SUERF BAFFI Bocconi e-lecture

Comments on

Why are central banks reporting losses? Does it matter?

Patricia C. Mosser
Columbia University
March 21, 2023

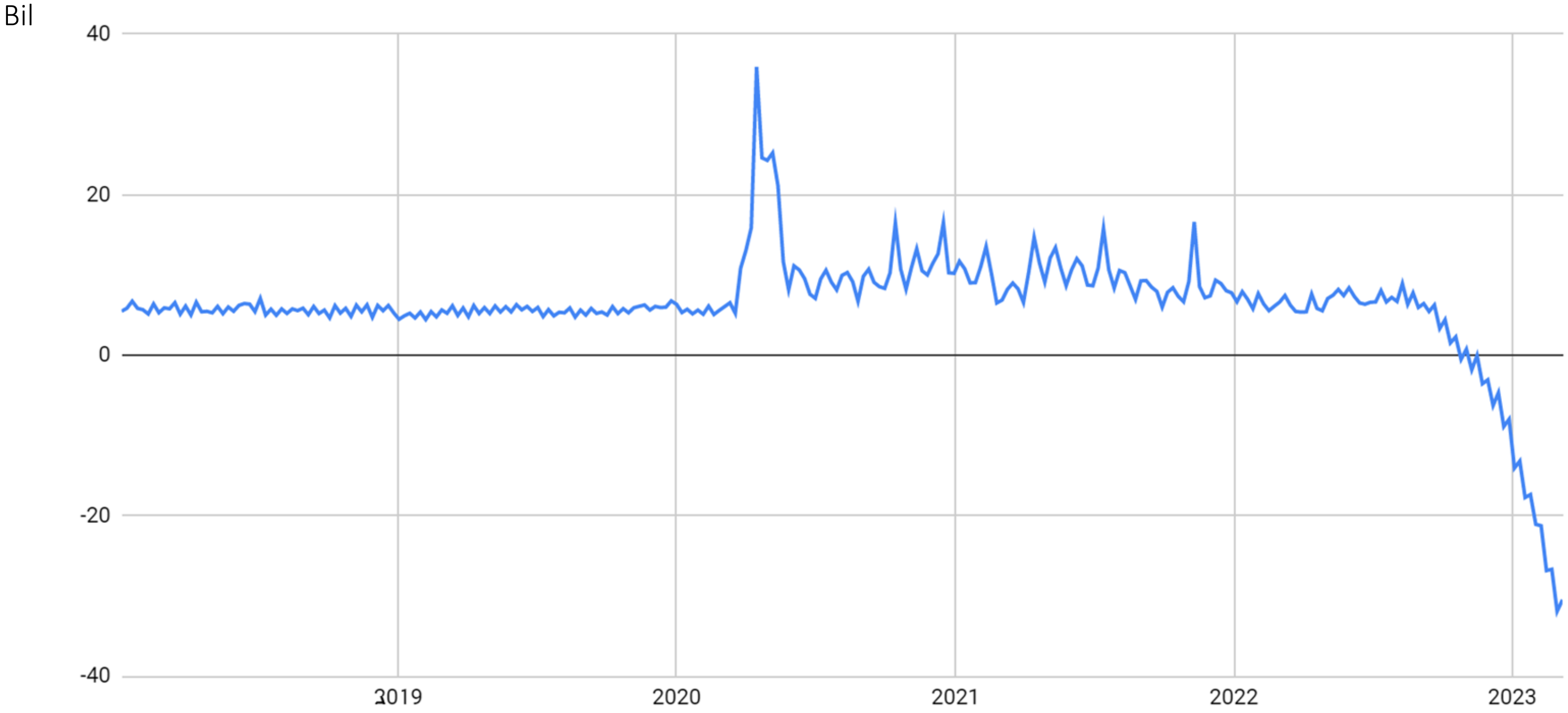
COLUMBIA | SIPA
School of International and Public Affairs

