NEW CENTRAL BANKING TOOLS AND FINANCIAL RESILIENCE

Ricardo Reis
LSE

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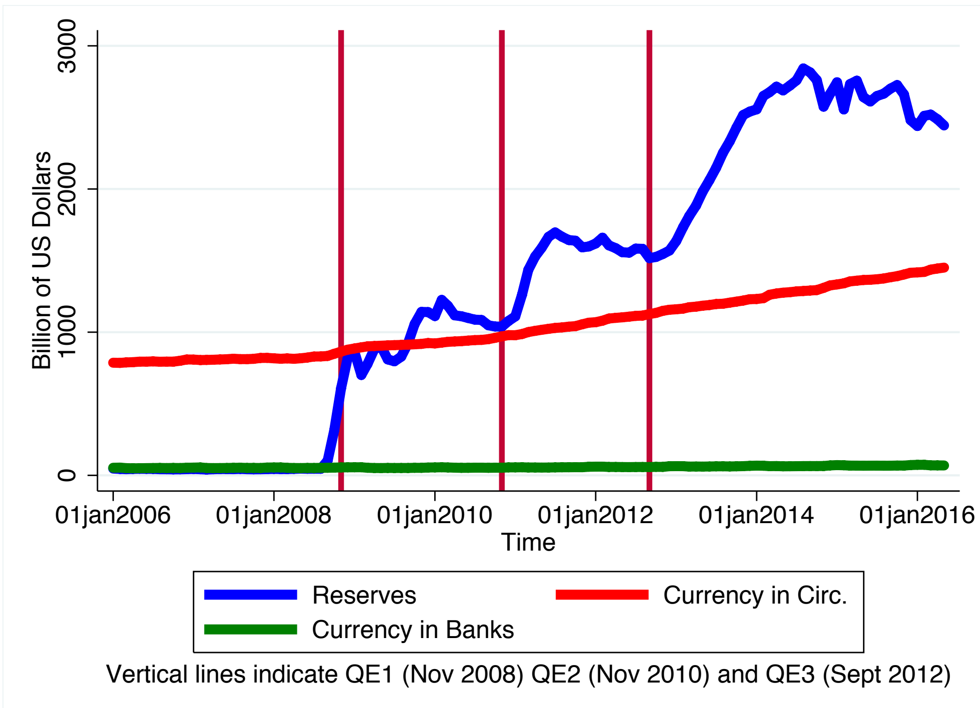
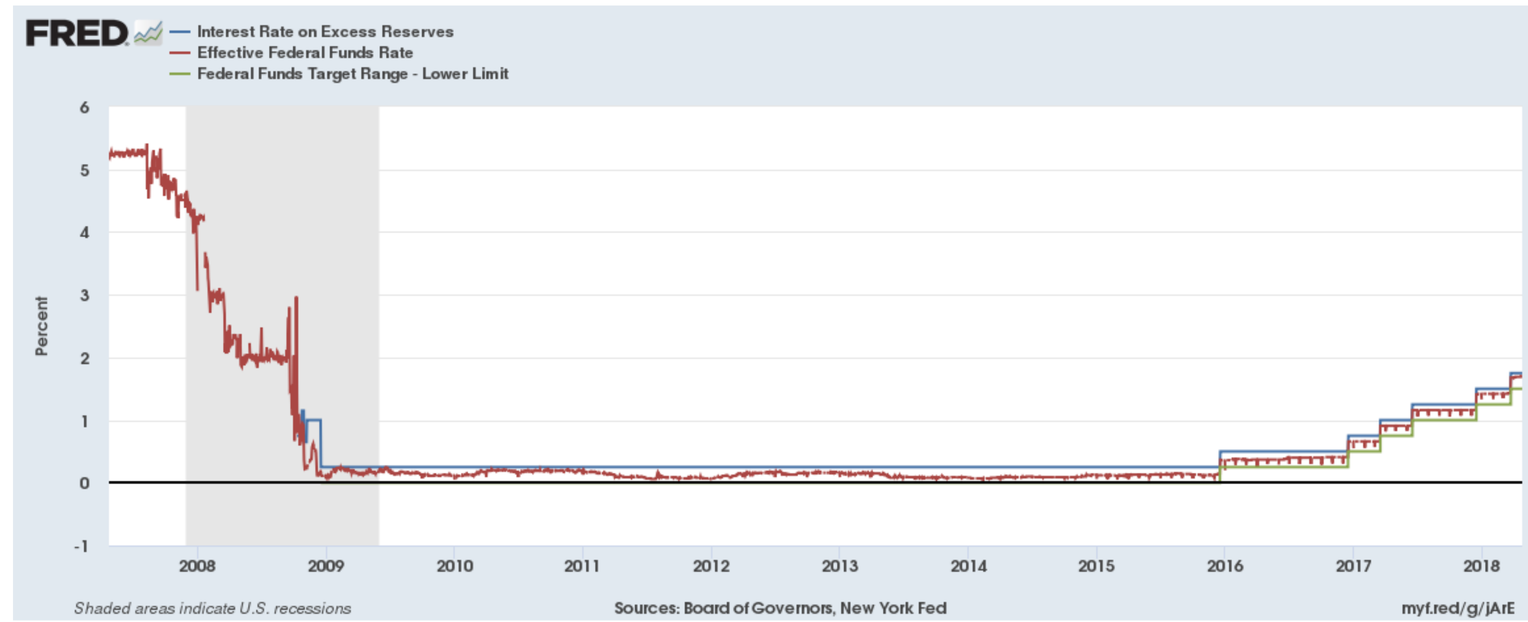
1. Large excess reserves

