

Finding the Right Balance

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BANK OF ENGLAND

Some of my SMCR prescribed responsibilities

PR 15	Responsibility for management of the Bank's capital and the Bank's funding and liquidity operations
PR 16	Responsibility for the Bank's treasury management functions
PR 22	Responsibility for the Bank's proprietary trading activities
PR 26	Responsibility for the protection of clients' assets



This year is the 11th anniversary of the credit crunch

BNP suspends funds as sub-prime chaos spreads

The Times, 10 August 2007

Libor hits high on cash run

Financial Times, 12 September 2007

ON THE ROCKS?

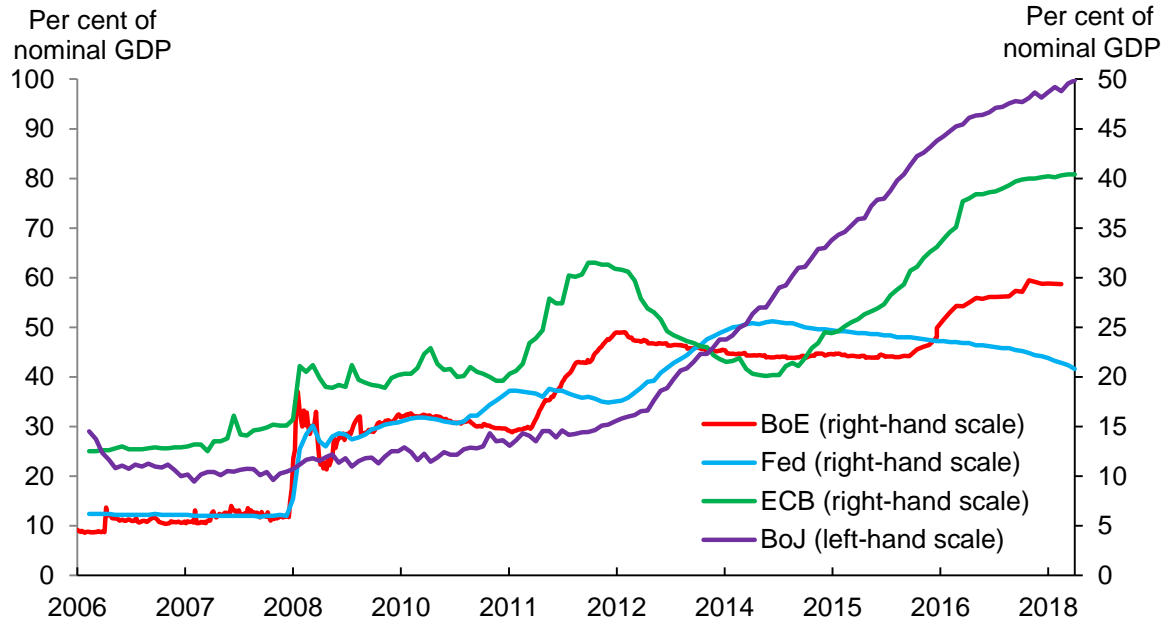
Daily Mail, 21 September 2007

No historical reason why recent turmoil should spark a recession

The Times, 21 August 2007

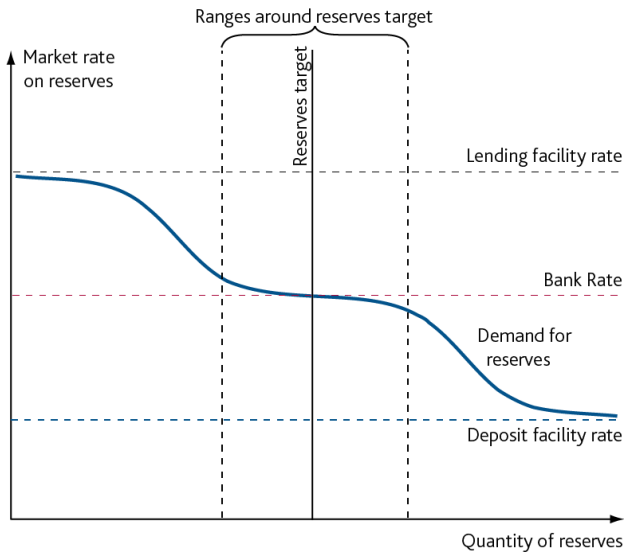


Central bank balance sheets are much larger than pre-crisis

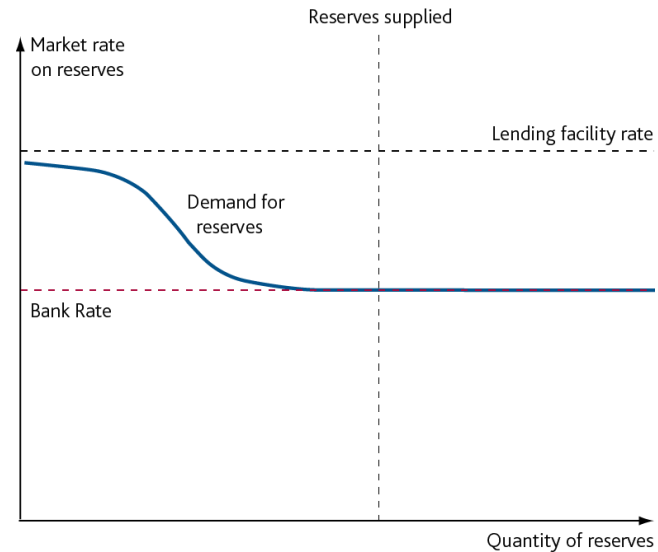


All reserve balances are remunerated at Bank Rate under the floor system

Corridor system



Floor system



SMF lending facilities are much expanded

Liquidity insurance: broad collateral liquidity upgrade

