2}$% of eligible liabilities rather than the present 4%.*

4 The Bank further proposes a change in the method of calculating the norm over 6-month or 12-month accounting periods. The system at present requires banks which choose the former (latter) option to maintain the norm over months 1–6 (1–12), 2–7 (2–13) and so on. This means that each new month on the present method of calculation becomes the closing month of a new accounting period. To provide the system with additional flexibility to meet unexpected liquidity pressure, *the Bank now proposes to replace this rolling average method of calculation with a method based on discrete 6-month or 12-month periods, ie months 1–6, 7–12 or 1–12, 13–24 and so on.* The Bank is approaching each bank individually in order to determine the precise application to it of this arrangement.

5 The Bank also proposes to publish additional information on its daily money-market operations. *Specifically it will publish, at around 2.50 pm, each day the total amount of business transacted subsequent to its last published operations (ie the amount of late transactions in bills or market lending) but without details of the type of business or its terms.* This will provide the market with more complete information on the total of the Bank's transactions for the day relative to the published forecast position, though it should be recognised that this information could still be incomplete since the Bank may on occasion undertake further transactions after 2.50 pm.

6 Since these proposed modifications represent an easing of the undertakings currently given by eligible banks, the Bank would intend to apply them with effect from 18 August 1983 (ie the first day of banking September). The Bank of course remains willing to review from time to time further points which banking associations or, where appropriate, individual banks may raise in relation to the arrangements as a whole.