Federal Reserve income, expenses and remittances
2021 and 2022, $ billions

	2022	2021
Interest income	170	122
Interest expense	102	6
Net income	58	109
Remittances	76	109
Deferred asset	18	0
Other expenses	10	7

Src: Federal Reserve

Federal Reserve “Other Liabilities” and accrued dividends

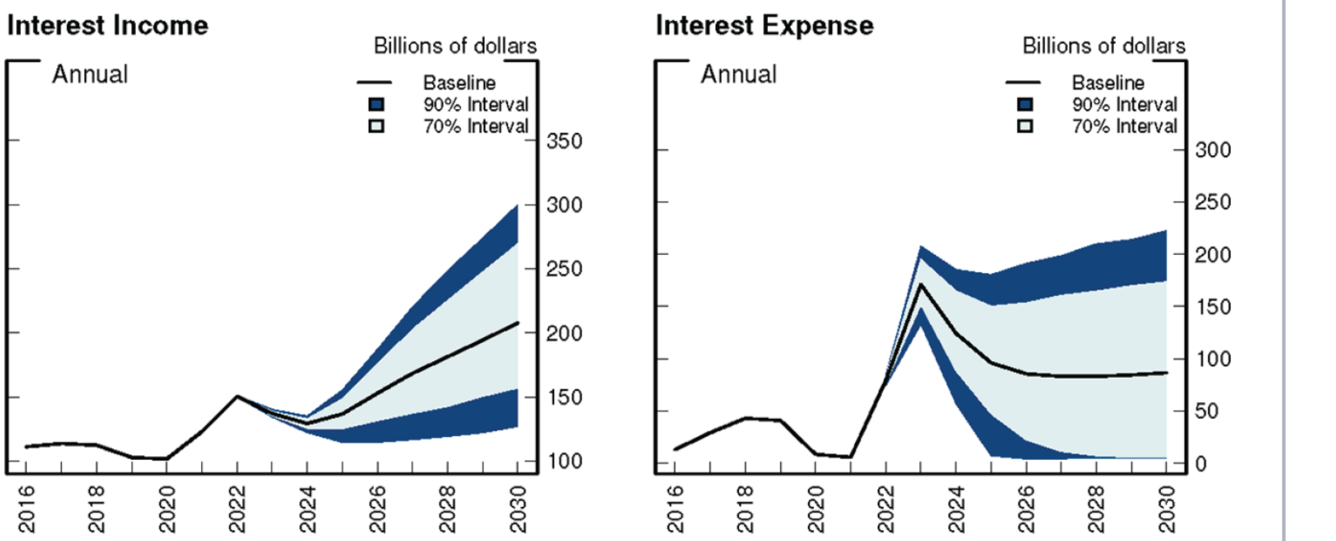


Source: Federal Reserve

Federal Reserve balance sheet simulations

(as of July 2022) Src: Federal Reserve Board

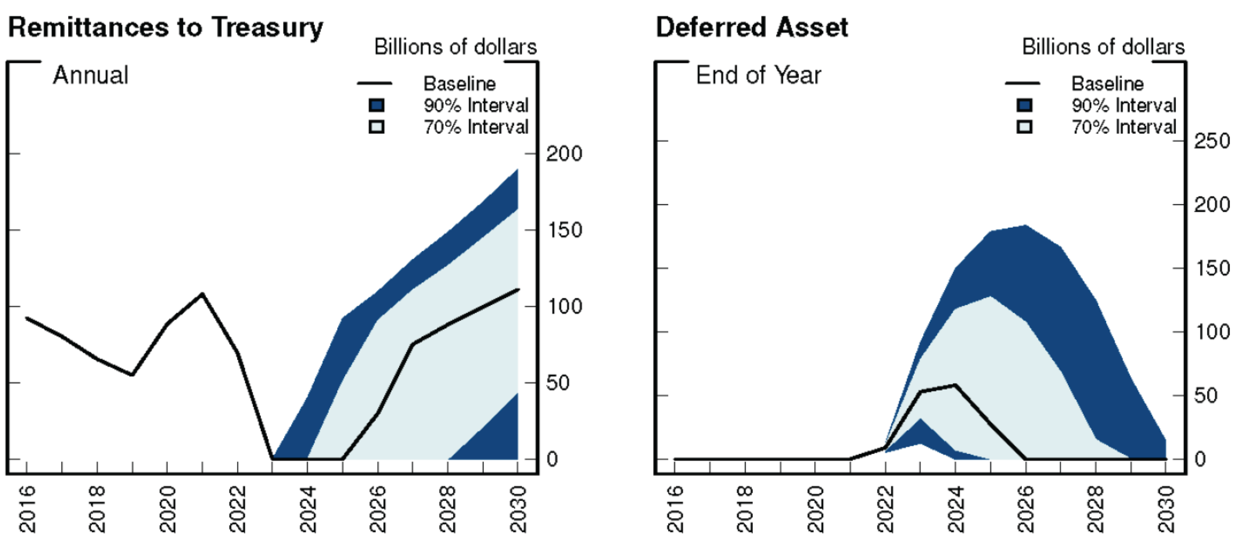
Figure 3. Interest Income and Interest Expense



Federal Reserve balance sheet simulations

(as of July 2022)