Predictable/regular need for term collateral transformation

Indexed Long-Term Repo

- Monthly
- Six-month term
- Reserves lent
- Auction price(s)

Firm-specific liquidity shock requiring liquidity in bespoke size and timing, with lagged disclosure

Discount Window Facility

- On demand
- Rollable 30-day term (banks, building societies and broker-dealers) or five-day term (CCPs)
- Usually gilts lent
- Prices based on collateral type and size of drawing

Actual or prospective market-wide stress meaning SMF participants need cheap, plentiful cash at term

Contingent Term Repo Facility

- Triggered by the Bank
- Flexible term
- Reserves lent
- Auction price

Monetary policy implementation: converting high-quality liquid assets to reserves

Need to borrow reserves to meet reserves averaging target

Short-Term Repo (currently suspended)

- Weekly
- One-week term
- Reserves lent
- Auction price

Need to deal with payment shocks, eg after markets have closed, to meet reserves target

Operational Standing Facilities

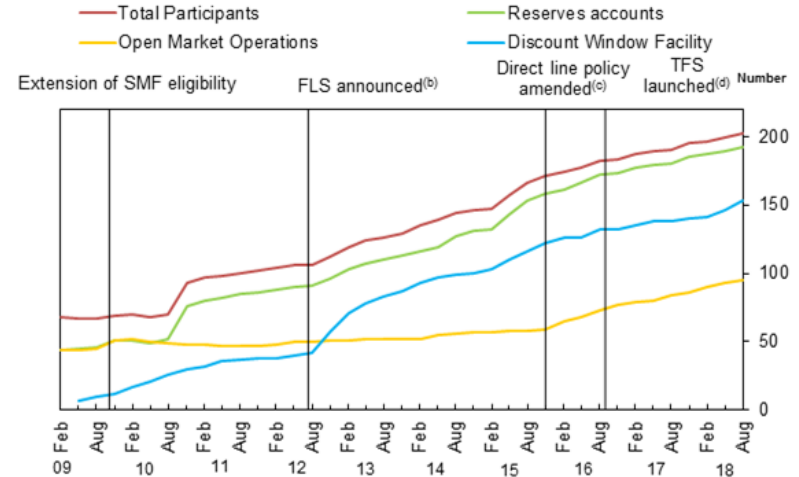
- On demand
- Overnight term
- Reserves lent
- Fixed-rate corridor



