TOWARD A COMPREHENSIVE FRAMEWORK FOR CENTRAL BANK POLICY

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Outline

I. Central bank goals

II. Categorizing central bank balance sheet activities

III. A comprehensive framework for central bank policy
Central bank goals

- Economic stability: price stability and full employment
- Financial stability: protecting payments systems, credit supply, and market function
- Government finance: supporting fiscal policy

*These goals may be in conflict.*
Categorizing central bank balance sheet actions

1) Monetary policy: guide aggregate demand to stabilize prices at full employment

2) Lender of last resort: lend funds to solvent firms facing liquidity needs

3) Market maker of last resort: address liquidity problems in specific markets

4) Selective credit support: steer credit to specific sectors, regions, or firms

5) Emergency government financing: provide funds directly to government

Source: Cecchetti & Tucker (2021), forthcoming.
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Categories are not mutually exclusive, tools can serve multiple purposes, and there may be conflicts.
Standard Eurosysten operations

- Deposit, lending, and refinancing rates
- Supported by the collateral framework
  - 25,000+ securities
  - 100+ haircuts from 0.4 to 44.6% in the public list
Eurosystenm measures since 2009

• Securities markets programme (2010)
• Very long-term refinancing operation (2011)
• Outright monetary transactions (2012)
• Asset-backed securities purchase programme (2014)
• Targeted long-term refinancing operations (2014, 2016, 2019)
• Public sector purchase programme (2015, 2019)
• Corporate sector purchase programme (2016, 2019)
• Pandemic emergency purchase programme (2020)
• Collateral easing measures (2020)

Dates refer to when programs started or were restarted.
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A comprehensive framework for central bank policy

• Mandates and governance
  • Mandates: ensure clear goals and responsibilities
  • Governance: establish clear lines of authority

• Communication and accountability
  • Describe what you are doing and why:
    Is it monetary policy, LOLR, MMLR, or selective credit support?
  • Clarify what you know and what you don’t:
    What are the risks?
  • Explain what you will do if conditions change:
    How will policy change if your forecast changes?
    What is your reaction function – for every type of instrument that you use?
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