Figure 4. Remittances to Treasury and Deferred Asset



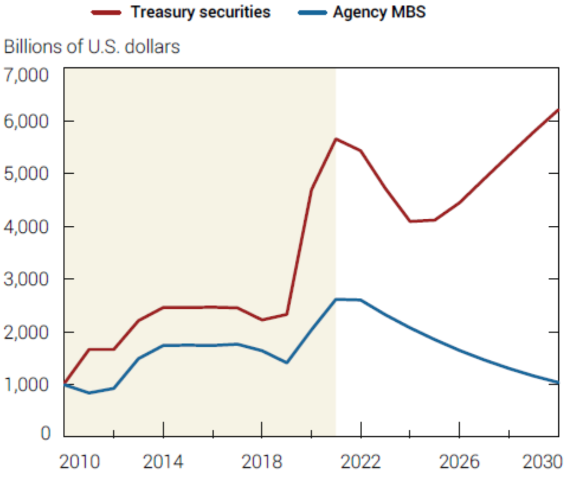
3 reasons, Fed losses may be less extreme (and turn around relatively quickly)

- Sheer size of seigniorage (28-30%) of liabilities
- Preference of the FOMC for a "generous reserves" regime when balance sheet has been normalized (NY Fed staff projection is $2.5 trillion (2026) and 7% of GDP))

Fed domestic balance sheet

NY Fed projections, (April 2022)

Chart 34
Projected SOMA Domestic Securities Holdings by Asset Class

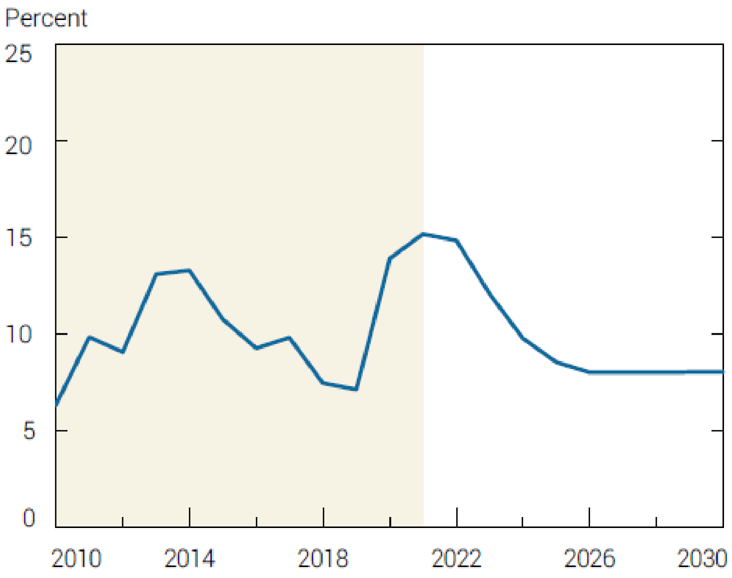


Source: Federal Reserve Bank of New York.

