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The Effectiveness of the Fed's Monetary Policy in Targeting Inflation in the Years 2022–2024

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ABSTRACT

This article analyzes the inflationary dynamics in the United States and Europe, the factors that drive them, and the recessionary risks obscured by understated official statistics. The study emphasizes the global significance of monetary policies implemented by the Federal Reserve (Fed) and the European Central Bank (ECB) under inflation targeting. The objective is to assess the effectiveness of these policies in the face of divergent regulatory measures. Using systems theory, financial and statistical analysis, and liquidity cycle modeling, the research identifies the key drivers of inflation in 2022–2024, evaluates the Fed's policy of interest rate hikes and balance sheet reduction, and examines their impact on inflation and recession dynamics. The findings show that measures intended to curb inflation have instead increased Treasury yields, worsened debt refinancing, and pushed the financial system towards a liquidity crisis by early 2025. The study highlights persistent imbalances, including oil market cycles, low strategic reserves, unrealized bond losses, central bank deficits, and rising sovereign debt costs, which hinder the stabilization of inflation. It concludes that monetary tightening has had counterproductive effects, making interest rate reductions unlikely before 2026. These results valuable provide insights for policymakers and other stakeholders in developing effective monetary strategies.

Keywords: Inflation; monetary policy; interest rates; global liquidity index; reverse REPO

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INTRODUCTION

Global inflationary processes are an important economic factor that significantly impacts the standard of living and development of territories. Therefore, they are a focus of attention for central banks and financial institutions.

The main instruments used by monetary policy to influence inflationary processes include interest rate policy, changes in mandatory reserve requirements, currency regulation, and REPO operations. These measures are aimed at achieving the central bank's objectives, which include maintaining price stability and ensuring economic growth.

In accordance with these objectives, the Central Bank of Russia has set a target for inflation targeting of "near 4%" [1] for 2025 and beyond. This target is designed to ensure stable prices and economic growth, while also taking into account the specific circumstances of the country's economy. But, as experience shows, inflation targeting does not solve the problems of economic growth, and often on the contrary — it does not ensure balanced and sustainable growth in any way [1]. Monetary policy is a complex trade-off between stimulating economic activity on the one hand and avoiding bubbles on the other. For example, in the post-covid period, central banks faced a dilemma between "... containing the rate of inflation by monetary methods and supporting aggregate demand" [2].

Higher interest rates have a negative impact on economic growth, as they limit resources for the development of the industrial sector.

[1] The official website of the Central Bank of the Russian Federation «The main directions of the unified state monetary policy for 2025 and the period 2026 and 2027». URL: https://www.consultant.ru/document/cons_doc_LAW_489408 / (accessed on 05.09.2025).

However, its impact depends on many factors, such as the situation in the labor market, the level of inflation, and the state of the financial market.

The aim of the study is to determine how indicators of macroeconomic development react to changes in interest rates and what problems this causes. The research methodology includes a systematic analysis of the functioning of the main elements of macroeconomic policy and their interrelations as factors of inflationary processes, a statistical study of liquidity cycles, and a horizontal analysis of financial market indicators. Empirical relationships between the mutual influence of macroeconomic indicators and the volume of the money supply, identified at the beginning of the XXI century, are currently not relevant. The tools used by central banks in the system of financial management of the economy do not take into account that the inflation formula contains not only the amount of money supply, but also the volume of commodity output, which the monetary authorities are not authorized to manage.

Thus, the study includes an analysis of data on inflation, GDP indicators, the state of financial markets, treasury rate growth, yield curve inversion, global liquidity volumes, central bank losses, and commercial bank unrealized losses. The results of this study can help government and other stakeholders make informed monetary policy decisions based on more accurate data and forecasts.

ANALYSIS OF US AND EU INFLATION AND GROSS DOMESTIC PRODUCT

Financial analysts involved in forecasting the level of inflation and economic development predicted optimistic indicators of the inflation rate for 2022. For example, according to the World Bank, the global inflation rate in 2021 was 3.5%,[2] and the forecast for growth rates in economically developed countries has assumed a decrease, from 5% in 2021, to 3.8% in 2022, and 2.3% in 2023.

The growth rate of economically developed countries and the rate of inflation in these countries are traditionally influenced by a significant number of factors. *Figure 1* shows the US and EU inflation rates over the past 10 years, and *Figure 2* shows the rate of change in GDP in these countries.

Using the Bayesian dynamic factor model of the euro area, economists estimated output deviations from the trend that are consistent with the behavior of inflation. The version that best predicts inflation shows that after the 2011 sovereign debt crisis, the output gap in the euro area was much larger than official estimates [3]. To more accurately predict the level of inflation, it is necessary to take into account the factor of production gaps and make an objective assessment of production volumes.

According to the Harmonised Consumer Price Index (HICP), overall inflation in the euro area, which was 1.2% in 2019, fell to 0.3% in 2020 and was even negative in the second half of 2020 before rising again to 2.6% in 2021. Since mid-2021, overall inflation has increased particularly sharply, reaching a historic high of 5.9% in February 2022 [4]. As of August 2022, cyclical and residual inflation contribute 3.2% and 2.8% to overall EU inflation, respectively. Inrelation to cyclical inflation, the demand component shows the largest contribution — 1.9% compared to 1.3% for supply. As for residual inflation, we can see that the largest contribution from the supply side (energy and logistics) is 1.6% compared to 0.5% from the demand side. Other factors, such as geopolitical tensions, contributed 0.7% to overall EU inflation [5].

One of the extreme positions of financial analysts is that attempts by central banks to deal with the negative effects of inflation can lead to a prolonged and deep recession. In their opinion, such measures will cause serious economic difficulties and debt crises [6]. On the other hand, forecasting

[2] The official website of the World Bank "Inflation, consumer prices (annual%). The World Bank Data". URL: https://data.worldbank.org/indicator/FP.CPI.TOTL.ZG (accessed on 28.05.2025).

