Discussion of Vissing-Jorgensen (2026):

Fluctuations in the Treasury General Account and their effect on the Fed's balance sheet

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Macroeconomics and Monetary Policy — Federal Reserve Bank of San Francisco

March 27, 2026

Paper summary

- **Problem:** TGA volatility creates reserve fluctuations that cause repo rate spikes
  - → September 2019: GCF–IOR spread reached 391 bps after a tax deadline

- **Three objectives:**
  - → Interest rate control
  - → Policy stance insulation
  - → Communication clarity

- **Proposal:** "TGA backed with bills" — Fed buys T-bills 1-for-1 with TGA
  - → **Active balance sheet**: reserves constant; balance sheet $399B smaller
  - → vs. current **passive balance sheet**: reserves absorb TGA swings

- **Why it works:** reserves insulated from TGA, never cross the scarcity threshold

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Outline

A structural model

- Static version of d'Avernas, Petersen & Vandeweyer (2025)

- **Households** choose between triparty repo and bank deposits
  - → Cobb–Douglas liquidity aggregator

- **Bank-dealers** run a matched book + direct bilateral lending
  - → Intraday-liquidity (IL) constraint: bank repo limited by reserves
  - → Leverage Ratio (LR) makes bank balance sheet costly

- **Shadow banks** finance Treasuries via bilateral repo (no BS costs)

- **Central bank** holds Treasuries, issues reserves, may operate RRP/SRF

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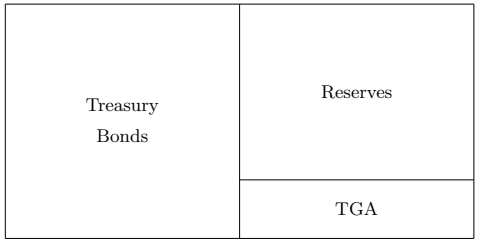
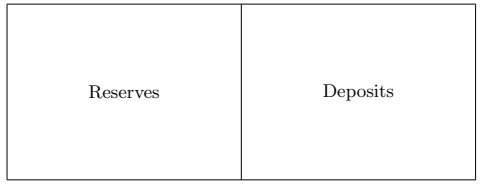
Balance sheet representation



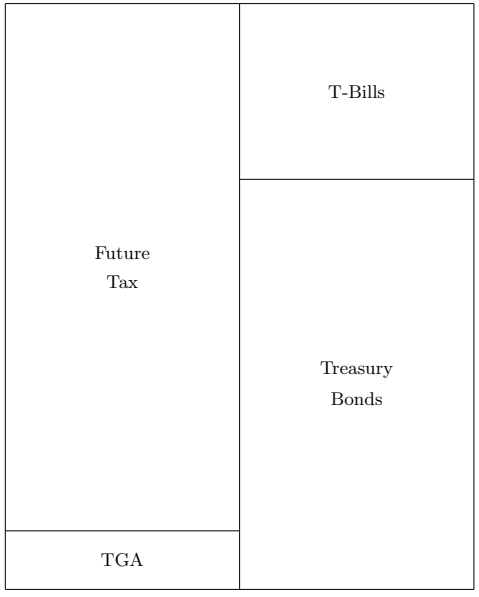
Central Bank



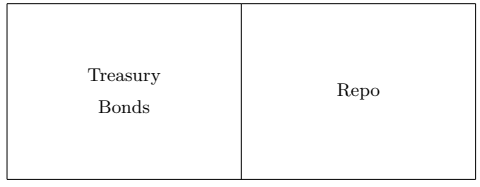
Traditional Bank

Foreign Dealer

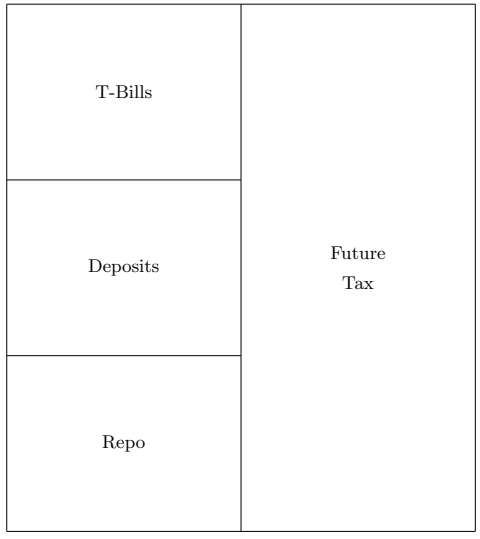
Dealer



Treasury



Shadow Bank



Household

Five equilibrium regimes

Regime determined by the set of binding constraints, depending on repo demand vs supply:

- **A** (Arbitraged): banks borrow in bilateral repo
- **S** (Segmented): banks inactive, T-bill supply drives rates (d'Avernas and Vandeweyer, 2024)
- **U** (Unconstrained): banks lend in bilateral, IL slack, bilateral repo rate at IOR
- **C** (Constrained): repo demand exceeds supply, bilateral rate spikes above IOR

Repo spike when:

$$\underbrace{\text{SB Treasury holdings}}_{\text{repo demand}} > \underbrace{\text{optimal repo supply from HH} - \text{private T-bills} + \text{IL capacity}}_{\text{maximum repo supply}}$$

- **F** (Fire sale): shadow banks sell Treasuries to avoid high repo financing

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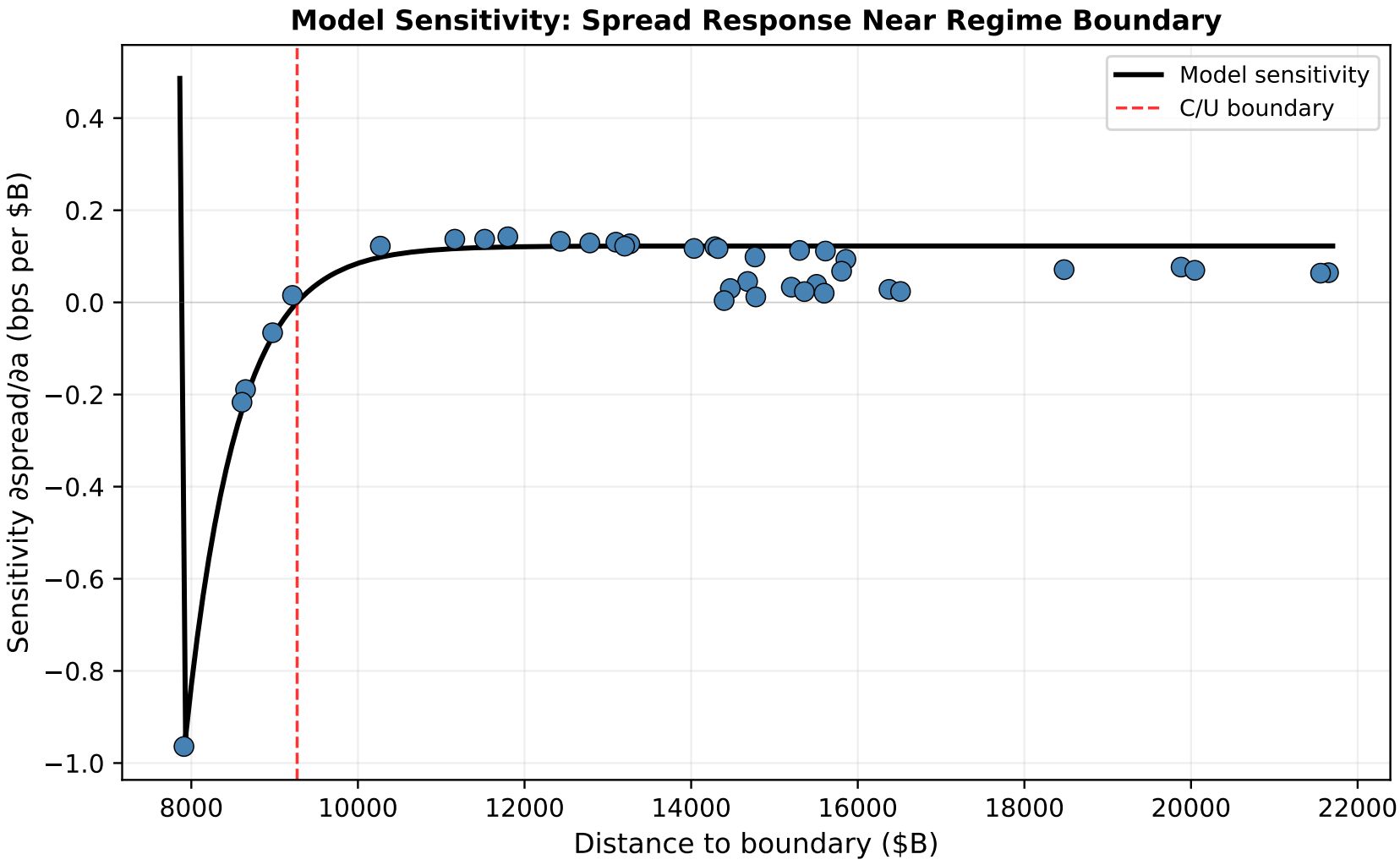
Calibration

