

What's the Bottom Line? Central Bank Profits and Monetary Policy
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Abstract

This study empirically examines the sources of profits for central banks and the relationship between monetary policy and central banks' profits. Case studies on the U.S. Federal Reserve, the Swiss National Bank, and the Reserve Bank of Australia demonstrate that policy rates and foreign exchange rates are crucial for central bank profits. We generalize this result for other central banks using balance sheets and income statements for 123 central banks between 1996 and 2023. Furthermore, this study reveals that central banks distort monetary policy to avoid realizing potential losses. We provide evidence that central banks worldwide put depreciation pressure on their local currency and undershoot their interest rate targets due to profit concerns.