



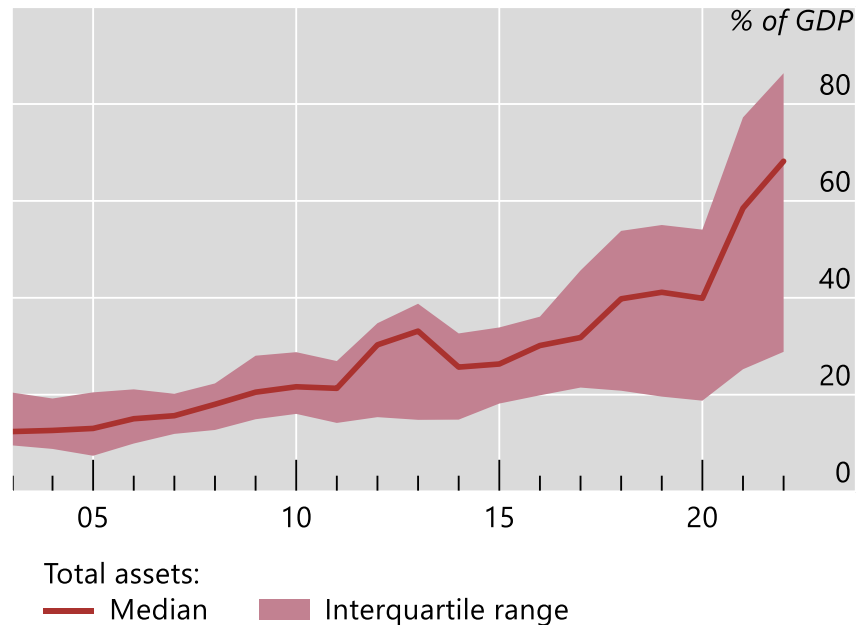
Monetary Policy and the Business of Central Banking

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SUERF Annual Lecture and
Panel Discussion hosted by OeNB
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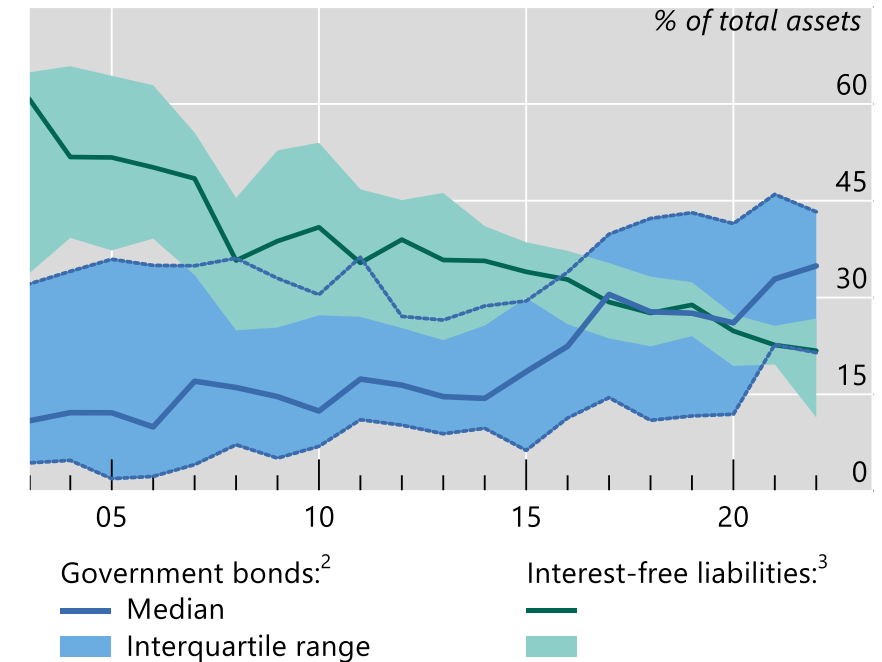
*The views expressed here are those of the presenter and are not necessarily those of the Bank for International Settlements.

