

# Amendments to Divisia money series

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*This article describes improvements to be implemented to Divisia money series and its components in the next edition of Bankstats, to be published on 1<sup>st</sup> March.*

## Introduction

Divisia money is a measure of money supply that gives different weights to its components depending on the likelihood that they are used in transactions. Since 1993, the Bank has published statistics on Divisia indices and growth rates, including a sectoral breakdown and the components used in the calculation.<sup>1</sup> As described previously, the calculation of Divisia money assumes that deposits earning a higher interest rate are less likely to be used in transactions and hence given a lower weight.<sup>2</sup>

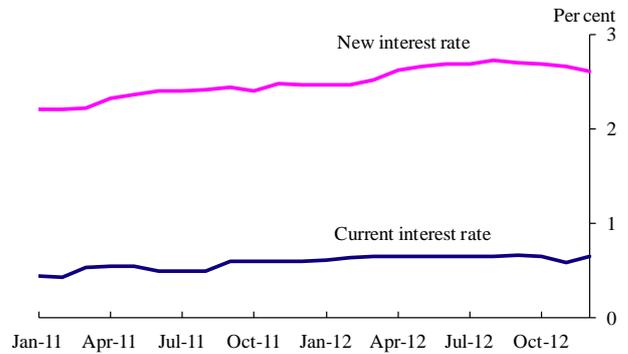
## Changes to published interest rate series

Improvements to the Bank's interest rate statistics were described in a recent article in this publication.<sup>3</sup> The single quoted interest rate series for ISAs (Individual Savings Accounts) used in the Divisia money calculations will be discontinued after publication of December 2012 data in this issue of *Bankstats*. Three new quoted rates series and one new effective rate series for ISAs were introduced at the time of publishing October 2012 data (with data from January 2011 onwards). This therefore necessitates changes to the compilation of Divisia money series.

## Divisia calculation

For all deposits other than ISAs, effective rates are currently used in the Divisia money calculation, as this is theoretically more appropriate than quoted rates.<sup>2</sup> Previously, data on the effective rate for ISAs were not published, and the quoted rate was used. However, as an effective interest rate on ISAs is now published, the interest rate used for ISAs in the Divisia calculation will be an effective rate from January 2011 data onwards. The inclusion of unconditional bonuses and internet-only products in the effective rate, but exclusion from the quoted rate, explains the main differences between the ISA interest rates. The current and new ISA interest rates are shown in Chart A.

Chart A: ISA interest rates



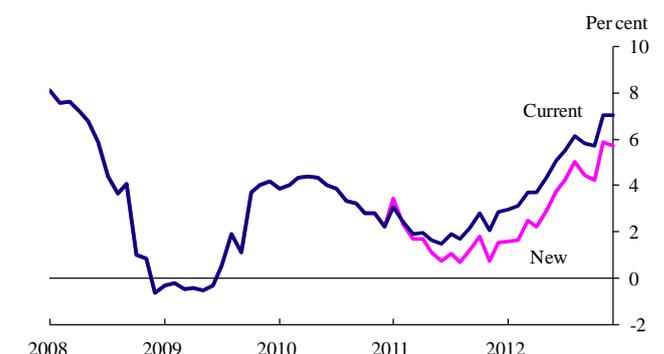
Changes to the ISA interest rate used in the Divisia money calculation will affect a number of series. Annex A presents a list of all Divisia money series that will be affected by this amendment.

The interest rates on household sector time deposits excluding ISAs used in the household Divisia money series are calculated by residual based on the interest rates for all time deposits and the interest rates for ISAs. Changes to the ISA interest rate will therefore also result in changes to the interest rate for time deposits excluding ISAs and thus the household Divisia money series.

## Revisions

The differences between the new and current ISA interest rate series, as shown in Chart A, will lead to revisions in Divisia money series. The benchmark rate used for the Divisia money calculation is the maximum of the interest rates (after tax is taken into account) paid on the various component assets. The benchmark rate for household Divisia money has tended to be the rate on time deposits excluding ISAs. In future, however, the ISA rate will most likely be the benchmark rate. Due to the recent relative strength in ISA volumes compared to other time deposits, this means that Divisia money growth will generally be revised downwards when this change is implemented.

Chart B: Household Divisia money<sup>(a)</sup>



(a) Twelve-month growth rate, seasonally adjusted.

<sup>1</sup> These data are currently published in *Bankstats* Table A6.1, available at [www.bankofengland.co.uk/statistics/Documents/bankstats/current/TabA6.1.xls](http://www.bankofengland.co.uk/statistics/Documents/bankstats/current/TabA6.1.xls).

<sup>2</sup> Matthew Hancock (2005), 'A new measure of Divisia money', *Bank of England Monetary & Financial Statistics*, available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art2jan05.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art2jan05.pdf).

<sup>3</sup> Anisha Tibrewal & Jason Murphy (2012), 'Forthcoming improvements to interest rate statistics', *Bank of England Monetary & Financial Statistics*, available at [www.bankofengland.co.uk/statistics/Documents/ms/articles/art1sep12.pdf](http://www.bankofengland.co.uk/statistics/Documents/ms/articles/art1sep12.pdf).

Chart B shows the effect on household Divisia money as a result of the change in the underlying ISA interest rate series. As can be seen from the differences between the current and new rates series being used back to January 2011 (Chart A), it is likely that the index for earlier periods would change similarly if the interest rate data were available for earlier periods.

**ANNEX A: Divisia money series affected by the changes implemented in February 2013.**

Sector	Rates of return	Indices	Growth rates		
			1m	1Q (ann)	4Q/12m
Divisia money for all sectors		VTSP	B6F6	VTSQ	VTSR
Divisia money for households	B5F4 B5F7 B6F2	VTSS	B6F7	VTST	VTSU
Divisia money for private non-financial corporations and households		B6F3	B7F2	B6F4	B6F5