

Global Rates Watch

Global policy implementation: a short guide

Global policy implementation: more similar vs different

Central banks face broadly similar policy objectives (stable prices, max employment) and achieve their goals through broadly similar means (overnight rates, balance sheet). This note provides a short reference guide to money market policy implementation in developed markets. Exhibit 1 & Exhibit 2 summarize key tools for central banks.

Floor plan: central banks largely operate floor systems

DM central banks generally operate policy in a “floor” system. In a floor system, central banks provide abundant cash such that small moves in reserves do not have large impacts on money market rates. This contrasts with a “corridor” system that has a scarcity of cash & where small moves in reserves have large impacts on money market rates. Floor systems became more common after the GFC with (1) large scale asset purchases (2) enhanced bank regs & higher commercial bank demand for reserves.

Floor systems also rely on central bank deposit rates as the key tool to raise or lower interest rates. Lending facilities exist as a secondary backstop funding vehicle.

Lending facilities: range of collateral & tenors

Central banks have been built off Bagehot’s dictum: “lend freely against good collateral at a penalty rate”. Most lend against both risk-free government & credit collateral at or slightly above the top end of their target policy ranges. Central banks will typically lend at tenors ranging from overnight out to 3 or 6m. Facilities are typically provided for both commercial banks & primary dealers, though loans can be on slightly different terms.

Central banks have also used non-standard lending programs to lend at longer terms. For example, the Fed’s BTFP will extend to 1Y against gov’t collateral while the ECB & BoE will make loans for 4Y via the TLTRO & Term Funding Scheme against broad collateral.

Deposit facilities: rate hike heavy lifters

Central bank deposit facilities do the heavy lifting of rate hikes in floor systems. All DM central banks have deposit facilities available to commercial banks or credit institutions. Several central banks supplement these deposit facilities with a broader range of counterparties including primary dealers, money funds, & agencies. Central banks that have access to a wider range of depositors generally have better money market control as they raise interest rates. Banks with narrower deposit facilities have leakier floors.

Bottom line: similar tools, many nuances

DM central banks generally implement monetary policy with similar frameworks & in similar ways. However, there are important differences in their policy tools, counterparties, collateral regimes, & tenors. Clients should use the exhibits below as a quick reference guide to understanding key similarities & differences in central bank implementation tools across regions.

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DM = developed markets

BTFP = Bank Term Lending Program

TLTRO = Targeted Long Term
Refinancing Operation

Exhibit 1: Fed, ECB, & BoE monetary policy key attributes

Fed, ECB, & BoE all use floor systems & have longer-term lending facilities

	Fed	ECB	BoE
Policy framework			
System	Floor	Floor	Floor
Ceiling tools	Discount window, standing repo facility	ECB refi rate (de facto)	Short term repo, discount window facility
Floor tools	Interest on reserve balances, overnight reverse repo	ECB deposit (depo) facility rate	Bank Rate
Rate range	5-5.25%		
Target rate			
Name	Fed funds	ECB depo rate	Bank rate
Tradeable/ non-tradeable	Tradeable	Non-tradeable	
Description	Domestic unsecured borrowings btw commercial banks & certain other entities, primarily GSEs	Overnight remuneration rate for bank reserves at the depo facility; rate linked to certain non-standard lending operations	Remuneration rate for bank reserves; rate applied to STR lending.
Lending tools			
Standard			
Name	Standing repo facility	Main refinancing operation (MRO)	Short-Term Repo (STR)
Term	Overnight	1w	1w
Rate	Top of target range, today = 5.25%	ECB refi rate	Bank rate
Collateral	UST, agy debt, agy MBS	All eligible collateral pool	Level A collateral
Counterparties	Primary dealers, approved commercial banks	Credit institutions subject to min reserve requirement	Banks/building societies, broker-dealers
Name	Discount window	LTRO	Indexed Long-Term Repo (ILTR)
Term	Overnight & term, up to 90 days	3m	6m
Rate	Top of target range, today = 5.25%	Average refi rate over the period	All SMF level A, B and C collateral sets
Collateral	Wide range of collateral	All eligible collateral pool	Min spreads 0bp over Bank Rate for Level A collateral, 5bp for Level B, 15bp for Level C.
Counterparties	Commercial banks	Credit institutions subject to min reserve requirement	Banks/building societies, broker-dealers
Non-standard			
Name	Bank term lending facility	TLTRO	Term Funding Scheme with additional incentives for SMEs (TFSME). Closed to new drawings.
Term	Up to 1Y	As long as 4y	4y. Some can be extended up to 10y to align with BBLS loan term.
Rate	1Y USD OIS + 10bps	Linked to ECB depo rate, advantageous for banks that beat lending targets to real economy	Bank Rate plus a Scheme fee
Collateral	UST, agy debt, agy MBS		All SMF level A, B and C collateral sets
Counterparties	Commercial banks	Credit institutions subject to min reserve requirement	Banks/building societies
Name	N/A	MLF	Contingent Term Repo Facility (CTRF)
Term	N/A	o/n	Any term chosen
Rate	N/A	MLF rate	Any price chosen
Collateral	N/A	All eligible collateral pool	Full range of eligible collateral
Counterparties	N/A	Credit institutions subject to min reserve requirement	
Deposit tools			
Standard			
Name	Interest on Reserve Balances	Deposit facility	Reserves accounts
Term	Overnight		O/N
Rate	Towards middle of Fed target range, today = 5.15%	ECB depo rate	Bank Rate
Collateral	Unsecured		Unsecured
Counterparties	Commercial banks	Credit institutions subject to min reserve requirement	Banks/building societies, broker-dealers, central counterparties, international central securities depositories
Name	Overnight reverse repo facility		
Term	Overnight primarily, term possible		
Rate	Towards bottom of Fed target range, today = 5.05%		
Collateral	UST or agency collateral		
Counterparties	Money funds, GSEs, primary dealers, commercial banks		
Non-standard			
Counterparty		Euro area government	
Name of facility			
Rate		€str - 20bp	
Counterparty		Non-euro area reserve managers	
Name of facility		Eurosystem reserve management services	
Rate		Likely €str-20bp	