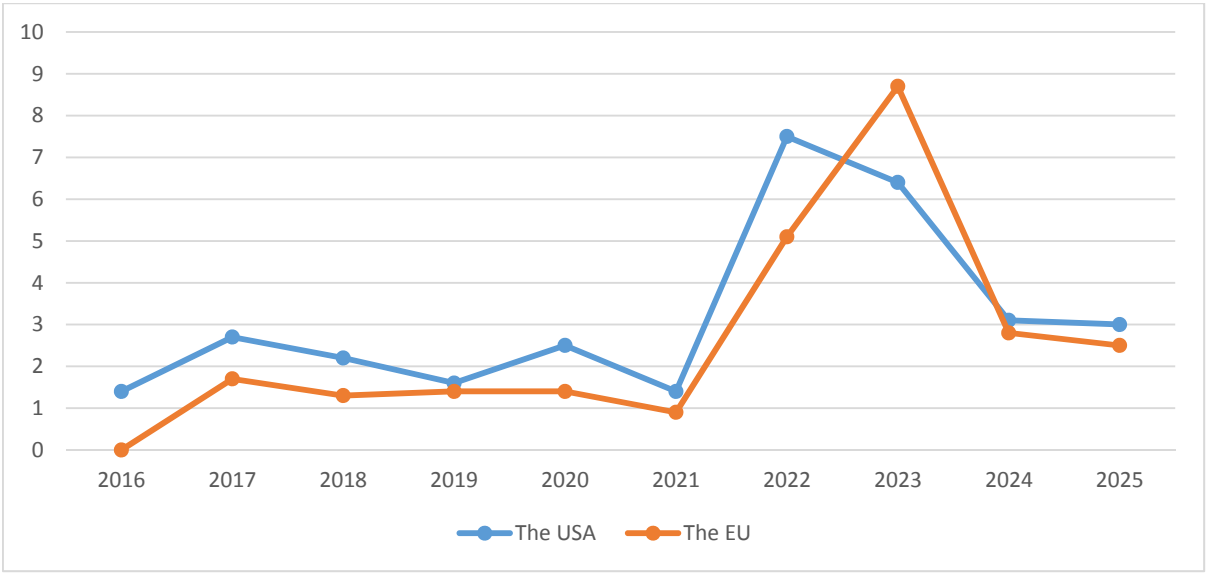

Fig. 1. **Inflation Rate in the US and the EU, %**

Source: Author's calculations from the database of world market indicators. URL: https://tradingeconomics.com/united-states/inflation-cpi; https://tradingeconomics.com/euro-area/inflation-cpi (accessed on 05.09.2025).

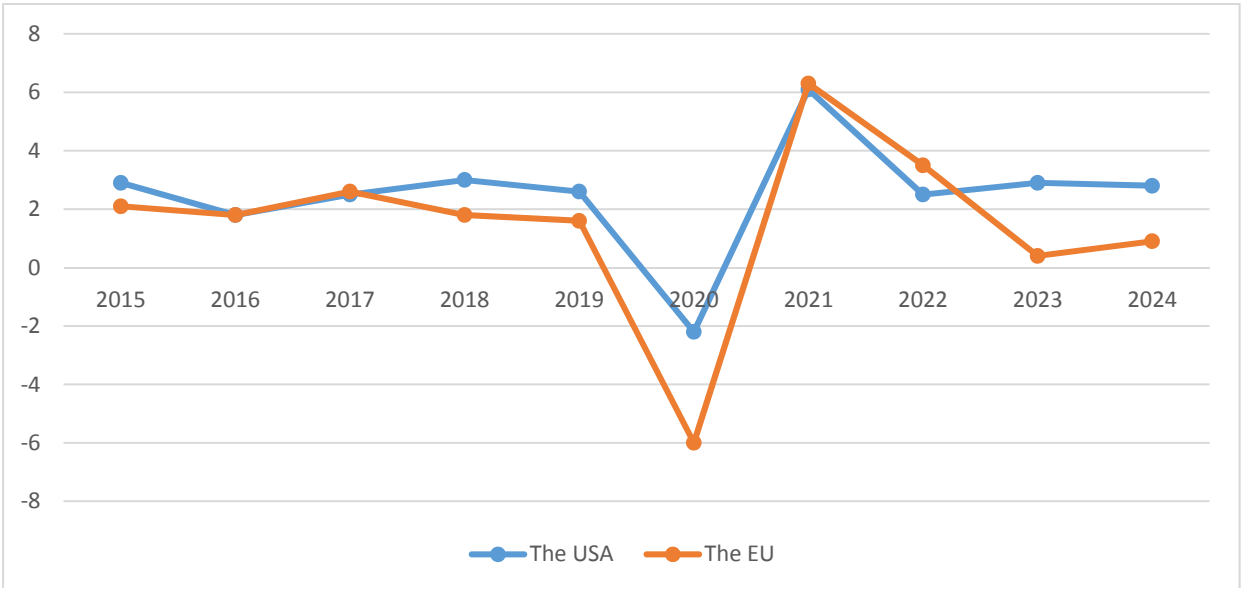

Fig. 2. **United States, EU GDP Growth Rate, %**

Source: Author's calculations based on the database of world market indicators. URL: https://tradingeconomics.com/united-states/gdp-growth; https://tradingeconomics.com/euro-area/gdp-growth (accessed on 05.09.2025).

macroeconomic and financial cycles is always a multi-factor model that takes into account common deterministic and random factors, but statistical relationships between the dynamics of money supply increment and GDP have been repeatedly proved by scientists [7]. In practice, the method of forecasting inflation based on unobservable components, a flexible approach to the inflation trend, and an alternative indicator of labor market weakness shows that there is a direct relationship between accrued wages, inflation, and GDP [8].