Advanced economy central bank balance sheets expanded since GFC and Covid-19¹

Balance sheets expanded significantly



As central banks bought bonds, the share of interest-free liabilities declined

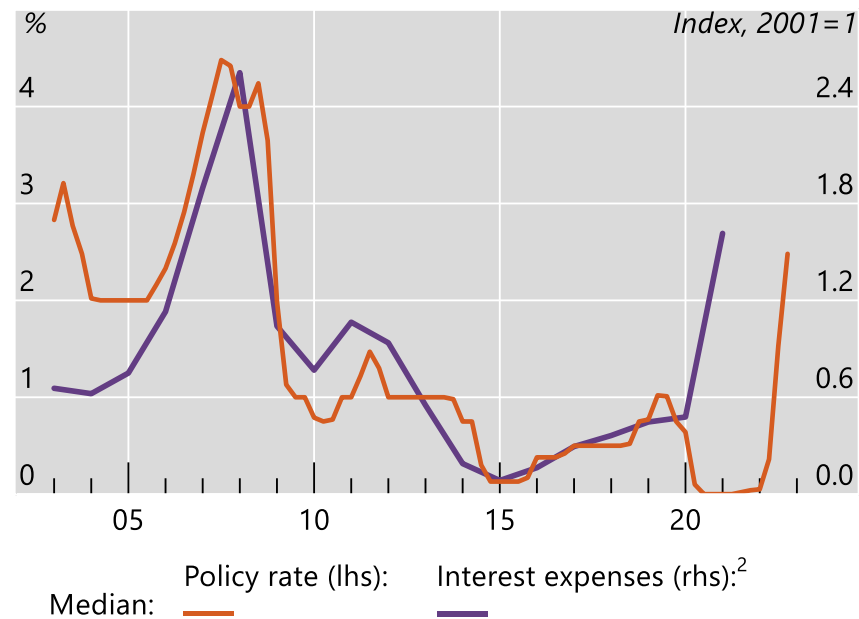


¹ Based on 27 AEs, including euro area national central banks. ² Subject to data availability, otherwise proxied by claims on government. ³ Includes cash in circulation and equity.

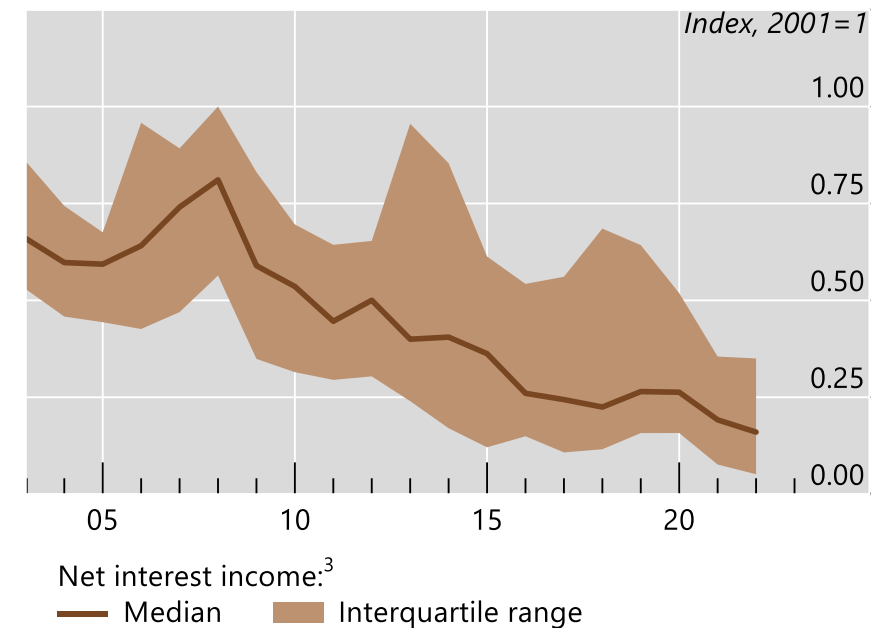
Sources: IMF, *International Financial Statistics*; national central banks; BIS Calculations.

Rising interest rates reduced central bank profits¹

Rising interest rates meant central banks' funding costs rose ...



