

Regulations on Financing Public Debt by the Central Bank Based on the Experience of OECD Countries*

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Abstract

In connection with the subprime crisis, and then in response to the COVID-19 pandemic, many central banks around the world decided to use an unconventional monetary policy tool in the form of government bond purchase programs on the secondary markets. Such actions have renewed discussion on the consequences of financing public debt by the central bank and possible legal solutions in this area. Hence, the subject of this research is to present the evolution of regulations concerning the regulation of public debt monetization in OECD member countries from the mid-1980s to the present. As part of the analysis of legal acts, four areas of regulation of the possibility of financing the budget deficit by the monetary authority were distinguished. The first area concerns the possibility for the government to have an overdraft facility on an account with the central bank. The second area is related to the government's right to borrow from the central bank. The third area concerns the presence of the central bank as a buyer on the primary market of debt securities issued by the government. The fourth area concerns the purchase of government bonds by the central bank on the secondary market. The analysis shows that the OECD member countries have significantly increased the restrictiveness of regulations prohibiting the financing of public debt by the central bank over the last 30 years, especially in the case of the first three of the above-mentioned areas. Only in the case of regulations concerning the purchase of bonds by the central bank on the secondary market, one can speak of a relaxation of the restrictive nature of the applicable regulations. Another conclusion from the research is that, despite the significant process of convergence of the studied regulations among OECD member countries, there are still quite significant differences in the indicated matter.

Keywords: Monetization Of Public Debt, Central Bank, Prohibition Of Central Banks' Financing Of Public Debt