Central banks, represented by the Federal Reserve System (FRS) and the European Central Bank (ECB), began to tighten monetary policy back in 2022.A sharp increase in the key rate and a reduction in the balance sheet of the Fed and the ECB were aimed at reducing the monetary component of inflation. The rate hike

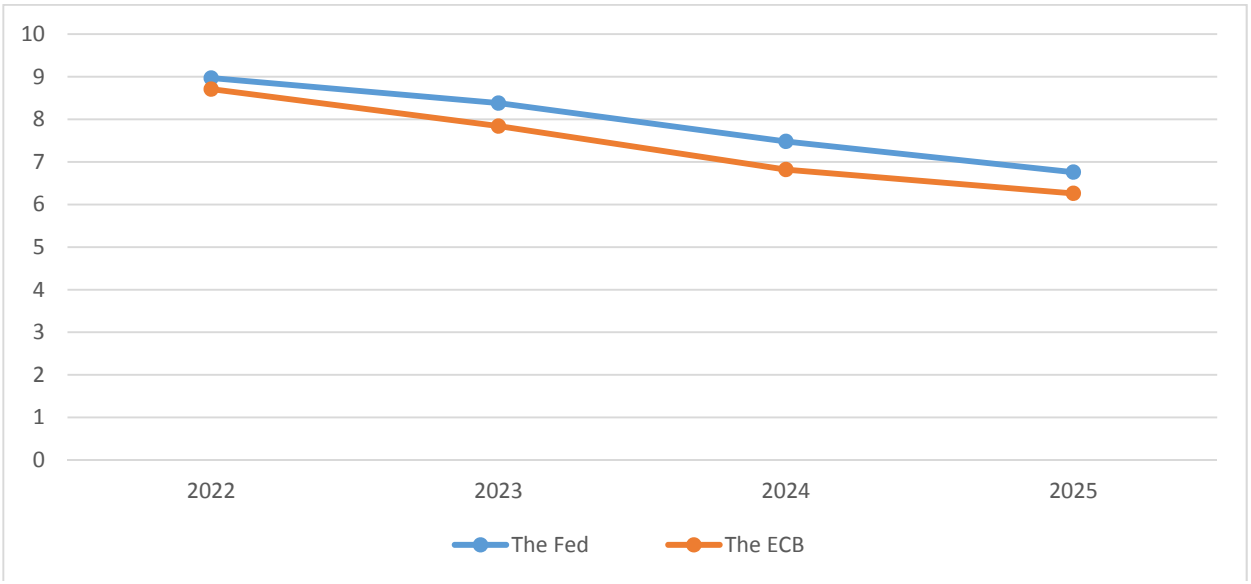

Fig. 3. **The Reduction of the Balance Sheets of the Federal Reserve and the European Central Bank, in Trillion Dollars and Trillion Euros**

Source: Author's calculations based on the database of world market indicators. URL: https://tradingeconomics.com/united-states/central-bank-balance-sheet; https://tradingeconomics.com/euro-area/central-bank-balance-sheet (accessed on 05.09.2025).

occurred in the US from 0.25% to 5%.[3] Since US inflation is well above the 2% target (and its true values are being falsified), the current restrictive monetary policy will continue. The Fed's balance sheet tightening is shown in *Fig. 3*. The US Federal Reserve's balance sheet reduction, also known as "QT" or "quantitative tightening," is the process of gradually reducing the size of the Fed's balance sheet by selling government securities and other assets from its portfolio. During the period under review, the Fed systematically reduced its balance sheet. Overall, the balance sheet was reduced by $ 2 trillion 370 billion from March 2022 to September 2025.

It is natural that in the situation of an increase in the key rate and the sale of such significant volumes of securities on the open market, their value decreased and profitability increased. As can be seen in *Figure 4,* starting in July 2022, when the Fed's balance sheet reduction began, interest rates on Treasury bonds began to rise, which currently amount to about 4% per annum.

Central banks set a monetary policy horizon of several years, but it can be adjusted depending on changes in the economic situation. For example, the central bank can increase the horizon if inflation expectations are stable and the economy is growing, or reduce it if inflation is accelerating and a quick response is required. The study [9] shows that inflation targeting is an important tool for ensuring the economic security of the state. Adequate value of the key rate is a debatable issue, but as the study [10] shows, developed countries are characterized by low values of the key rate, while developing countries have higher values. In turn, high interest rates are a barrier to entry into high-tech industries, which again makes it difficult for a country to move from the developing to the developed category [11].

The role of the financial cycle in macroeconomics requires a rethink of modeling strategies and significant adjustments to macroeconomic policies. The study [12] examines the political implications of the financial cycle in macroeconomics and reveals that the recession phase, which is

[3] The official website of the US Federal Reserve System. Overview: The Federal Reserve Board and the Federal Open Market Committee will publish economic forecasts following the FOMC meeting on March 21–22. URL: https://www.federalreserve.gov/newsevents/pressreleases/monetary20230322a.htm (accessed on 28.05.2025).

