



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

October 15, 2018

H.R. 4758 **FOMC Policy Responsibility Act**

As ordered reported by the House Committee on Financial Services on September 13, 2018

Under current law, Federal Reserve Banks are authorized to pay interest on balances held by or on behalf of depository institutions at Reserve Banks, subject to regulations of the Board of Governors. The central bank sets requirements on the minimum amount of reserves that must be held by a commercial bank. The Federal Reserve pays interest on those required reserves in order to offset the implicit tax that such requirements may otherwise impose on depository institutions. The Federal Reserve also pays interest on excess reserve balances as a principal tool of monetary policy, specifically to help control short term interest rates.

H.R. 4758 would amend the Federal Reserve Act to change the responsibility for setting the interest rate on reserve balances from the Board of Governors to the Federal Open Market Committee (FOMC), which consists of the seven members of the Board of Governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining eleven Reserve Bank presidents, who serve one-year terms on a rotating basis.

It is possible that the FOMC would choose different interest rates than those that the Board of Governors will choose under current law. CBO estimates, however, that the rates would not materially differ. The target range of interest rates is already set by the FOMC, and the interest rates set on reserve balances would be chosen to be consistent with those targets, whether the decision is made by the Board of Governors or the FOMC. As a result, CBO estimates implementing the bill would not affect the amount of interest paid on reserve balances or on the budget of the Federal Reserve System. CBO therefore estimates that the bill would not affect direct spending or revenues.

CBO estimates that enacting H.R. 4758 would not increase net direct spending or on-budget deficits in any of the four consecutive 10-year periods beginning in 2029.

H.R. 4758 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act.

The CBO staff contact for this estimate is Nathaniel Frentz. The estimate was approved by John McClelland, Assistant Director for Tax Analysis.