

Central Banks, Liquidity and Financial Stability

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On Central Bank Reserves
BIS

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The Oversimplistic Narrative

Pre-2008: Flawed financial regulation → GFC



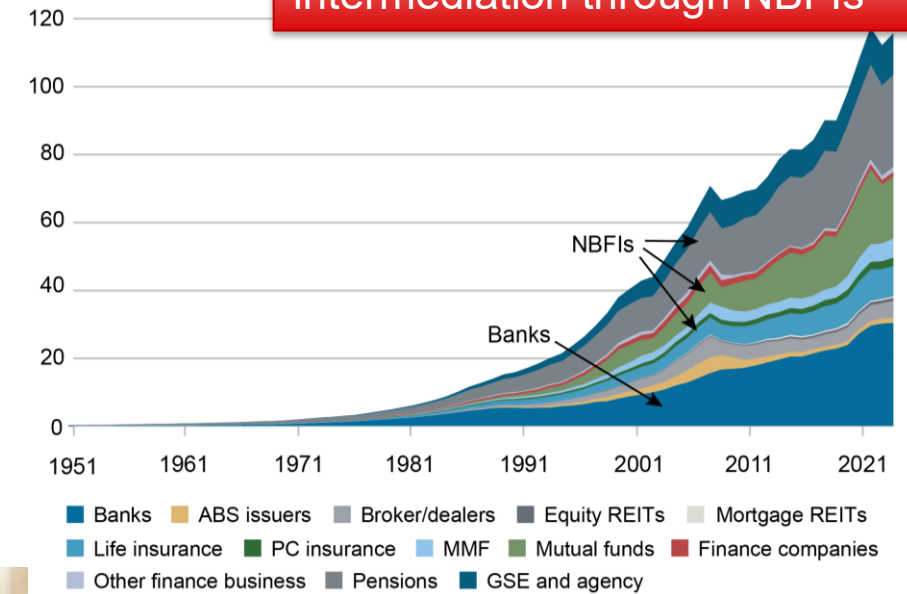
Overhaul of prudential and macroprudential regulation

Banking system now “safe”



Total assets
Trillions of dollars

Increased financial intermediation through NBFIs



Source: Acharya, Cetorelli, Tuckman, *Liberty Street Economics*, 06/17/24

BUT....

What if the banks are interconnected with the less regulated NBFIs????



Contribution of papers

- Banks and NBFIs interconnected through multiple channels
- Central banks are important parts of this web
- Introduces new risks for banks and real economy
- Some channels particularly challenging to assess as only emerge in periods of stress



Issues Critically Important Today

When to Stop QT?

