ECB NORMALIZATION: THE BALANCE SHEET

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The ECB and its Watchers
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Size of the balance sheet

- **Lessons:** Satiate demand for central-bank deposits by banks, central-bank interest-paying digital money

Source: ECB SDW
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• **Why?** Money markets did not close, communication on interest on deposits was seamless, automatically absorb liquidity shocks, Friedman rule.
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- **How for ECB?** move from structural liquidity deficits to minimal structural liquidity surplus: just so interbank rate is close to deposit rate. Half way compromise is to keep full allotment in MRO auctions.
Composition of assets

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Source: Bonis, Fiesthulmel, Noonan, 8/13/18, FEDS note
Composition of assets

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*Source: Federal Reserve press release, 1/10/2019*

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**Federal Reserve Remittances to the U.S. Treasury**

![Bar chart showing remittances from 2009 to 2018](chart.png)

- **2009:** $47.4 billion
- **2010:** $79.3 billion
- **2011:** $75.4 billion
- **2012:** $88.4 billion
- **2013:** $79.6 billion
- **2014:** $96.9 billion
- **2015:** $97.7 billion
- **2016:** $91.5 billion
- **2017:** $80.6 billion
- **2018 Est.:** $52.2 billion

*The Reserve Banks transferred to the Treasury $19.3 billion from their capital surplus on December 28, 2015, which was the amount necessary to reduce aggregate Reserve Bank surplus to the $10 billion surplus limitation in the Fixing America's Surface Transportation Act.  **The Reserve Banks transferred to the Treasury $3.175 billion from their capital surplus in 2018, of which $2.5 billion was the amount necessary to reduce aggregate Reserve Bank surplus to the $7.5 billion surplus limitation in the Budget Act and $675 million was the amount necessary to further reduce aggregate Reserve Bank surplus to the $6.825 billion surplus limitation in the Economic Growth Act.  **On January 29, 2019, the amount of 2017 earnings remittances was corrected to $80.6. It was incorrectly listed as $80.2.

Source: Federal Reserve press release, 1/10/2019
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• **Why?** Income risk exposes “solvency”, which is about fiscal support and independence.
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• **How for ECB?** Take risk management seriously and as being about implicit fiscal support risk.
Liquidity / lending programs

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

Source: Bahaj Reis (2018)
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• **Why?** With global banks, need better rules and wider reach for the lender of last resort.

• **How for ECB?** Wide network, overcome bilateral, promote euro usage. Bank of England example
New normal balance sheet

Assets
- Short-term safe bonds
- Lending programs
- Long-term risky bonds, risky assets (incl, foreign)

Liabilities
- Net worth / currency
- Bank reserves (deposits)
- Extra reserves
- C.B. swap lines

Source: Reis (2019)