Federal Reserve Balance Sheet Developments

May 2023

Federal Reserve Balance Sheet Actions and Activities

The Federal Reserve prepares this balance sheet report to help further its commitment to transparency about actions taken in connection with two of its key functions—conducting monetary policy to meet its congressional mandate of maximum employment and price stability as well as promoting financial stability. The report contains a snapshot of Federal Reserve actions and activity in managing its balance sheet, including

- an overview of the Federal Reserve's balance sheet trends;
- a review of changes in key Federal Reserve assets; and
- a review of changes in key Federal Reserve liabilities.

The Role of the Balance Sheet in Meeting the Federal Reserve's Monetary Policy Mandate

The Federal Reserve conducts monetary policy in accordance with its mandate from Congress: to promote maximum employment and stable prices in the U.S. economy. Because smooth financial market functioning facilitates the transmission of monetary policy, the Federal Reserve monitors financial stability risks and takes appropriate actions to help ensure that financial institutions and financial markets can efficiently channel the flow of credit to households, communities, and businesses. Many of the actions that the Federal Reserve takes for monetary policy and financial stability purposes are reflected on the balance sheet.

The Federal Reserve considers transparency about the goals, conduct, and stance of monetary policy to be fundamental to the effectiveness of monetary policy. Transparency about monetary policy also helps promote the accountability of the Federal Reserve to Congress and the public. As a result, and in accordance with the Federal Reserve Act, the Federal Reserve publishes each week the H.4.1 statistical release, "Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks."[1]

[1] See the Federal Reserve's website at https://www.federalreserve.gov/releases/h41/.

General Balance Sheet Trends

Overall, as shown in table 1, the size of the Federal Reserve's balance sheet decreased roughly $90 billion from about $8.8 trillion on September 28, 2022, to about $8.7 trillion as of March 29, 2023.

Table 1. Assets, liabilities, and capital of the Federal Reserve System
($ billions)

Item	September 28, 2022	March 29, 2023	Change from September 28, 2022
Total assets	**8,796**	**8,706**	**-90**
Securities held outright	8,372	7,926	-446
U.S. Treasury securities	5,672	5,329	-343
Federal agency debt securities	2	2	0
Agency mortgage-backed securities	2,698	2,594	-104
Repurchase agreements	0	55	55
Foreign official	0	55	55
Other	0	0	0
Loans	21	343	322
Discount window	6	88	82
Bank Term Funding Program	0	64	64
Other credit extensions	0	180	180
Paycheck Protection Program Liquidity Facility	14	10	-4
Other loans	0	0	0
Net portfolio holdings of Corporate Credit Facility LLC	0	0	0
Net portfolio holdings of Main Street Facilities LLC	26	22	-4
Net portfolio holdings of Municipal Liquidity Facility LLC	6	6	0
Net portfolio holdings of Term Asset-Backed Securities Loan Facility II LLC	2	2	0
Central bank liquidity swaps	0	1	1
Other assets	369	352	-17
Total liabilities	**8,754**	**8,664**	**-90**
Federal Reserve notes	2,229	2,273	44
Deposits held by depository institutions other than term deposits	2,983	3,402	419
Reverse repurchase agreements	2,638	2,633	-5
Foreign official and international accounts	271	368	97
Others	2,367	2,265	-102
U.S. Treasury, General Account	662	163	-499
Treasury contributions to credit facilities	18	15	-3
Other liabilities	224	178	-46
Total capital	**42**	**42**	**0**

Note: Rounded to billions.
Source: Federal Reserve Board.

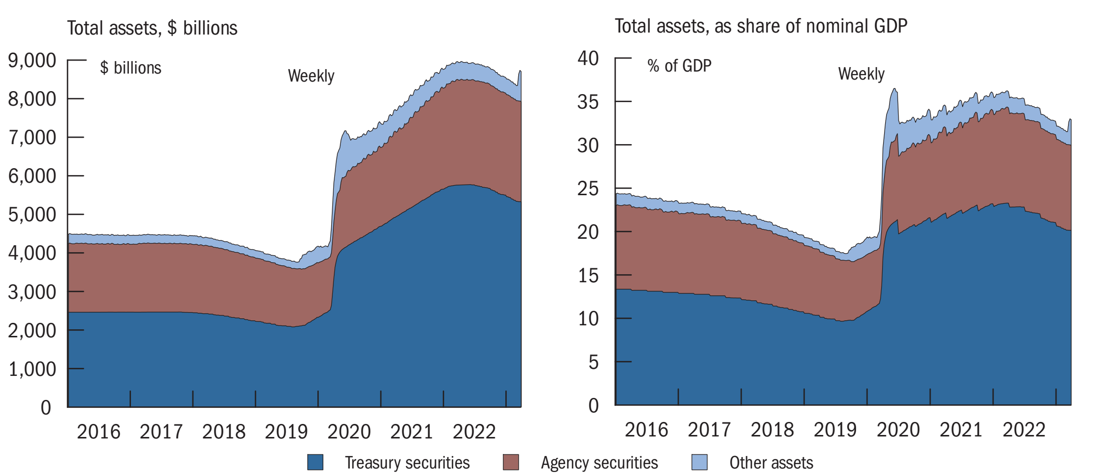
On the asset side of the Federal Reserve's balance sheet, securities held outright continued to decline, consistent with the Federal Open Market Committee's (FOMC's) "Plan for Reducing the Size of the Federal Reserve's Balance Sheet" announced at its May 2022 policy meeting.[2] This decrease was partially offset by loans made by the Federal Reserve following banking-sector stresses in March 2023.

On the liability side of the Federal Reserve's balance sheet, balances in the Treasury General Account (TGA) declined noticeably, contributing to an increase in reserves, while take-up at the Federal Reserve's ON RRP facility remained elevated. Net changes to reserves also increased in part because of asset side increases in loans following banking-sector stresses.

