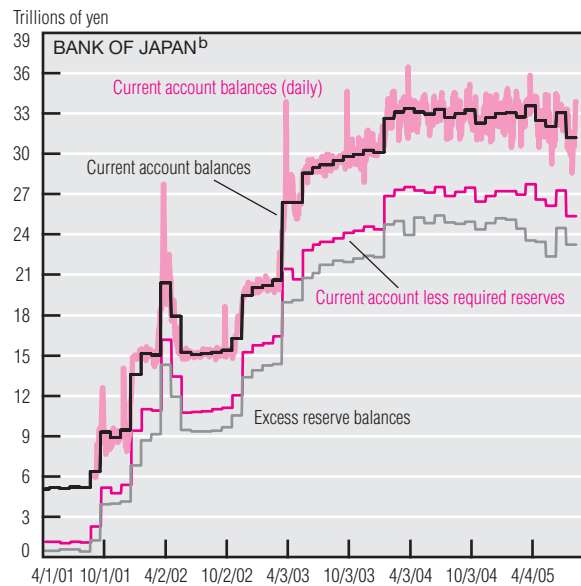
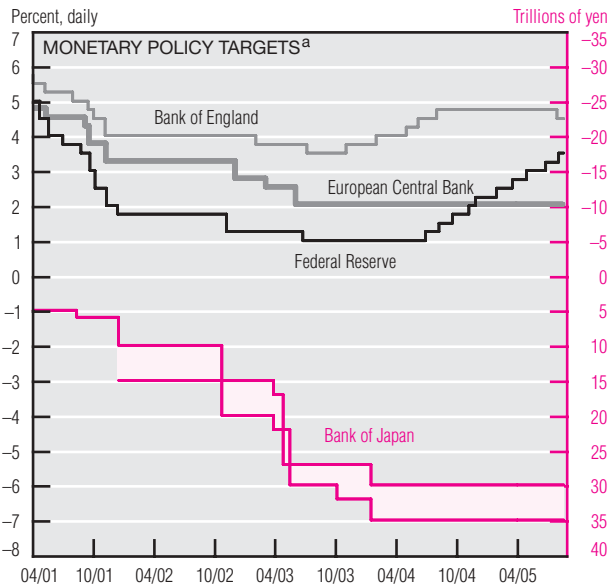
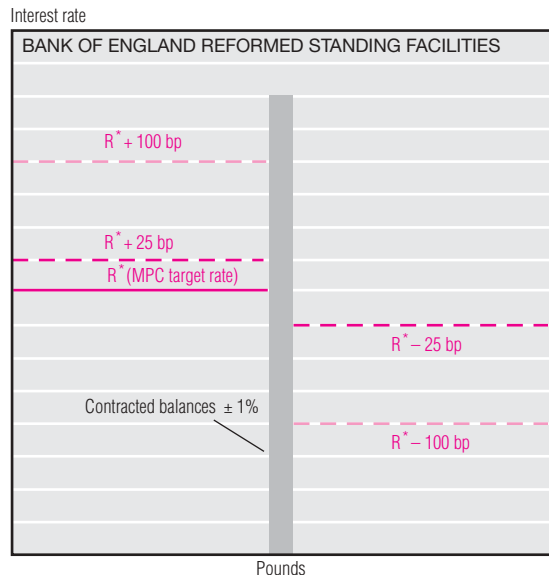


Foreign Central Banks



Bank of England Monetary Policy Implementation		
	Current	2006
Depositors	Large settlement banks	Banks and building societies
Deposits	No interest; voluntary daily balance	MPC target rate paid on average balance within ± 1% of voluntary contracted amount
Averaging	None	Over MPC inter-meeting period
Open market operations	Two-week RPs at MPC target rate twice daily; overnight RPs at 100 bp over MPC target rate late in day	One-week RPs at MPC target rate weekly; overnight RPs at MPC target rate on last day
Standing facilities	Deposits at 100 bp below MPC target rate; loans at 100 bp to 150 bp over MPC target rate	Loans/deposits at 100 bp above/below MPC target rate; but last day at 25 bp above/below MPC target rate



a. Federal Reserve: overnight interbank rate. Bank of Japan: a quantity of current account balances (since December 19, 2001, a range of quantity of current account balances). Bank of England and European Central Bank: repo rate.
 b. Current account balances at the Bank of Japan are required and excess reserve balances at depository institutions subject to reserve requirements plus the balances of certain other financial institutions not subject to reserve requirements. Reserve requirements are satisfied on the basis of the average of a bank's daily balances at the bank of Japan starting the sixteenth of one month and ending the fifteenth of the next.
 SOURCES: Board of Governors of the Federal Reserve System; Bank of England; Bank of Japan; European Central Bank; and Roger Clews, "Implementing Monetary Policy: Reforms to the Bank of England's Operations in the Money Market," *Bank of England Quarterly Bulletin*, Summer 2005.

The Federal Reserve recently raised its interest rate target by another 25 basis points (bp) and the Bank of England lowered its rate target by 25 bp; the Bank of Japan displayed less rigor than heretofore, maintaining current account balances in the range of ¥30–¥35 trillion.

The Bank of England will reform its monetary policy operations in 2006. It intends to equalize rates on maturities out to the next Monetary Policy Committee (MPC) meeting and to reduce the daily variability of money market rates. The Bank currently uses as

many as three operations each day to maintain the daily supply of non-interest bearing deposits needed to square the accounts of a handful of settlement banks. The reform will supplant these frequent Bank operations with a more active interbank market based on balance averaging by a larger set of banks and building societies. These will contract to hold a self-selected average account balance (plus or minus 1%) between MPC meetings, earning interest at the MPC target rate. The Bank will supply these balances using weekly operations

in one-week instruments plus an overnight operation on the last day of a period, all at the prevailing MPC target interest rate. The Bank will provide a deposit/loan facility for liquidity insurance during a period at 100 bp above/below the MPC target rate. On the last day of a period, however, the margin will be only 25 bp. Averaging and interbank trading should keep money market rates close to the MPC target because the Bank can be counted on to absorb or supply funds at the 25 bp margin on the last day.