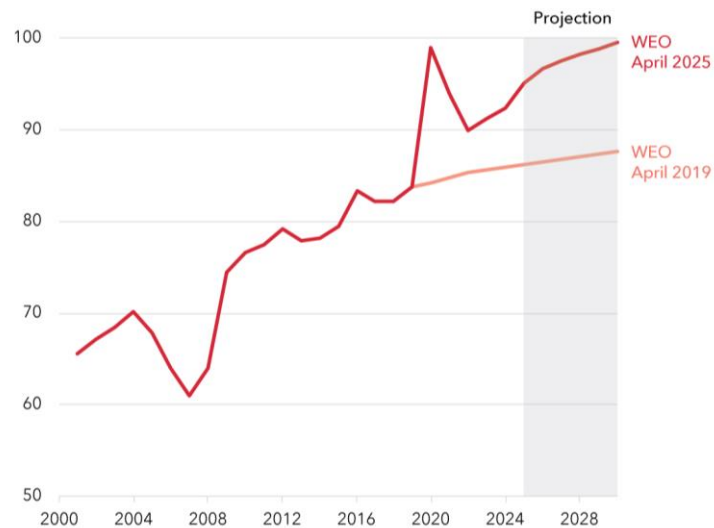


Source: Financial Times, 09/16/25

Issues Critically Important Today

Increase in Public Debt

Global public debt, percent of GDP

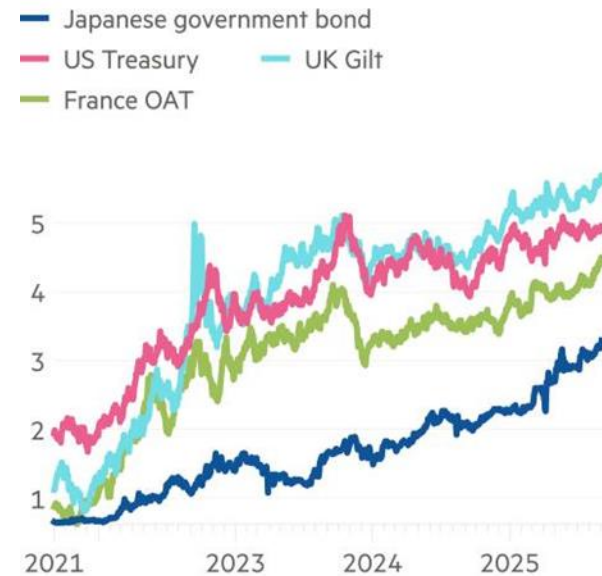


Sources: World Economic Outlook April 2025; IMF staff calculations.

IMF

Increase in LT Bond Yields

%, Yields on 30-year government bonds



Source: Bloomberg

Compression in US Treasury Convenience Yields

US Treasury Convenience Yield by Maturity

Treasury convenience yield (difference between swap rate and maturity-matched Treasury yield)



Shaded regions correspond to recessions as dated by the NBER.
Source: Researchers' calculations using data from the Center for Research in Security Prices.

Source: Jiang, Richmond and Zhang (2025), "Convenience Lost", NBER Working Paper 33940.

And Less Time to Respond: “Speed Kills”

2008



Run time: 16/19 days
Outflow: 4%/10% of deposits

2023



Run time: 1-2 days
Outflow: 87%/29% of deposits*

Note: * Outflows in 2023 include those over first day of run plus outflows scheduled for the 2nd day but that did not occur as the banks were closed.

Source: Data on run time and deposit outflows from Rose (2023).

What can we learn from the 3 papers?

Work through implications of QT

- *Opposite of focus on QE in papers*
- *Key question for authors: are effects modelled symmetric?*

