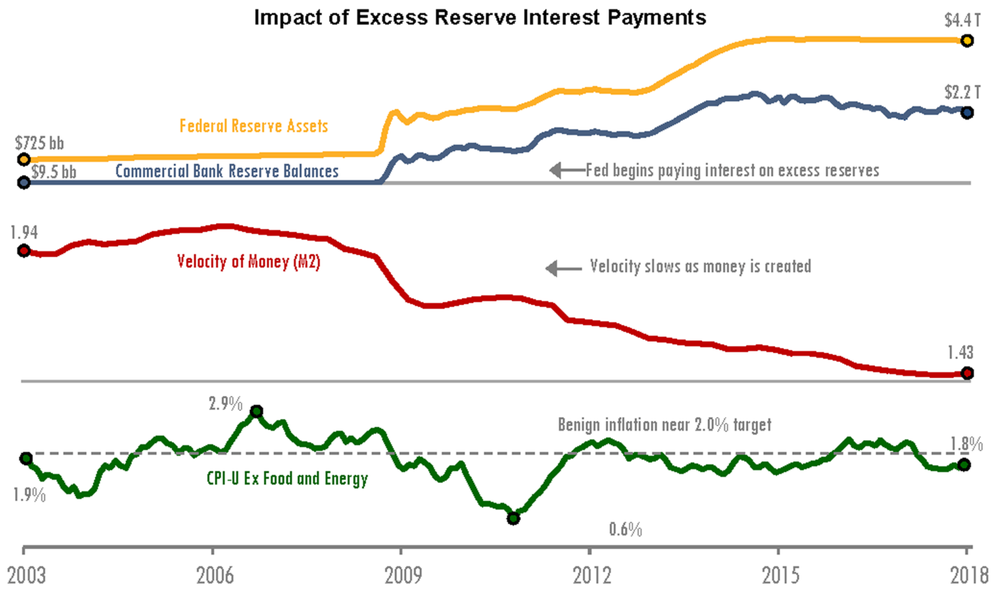
For Your Information...

Excess Reserve Interest Payments

Key Federal Reserve policy tool drives higher excess bank reserves.



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As a part of the Emergency Stabilization Act of 2008, the Federal Reserve began paying interest on balances held by or on behalf of depository institutions effective October 1, 2008. This explains a large part of why the Fed's balance sheet expansion has not made its way to consumers – commercial banks are incentivized by risk-free interest payments on excess reserves.

Velocity of money has fallen over the period and core inflation (ex-food and energy) remains low. Going forward, it will be key to monitor which policy tools the Fed uses as it manages its exit from unprecedented monetary stimulus – including the interest rate it pays on excess reserves, currently 1.75% (as of 3/22/2018).

Bellwether Consulting is an independent investment advisor serving the needs of retirement plan sponsors and other institutional investors.

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