Notes: Figures are as of year-end, and projected figures are rounded. Figures for 2010-21 are shaded and represent historical data.

Projections assumptions are based on publicly available information further detailed in Appendix 4 of this report.

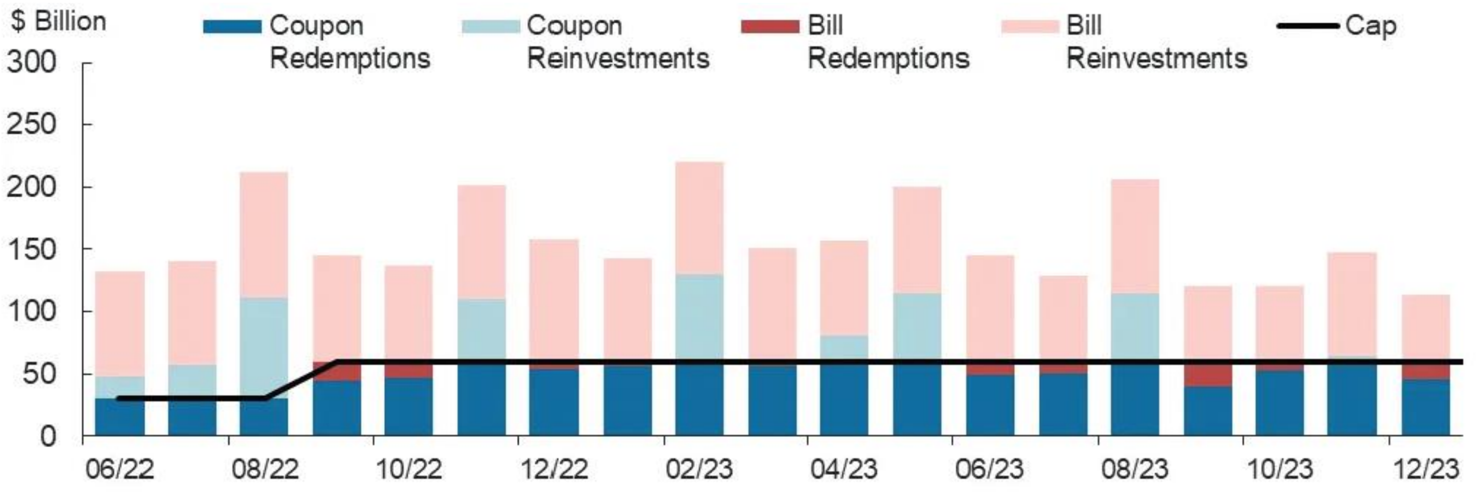
Chart 33
Projected Reserve Balances as a Share of GDP



3 reasons, Fed losses may be less extreme (and turn around relatively quickly)

- Sheer size of seigniorage (28-30%) of liabilities
- Preference of the FOMC for a "generous reserves" regime when balance sheet has been normalized (NY Fed staff projection is $2.5 trillion (2026) and 7% of GDP))
- Fed is rolling off less than half of its Treasury holdings each month. Remainder are reinvested at (higher) coupons.

Projected SOMA reinvestments and redemptions



Note: The light red bars exceed the maturities of current Treasury bill holdings because the projection assumes that Treasury bills are reinvested several times over the period covered by the chart.
Source: Federal Reserve Bank of New York

Reference

Federal Reserve interest rate simulations

(as of July 2022)