Figure 4. QE and the liabilities of the Federal Reserve

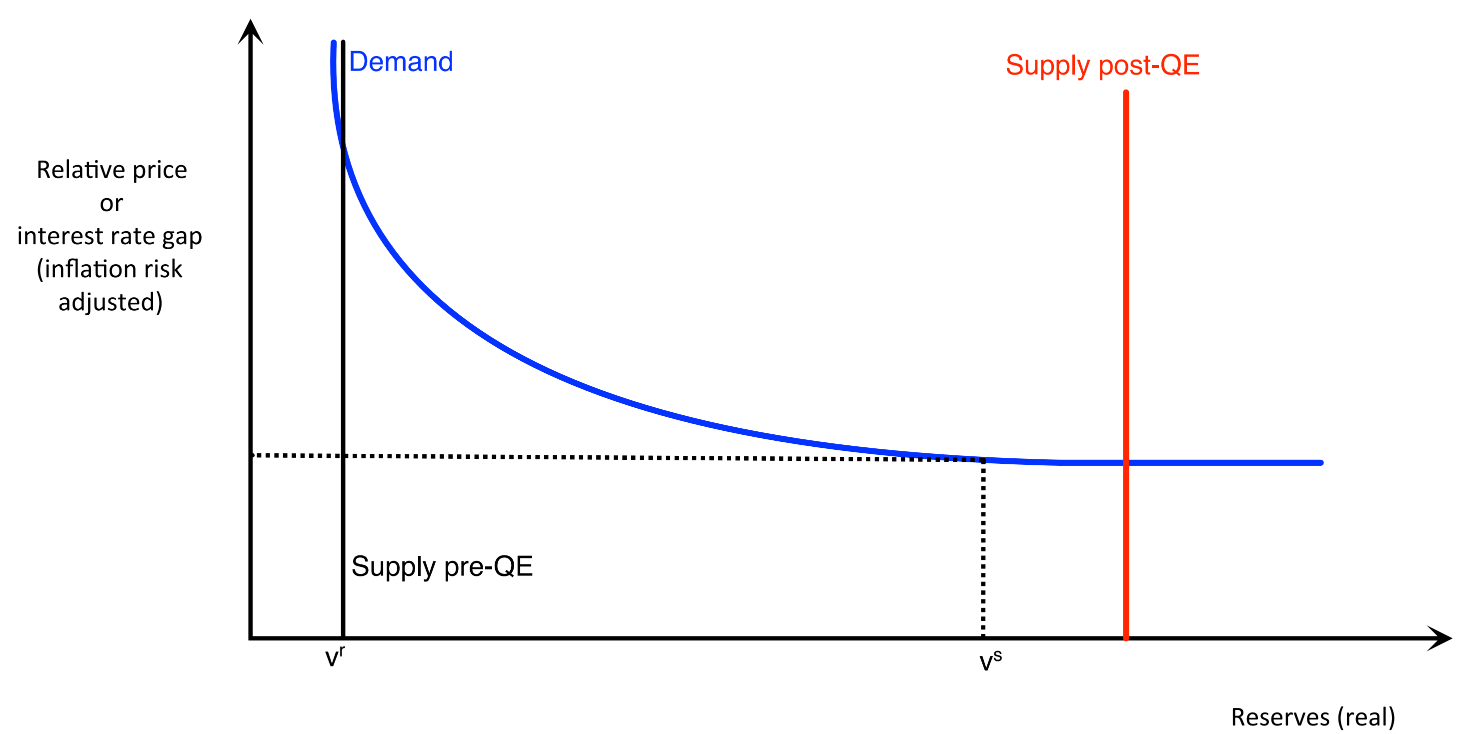




Stay in floor system, satiate demand for central bank liquidity.