Matched to Feb 2024 Fed balance sheet data:

Balance sheet		**Preferences & costs**	
Fed Treasuries	\$4.0T	HH triparty weight	0.50
Reserves	\$3.5T	Liquidity intensity	0.05
TGA	\$0.8T	Balance sheet cost	0.03
T-bills	\$5.9T	IL reserve scaling	1.0
Bonds	\$18.2T	Opp. cost of capital	4%

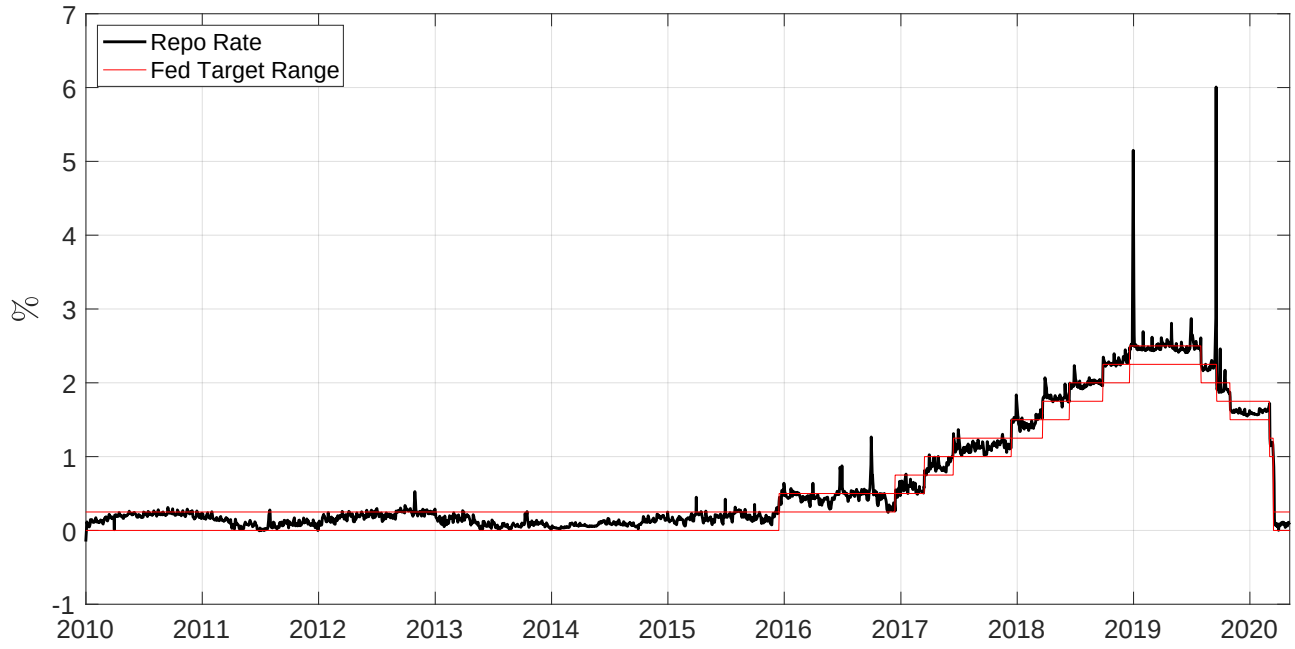
- TGA swept across the full range (debt ceiling lows to post-deadline peaks)

