



Improvements to Divisia money series

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This article describes improvements to the Bank of England's Divisia money series. These changes will take effect from the next edition of *Bankstats*, published on 30th September 2013. The Statistics Division would welcome comments from users on the proposal to discontinue the other financial corporation and aggregate Divisia money series.

Introduction

The Bank of England publishes statistics on the sectoral breakdown of Divisia money indices, growth rates and the components used in the Divisia money calculations.¹ 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.² Amendments to Divisia money calculations for the introduction of an effective interest rate series for ISAs (Individual Savings Accounts) were described in Berar and Owladi (2013), which also indicated that further work was planned.³ This article describes improvements to the series made as a consequence of that further work.

Up until December 2009, the Bank published separate monetary and financial statistics for banks and building societies which formed part of the calculation for Divisia money. Since January 2010, the Bank has instead published monetary

and financial statistics separately for banks (excluding mutuals) and the mutuals sector.⁴

Detailed component data and interest rate information for banks (excluding mutuals) and mutuals sectors are available in *Bankstats*.^{1,5} The changes to these published data in January 2010 were not fully incorporated into the underlying Divisia indices and growth rates, and were identified as a possible future improvement to the Divisia calculations. These changes to the published data will be incorporated in the Divisia calculation from next month's *Bankstats*.

Annex 1 provides further details on the planned improvements to household and private non-financial corporations (PNFC) Divisia money series, respectively. Annex 2 provides a full list of all Divisia money series affected by these changes.

Revisions to household Divisia money

The benchmark rate used for the Divisia money calculation is the maximum of the interest rates paid (after the basic rate of tax on savings interest is taken into account) on the various component assets. The improvements made will include

¹ See *Bankstats* Table A6.1, available at www.bankofengland.co.uk/statistics/Documents/bankstats/current/TabA6.1.xls.

² For more details see 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.

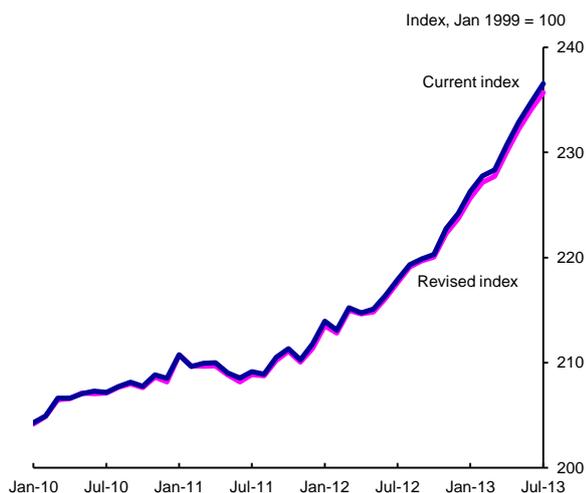
³ Rajveer Berar & Jenny Owladi (2013), 'Amendments to Divisia money series', *Bank of England Monetary & Financial Statistics*, available at www.bankofengland.co.uk/statistics/Documents/ms/articles/art4jan13.pdf.

⁴ Pat O'Connor (2010), 'Changes to the Publication of Bank and Building Societies Statistics', *Bank of England Monetary & Financial Statistics*, available at www.bankofengland.co.uk/statistics/Documents/ms/articles/art10.pdf.

⁵ The Bank also publishes Lending to Individuals data for the mutuals sector. See *Bankstats* Tables A5.2 to A5.6, available at www.bankofengland.co.uk/statistics/Pages/bankstats/current/default.aspx.

changes to the benchmark rate for household Divisia money series from January 2010 to fully take into account the split between the banks (excluding mutuals) and mutuals components in the calculation. The revisions to the household Divisia money index series are shown in Chart A.