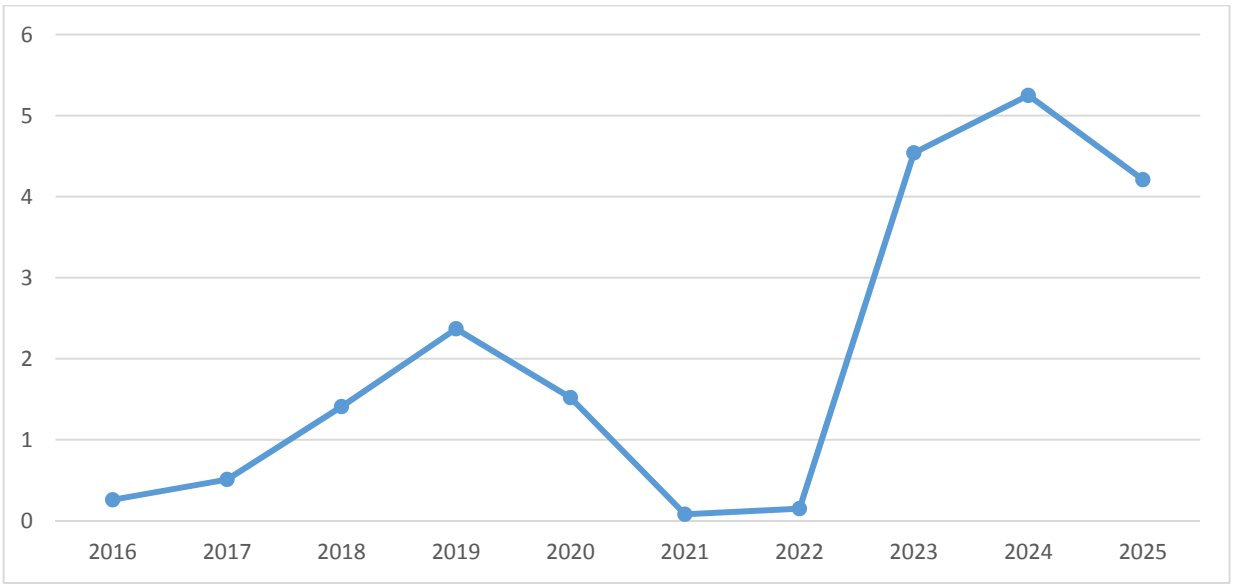

Fig. 4. **The Dynamics of Growth Rates on Treasury Bills. 3-Month Treasury Bill Secondary Market Rate, Discount Basis**

Source: Author's calculations based on the database FRED. URL: https://fred.stlouisfed.org/series/TB3MS (accessed on 05.09.2025).

less well understood, now raises much more questions in the economic environment. Economists, considering the cyclical nature of financial, inflationary, and macroeconomic processes, ask how to explain this cyclical nature, and whether the factors of recovery are already the cause of the subsequent decline [13]. The formation of aggregate fluctuations is the result of various mechanisms related to the position of global monetary policy (large deviation), the behavior of financial institutions that accept risks (large use of borrowed funds) and global imbalances [14].

PROBLEMS OF GOVERNMENT DEBT REFINANCING AND LIQUIDITY IN THE FINANCIAL SYSTEM

The financial authorities of various countries face the issue of refinancing public debts in the face of rising inflation. Since real interest rates turn out to be negative, the issue and placement of a new volume of government bonds becomes a very problematic task for ministries and relevant government agencies.

Before the key rate hike, i.e. until July 2022, the government debt could be effectively refinanced. Prerequisites for smooth refinancing of the national debt were:

- dynamics of the key rate reduction over the decades and its fixation at values near zero, which allowed for "cheap" issuance;
- high liquidity of the banking sector; during this period, the Fed's balance sheet was actively growing, and the quantitative easing policy providedcommercial and central banks of other countries with barrier-free access to dollar liquidity;
- valuation, accounting and collateral of US Treasury bonds at zero risk ratios, which allowed not to create reserves, issue loans and use securities in circulation as risk-free assets;
- increased leverage, as low interest rates andrisk-free assets allow commercial banks to use them as collateral repeatedly, which leads to a 10-fold increase in leverage and an increase in credit issuance;
- lower rates on credit default swaps, provided a cheap cost of hedging risk, and in some cases completely eliminated the need to hedge risks;
- "non-inflationary" state of the economy, since the absence of inflation or its moderate value determines the normal distribution of interest rates, when rates on the long-term debt market are higher than rates on the short-term one.

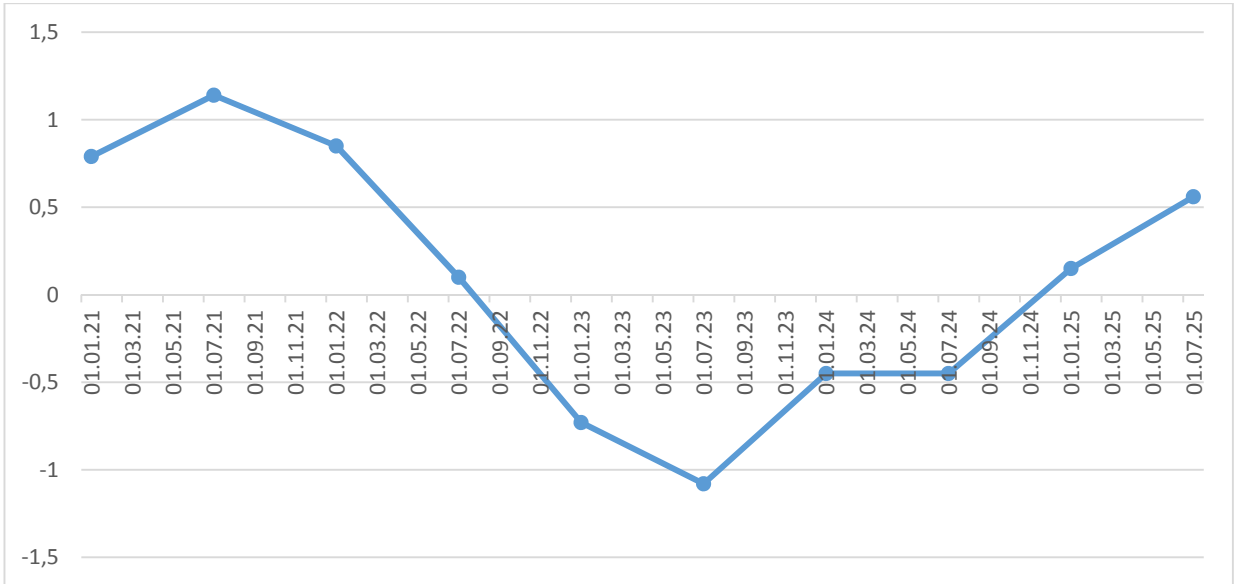

Fig. 5. **Inversion of the Yield Curve of 10- and 2-Year US Treasury Bonds**

Source: Author's calculations based on the database FRED. URL: https://fred.stlouisfed.org/series/T10Y 2Y (accessed on 05.09.2025).