Preparing for the Bank of England's big, unpredictable gilt sales decision

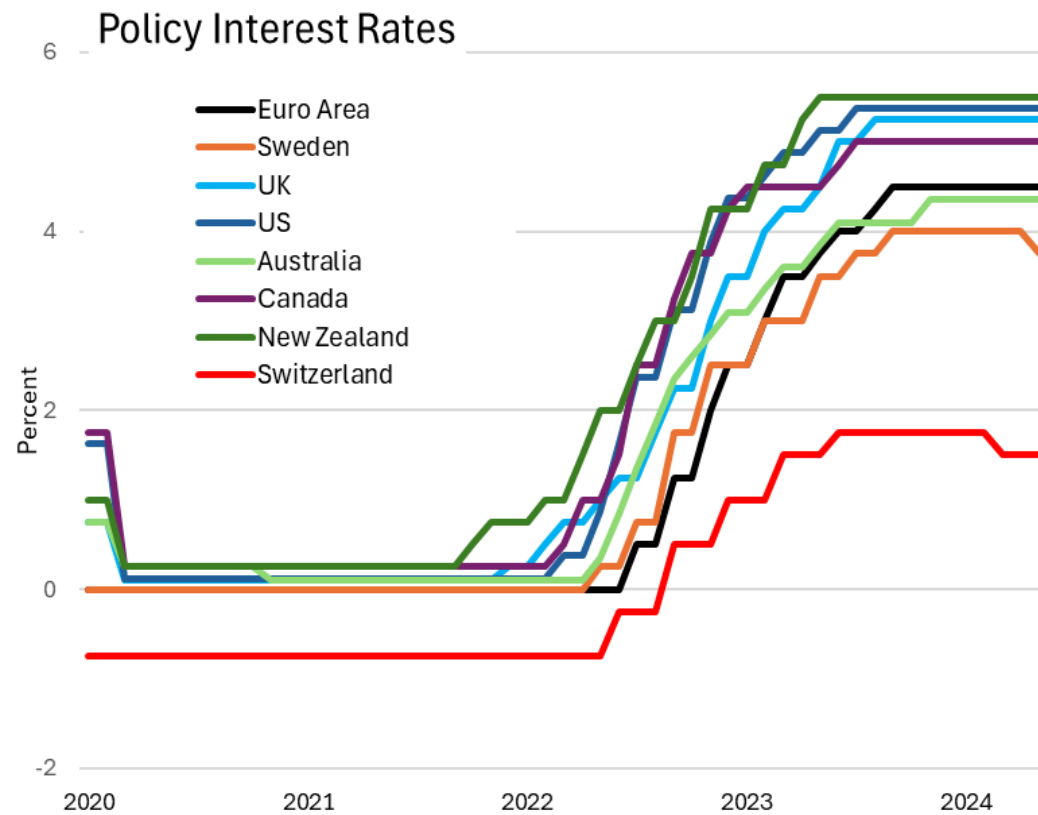
QT pageant



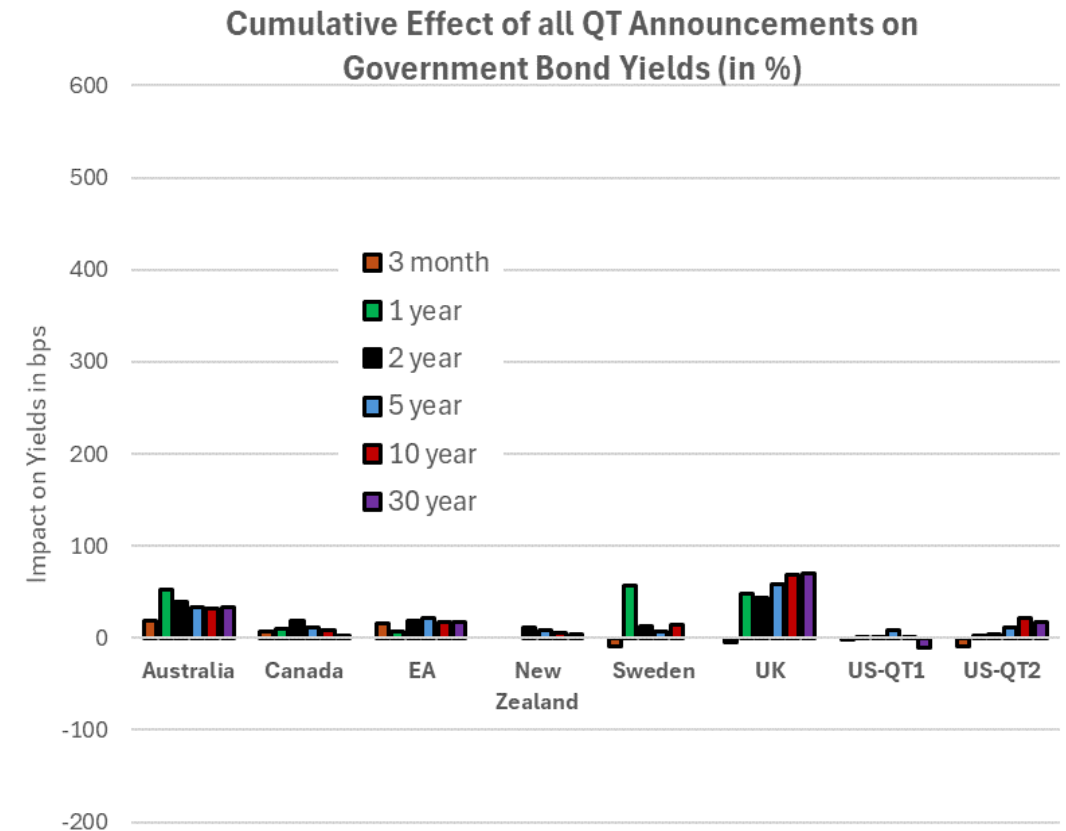
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Louis Ashworth SEPTEMBER 15 2025 1:54 PM

Backdrop: Impact of QT has Been Small so Far...