Many more institutions are now eligible for SMF membership

Table A Eligibility for participation in the Bank's facilities

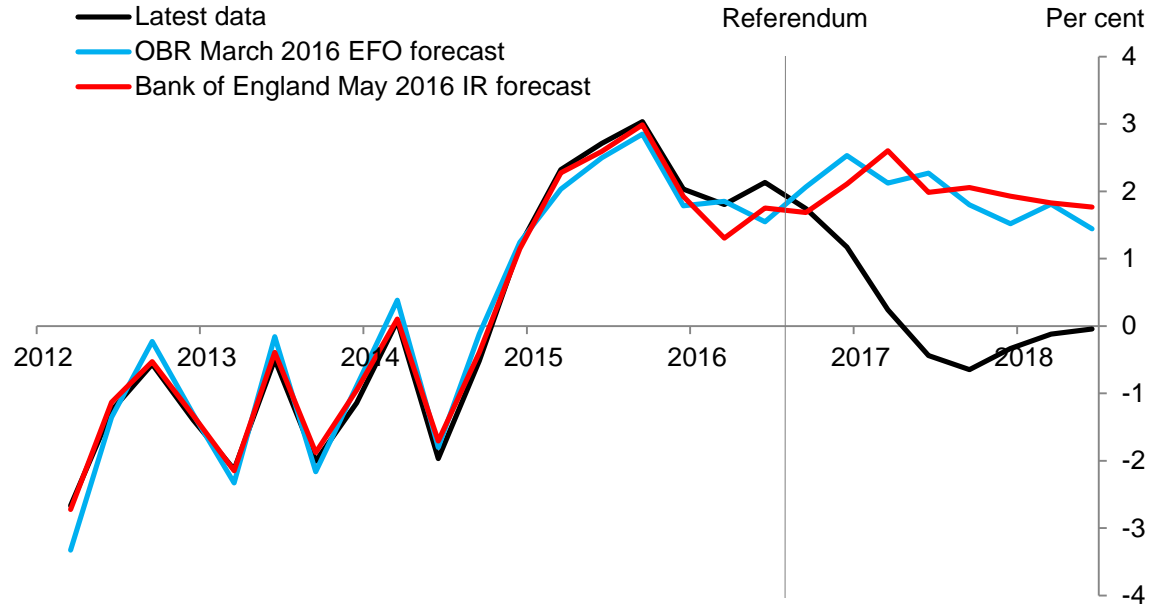
	Short-Term Repo	Reserves accounts	Operational Standing Facilities	Indexed Long-Term Repo	Discount Window Facility	Contingent Term Repo Facility
Banks and building societies	✓	✓	✓	✓	✓	✓
Broker-dealers	✓	✓	✓	✓	✓	✓
CCPs		✓	✓		✓	



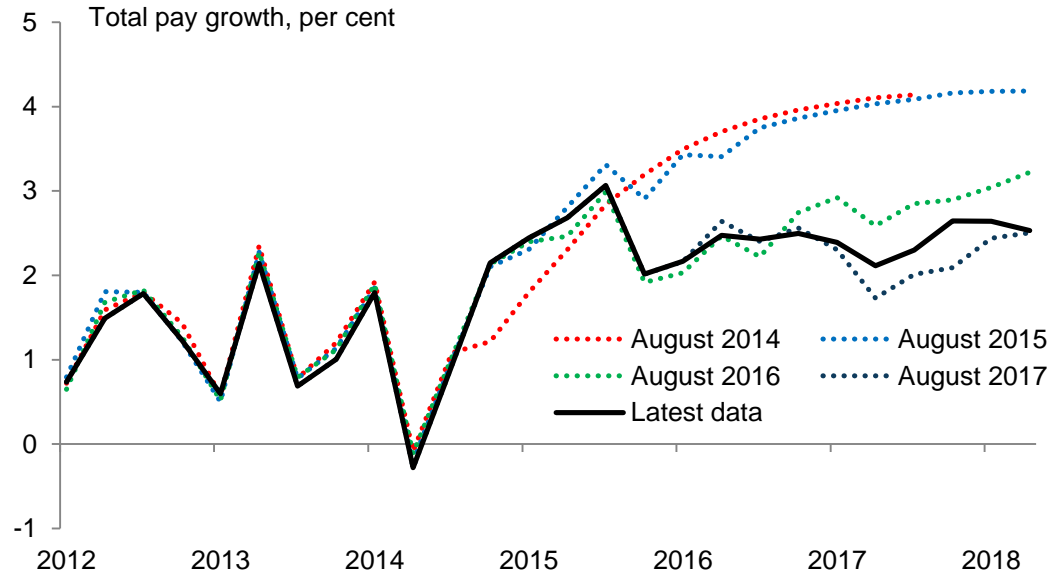
- (a) Quarterly averages.
- (b) FLS is the Funding for Lending Scheme, announced launched on 13 July 2012.
- (c) From November 2015, smaller firms have been able to access Open Market Operations without installing a direct telephone line.
- (d) TFS is the Term Funding Scheme, launched in August 2016.