Implement Friedman rule, automatically absorb future liquidity shocks

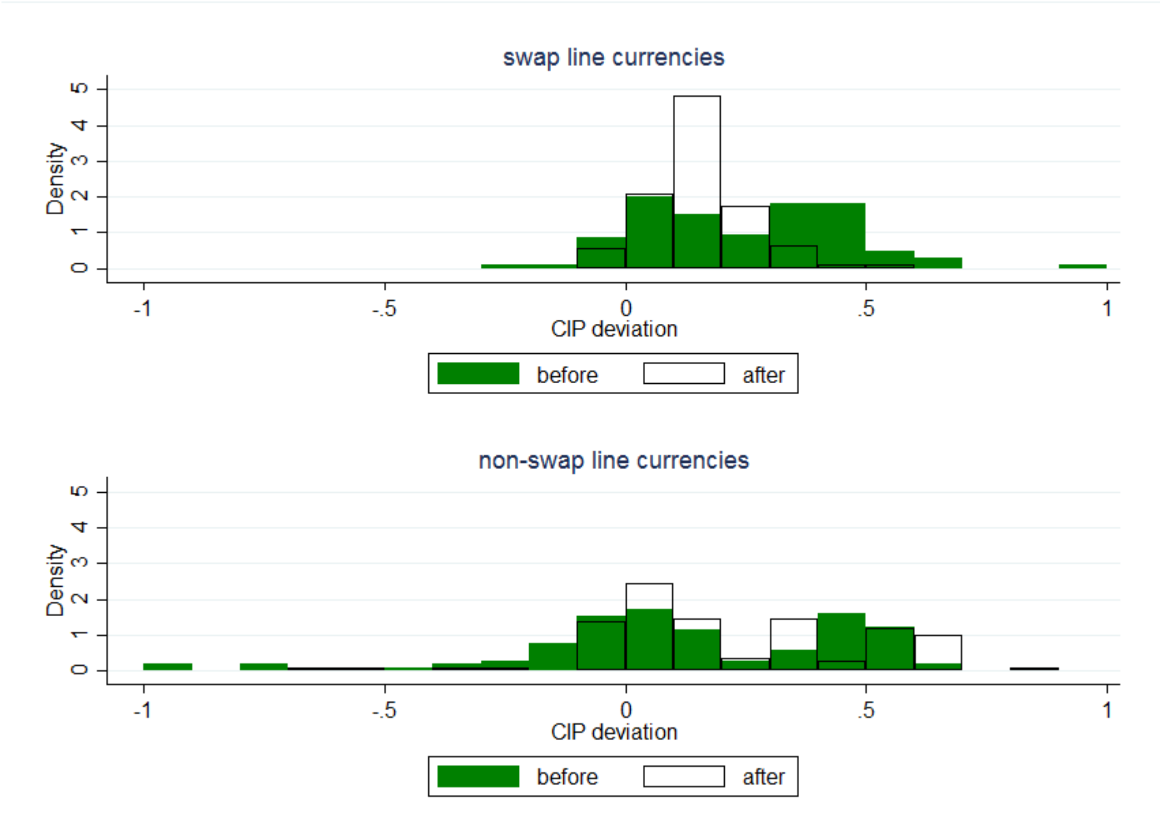
Figure 3. Equilibrium in the market for reserves



Source: Reis (2016)

2. International lender of last resort

Figure 7: Excess flows into USD bonds averaged across banks and bonds around the treatment date