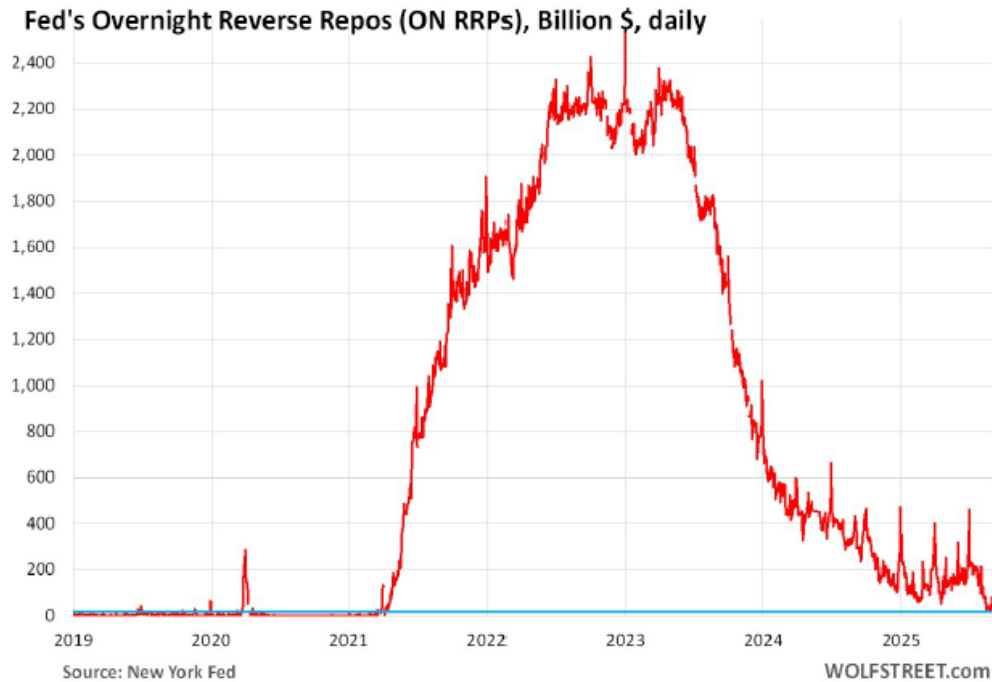
Source: Underlying data from BIS.



Source: Replicated based on results in Du, Forbes and Luzzetti (2024), "Quantitative Easing Around the World: What Have We Learned?"

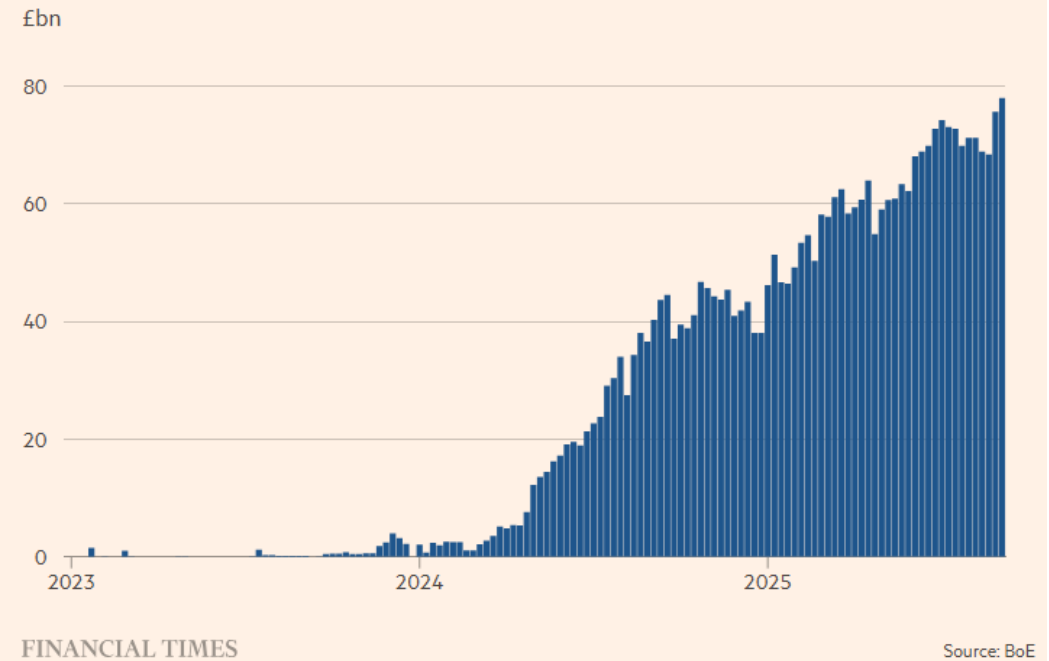
But are we Nearing a Tipping Point?