Tax deadline calibration



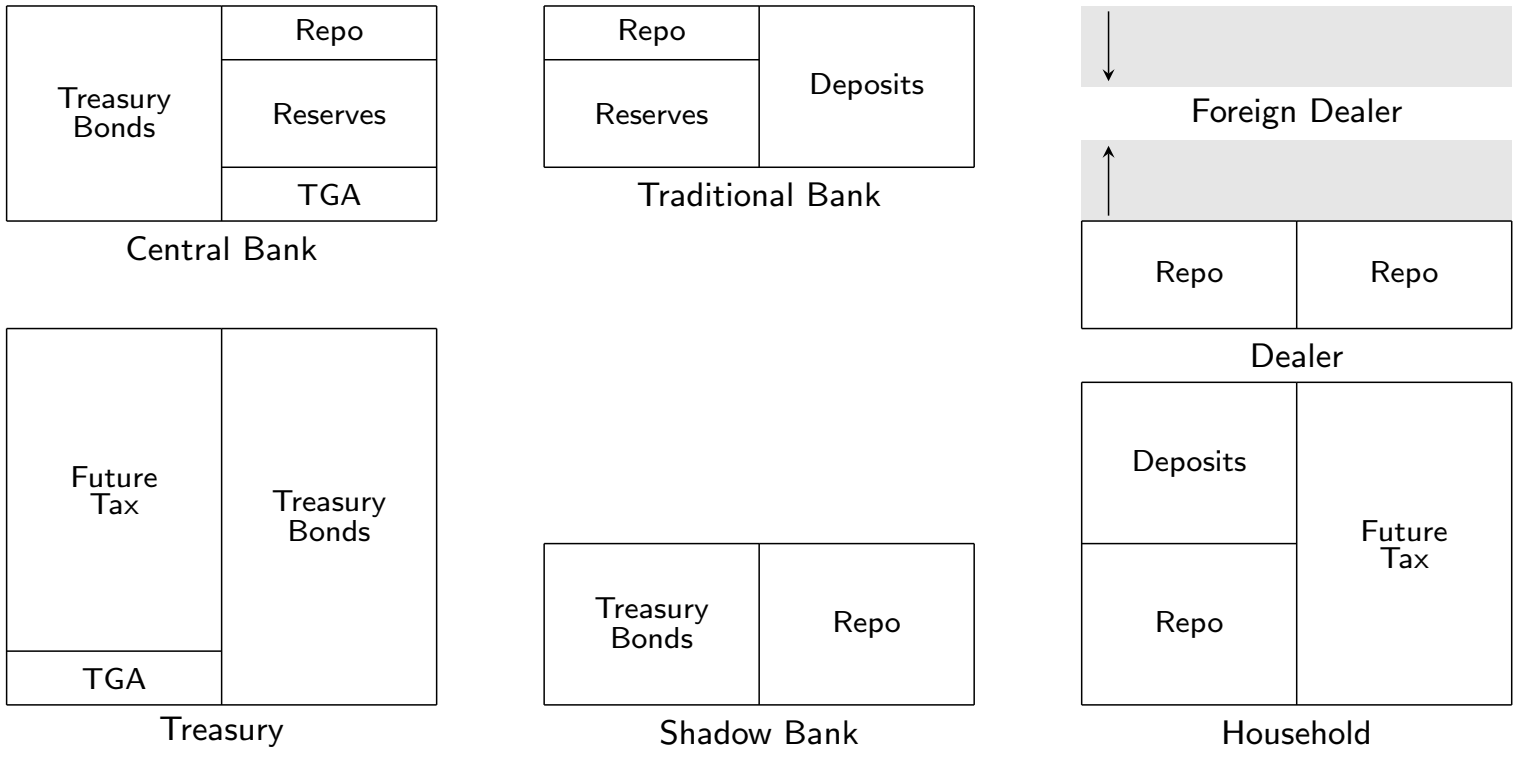
Outline

Intermediation shocks: repo spikes in the data

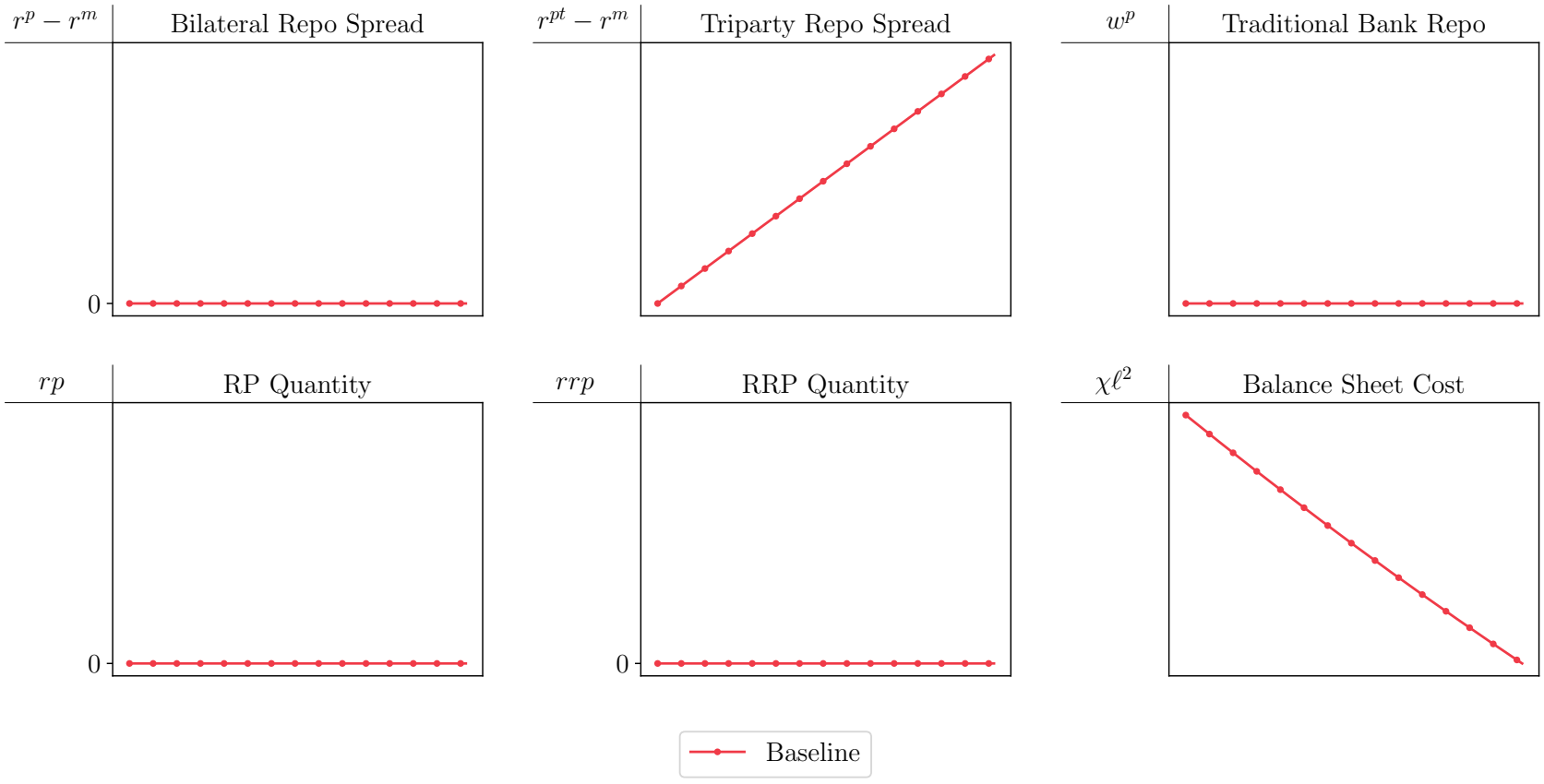


- Quarter-end spikes driven by foreign dealer balance sheet contraction
- Basel III window-dressing

Intermediation shock — balance sheet (no RRP)

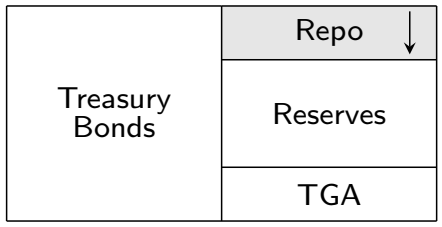


Intermediation shock — no facilities

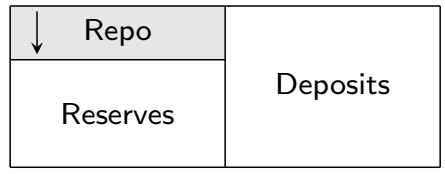


- Without RRP facility, quarter-end shocks are fully absorbed by a decline in the triparty repo rate

Intermediation shock — balance sheet (with RRP)



Central Bank



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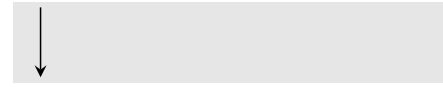
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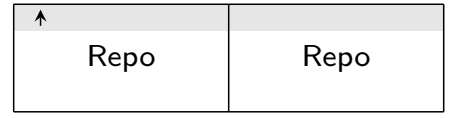

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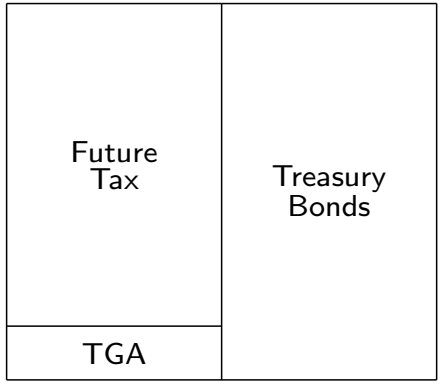
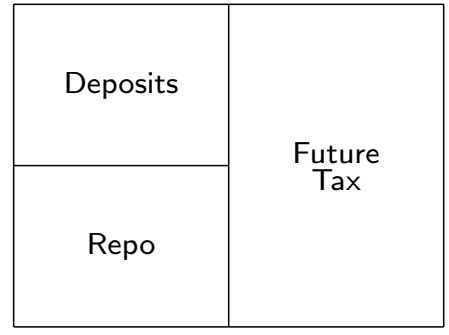


