

The Bank of England's operations in the sterling money markets – purchases of high quality bonds – joint statement by the Bank and the UK Debt Management Office (DMO): 15 May 2006.

The Bank of England has announced today that, as part of its operations to implement monetary policy, it plans to conduct outright purchases of bonds, including gilt-edged securities (“gilts”) and high-quality foreign-currency government bonds.

These purchases will be conducted as part of the Bank's Open Market Operations (OMOs) to provide reserves to the banking system alongside its existing short- and long-term repo operations. All OMO counterparties will be able to participate. It is intended that bonds acquired will be held on a buy and hold basis on the balance sheet of Issue Department.

The Bank expects to provide, on average over the next three years, approximately £4 billion per annum of reserves through the purchase of gilts. It also expects to provide a slightly smaller stock of reserves via purchases of foreign-currency bonds (with the foreign currency cash flows swapped into fixed-rate sterling). It is currently planned that such purchases will be confined to conventional bonds with remaining maturities of between 3- and approximately 20- years to maturity and that the purchases will be undertaken in broadly even size on a regular monthly cycle, consistent with other OMOs. It is also planned that the portfolio will adjust in line with developments in the stock of banknotes.

The Bank intends to offer to purchase a number of different bonds at each operation and will announce ahead of each operation the bonds for which it intends to invite offers. The Bank does not expect to invite offers for bonds which are, or have a reasonable expectation of becoming, cheapest to deliver in any active (i.e. with open interest) gilt futures contract.

The results of each operation will be announced, as will the Bank's holdings of individual bonds acquired through these OMOs.

It is the Bank's intention that, in aggregate, the composition of bonds acquired should broadly mirror the maturity distribution of conventional UK Government sterling debt outstanding in the relevant maturity band.

The Bank's operations will be carefully co-ordinated with the DMO to avoid any conflict with the strategic objectives and operational requirements in implementing the Government's debt management strategy.

Further details of the timing and conduct of the planned bond purchases will be announced by the Bank following further consultation with the DMO and discussion with OMO counterparties.

Details of the new framework for the Bank's operations in the Sterling Money Markets have been published today in the Bank of England publication the “Red Book”.

This announcement will be published on the DMO's website at www.dmo.gov.uk/gilts/press/sa150506.pdf