However, in a state of high inflation, refinancing public debt becomes more difficult, as inflation and inflationary expectations generate an inversion of the yield curve. As we can see in *Fig. 5*, since July 2022, the difference between the yield on ten-year and two-year bonds has entered negative territory and remained there until the beginning of 2025.

Rising interest rates have a negative impact not only on the ability to refinance government debt, but also on the overall liquidity of the financial system. The Global Liquidity Index is an important indicator for investors, as the level of liquidity can strongly influence asset prices and the overall economic situation in the world. As noted in the study [15], "financial liquidity is largely procyclical. Its volume increases with upward economic dynamics. Under these conditions, the liquidity of many financial instruments is maximized." It is quite logical to conclude the opposite, that with a decline in economic activity, the liquidity of financial assets will decrease, and in times of recession it will be minimal. Thus, according to the Bank for International Settlements (BIS), the volume of international debt securities denominated in US dollars declinedfor the first time since the 2008–2009 financial crisis.[4] If we estimate the change in global liquidity based on the MDB data shown in *Fig. 6*, we can trace 65-month cycles and conclude that by the end of 2025 — beginning of 2026, the financial system will be at the limit of liquidity decline.

As rising interest rates in the US debt market have led to a stronger dollar against other global currencies, this has had a significant impact on sovereign debt and foreign exchange markets. The main problem of the decade of low interest rates is the growing global debt denominated in US dollars. Global liabilities amount to about $ 300 trillion, and as interest rates rise, it becomes more expensive to refinance global debt. Owners of major US debts are China, South Korea, Japan, Germany — find themselves in a situation of devaluation of national currencies and the need to reduce the balance sheets of their central banks by selling US Treasurybonds, which provokes a new round of asset depreciation and higher interest rates. A typical example is the crisis of the Japanese yen and the British pound in the fall of 2022. Thus, the UK's foreign exchange reserves by

[4] The official website of the Bank for International Settlements. What is international debt security in the statistics of the BIS? URL: https://www.bis.org/publ/qtrpdf/r_qt2106z.htm (accessed on 28.05.2023).

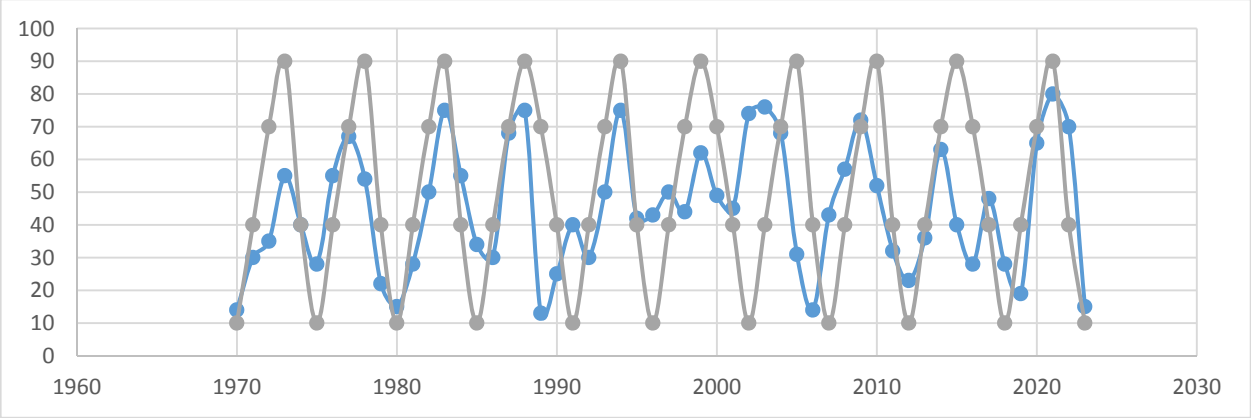

Fig. 6. **Global Liquidity Index**

Source: Author's calculations based on the database BIS. URL: https://www.bis.org/statistics/gli.htm?m=2690 (accessed on 05.09.2025).

the beginning of autumn 2022 amounted to only $ 108 billion, while the pound sterling lost almost 20% against the dollar, and there was a maximum increase in rates on ten-year British bonds. Bloomberg called it "the bursting of the government bond bubble, the worst since 1949".[5]

REVERSE REPO AND OIL CYCLE FACTORS, DESTABILIZING THE FINANCIAL SYSTEM

In the context of rising interest rates and tightening monetary policy, an interesting trend can be noted — an impressive volume of reverse (for banks) repos with the Fed in 2022–2023. Reverse REPO — a lending transaction secured by securities. If the bank makes a reverse REPO, it buys the security from the Fed, thereby lending funds, and then sells the paper back, but at a higher price. The difference between the purchase and sale prices is the repo rate at which the bank lends. In the case of the Fed, the repo rate is 4.8% per annum.[6] U.S. Treasuries act as collateral for such transactions.

Figure 7 shows that the Fed's lending growth from banks began in the second quarter of 2021, before the FOMC's first hike decision on March 17, 2022. What is the reason for this trend?

First factor: reverse REPO is, on the one hand, a lending transaction, and on the other — a tool for opening a short position, that is, the bank receives paper through the REPO and sells it to the market, expecting that it will buy it back cheaper. Since the REPO with the Fed is an overnight loan, that is, for a period of 1 day, banks simply roll over the transaction every day.