Treasury

Shadow Bank



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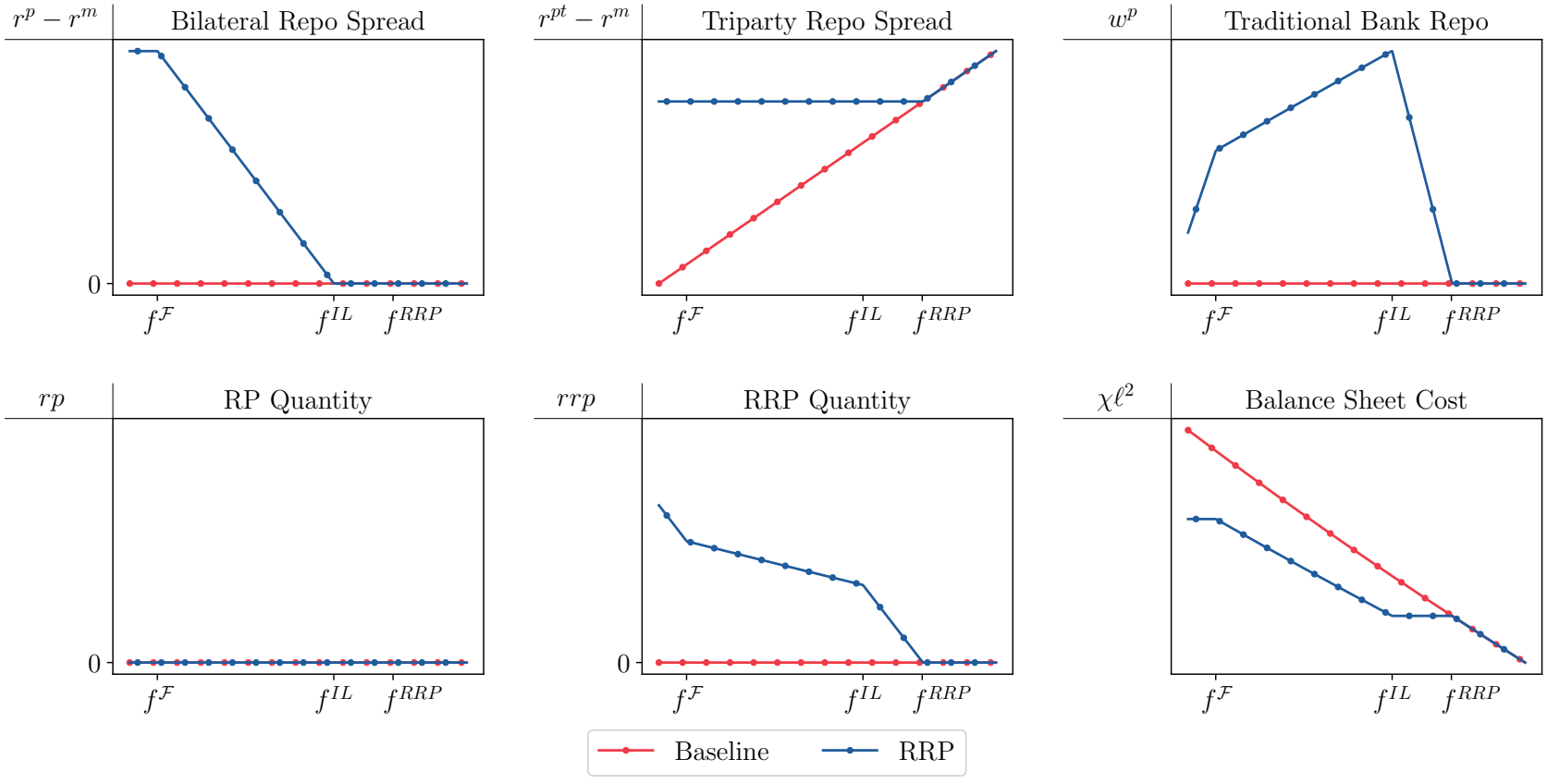
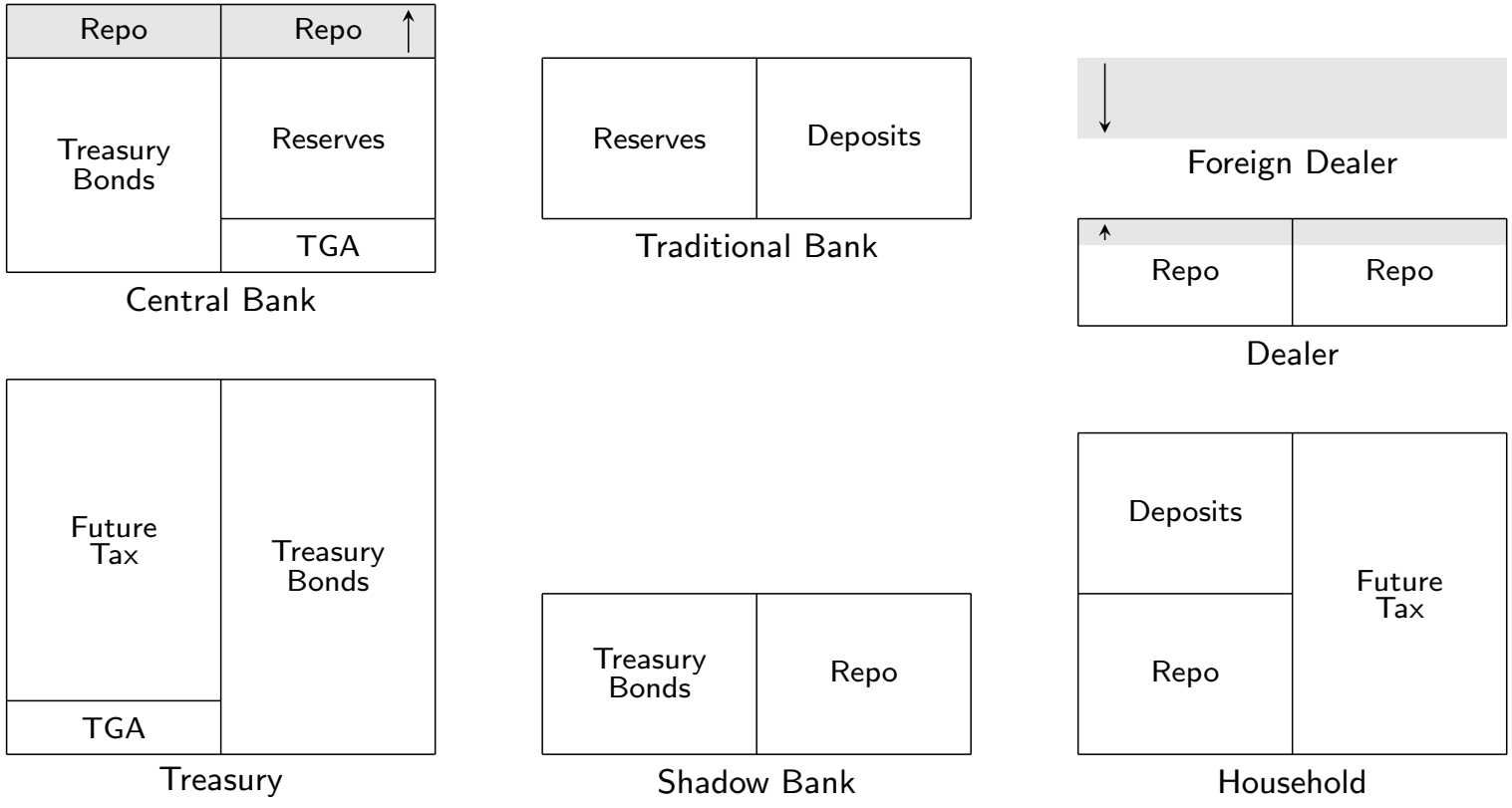
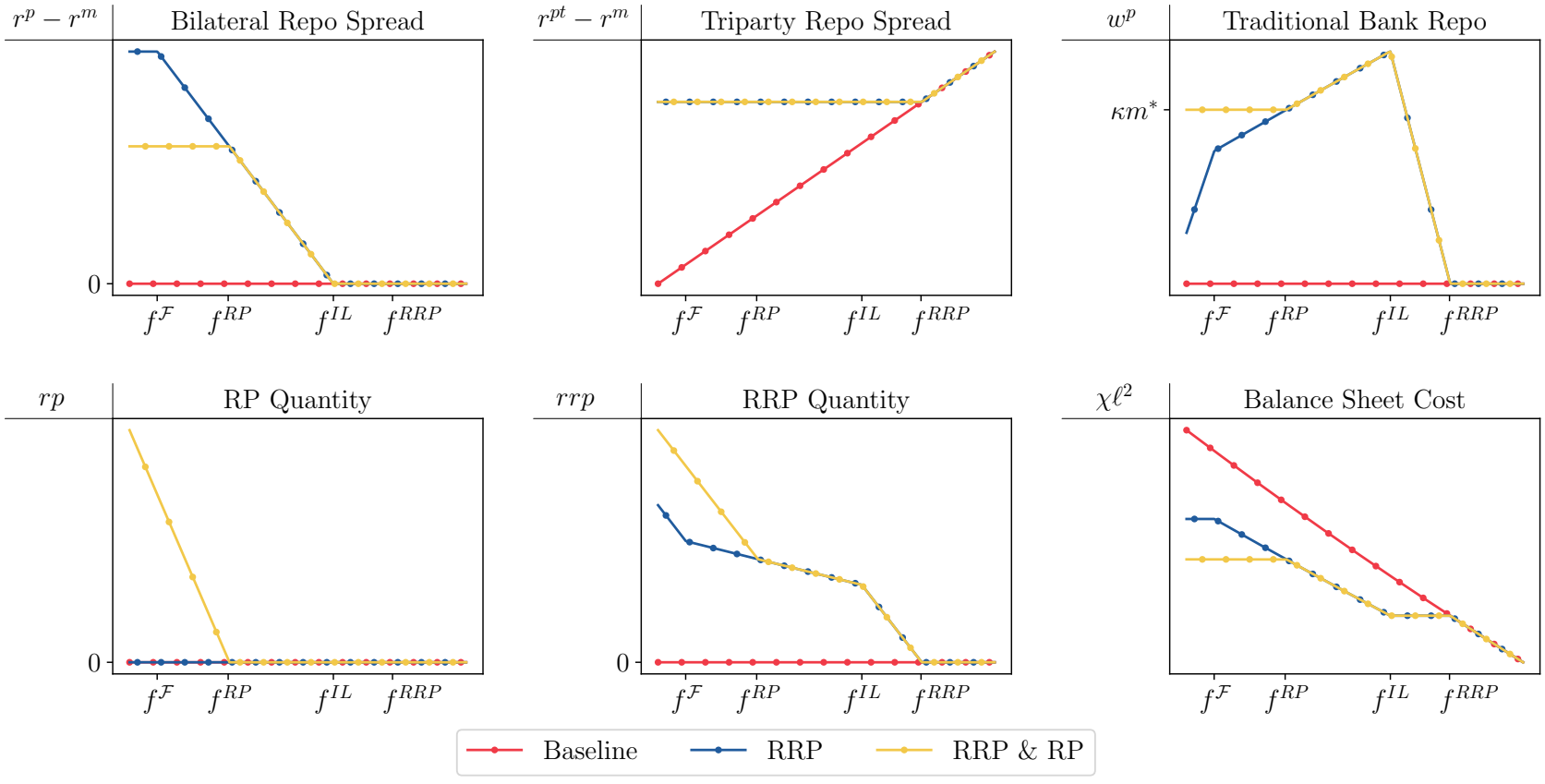


