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.