

Brandeis

INTERNATIONAL  
BUSINESS SCHOOL

# 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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  - 5) Emergency government financing: provide funds directly to government
- Economic stability
- Financial stability
- Quasi-fiscal

*Categories are not mutually exclusive, tools can serve multiple purposes, and there may be conflicts.*

# Standard Eurosystem 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



# Eurosystem measures since 2009

- Covered bond purchase programme (2009, 2011, 2014)
- 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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Aggregate demand management?  
Lending? Market making?  
Selective credit support?



# 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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