- ▷ RRP floors the triparty rate but drains reserves
- ▷ Generates positive spikes in bilateral repo rates

Intermediation shock — central bank as repo dealer-of-last-resort



Intermediation shock — with RRP + standing repo facility

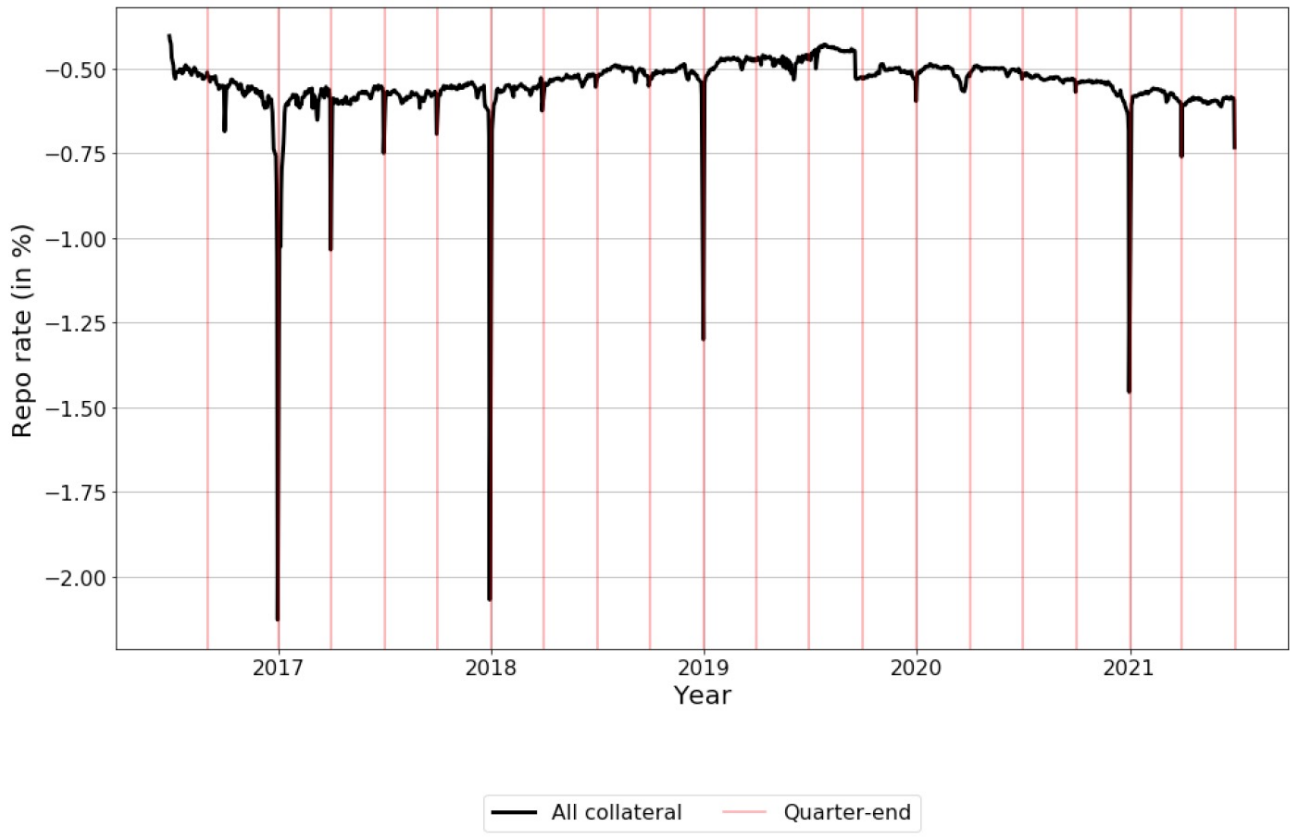


- Fed becomes repo dealer of last resort

Negative repo spikes in Europe

Figure 5: **Evolution of repo rates over time**

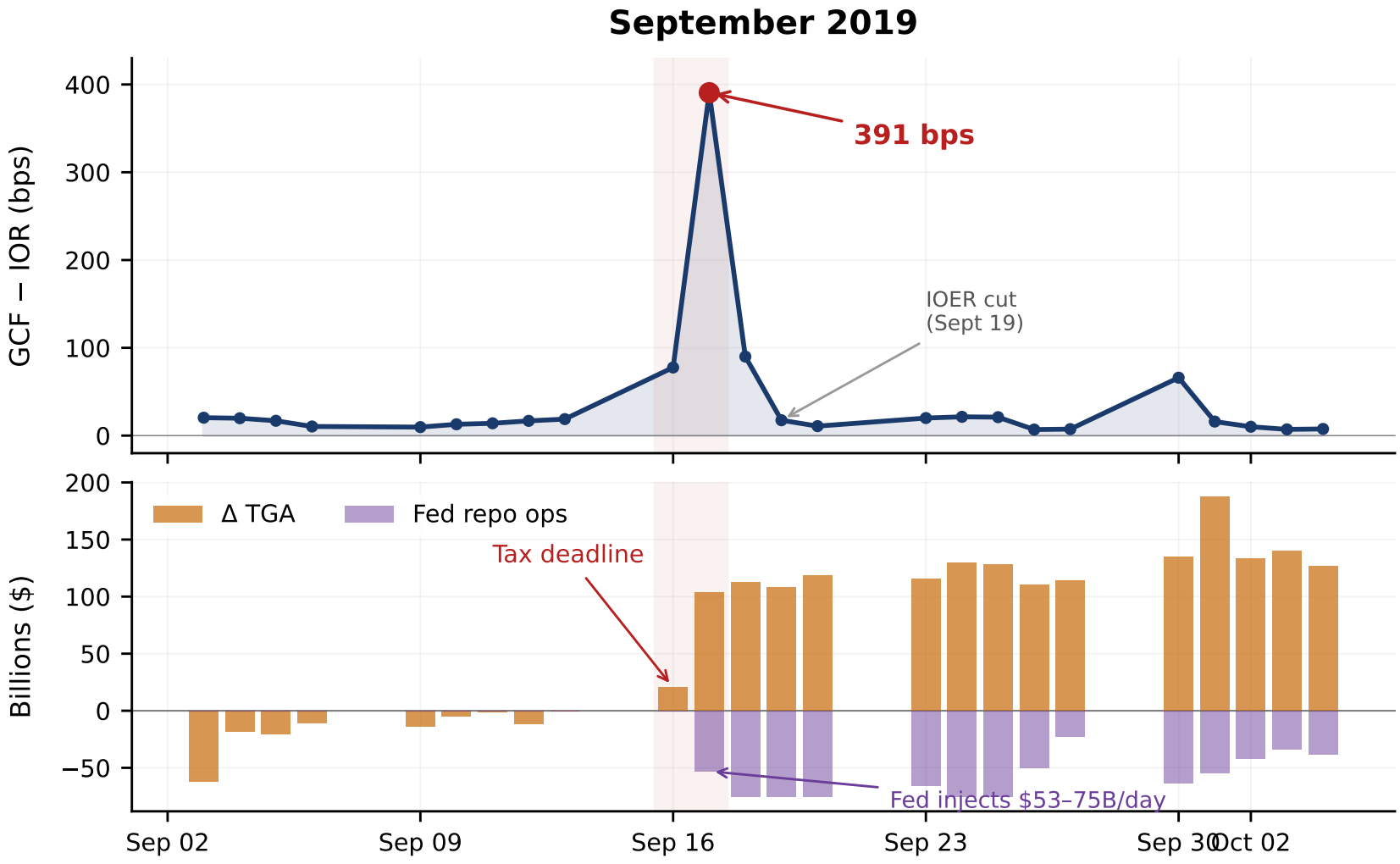
This figure displays the evolution of the volume-weighted repo rate for all collateral issuer locations. The dashed red lines indicate the last trading day in each quarter, i.e. the regulatory reporting date. The sample period is from 1 September 2016 to 30 June 2021.



