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संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई 400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S. Marg, Mumbai 400001

फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 2270 3279

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**RBI Staff Study on  
“Central Bank Balance Sheets Amidst Recent Global Crisis:  
Issues in Future Monetary Management”**

The Reserve Bank of India today released a Staff Study titled ‘[Central Bank Balance Sheets Amidst Recent Global Crisis: Issues in Future Monetary Management](#),’ by Shri S. M. Lokare from Department of Economic Policy and Research.

The recent global financial crisis triggered a spate of policy responses that were unparalleled in terms of their alacrity, scale, magnitude and exceptional coordination across various jurisdictions. The use of central bank balance sheets, in particular, as a key instrument of monetary policy received unprecedented focus during the recent crisis. In this context, this study examines the impact of policy actions taken during the crisis on the balance sheets of central banks, besides outlining the future challenges and lessons in the management of assets and liabilities in the balance sheets of central banks during the course of exit. It also analyses the Indian context, narrating particularly as to how it was different from the trends in central banks of advanced countries.

Major observations of the study are as follows:

- The assets of the Fed and the Bank of England more than doubled, that too in a matter of weeks, while that of the European Central Bank (ECB) grew by more than 30 per cent. In the Fed’s case, this reflected direct lending to banks and dealers through existing and new lending facilities; indirect lending to money market funds; purchases of commercial papers (CP) through special purpose vehicles and drawings by foreign central banks on dollar swap lines.
- In Europe, the key drivers of ECB balance sheet covered enhanced credit support measures along with standing facilities, which involved increasing the number, frequency of operations and the list of eligible collaterals. Balance sheet changes with respect to the Bank of Japan ( BoJ) were mainly driven by introduction of measures to facilitate corporate financing, along with the purchase of CPs and corporate bonds.
- Several challenges emerged from significant changes in the size of central bank balance sheets, such as change to the risk profile of balance sheets with rise in credit, valuation and counter-party risks apart from interest rate risks; change in the income position of central banks; excess reserves restraining the willingness of banks to lend; lack of marketability of certain types of assets and illiquid claims impeding the operational flexibility and

constraining future monetary management and apprehensions about operational and financial independence of central banks.

- Successful disengagement would require coherent sequencing and clear communications from the central banks. Specific unwinding plans need to be calibrated while providing signals to markets on achieving medium-term policy goals, while avoiding the risk of a premature withdrawal of support as conditions look still fragile.
- Although several emerging market economies (EMEs) resorted to various measures for expanding liquidity, both in domestic currency and in foreign currency, the size of central bank balance sheets in EMEs increased much less than their counterparts in advanced economies, due to absence of aggressive quantitative and credit easing measures and the rundown in international reserves in many cases on account of capital outflows in the aftermath of the crisis.
- In India, despite some pressure on financial markets in the aftermath of September 2008, with RBI ensuring ample rupee and forex liquidity in the system, normalcy and orderly conditions were restored in the markets. Unlike other countries, RBI's balance sheet did not expand as two important measures injected ample liquidity in the financial system, *i.e.*, reduction in CRR and unwinding of MSS balances of the Government with the RBI, which actually led to contraction in the balance sheet.