Source of NBFIs liquidity changing



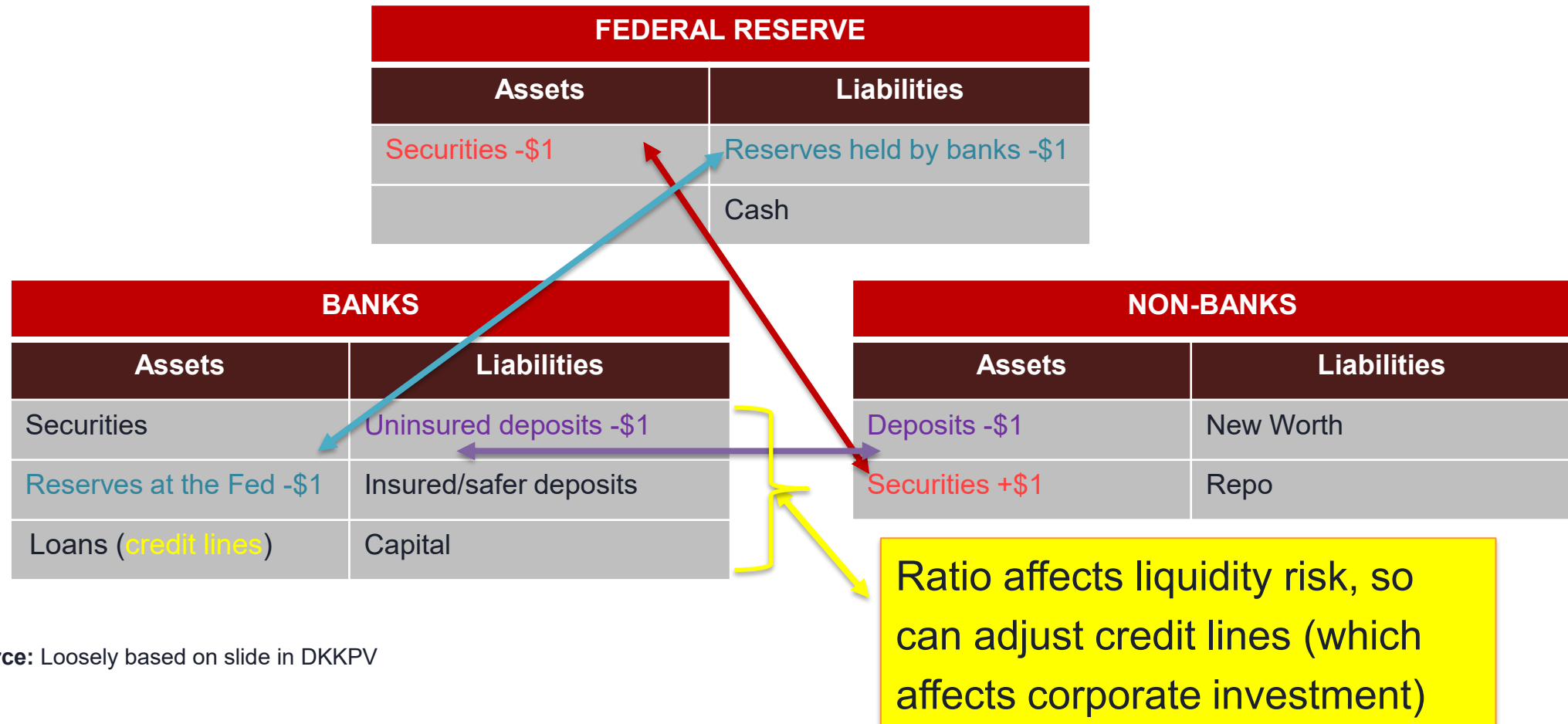
But also new facilities available

Use of the BoE's short-term repo facility is rising fast



The Three-Legged Stool: Alexandros (DKKPV)