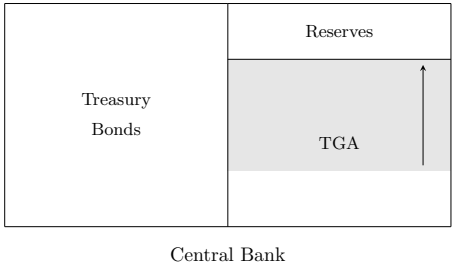
- Source: Bassi, Behn, Grill, and Waibel (2023)
- Window-dressing balance sheet contractions $\Rightarrow$ downward repo spikes

Outline

Tax deadline shock — September 2019



Tax deadline shock — balance sheet



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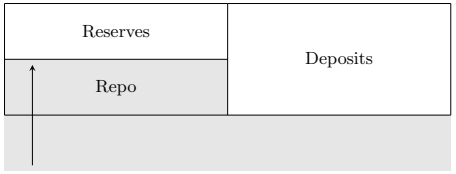
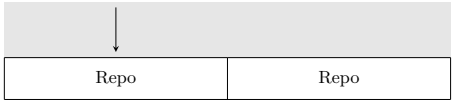
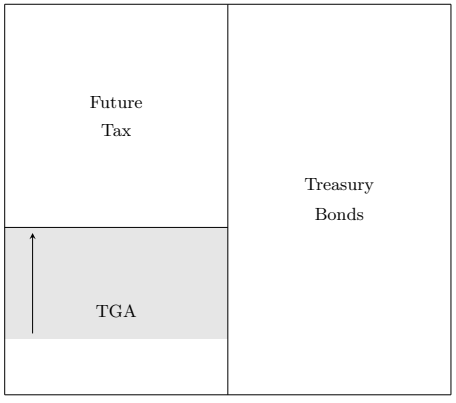


Traditional Bank

Foreign Dealer



Dealer



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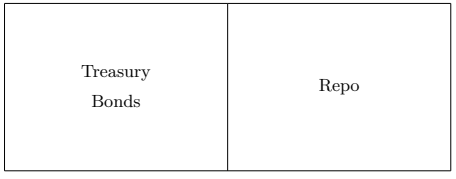

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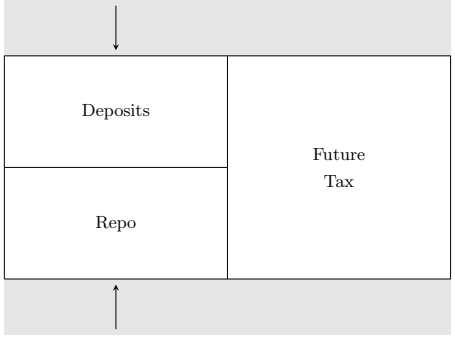
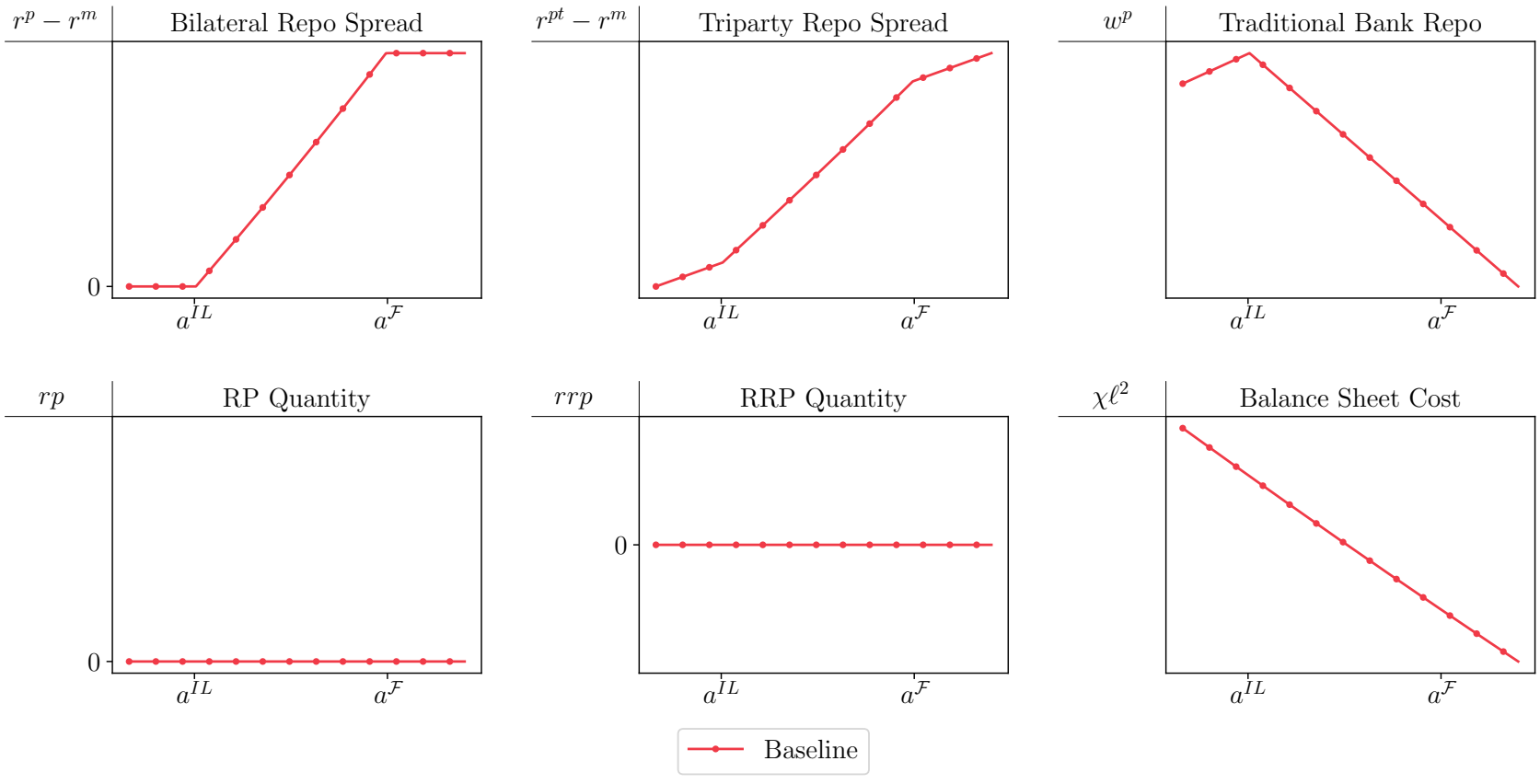


Household

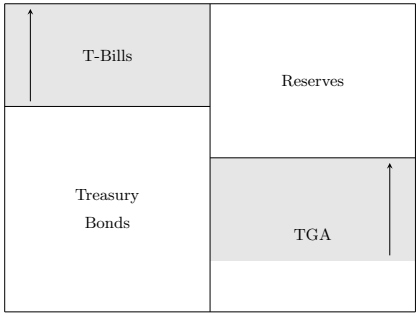
- Passive BS: tax liabilities fall, TGA rises, reserves fall
- Repo demand unchanged but repo supply falls: U to C

Tax deadline shock — model



Outline

VJ proposal — balance sheet (no RRP)



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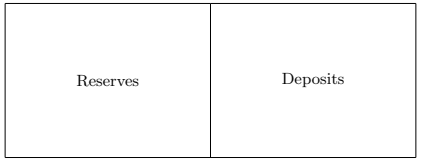

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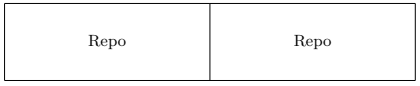

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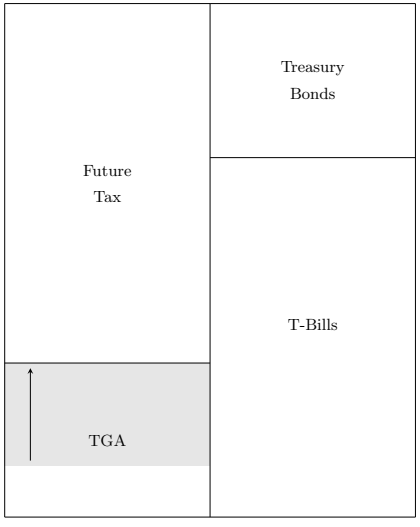

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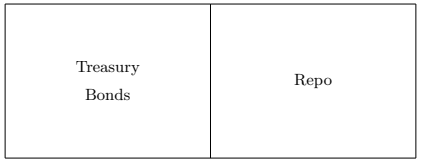