... making their net interest income decline

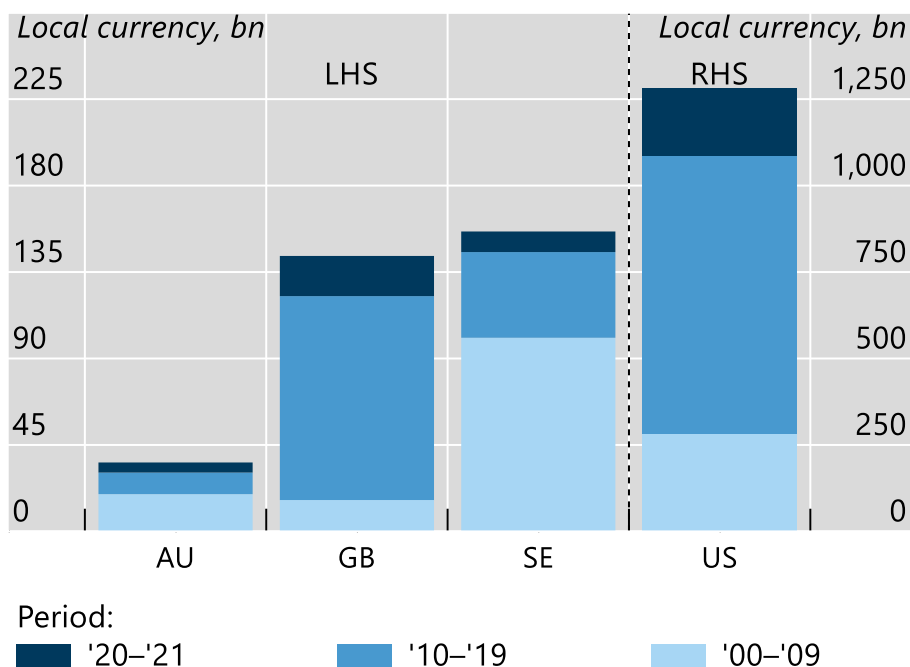


¹ Based on 27 AEs, including euro area national central banks. ² Funding for lending operations (in some cases at negative interest rates) caused a spike in interest expenses in 2020. ³ Net interest income as a share of assets.

Sources: IMF, *International Financial Statistics*; national central banks; BIS Calculations.

Impact of central bank P&L on government revenues?

Cumulative transfers since 2000¹



- In the last decade bond purchases boosted central bank income.
- Central banks made relatively large transfers to governments.
- Now, some central banks will not contribute to government finances for years to come.

¹ Accounting treatments and reporting periods are not directly comparable across countries and data should therefore be interpreted with caution.

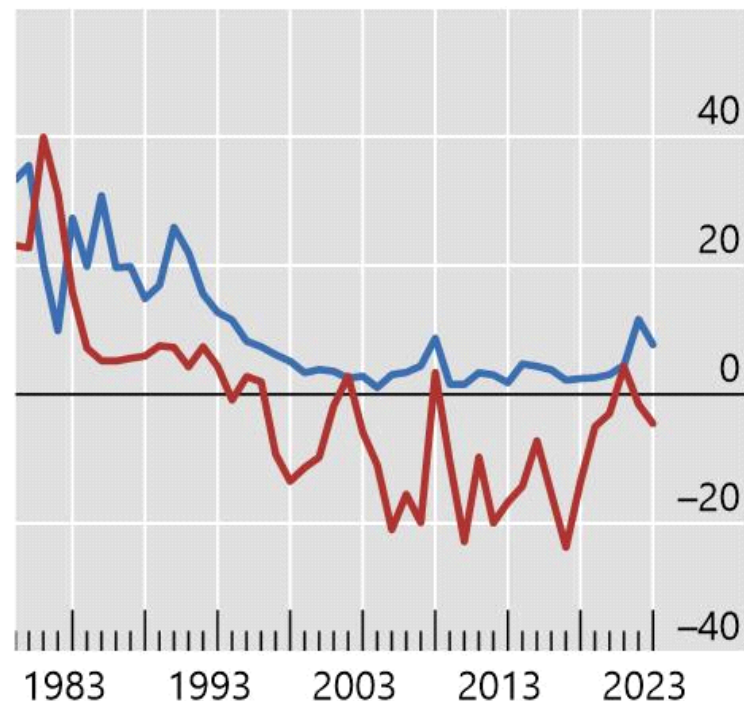
Sources: *International Financial Statistics*, IMF; national central banks; BIS Calculations.

Central banks can operate with negative equity

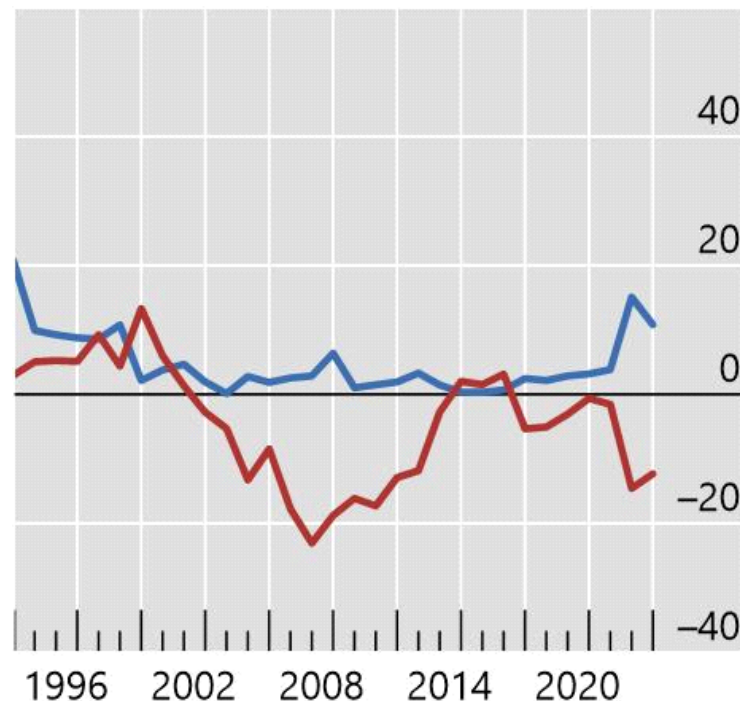
Examples of large and persistent negative central bank equity levels