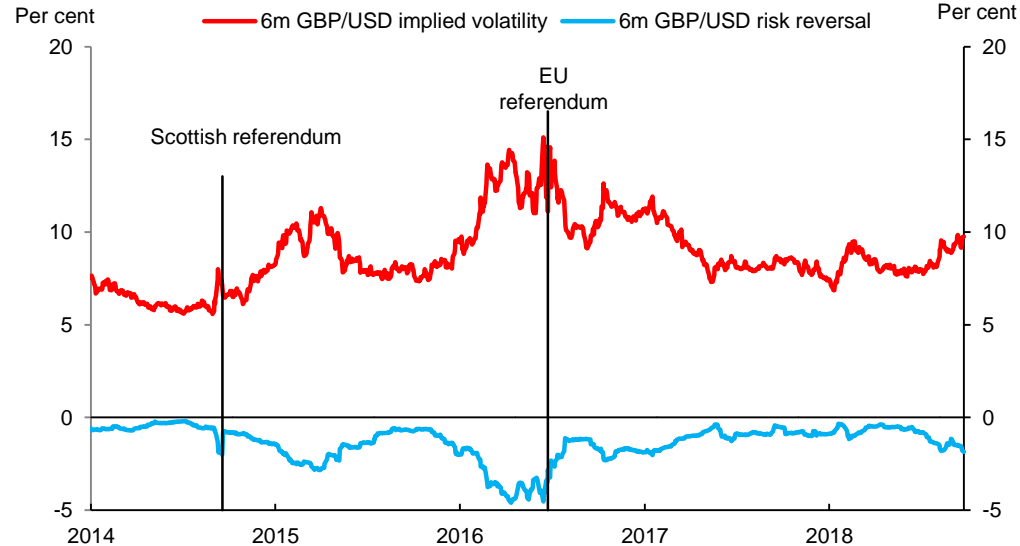
Real wage growth fell back following the Referendum



Nominal wage growth has come out in line with last year's forecast



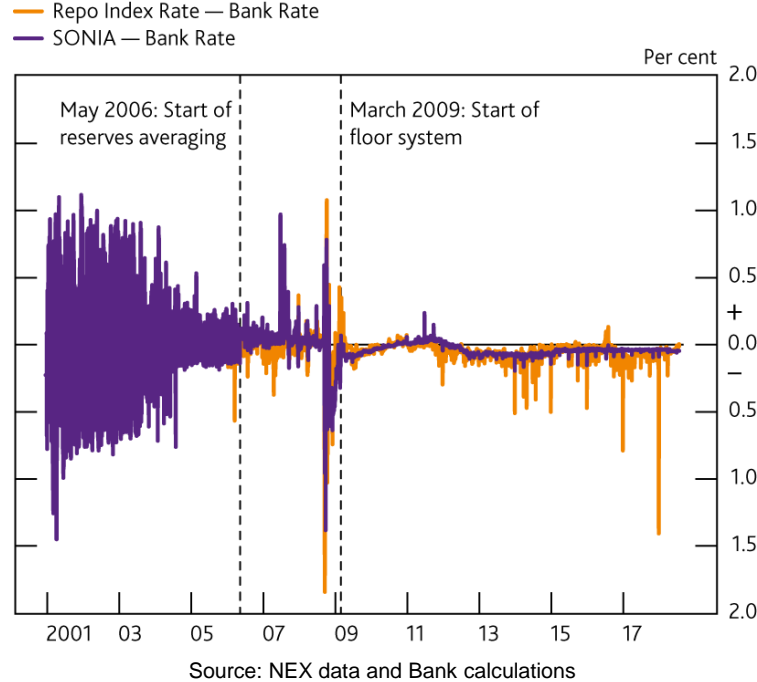
Option prices suggest increased risks to sterling



Source: Bloomberg Finance L.P. and Bank calculations



The current floor system has proved successful at controlling market rates



We are gathering views on our future balance sheet

1. Are there operational or other considerations that affect the level of Bank of England reserves that could be supplied via OMOs?
2. How will the operating framework described here impact on day-to-day management of SMF participants' reserves positions?
3. How will the operating framework described here impact on inter-bank and other money market activity and pricing relative to the current floor system?
4. What will be the drivers of demand for Bank of England reserves and what will be their relative importance?
5. How will the supply of reserves via OMOs affect their demand relative to the current framework where supply is primarily via asset purchases?
6. What approach(es) could be taken to estimate the expected aggregate demand for reserves?

Comments should be sent to balancesheetDP@bankofengland.co.uk by 31st October 2018.



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