Chart A: Household Divisia money index^(a)

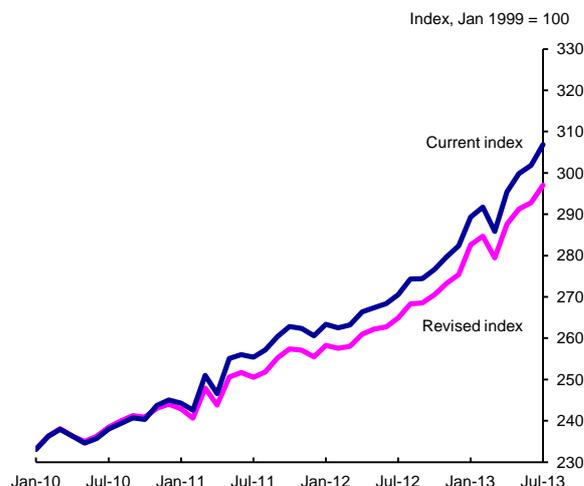


(a) Seasonally adjusted.

Revisions to PNFC Divisia money

The changes to PNFC Divisia money series calculation will also fully take into account the split between the banks (excluding mutuals) and mutuals components of the rates data for PNFC deposits, known as the corporate rate. The corporate rate is described in greater detail in Hancock (2005).² The revisions to the PNFC Divisia money index series are shown in Chart B.

Chart B: PNFC Divisia money index^(a)



(a) Seasonally adjusted.

Revisions to OFC Divisia money

The calculation of other financial corporations (OFC) Divisia money series also uses the corporate rate. For this reason, revisions to OFC Divisia money series are in line with the improvements to the rate on PNFC deposits.

As the OFC Divisia money series has a greater level of volatility, partly due to the inclusion of the effects of the activity of intermediate OFCs, it is thought to contain limited information.⁶ The Bank therefore plans to discontinue the publication of OFC and aggregate Divisia money series after December 2013 data.

Annex 3 provides a list of OFC and aggregate Divisia money series.

The Statistics Division would welcome any comments from users on the proposal to discontinue the OFC and aggregate Divisia money series by 29 November 2013.

Responses should be sent

to: srdd_ms@bankofengland.co.uk.

⁶ For more details see Norbert Janssen (2009), 'Measures of M4 and M4 lending excluding intermediate other financial corporations', *Bank of England Monetary & Financial Statistics*, available at www.bankofengland.co.uk/statistics/Documents/ms/articles/art_1may09.pdf.

Annex 1: Improvements to household and PNFC Divisia money

Improvements	Revisions	Household	PNFC
The published amounts outstanding data for the breakdown of deposits between banks (excluding mutuals) and mutual sector will be fully incorporated within the Divisia calculation.	From January 2010.	✓	✓
The published rates of return data for the breakdown of deposits between banks (excluding mutuals) and mutual sector will be fully incorporated within the Divisia calculation.	From January 2010.	✓	✓
The weighting on effective rates for ISAs and time deposits used in the calculation of Divisia will change to use balances taken from Form ER.	From January 2011.	✓	-

Annex 2: Divisia money series affected by the changes implemented on 30th September 2013

Sector	Rates of Return	Indices	Growth rates		
			1m	1Q(ann)	4Q/12m
All sectors	See <i>Bankstats</i> Table A6.1	VTSP	B6F6	VTSQ	VTSR
Households	B5F4 B5F7 B6F2	VTSS	B6F7	VTST	VTSU
Private non-financial corporations	See <i>Bankstats</i> Table A6.1	VVSU	B6F9	VVSW	VVSY
Private non-financial corporations and households	See <i>Bankstats</i> Table A6.1	B6F3	B7F2	B6F4	B6F5
Other financial corporations	See <i>Bankstats</i> Table A6.1	VVST	B6F8	VVSV	VV SX

Annex 3: Divisia money series to be discontinued after December 2013 data

Sector	Indices	Growth rates		
		1m	1Q(ann)	4Q/12m
All sectors	VTSP	B6F6	VTSQ	VTSR
Other financial corporations	VVST	B6F8	VVSV	VV SX