Source: BofA Global Research, Fed, ECB, BoE

Exhibit 2: BoC, RBA, & BoJ monetary policy key attributes

BoC, RBA, BoJ have similar implementation regimes to other developed market central banks

	BoC	RBA	BoJ
Policy framework			
System	Floor	Floor	Floor
Ceiling tools	Standing liquidity facility, standing repo facility	Overnight SF repo, target cash rate	Yield Curve Control
Floor tools	Deposit rate	Interest on reserves (ES balances)	Interest on reserves
Rate range	5-5.25%	4-4.1%	-0.1% for current account, +0.5% for JGBs up to 10Y
Target rate			
Name	Overnight rate, bank rate	Overnight	Policy-Rate Balances
Tradeable/ non-tradeable	Non-tradeable	Tradeable	Non-tradeable
Description	Rate for O/N loans between financial inst	O/N unsecured interbank borrowing rate	Rate for bank reserves, applied to Policy-Rate Balances
Lending tools			
Standard			
Name	Standing liquidity facility	Standing Facility (SF) repo	Complementary Lending Facility
Term	Overnight	Overnight/ open	Overnight
Rate	Top of target range, today = 5.25%	Target cash rate + 25bps	0.30%
Collateral	Secured, high quality, wide range	ACGBs, semis, supras, bank paper, CP/ ABCP corporate bonds	Wide range of collateral
Counterparties	Commercial banks	Securities dealers, commercial banks	Financial institutions which have a current account at the BoJ
Name	Overnight standing repo facility	Open Market Operations (OMOs)	Purchase of Japanese Government Securities with Repurchase Agreements
Term	Overnight	28 days	Up to 1Y
Rate	Top of target range, today = 5.25%	About 5-10bps above cash rate	Determined by a multiple-price competitive auction
Collateral	Secured, high quality, wide range	All collateral eligible for SF repo	Wide range of collateral
Counterparties	Primary dealers	Securities dealers, commercial banks	Financial institutions which have a current account at the BoJ
Non-standard			
Name	Standing term liquidity facility	RBA AOFM Securities Lending Facility	Funds-Supplying Operations against Pooled Collateral
Term	Up to 30D	Up to 1w	Up to 10Y
Rate	1M CAD OIS +35, min rate = bank rate	ES rate - 25bps	Competitive auction (Variable-Rate Method) / determined by BoJ (Fixed-Rate Method)
Collateral	SLF eligible collateral	Cash	Wide range of collateral
Counterparties	Members of Payments Canada, with no soundness concern	Securities dealers	Financial institutions which have a current account at the BoJ
Name	Standing term liquidity facility		N/A
Term	Up to 30D		N/A
Rate	1M CAD OIS +75, min rate = bank rate		N/A
Collateral	Eligible non-marketable collateral		N/A
Counterparties	Members of Payments Canada, with no soundness concern		N/A
Deposit tools			
Standard			
Name	Deposit rate	Interest on reserves (exchange settlement balances)	Complementary Deposit Facility
Term	Overnight	Overnight	
Rate	Bottom of target range, today = 5%	cash rate - 10bps, today = 4%	-0.1% / 0.0% / 0.1%
Collateral	Unsecured	Unsecured	Unsecured
Counterparties	Commercial banks	Commercial banks	Commercial banks
Name	Securities repo operation		
Term	Overnight		
Rate	Bottom of range, today = 5%		
Collateral	Canadian nominal bonds & bills		
Counterparties	Primary dealers		

Source: BofA Global Research, BoC, RBA, & BoJ

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