Comparing the beginning of the growth of reverse repo transactions with the Fed with the chart of changes in the yield on the ten-year UST (*Fig. 8*), we can conclude that banks and management companies began to increase the volume of REPO transactions in response to a sharp increase in UST rates in the first quarter of 2021. Thus, banks took UST on REPO and opened a short position on securities on the eve of a strong rate increase, well in advance of the Fed Funds Rate hike cycle Rate. As you can see, the strategy was fully justified, since the growth of interest rates has a negative correlation with the price of bonds. In other words, banks borrowed paper to sell it at a high price, and now they are rolling over this deal, waiting for the UST price to reach the lowest possible value given the current Fed rate hike cycle, then buying back the much cheaper bonds and closing the REPO.

[5] The website of the Bloomberg News agency. The big bond bubble burst in the worst year since 1949. URL: https://www.bloomberg.com/news/articles/2022–09–24/the-great-bond-bubble-is-poof-gone-in-worst-year-since-1949 (accessed on 28.05.2025).

[6] The official website of the Federal Reserve Bank of New York «Reverse REPO options with the Fed». URL: https://www.newyorkfed.org/markets/rrp_faq.html (accessed on 28.05.2025).

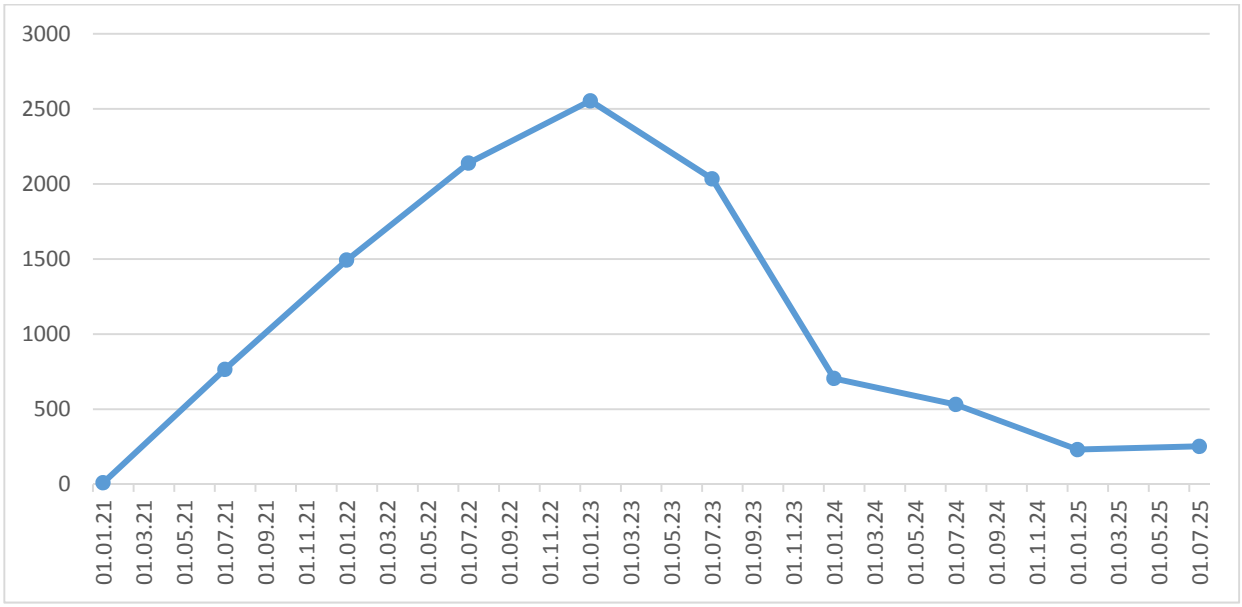

Fig. 7. **Volume of Reverse Repo Transactions with the Federal Reserve, USD Billion**

Source: Author's calculations based on the database FRED. URL: https://fred.stlouisfed.org/series/RRPONTSYD (accessed on 05.09.2025).

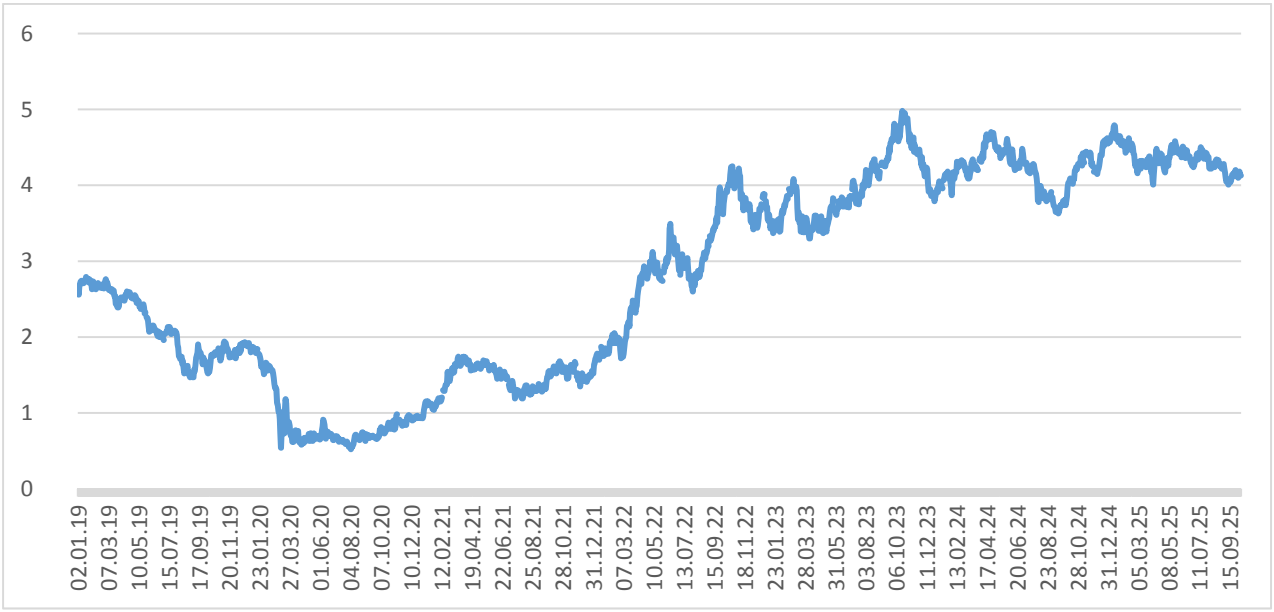

Fig. 8. **Chart of Yield Changes for Ten-Year UST. 10-Year Treasury Constant Maturity**

Source: Author's calculations based on the database FRED. URL: https://fred.stlouisfed.org/series/T10Y 2Y (accessed on 28.05.2025).

