



Written by [Rebecca Terrell](#) on June 24, 2026

Former World Bank President Critiques Central Banking

[David Malpass](#), who served as president of the World Bank from 2019 to 2023 and previously as a U.S. Treasury official, has [described the Federal Reserve](#) as having “basically become a giant hedge fund” that has incurred over a trillion dollars in losses. He argues it borrows from banks at rates around 5.4 percent to invest in government bonds, creating an illusion of fiscal health for the U.S. government while distorting markets.

Financial Losses

[The Fed](#) borrows from [commercial banks](#) to buy government bonds. When short-term rates rise, its interest expenses exceed earnings on its portfolio, leading to operating losses. [The Fed](#) reported operating losses of roughly \$114 billion in 2023, \$78 billion in 2024, and about \$19 billion in 2025. Cumulative deferred assets from losses had reached around \$243 billion by the end of 2025. Unrealized losses on its holdings (losses if sold before maturity) peaked at more than \$1 trillion and stood at approximately \$844 billion at the end of last year.

In a 2023 article, investor [Lyn Alden](#) wrote, “The U.S. Federal Reserve is now operating at a financial loss, and is months away from having negative tangible equity for the first time in modern history.”

Malpass argues that this encourages excessive government borrowing by suppressing yields, and crowds out private investment. He explains that in this case there is no “money printing.” Instead, the Fed is “taking money from the economy in order to buy government bonds.” Similar dynamics exist at other central banks (e.g., the European Central Bank and Bank of Japan), where large bond-buying programs have expanded balance sheets but led to losses when rates normalized.

Hurting Small Businesses

Critics such as Malpass see the scale of trillions in assets as transforming the Fed from a monetary authority into a *de facto* allocator of capital favoring government debt. This results in an [opportunity cost](#) of money from commercial banks being [siphoned away from Main Street](#) to prop up the government. As Malpass commented, “Banks get squeezed out because they’re lending so much to the Fed.... It’s literally a floating rate loan from banks to the Federal Reserve so it can buy government bonds. So if that were freed up, that would allow the banks to at least consider a small business loan



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and inventory loans — the kinds of things that help the economy grow.”

In a [statement](#) to the House Financial Services Committee, Malpass wrote, “I think Federal Reserve policies have been weakening and distorting the economy rather than providing stimulus. The policies are hurting savers, distorting markets, and redistributing capital rather than increasing it. The policies subsidize government, big corporations, big banks, foreign investment and gold, none of which is a robust private sector job creator, at the expense of small and new businesses and other job-creating parts of the economy.”

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