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Monetary base endogeneity and the new procedures of the asset-based Canadian and American monetary systems

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Abstract

It is shown that asset-based financial systems, just like overdraft financial systems, rely on a fully endogenous supply of high-powered money, with central banks engaging essentially in "defensive" operations. This is demonstrated through an analysis of the Canadian monetary process, which is devoid of any reserve requirements, with the overnight rate closely gravitating around the target overnight rate. It is shown that the American process is no different, despite being less transparent. The main distinctness is that, in contrast to the Fed, the Bank of Canada knows with perfect certainty both its supply of and the demand for settlement balances.

Keywords:

channel system | clearing balances | defensive operations | high-powered money | overnight rate | target interest rate

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