

## Appendix Monetary policy implementation: an international comparison

The central banks of most OECD countries implement their monetary policies along broadly the same lines. They differ in a number of details, however. The following is a comparison of monetary policy implementation in Australia, Canada, Norway, New Zealand, Sweden, the UK, the US, the euro area and Iceland.

The basic concept behind monetary policy implementation in all these regions is the same as that described for Canada in this article. Central bank overnight lending and deposit rates set the corridor for overnight rates. The central bank announces a policy rate which in most cases lies at the midpoint between its overnight lending and deposit rates. The central bank then conducts open market operations and offers repo transactions aimed at matching interbank rates closely to the policy rate.

Table 1 presents a summary of the main features of monetary policy implementation in these regions. Most of them use an overnight policy rate. In Iceland, the euro area and Sweden it is the seven-day rate. In

the UK, the Bank of England's 14-day repo rate serves as the policy interest rate. The central banks conduct market operations on either a daily or a weekly basis: weekly in Iceland, Sweden and the ECB, and daily in the others. The spread between overnight lending and deposit rates varies considerably from one country to the next. Excluding Iceland and the US, however, it is between 50 and 200 basis points everywhere. Most of the countries in this comparison have abolished reserve requirements, although the two largest (the US and the euro area) and the two smallest (Iceland and Norway) retain them.

These policy features affect how successful the central banks of these countries are in restraining deviations between interbank rates and their own policy rates. Another factor is the precision of their short-term management of aggregate balances in the payment system. Australia, New Zealand, Canada and Sweden have achieved the best results in this respect.

Table 1 Main features of monetary policy implementation in selected countries

<i>Country</i>	<i>Policy rate</i>	<i>Spread between payment system deposit and lending rates (basis points)</i>	<i>Frequency of open market operations</i>	<i>Reserve requirement</i>	<i>Deviations between interbank and policy rate</i>
Australia.....	O/N	50	daily	No	none
US.....	O/N	variable <sup>1</sup>	daily	Yes	stable
UK.....	14-day	200-300 <sup>2</sup>	daily	No	stable
Canada.....	O/N	50	daily	No	none
Norway.....	O/N	200	daily	Yes	stable
New Zealand.....	O/N	50	daily	No	none
Sweden.....	7-day	150	weekly	No	none
Euro area.....	7-day	100	weekly	Yes	At end of maintenance periods
Iceland.....	7-day	450	weekly	Yes	Stable

1. The Federal Reserve's deposit rate is always zero, while its lending rate is 100 basis points above its policy rate.

2. The Bank of England conducts several rounds of open market operations on each business day. The first two are set at its policy interest rate. In the third round the Bank offers deposits at a rate 100 basis points lower than its policy rate, and a lending rate 100 basis points higher. In the fourth round the spread is raised to 150 basis points.