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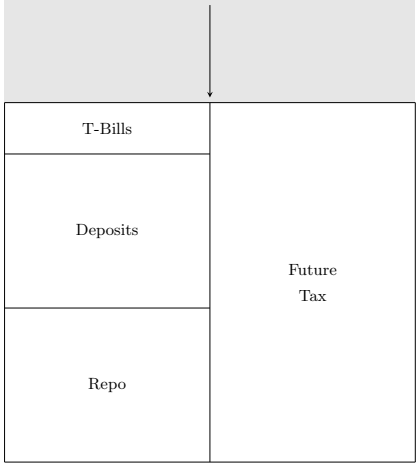
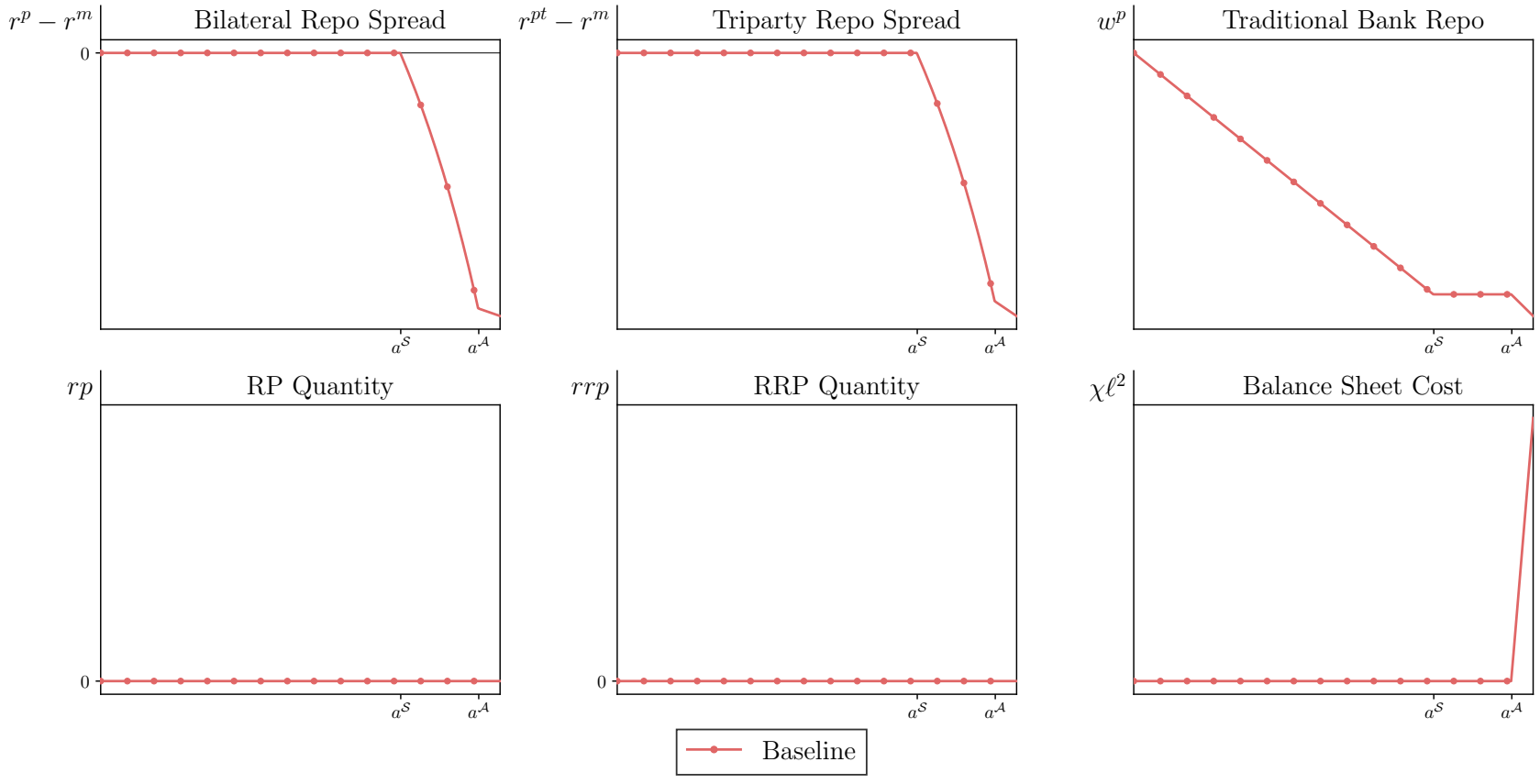


Household

- Tax payment + Fed buys T-bills
- Wealth and private T-bills fall, reserves unchanged
- No U to C transition

VJ proposal — model (no RRP)



- Spreads flat in U (cancellation), diverge in S
- T-bill removal pushes deeper into the segmented regime

Taking stock

- **It works:** reserves stable, repo supply does not fall, no U to C transition
  - → Dominates passive BS on all three criteria

- **But:** rates unstable in the S regime
  - → d'Avernas & Vandeweyer (JF, 2024): LR creates an inaction region
  - → In S, T-bill supply (not reserves) drives repo and T-bill rates
  - → Proposal removes T-bills from private portfolios, pushing deeper into S

- **Does the RRP solve this?**
  - → Yes: RRP floor stabilizes the triparty rate in S
  - → But RRP drains reserves (effective reserves = reserves − RRP take-up)
  - → Could this reintroduce a repo spike through the backdoor?

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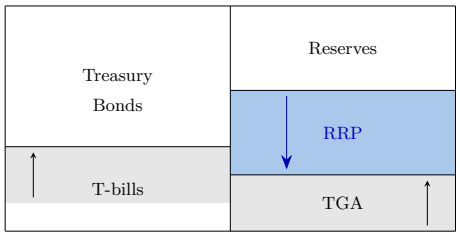
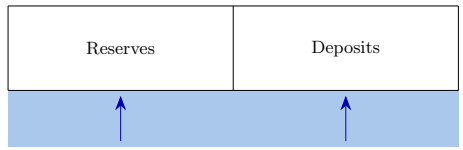
- **But:** rates unstable in the S regime
  - → d'Avernas & Vandeweyer (JF, 2024): LR creates an inaction region
  - → In S, T-bill supply (not reserves) drives repo and T-bill rates
  - → Proposal removes T-bills from private portfolios, pushing deeper into S

- **Does the RRP solve this?**
  - → Yes: RRP floor stabilizes the triparty rate in S
  - → But RRP drains reserves (effective reserves = reserves − RRP take-up)
  - → Could this reintroduce a repo spike through the backdoor?

VJ proposal — balance sheet (with RRP)



