

Central Bank and Treasury Policies: Finding a New Consensus

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Mercatus Center (GMU) Conference

The Legacy of Bennett McCallum and Lessons for Monetary
Policy Today

National Press Club, Washington, D.C.

10 October 2023

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Monetary Policy Independence, Yes, But was “Central Bank Independence” a Mistake?

- Significant research arguing in favor of independent *monetary authority*
 - Central Bank \equiv Monetary Authority
- Never intended that *whatever* activity an institution named “central bank” undertakes should be independent....such as quasifiscal operations
- Many central banks have undertaken quasifiscal policy—fiscal policy undertaken under the guise of an extra-budgetary entity



Treasury and Fed Balance Sheets (simplified and incomplete)

Table A4: Consolidated Balance Sheet of the Federal Reserve Banks

December 31, 2021

(in US\$ billions)

Assets		Liabilities	
US Treasuries	5917	FR Notes Outstanding	2187
MBS and Federal Agencies	2685	Bank Deposits	3644
		Reverse Repos	2183
		US Treasury Deposits	406
		Equity	41
Total Assets	8461	Total Liabilities & Equity	8461

Source: FRBs Combined Financial Statements (2021) and Author's calculations

Table A5: Selected Items on US Treasury Balance Sheet

December 31, 2021

(in US\$ billions)

Assets		Liabilities	
Deposits at Fed	406	Treasuries Held by ROW	16932
Equity in Central Bank	41	Treasuries Held by Fed	5917
Total Assets		Total Liabilities	

Source: FRBs Combined Financial Statements (2021) and US Treasury Bulletin



US Sovereign Balance Sheet (simplified and incomplete)

Table A6: US Sovereign Balance Sheet

December 31, 2021

(in US\$ billions)

Assets		Liabilities	
Foreign Reserves	FR Notes Outstanding	2187
MBS and Federal Agencies	2685	Bank Reserves	3644
		Reverse Repos	2183
		Treasuries Held by ROW	16932
Total Assets	Total Liabilities & Equity	24946

Source: FRBs Combined Financial Statements (2021) and Author's calculations



Composition of US Sovereign Debt Excluding Repo 1970-2022 Averages by decade and 2007

	1970s	1980s	1990s	2000-07	2008-22	2007
Money	24.8	15.5	12.4	17.4	23.3	16.0
o/w Currency	18.5	13.3	11.7	17.0	9.8	15.7
o/w Reserves	6.3	2.2	0.8	0.4	13.5	0.3
Treasury Debt	75.2	84.5	87.6	82.6	76.7	84.0



Composition of US Sovereign Debt Including Repo Liabilities 2019-2022

	2019	2020	2021	2022
Money	19.1	24.0	26.5	20.8
o/w Currency	10.0	9.5	9.2	8.8
o/w Reserves	9.1	14.4	17.3	12.0
Treasury Debt	80.9	76.0	70.5	71.5
Repo Liabilities	0.0	0.0	3.0	7.7

The Weighted Average Residual Maturity of the Consolidated U.S. is 16 Months Shorter than the Conventional Measure

Calculating Average Maturity of U.S. Sovereign Debt in months							
Table 3 Average Maturity of U.S. Sovereign Debt in Months							
End of Year	Treasury Balance Sheet		Fed Balance Sheet		Sovereign Balance Sheet		Difference in months
	Amount	Average Maturity	Amount	Average Maturity	Amount	Average Maturity	
2000	2424	70	0	N/A	2424	70.0	N/A
2007	3782	57	0	N/A	3782	57.0	N/A
2008	5308	46	948	0	6256	39.0	-7.0
2009	6484	52	977	0	7461	45.2	-6.8
2010	7831	57	968	0	8799	50.7	-6.3
2011	8206	59	1562	0	9768	49.6	-9.4
2012	9374	54	1598	0	10972	46.1	-7.9
2013	9646	54	2565	0	12211	42.7	-11.3
2014	10043	57	2888	0	12931	44.3	-12.7
2015	10730	61	2689	0	13419	48.8	-12.2
2016	11360	63	2485	0	13845	51.7	-11.3
2017	11941	65	2518	0	14459	53.7	-11.3
2018	13385	64	1860	0	15245	56.2	-7.8
2019	14344	66	1886	0	16230	58.3	-7.7
2020	16279	58	3211	0	19490	48.4	-9.6
2021	16932	66	5827	0	22759	49.1	-16.9
2022	18342	68	5595	0	23937	52.1	-15.9
Average 2010-22		60.9				50.1	-10.8

"Treasury Sovereign Debt" is from Treasury Bulletin Table FD-5 Column (1):

"Maturity distribution and average length of marketable interest-bearing debt held by private investors"

"Fed Sovereign Debt" is the sum of reserves and reverse repo liabilities starting end 2008.



