



FedFin Daily Briefing

Tuesday, October 13, 2020

IMF Study: Current Fed Monetary Policy May Exacerbate Economic Inequality

Although many central banks – the Fed very much included – strongly contest assertions that they have a role in economic inequality, a new [IMF staff paper](#) finds that monetary-policy choices in fact have considerable inequality impact. The paper models accommodative, “optimal,” and various Taylor-Rule options in a stylized economy akin to the U.S. Its optimal approach is similar in some respects to a St. Louis Fed paper constructing another “optimal” approach [aimed expressly at reducing economic inequality](#), and strikingly different than the models in a [recent Fed staff study](#) rebutting any adverse distributional impact from the Fed’s new, make-up policy. However, this IMF study’s model validates much other recent research finding that conventional policies have [unequalizing impact in economies with significant income inequality](#).

The paper’s modelling assumptions are intended to match pre-COVID U.S. conditions, but model assumptions (e.g., constant unemployment, uniform taxation, Phillips-Curve predictive power) warrant the usual caution when inferring policy consequences from non-empirical assessments. However, we note with interest the paper’s conclusion that optimal monetary-policy models that assume representative-agent (i.e., equal) economies (i.e., the Fed’s current approach) are dis-equalizing in any economy where large percentages of households depend solely on wage income. The Fed also continues to exclude inequality from its FOMC decision criteria; even the most ultra-accommodative policy does not much improve inequality if it fails to take inequality into account in its decision construct, according to this study. In contrast, a modified, “augmented” Taylor-Rule approach allowing heightened inflation and taking consumption inequality into account appears to have fewer adverse distributional consequences and may even boost equality, albeit to only a very small extent.

Global Digital-Payment, Stablecoin Policy Advances on Multiple Fronts

Reflecting ongoing warp-speed policy action on digital currency, the G7 finance ministers [today](#) issued a statement reasserting the importance of digital-payment policies that ensure stable, secure, and law-abiding payments systems even as innovation advances. The statement also endorsed work from an array of global regulators, including the FSB, which [today](#) issued final recommendations for global stablecoin regulation, supervision, and oversight. The G7 statement today states firmly and for the first time that no global stablecoin should advance until new rules are hard-wired to address these concerns. The FSB also issued new policies on cross-border payments we will shortly assess with an in-depth report.

Following its public consultation earlier this year ([see FSM Report CRYPTO14](#)), the stablecoin statement establishes ten recommendations, with the FSB stressing that cross-border cooperation and coordination should be flexible, efficient, inclusive, and multi-sectoral. Regulation, supervision, and

oversight must also be proportionate to risks; stablecoin arrangements must adhere to all applicable regulatory standards and address risks to financial stability prior to operation. Authorities must also have the powers to regulate, supervise, and oversee global stablecoin arrangements. Cooperation and coordination between authorities is essential at both the domestic and international levels to ensure that stablecoins have a governance framework that clearly allocates accountability. Effective risk management frameworks are essential, as are systems for collecting, storing, and safeguarding data along with effective resolution plans. We will shortly provide clients with an in-depth analysis of the FSB's recommendations.

Global Insurance Regulators Outline Climate-Risk Supervisory Regime

Reflecting ongoing global efforts to address climate risk, the IAIS [today](#) issued for consultation a draft paper on climate-risk supervision. Although it contains no standards or expectations, feedback is sought on ways to assist insurance supervisory efforts to integrate climate-related risks into their frameworks as well as on examples of effective supervisory-review and reporting, corporate governance, risk management, investments, and disclosures. Supervisory requirements may be tailored, with supervisors asked to make their governments aware of shortcomings that may increase risk such as lacking sustainable policies or public infrastructure designed to mitigate climate risks. Comments are due January 12, and the IAIS will host a webinar on the draft application paper on October 26.

Recent Files Available for Downloading

The following reports and analyses have been sent to retainer clients recently. Copies are also available to retainer clients on the Archives section of Federal Financial Analytics' website: www.fedfin.com or clients may obtain the reports/analyses by e-mailing requests@fedfin.com giving the requested item name, firm, and e-mail address. To learn more about GSE Activity Reports, click: http://www.fedfin.com/index.php?option=com_content&view=article&id=18&Itemid=18

- [CRA30](#): Following opposition to the OCC's CRA rewrite, the FRB has proposed an initial construct that takes some elements of the OCC's approach and adds further and in some cases different provisions to craft what the Fed hopes will become an inter-agency CRA construct in 2021.
- [BIGTECH](#): Last week, the House Judiciary Antitrust Subcommittee released a lengthy, high-impact Democratic [report](#) calling for structural changes to the nation's biggest tech-platform companies.
- [GSE-100820](#): As will soon be detailed in an our in-depth report, the Federal Reserve's long-awaited [CRA proposal](#) is a comprehensive rewrite that, while preliminary, would dramatically change large bank community-focused lending and investing.

