The central bank balance sheet in the (very) long run – how to construct it, how to read it, what to learn from it

Workshop hosted by the OeNB in Vienna on October 1, 2015

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Quantitative easing (QE) by some major central banks and large-scale purchases of foreign exchange by others have moved the central bank balance sheet – for a long time a sideshow to interest rate policy – into the focus of public interest. The channels through which QE impacts central banks' balance sheets, and how shifts in the composition of assets and liabilities impact the economy are issues that are often raised in this context. Changes in balance sheets might also have repercussions on central banks themselves, as e.g., the risk of substantial losses could affect their ability to effectively pursue their objectives in the future.

To discuss these and related questions, the OeNB hosted a workshop in Vienna on October 1, 2015, entitled "The central bank balance sheet in the (very) long run – how to construct it, how to read it, what to learn from it." The purpose of the workshop was to bring together scholars who have worked with historical central bank balance sheets and to put the current debate into a longer-term perspective. The workshop had been co-organized by the Department for Economic and Social History of the University of Vienna and took place in conjunction with the 10th conference of the South-East European Monetary History Network (SEEMHN).

In his introduction to the workshop, Clemens Jobst (OeNB) referred to the experience the SEEMHN team made when collecting and publishing a set of harmonized historical macrofinancial data on South-East Europe over the past years (see box). While working on the project, the team was faced with a number of questions that could not be answered readily, like e.g. on the nature of central banking in SEE, notably how central bank operations and the setting of policy rates have interacted with the economy, and how the evolution of central banks in the region compares with that in the rest of Europe. One of the purposes of the workshop was thus to extend the comparative perspective beyond the standard reference of the Bank of England, thereby also helping to put the SEE central banks into a wider context of "continental" central banking.

Using the Banque de France as an example, Patrice Baubeau (Université Paris Ouest Nanterre La Défense) discussed the specifics of the central bank balance sheet as a historical source. In particular, he explained why the Banque de France decided to publish balance sheets in the 1840s and why information was concealed or made public. In a related presentation, Stefano Ugolini (Université Toulouse) argued that often, key information on central bank policies cannot be deduced from the published balance sheets but must be reconstructed from archival evidence. Taking the examples of the National Bank of Belgium's 19th century foreign exchange policy and the Bank of England's open market operations before 1914, Ugolini showed that

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Box 1

What is the South-East European Monetary History Network

The South-East European Monetary History Network (SEEMHN) was established in 2006 and brings together financial and monetary historians, economists and statisticians working on South-East Europe. Its main objective is to increase the visibility of the region in historical research and promote research on the region as an integral part of European history.

An important outcome of the year-long cooperation of the central banks involved in the SEEMHN has been the compilation of data sets of monetary and financial variables for seven South-East European countries, including Austria, covering the period from the 19th century to World War II. This data volume was published in December 2014 and is available for free download on the websites of the central banks involved:

https://www.oenb.at/en/Publications/Economics/south-east-european-monetary-history-network-data-volume.html

the relevant numbers were aggregated into larger categories, partly in order to reduce visibility and increase policy effectiveness.

The presentations by György Kövér (ELTE Budapest) and Juha Tarkka (Bank of Finland) both dealt with the long-time key instrument of monetary policy, the discounting of commercial bills. To limit risks, central banks require extensive information on the quality of the bills submitted for discounting. In his paper, György Kövér looked at how the local discount committees of the Austro-Hungarian Bank before World War I were organized, described the move from oral information to written records as well as the internal flow of information within the bank. Juha Tarkka argued that discounting was less prevalent in the early 19th century than a look at the Bank of England or the Banque de France may suggest. Public banks around the Baltic Sea for a long time issued money not against short-term bills but long-term mortgages. The evolution toward what Tarkka called the "classical model" took place as late as in the mid-19th century.

Eric Monnet (Banque de France) looked at the historical and current debate on whether government debt in the central bank balance sheet is held for monetary policy purposes or constitutes monetary financing of the state. He distinguished between two models: the "English model," where the central bank buys government debt in the market, and the "French model," where the central bank lends to the government directly but is prevented from purchasing government bonds in the market. Christophe Chamley (Boston University and Paris School of Economics) and Pamfili Antipa (Banque de France) compared the two episodes of war financing and the return to gold convertibility by the Bank of England during the French Wars and World War I. A comparison of the development of the Bank of England's balance sheet in the two episodes reveals fundamental differences that help understand why the return to convertibility after 1925 ultimately failed. Jens Eisenschmidt (European Central Bank) provided a primer on the Eurosystem balance sheet, comparing the relative role of outright securities holdings versus reverse operations for the Eurosystem and for the Federal Reserve. He argued that the crisis made the balance sheets of the two central banks more similar and that the recently launched Public Sector Purchase Programme marks a significant change in the implementation of monetary policy in the euro area.

The final session of the workshop looked at the interplay between the central bank and the money market. Roland Uittenbogaard (Ministry of Finance, the Netherlands) looked at the determinants of De Nederlandsche Bank's bank rate decisions during the period 1814–1870. Combining quantitative evidence with an analysis of board discussions, Uittenbogaard finds that the DNB mainly strove to maximize lending, thereby following market trends without controling the money market. Klas Fregert (Lund University) offered a history of monetary policymaking in Sweden through the lens of the structural liquidity position of the banking system. The structural liquidity position makes an important difference for policy insofar as a deficit of the banking system helps the central bank to control money market rates. This is of particular interest today, as in the aftermath of the financial crisis, many of the major central banks have moved from a liquidity deficit to a liquidity surplus.

The details of the workshop program as well as a link to selected presentations can be found at: *https://www.oenb.at/en/Monetary-Policy/Research/workshops/central-bank-balance-sheet-in-a-long-term-perspective-workshop.html*