In per cent

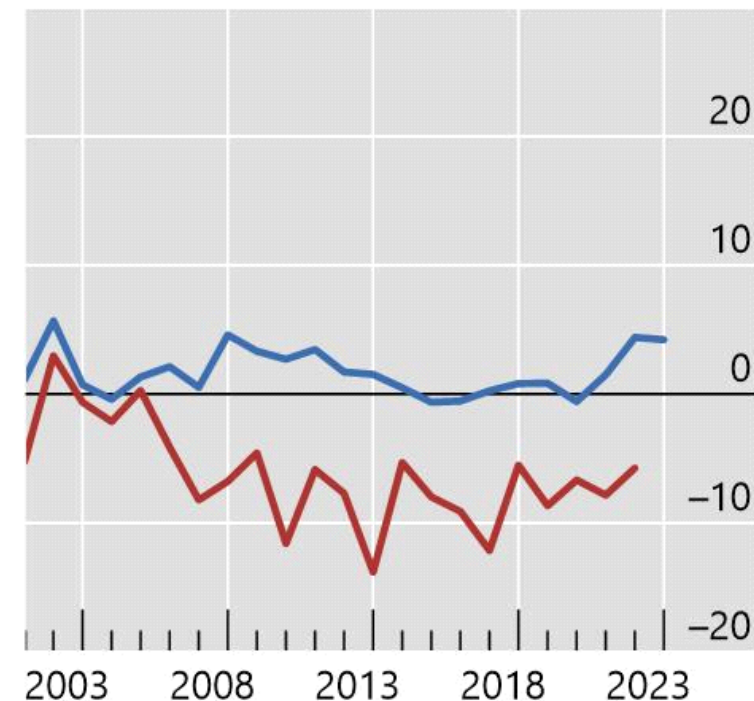
A. Chile



B. Czechia



C. Israel



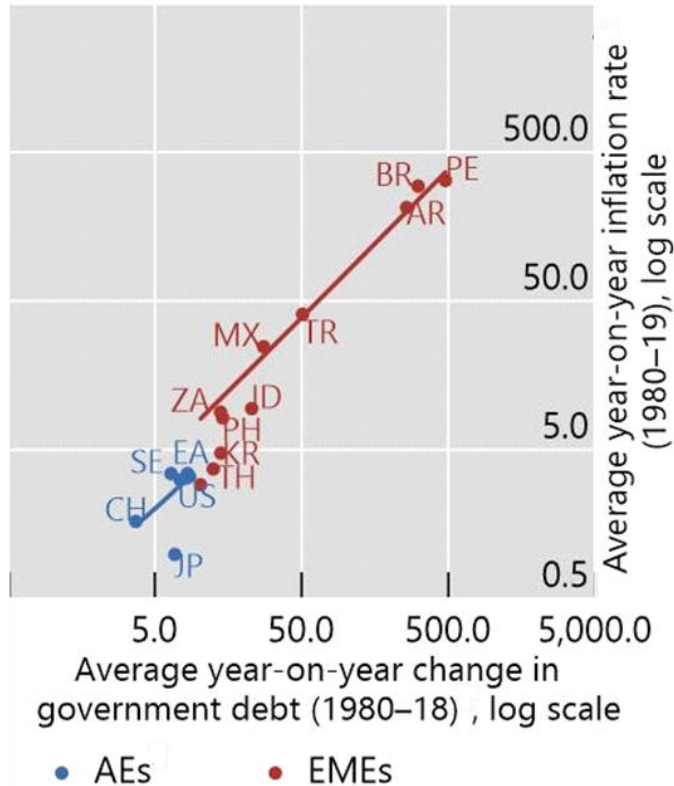
— Equity in % of assets

— Inflation

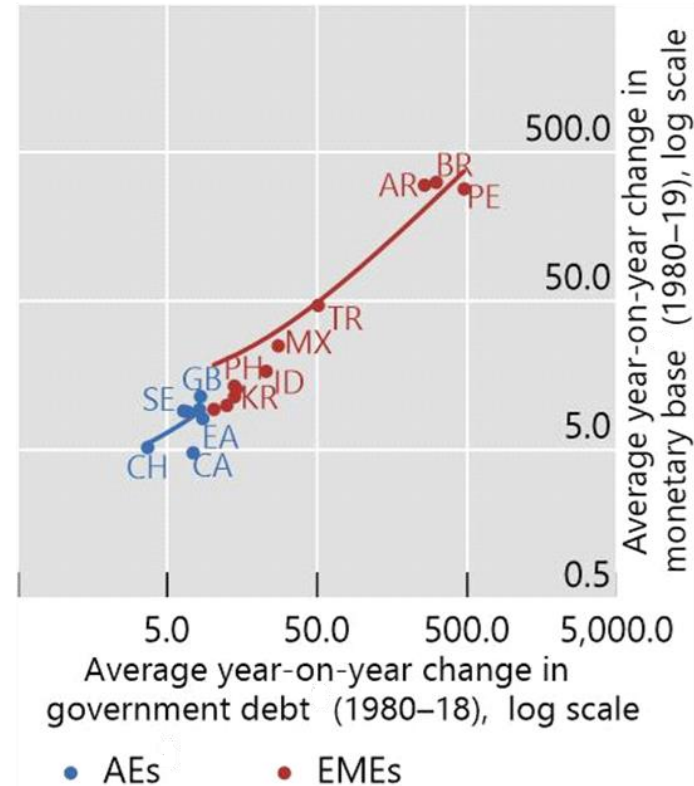
Sources: IMF; national data; BIS.

The fiscal origins of high inflation

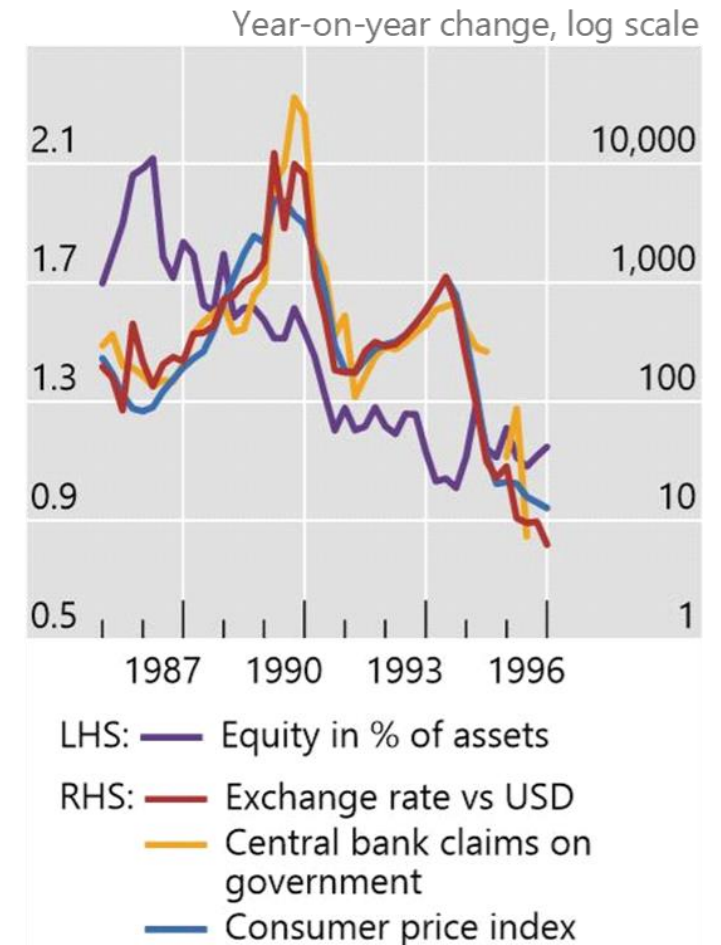
A. Public debt and price stability



B. Monetary base and public debt



C. Hyperinflation in Latin America



Sources: Reinhart, Carmen M., and Kenneth S. Rogoff. 2011. "From Financial Crash to Debt Crisis." *American Economic Review*, 101 (5): 1676-1706; IMF, *Historical Public Debt Database* and *International Financial Statistics*; Datastream; Global Financial Data; national data; authors' calculations.

Conclusion

- Central banks should put their policy objectives before profits.
- Financial risks are sometimes the cost of achieving policy objectives.
- Central banks can underscore this by clearly explaining the reasons for financial results and the rationale for policy measures.
- Independent central banks with clear mandates, and solid fiscal backing, remain the best bet for a stable monetary system.