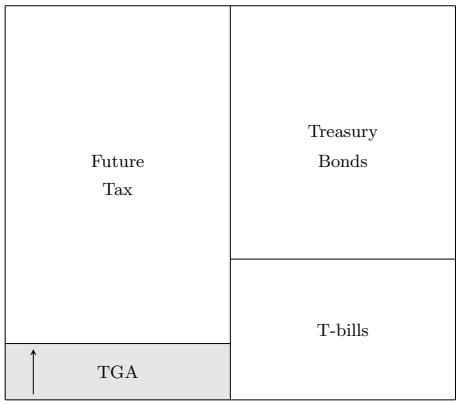
Central Bank



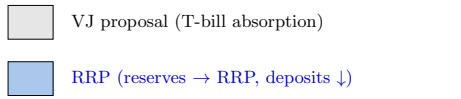
Traditional Bank

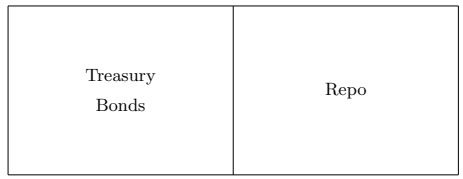
Foreign Dealer

Dealer

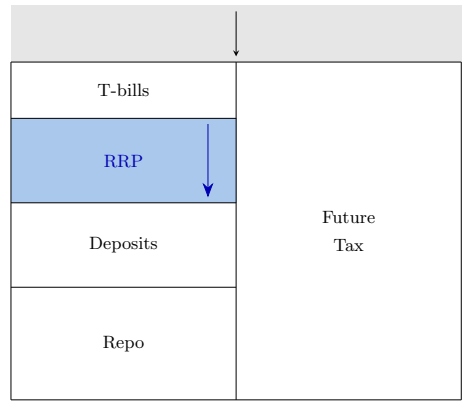


Treasury



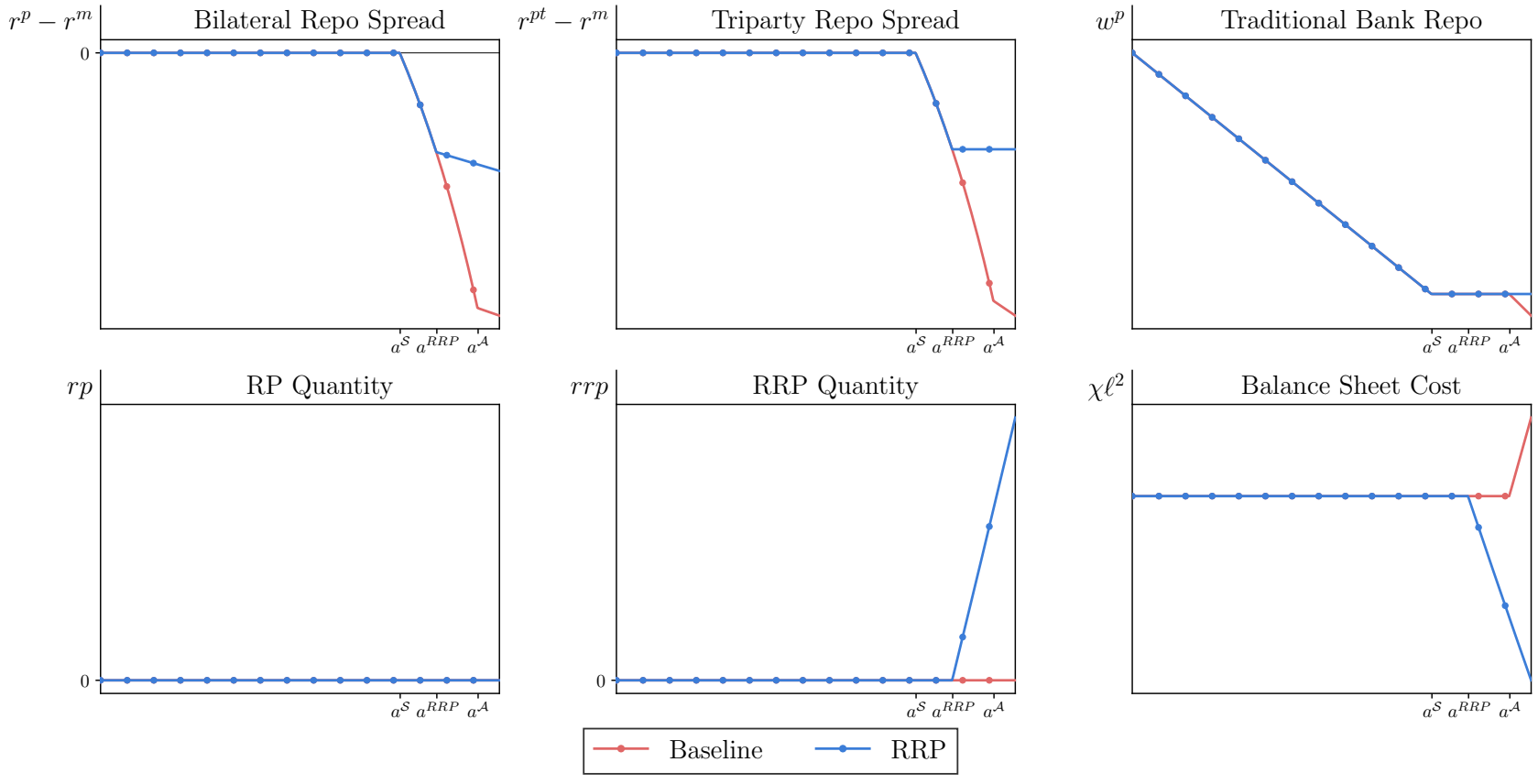


Shadow Bank



Household

VJ proposal — model (with RRP)



- RRP stabilizes triparty rate but drains reserves
- Yet, no repo spike because demand for repo falls faster than its max supply

Relaxing the assumptions

- No bilateral spike relies on stark assumptions: homogeneous institutions, no additional frictions (such as LCR)

- **Extension:** two types of bank-dealers (G-SIBs + other banks)
  - → G-SIBs hold a disproportionate share of reserves and are the dominant bilateral lenders
  - → Bilateral lending limited by reserves (intraday-liquidity constraint)

- **Result:** RRP reserve drain can now cause a bilateral rate spike
  - → RRP depositors are disproportionately G-SIB clients ⇒ drain concentrated on G-SIBs
  - → G-SIB lending capacity falls ⇒ they are forced to cut bilateral repo supply
  - → Bilateral rate must rise to induce smaller banks to fill the gap
  - → Triparty rate remains pinned at the RRP floor — rates diverge

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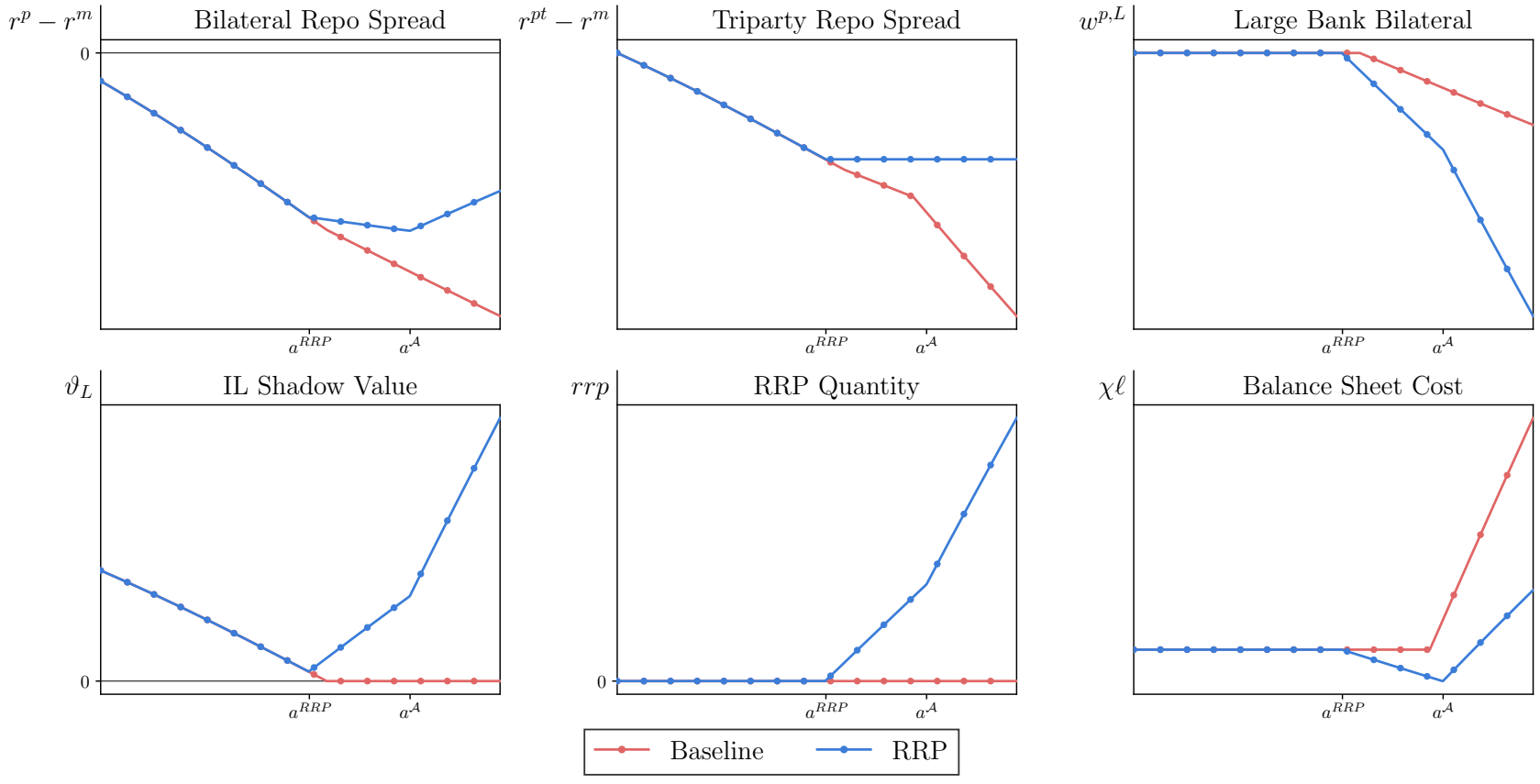
Relaxing the assumptions — model



- G-SIBs hit their IL constraint: bilateral lending drops, rate spikes
- Triparty rate pinned at RRP floor — divergence between bilateral and triparty

Outline

Conclusion

- Implementation frameworks suffer from path-dependence and operational complexity
  - → This paper does an important job questioning the current framework

- The proposition is sound on all three criteria
  - → Rate control: reserves stable ⇒ bilateral rate spikes are prevented
  - → Stance insulation: bills are not a signal
  - → Communication: simple, mechanical rule

- Yet, potential **backdoor resurgence of rate instability**
  - → RRP drains reserves; no-spike result relies on stark assumptions
  - → Bank heterogeneity, LCR frictions, or leakage could break it
  - → Especially in the S regime where T-bill supply drives rates

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