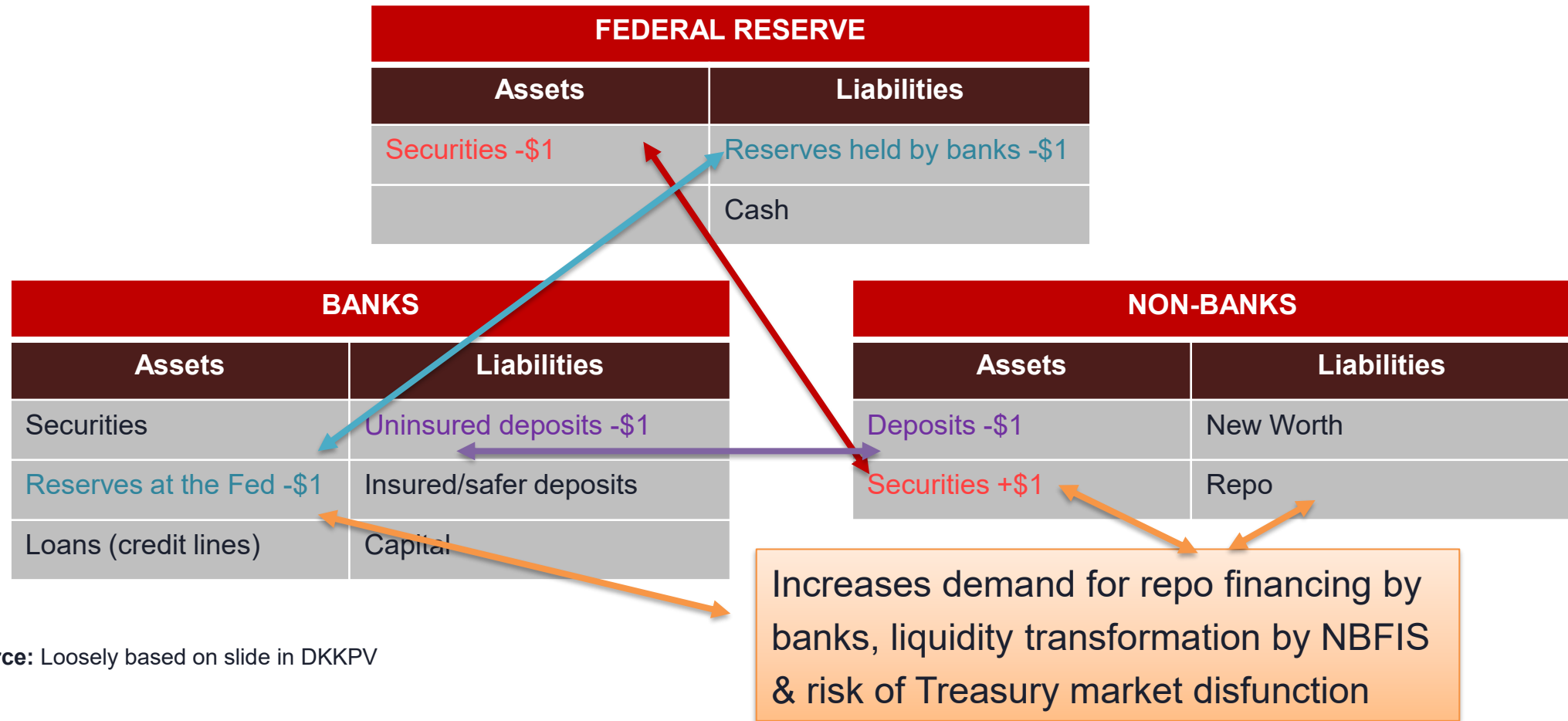
Balance Sheet Effects of QT



Source: Loosely based on slide in DKKPV

The Three-Legged Stool: Quentin (APV)

Introduce Disruptions into Treasury Market



Source: Loosely based on slide in DKKPV

The Three-Legged Stool: Sharon (GRR)

Potential Solution to Address This Risk (and others)

FEDERAL RESERVE	
Assets	Liabilities
Securities -\$1	Reserves held by banks -\$1
	Cash

BANKS	
Assets	Liabilities
Securities	Uninsured deposits -\$1
Reserves at the Fed -\$1	Insured/safer deposits
Loans (credit lines)	Capital
Prepositioned at Fed	

NON-BANKS	
Assets	Liabilities
Deposits -\$1	New Worth
Securities +\$1	Repo

??

Faster access to liquidity; not
rely on NBFIs/3rd party plumbing

Source: Loosely based on slide in DKKPV

Tying it All Together

- **Insightful set of papers to better understand web of connections between central banks, banks and NBFIs**
- **Critically important time to improve our understanding of these issues**
- **But a comparison of the 3 papers shows challenges...**
 - Can't model/test everything simultaneously
 - Many counteracting effects as banks/NBFIs/central banks adjust
 - Stress changes everything....
- **Also: papers only focus on US, ignores foreign investors**
 - Could be different relationships in different countries
- **Bottom line: papers make progress piecing together important vulnerabilities that still exist in banks (and broader system)**
 - But beware drawing strong policy recommendations from one analysis/model