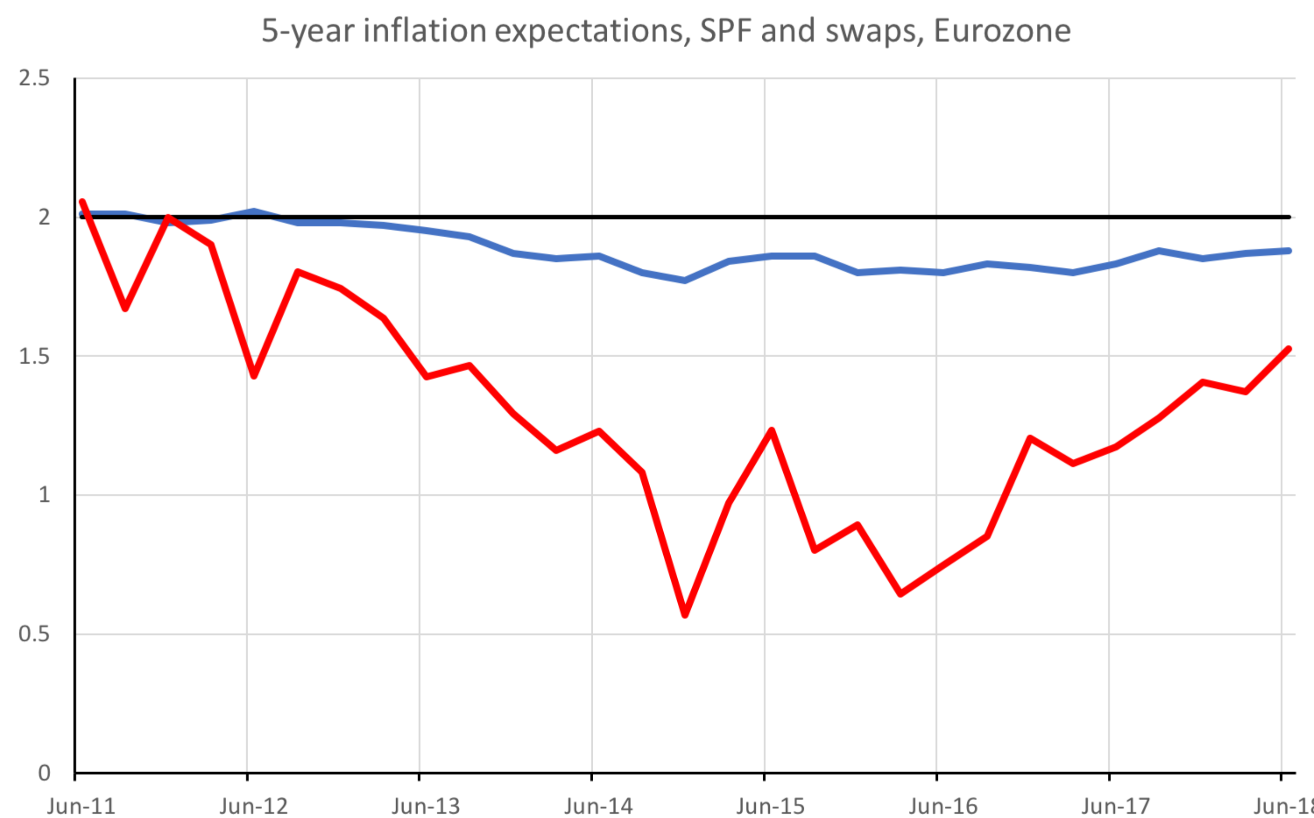
Global banks need lending facilities in multiple currencies.

Bilateral network or multilateral arrangement?

Source: Bahaj, Reis (2018)

3. Longer-terms rates and inflation

Policy	Ann. date	Avg. yield	6mo	2yr	5yr	10yr	Avg. yield	6mo	2yr	5yr	10yr
		ITALY					SPAIN				
SMP	May 10, 2010	**-47**	-15	**-80**	**-55**	**-31**	**-62**	ND	**-87**	**-75**	**-51**
	Aug 7, 2011	**-84**	-26	**-103**	**-107**	**-92**	**-92**	ND	**-115**	**-112**	**-98**
	Total	**-131**	-41	**-183**	**-162**	**-123**	**-154**	ND	**-202**	**-187**	**-149**
OMT	Jul 26, 2012	**-72**	**-48**	**-116**	**-77**	**-48**	**-89**	**-69**	**-113**	**-89**	**-63**
	Aug 2, 2012	-23	-30	**-64**	-29	11	**-41**	-37	**-98**	**-36**	12
	Sep 6, 2012	**-31**	-15	-21	**-42**	**-46**	**-54**	-7	-37	**-67**	**-78**
	Total	**-126**	**-93**	**-201**	**-148**	**-83**	**-184**	**-113**	**-248**	**-192**	**-129**
3-year LTROs	Dec 1, 2011	**-46**	-25	**-46**	**-69**	**-34**	**-61**	-19	**-79**	**-72**	**-58**
	Dec 8, 2011	**35**	10	30	**47**	**35**	30	36	28	34	**32**
	Total	-11	-15	-16	-22	1	-31	17	-51	-38	-26



Going long when at ZLB, but with limits.

Respond in order to lead markets.

Source: Krishnamurty et al (2017), Reis (2019)

Conclusion

1. Large excess reserves
2. International lender of last resort
3. Longer-term rates and inflation control

Resilience to liquidity needs of the markets,
resilience of inflation target to the markets