Managing Fiscal Risk of Central Bank Operations

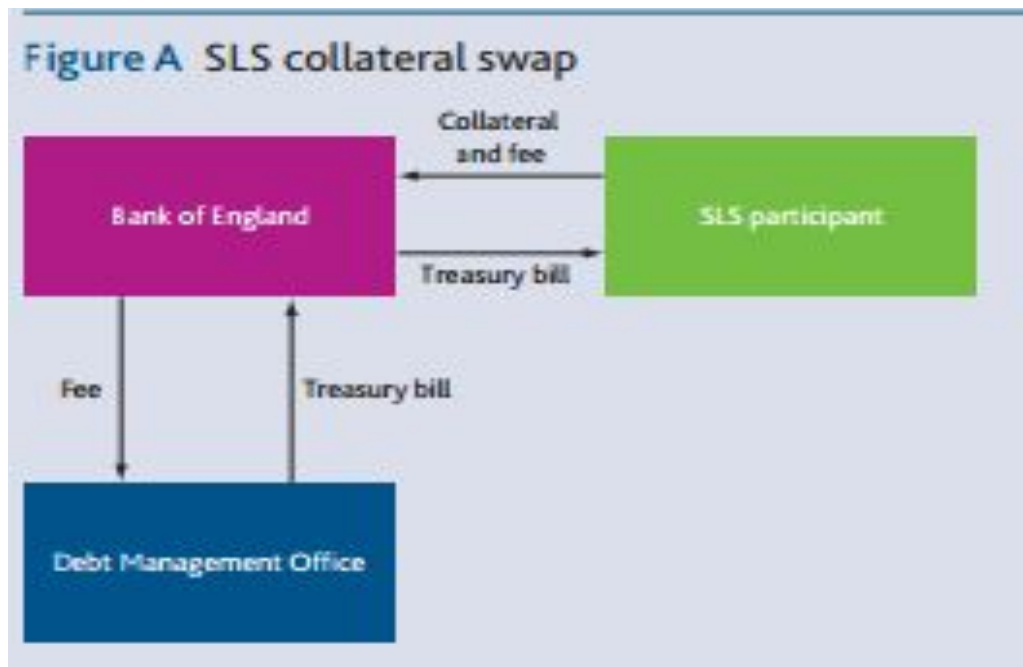
- Robinson & Stella (1988) *Amalgamating Central Bank and Fiscal Deficits*
- Maxwell Fry (1993) *Fiscal Abuse of Central Banks*
- Mackenzie & Stella (1996) *Quasifiscal Operations of Public Financial Institutions*

- Hooley, John, Clane Lattie and Peter Stella (2023), *Quasi-Fiscal Implications of Central Bank Crisis Interventions: Case Studies*, IMF Working Paper WP/23/115. [Canada, UK, US, Chile]
- Hooley, John, Ashraf Khan, Istvan Mak, Natalia Salazar, Amanda Sayegh and Peter Stella (2023), *Quasi-Fiscal Implications of Central Bank Crisis Interventions*, IMF WP/23/114.



UK SLS Collateral Swap

After considerable discussion, Eurostat agreed with the UK authorities that the SLS operation would be reflected on neither the Bank of England nor UK public sector balance sheets. Consequently, UK Treasury debt outstanding was unaffected by the scheme





Norway: Operations implying a fiscal or quasi-fiscal risk must be assumed by the central government

- *Norway Government Asset Swap Scheme: at the outset of the crisis Parliament approved a government financed auction of treasury bills for mortgage backed securities held by Norwegian banks.*
- *Although the scheme was suggested by Norges Bank, the government assumed the risk of these extraordinary liquidity operations onto its own balance sheet:*
- *“...funding support for banks came from the government’s balance sheet, not as loans from Norges Bank. This provided transparency... The Norwegian measures were designed in such a way that Norges Bank’s balance sheet has not increased to the same extent as that of a number of other central banks.”*
- *Source: Norges Bank Governor Svein Gjedrem, “Experiences with the financial crisis”. presentation given at the Norwegian School of Management. 30*



México: Current mechanism employed to finance foreign reserve accumulation and avoid domestic debt market fragmentation

- *The Banco de México is provided with treasury bonds and bills to conduct sterilization operations.*
- *Every quarter the treasury and central bank hold a joint meeting announcing their issuance strategy for BONDES D. The bonds are used for sterilizing “long term” foreign exchange purchases while the bills are used for short term liquidity management.*
- *The proceeds of the central bank auctions of government debt are deposited in a government account at the Banco de México.*
- *The government deposit is “frozen”...cannot be used to finance expenditure...only to redeem the corresponding government debt when it becomes due.*
- *The government account is paid by BdeM the exact interest rate the government pays on the debt issued.*



Using short term treasury debt during the “exit”

- *“.... the Treasury could resume its recent practice of issuing supplementary financing bills and placing the funds with the Federal Reserve; the issuance of these bills effectively drains reserves from the banking system, ...”*

*Federal Reserve Policies to Ease Credit and Their Implications for the Fed’s Balance Sheet
Speech by Chairman Ben S. Bernanke at the National Press Club Luncheon
National Press Club, Washington, D.C., February 19, 2009*

Debt swap with FRBs—trade existing FRB long-duration portfolio for treasury bills or a portfolio representative of the current market portfolio



T-bills a Superior Debt Instrument

3 Month T-bill, 4 Week T-bill, and Interest on Reserve Rate, January 2009-November 2015 (monthly averages in percent)