The second factor is direct lending under REPO. To conclude a reverse REPO transaction, the bank needs to have sufficientliquidity, in other words, have money in the account for which it will buy paper for the first part of the REPO. A bank or financial institution cannot afford to keep money: every ruble, dollar, or dirham must always be invested. It should be noted that the regulator was given more than 2.2 trillion US dollars on a daily basis. This indicates that banks and other financial institutions have exhausted other investment opportunities: either they consider them too toxic in terms of risk, or they simply do not see opportunities for investing such a significant amount of liquidity. That is, the Fed and

news sources do not deceive when, against the background of the collapse of banks, they say that there is enough liquidity in the US financial system. However, there is one caveat: not everyone is allowed to REPO with the Fed, but only two groups of financial institutions — Fed Primary Dealers[7] and RRP Counterparts.[8] The first group consists of the most famous names in global markets, plus a couple of local players (JP Morgan, Goldman Sachs, Wells Wells Fargo, BofA, etc.). The second group includes the largest management companies, whose names are also known to everyone in the market (Alliance Bernstein, Black Rock, Fidelity).An increase in interest rates is a favorable situation for the fourth year already for the largest participants in the financial market, who knew about it in advance, back in 2021, before the Fed and ECB started raising rates, and began to make the necessary trading operations.

The sale of SPR — strategic oil reserves — is included in the list of factors that destabilize the financial system, since the strategic oil reserve for the United States acts as a kind of analogue of the gold and foreign exchange reserves of developing countries. When a sovereign currency is devalued, the central banks of countries begin to sell foreign exchange reserves to stabilize the national currency. The United States sells its oil reserves for the same purpose — to reduce inflation — by balancing the dollar against energy. The Fed's view of inflation dynamics is that three components are important:

- a trend driven by long-term inflationary expectations;
- a cycle connecting nominal and real variable factors.
- oil prices.

The econometric structural model of inflation that formalizes this view indicates a stable trend of expectations, a significant and well-defined Phillips curve, and the oil cycle, which, contrary to the standard model of rational expectations, affects inflation through expectations, without affecting the supply gaps of petroleum products. Thus, the use of the US strategic petroleum reserve is aimed at avoiding crises in the supply of petroleum products, which often exceed the Phillips curve. "In fact, the combined dynamics of the Phillips curve cycle and oil cycles explain the inflationary conundrums of the last ten years" [16].

CENTRAL BANK LOSSES AND UNREALIZED LOSSES ACROSS THE ENTIRE FINANCIAL SYSTEM

Thus, the main problem that arises in the context of rising inflation and tightening of monetary policy by central banks is the vulnerability of the entire financial system to high interest rates. If you look at the structure of the Fed's balance sheet according to report Z1, you can estimate the unrealized loss on bonds, that is, the amount of discrepancy between the nominal and real value. The total unrealized loss on government, municipal, mortgage and corporate bonds will amount to almost $ 5 trillion. In this situation, it is obvious that the debt market is experiencing significant pressure frominterest rates, the growth of which leads to such a record drop in the market value of securities. If you look at the share of each type of paper in total losses, then government bonds contributed 46% to total losses, corporate bonds — 30%, mortgage securities — 21%, municipal securities –3%. However, on the balance sheet of commercial banks, securities are evaluated by different methods depending on the type. And manipulating the transfer of securities into various types, mainly from securities for resale to securities before holding, allows banks to avoid recording all unrealized losses.

Also in the list of factors that provoke the maximum load on the financial system, include losses of the Fed. This is an exceptionally rare event that occurred for the

[7] The official website of the Federal Reserve Bank of New York. Primary dealers with the Fed. URL: https://www.newyorkfed.org/markets/primarydealers (accessed on 28.05.2023).

[8] The official website of the Federal Reserve Bank of New York "Reverse REPO counterparties with the Fed". URL: https://www.newyorkfed.org/markets/rrp_counterparties#additions-and-removals (accessed on 28.05.2025).