Federal Financial Analytics, Inc.
2101 LStreet, N.W. – Suite 300, Washington, D.C. 20037
Phone (202) 589-0880
E-mail: info@fedfin.com www.fedfin.com

- **[CORPGOV31](#)**: In this report, we analyze the strategic implications of enforcement actions against Citibank issued late yesterday by the [Fed](#) and [OCC](#).
- **[CAPITAL226](#)**: In conjunction with numerous changes to its supervisory stress test (CCAR) for the largest U.S. banking organizations in response to COVID, the Federal Reserve is seeking comment on structural changes to current capital-planning requirements.
- **[GSE-100120](#)**: A troubling new IMF staff paper looks at U.S. housing policy since COVID to uncover some worrisome aggregate and distributional effects.
- **[CRYPTO15](#)**: Continuing Acting Comptroller Brooks' efforts to enhance innovation at national banks and federal savings associations, the agency has now authorized these institutions to hold reserves associated with certain stablecoin offerings.
- **[GSE-092820](#)**: Following its [morning meeting](#), FSOC late Friday released the staff [statement](#) expressing its near-term decision on systemic risk in the secondary mortgage market.
- **[AML132](#)**: FinCEN is beginning a process that, while apparently not revising or eliminating any existing anti-money laundering (AML) requirements, would add an over-arching principle that AML programs be efficient, "reasonably-designed," and capable of providing high-quality information to law enforcement and other government entities.
- **[COVID15](#)**: HFSC's second CARES Act-required hearing with Treasury Secretary Mnuchin and FRB Chair Powell continued to stress the theme that has become apparent ever since negotiations on a Phase IV relief bill stalled: Democrats primarily want additional direct fiscal support and Republicans are pushing for adjustments to existing relief programs funded by unused 13(3) Treasury backstops.
- **[GSE-092220](#)**: As usual, FHFA's [new strategic plan](#) is more rhetorical than real. Still, it has a noteworthy emphasis on ending the conservatorship, promulgating new standards, and enhancing inclusion not just at the GSEs and within FHFA, but also in credit access.
- **[CRA29](#)**: Emphasizing its new focus on racial equity ahead of several Congressional hearings this week, the Federal Reserve Board today unanimously [approved a long-awaited ANPR](#) revising its CRA regulations.
- **[GSE-092120](#)**: Late last week, the [Federal Reserve Bank of New York](#) announced that the Fed bought almost \$56 billion in agency MBS over the past two weeks.
- **[GSE-091720](#)**: [As anticipated](#), today's marathon HFSC hearing with FHFA Director Calabria covered a wide-range of issues we will shortly analyze in detail due to the policy and strategic importance of several exchanges.
- **[FAIRLEND8](#)**: HUD has largely finalized a controversial fair-housing rule as proposed, with the new

standards for adjudicating fair-housing disputes giving defendants numerous additional protections.

- [GSE-091020](#): As we [noted yesterday in our in-depth analysis](#), a CFTC subcommittee has issued a landmark [report](#) laying out an array of climate-change risks it urges policy-makers to prioritize to prevent systemic and sector risks.
- [COVID14](#): Today's Senate Banking hearing on the status of emergency Fed facilities showed even more clearly the dividing lines between Democrats and Republicans on changes to the Main Street Lending program than the CARES Act Congressional Oversight Commission's [recent hearing](#).
- [GREEN4](#): In this report, we analyze an influential and possibly even game-changing [paper](#) released today by the CFTC's Climate-Related Market Risk Subcommittee.
- [GSE-090320](#): As noted in our three summaries of key FHFA comment letters, FHFA was not exactly overwhelmed by heartfelt praise for its GSE capital rule.
- [COVID13.pdf](#): As anticipated, today's House Select Subcommittee on the Coronavirus Crisis hearing with Treasury Secretary Mnuchin reflected contentious negotiations over a phase four rescue package.
- [GSE-090120](#): In this analysis, we continue our assessment of comment letters to FHFA on the [capital proposal](#).