Changes in Federal Reserve Assets

As shown in figure 1, total assets on the Federal Reserve's balance sheet declined $90 billion over the past two quarters, to stand at nearly $8.7 trillion or 33 percent of gross domestic product (GDP) as of March 29, 2023. Securities held outright declined about $450 billion mostly reflecting runoff of Treasury securities and to a lesser extent agency mortgage-backed securities (MBS).

Figure 1. Balance sheet assets, 2016–23



Note: Other assets includes swaps, repo, loans, and liquidity and credit facility LLCs; asset values are weekly Wednesday. Key identifies curves from bottom to top.

Source: Federal Reserve Board.

Note: Asset values are weekly Wednesday; nominal GDP data are quarterly averages. Key identifies curves from bottom to top.

Source: Federal Reserve Board; Bureau of Economic Analysis.

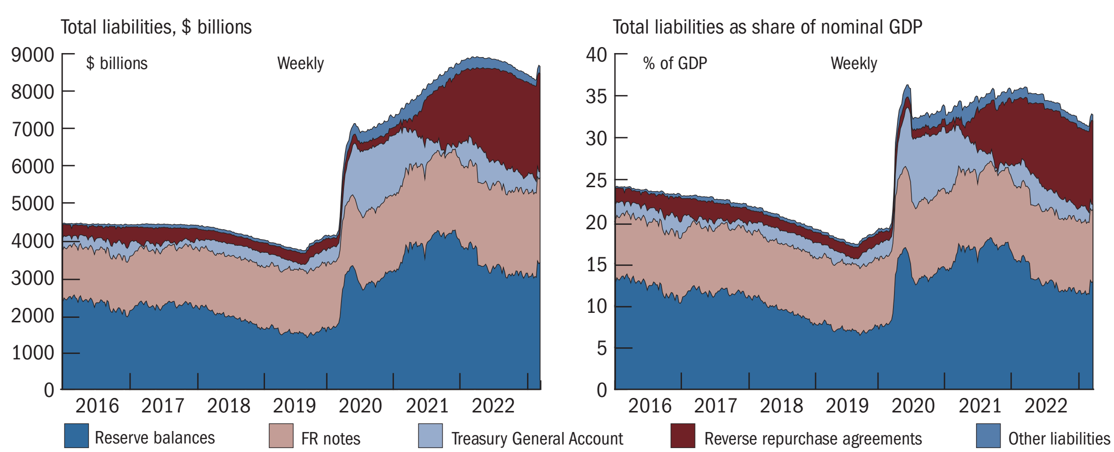
[2] See "Plans for Reducing the Size of the Federal Reserve's Balance Sheet," news release, May 4, 2022, https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504b.htm.

The decrease in securities held outright was partially offset by an increase in loans following banking-sector stresses in March 2023. The Bank Term Funding Program (BTFP) was established under section 13(3) of the Federal Reserve Act on March 12, 2023, to support American businesses and households by making additional funding available to eligible depository institutions to help assure banks have the ability to meet the needs of all their depositors.[3] Loans through the BTFP are up to one year in length and require that borrowing institutions pledge U.S. Treasury securities, agency debt and agency MBS, or other qualifying assets as collateral, which are valued at par. As of March 29, 2023, loans made by the BTFP totaled $64 billion. In addition, over the past two quarters, discount window loans increased by $82 billion to $88 billion. Over the same period, other credit extensions also increased to $180 billion; this type of credit reflects loans that were extended to depository institutions that were subsequently placed into Federal Deposit Insurance Corporation (FDIC) receivership, including depository institutions established by the FDIC.

Changes in Federal Reserve Liabilities

As shown in figure 2, the Federal Reserve's liabilities decreased $90 billion to $8.7 trillion. Since September 2022, the TGA has declined $500 billion to roughly $163 billion as of March 29, 2023.

Figure 2. Balance sheet liabilities, 2016–23



Note: Liability values are weekly Wednesday. Key identifies curves from bottom to top.

Source: Federal Reserve Board.

Note: Liability values are weekly Wednesday; nominal GDP data are quarterly averages. Key identifies curves from bottom to top.

Source: Federal Reserve Board; Bureau of Economic Analysis.

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[3] See "Federal Reserve Board Announces It Will Make Available Additional Funding to Eligible Depository Institutions to Help Assure Banks Have the Ability to Meet the Needs of All Their Depositors," news release, March 12, 2023, https://www.federalreserve.gov/newsevents/pressreleases/monetary20230312a.htm.

The decrease in the TGA, along with increases in BTFP, discount window, and other credit extension loans, contributed to reserve balances growing on net $419 billion. Take-up at the overnight reverse repurchase agreement (ON RRP) facility remained elevated at $2.3 trillion as of March 29, 2023, similar to levels typically experienced throughout the prior two quarters.

Since September 2022, consolidated net income across the Federal Reserve System has remained negative, mainly driven by higher liability costs (i.e., interest expenses) as administered rates moved higher.[4] As of March 29, the Federal Reserve System reported a consolidated deferred asset of roughly $44 billion in connection with this accumulated negative net income. Despite consolidated net income being negative, some weekly remittances to the Treasury have continued, with net income at one Federal Reserve District remaining positive as of March 29. Negative net income, and the corresponding creation of a deferred asset, do not affect the Federal Reserve's ability to conduct monetary policy or meet its financial obligations.

[4] Negative net income appears in the weekly H.4.1 reporting in table 6 as a negative entry in "Earnings remittances due to the U.S. Treasury" for each individual Federal Reserve Bank. The sum of these entries across Districts reflects the consolidated net income of the Federal Reserve; see the Federal Reserve's website at https://www.federalreserve.gov/releases/h41/.