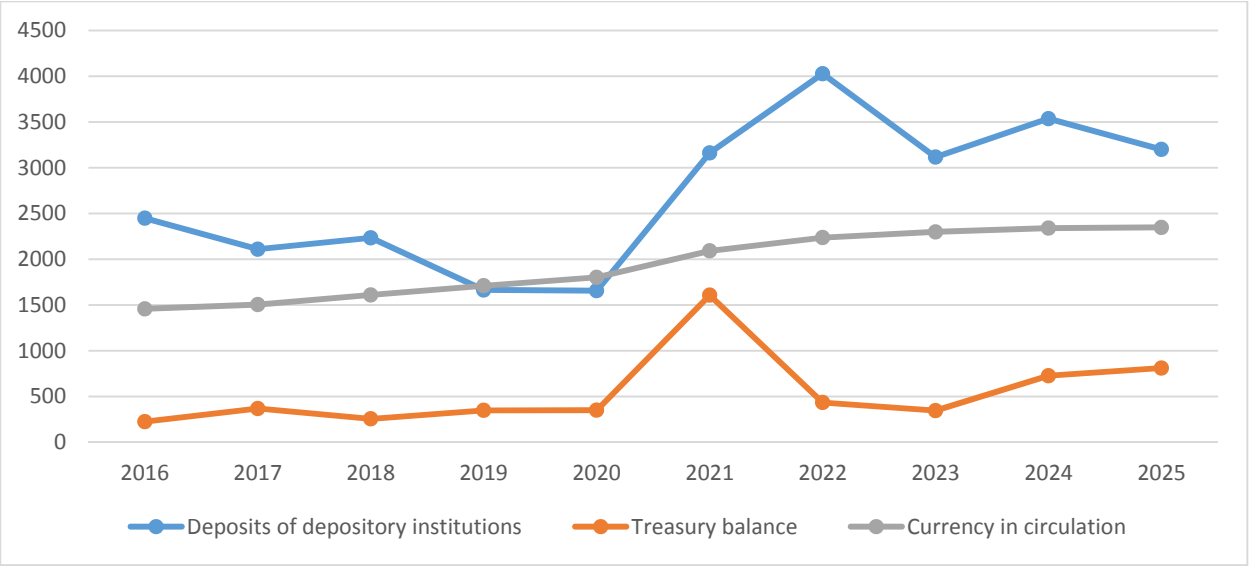

Fig. 9. **The Dynamics of the Change in the Fed's Liabilities, Billions of Dollars**

Source: Author's calculations based on the database FED. URL: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm (accessed on 05.09.2025).

first time in the history of the Fed. Interest income of central banks is the main source of income that allows you to effectively earn on the difference in the yield of loans issued to commercial banks and securities. So in 2021, the Fed earned $ 122.5 billion in interest income and incurred $ 5.7 billion in losses. as an interest expense.[9] Note that at the end of 2021, the Fed's liabilities amounted to $ 8.7 trillion. Obviously, different types of obligations have different repayment rates. But an increase in interest rates increases interest expenses proportionally. For example, an increase in the interest rate to 5% resulted in an increase in interest expenses of about $ 300 billion for 2022. Calculations were made taking into account the reduction in the Fed's obligations for 2022, which are shown in *Fig. 9*.

Using a simple general equilibrium model, as stated in the study [17], it would be appropriate for a Central bank with a large balance sheet consisting of long-term nominal assets to have access to a financial authority and be prepared to request support for its balance sheet. Otherwise, its ability to control inflation may be compromised.

Monetary policy practices have improved significantly over the last couple of decades; as a result, hyperinflation has been extremely rare. The global financial crisis challenged traditional monetary policy, which was based on a single instrument approach (the benchmark interest rate) and a single objective (price stability). It is obvious that the global economy needs a new approach to monetary policy and international coordinationof the monetary policy of central banks is needed [18]. As indicated in [19], neither monetary policy nor the fiscal support program have the necessary effect during balance sheet crises. As we can see, the situation with unrealized losses is a vivid illustration of the situation of a crisis in the balance sheets of commercial banks, which can lead to a recession in the global economy. It should be noted that the instruments for curbing inflation of a country that issues the world currency and a country that supplies energy resources cannot be identical. The fact that for the US Federal Reserve it is only a deterrent to economic growth, but at the same time reduces the level of inflation, for another economy it can be a very painful blow to the standard of living

[9] The official website of the US Federal Reserve System. Annual report of the Board of Governors of the Federal Reserve. URL: https://www.federalreserve.gov/publications/annual-report.htm (accessed on 28.05.2023).

of the population and the profitability of industrial production.

CONCLUSIONS

The US Federal Reserve implements a mixed monetary policy that includes various tools, such as increasing the key rate, decreasing the balance sheet, and expanding reverse repos. These actions lead to a crisis in commercial banks' balance sheets, problems with refinancing government debt, and force the Fed to expand its balance sheet again. An increase in the Fed's balance and government debt may cause additional imbalances in the future, as confirmed by Fed Chairman J.R.R. Powell at the last meeting of the Board of Governors. Powell stated that he does not know how to solve this issue. A higher level of government debt results in higher interest payments on loans, increasing government spending and eventually leading to higher taxes.

Thus, we can draw the following conclusions:

1. The Federal Reserve's monetary policy appears to be inconsistent, as it includes decisions aimed at both increasing the value of money and reducing inflation, as well as decisions that lead to an increase in the money supply and stimulate the economy. It is worth noting that these two groups of actions occur simultaneously.

What is the Federal Reserve's monetary policy? On the one hand, it maintains a high key rate, and on the other hand, it actively injects liquidity into the system through reverse repo transactions. This monetary policy could be described as "situational", meaning it is neither quantitative easing (QE) nor quantitative tightening (QT).

2. How long can you maintain a high key rate? In the short term, the maximum impact on reducing inflation has been achieved, but it still doesn't meet its target. Looking ahead to 2025, the Fed is taking the right approach with its current strategy. A high interest rate level will help maintain confidence in the system and inflation targeting remains an effective tool for price stability in all countries studied [20].

However, in the longer term of 2026–2027, the accumulated imbalances in the system will be even more significant. This is because, firstly, it will become more expensive to service the national debt. Secondly, a new wave of inflation will start; associated with an increase in the balance sheet, as the reverse repo volumes will be exhausted. Rates are not likely to be significantly lowered in 2025 or 2026 either.

3. The current situation of rate hikes is a "gold mine" for the largest players in the US financial market. On the one hand, they earn more than 4% per annum on overnight reverse repo loans. On the other hand, they also earn on short-term US Treasury bonds, which are inexorably declining throughout the year.

Interested banks and financial institutions have started making the necessary trading operations ahead of the Federal Reserve's rate hike. However, all these preventive measures will not be able to overcome the impending crisis of the US financial system in the long run.

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