Federal Reserve Balance Sheet Developments

May 2022

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 increased roughly $490 billion from about $8.4 trillion on September 29, 2021, to about $8.9 trillion as of March 30, 2022.

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

Item	September 29, 2021	March 30, 2022	Change from Sept. 29, 2021
Total assets	**8,448**	**8,937**	**489**
Securities held outright	7,928	8,478	550
U.S. Treasury securities	5,431	5,760	329
Federal agency debt securities	2	2	0
Agency mortgage-backed securities	2,495	2,715	220
Repurchase agreements	0	0	0
Foreign official	0	0	0
Other	0	0	0
Loans	61	24	–37
Discount window	1	0	–1
Paycheck Protection Program Liquidity Facility	61	24	–37
Other loans	0	0	0
Net portfolio holdings of Corporate Credit Facility LLC	1	0	–1
Net portfolio holdings of Main Street Facilities LLC	30	29	–1
Net portfolio holdings of Municipal Liquidity Facility LLC	10	7	–3
Net portfolio holdings of Term Asset-Backed Securities Loan Facility II LLC	5	3	–2
Central bank liquidity swaps	0	0	0
Other assets	413	397	–16
Total liabilities	**8,408**	**8,896**	**488**
Federal Reserve notes	2,148	2,219	71
Deposits held by depository institutions other than term deposits	4,095	3,773	–322
Reverse repurchase agreements	1,702	2,041	339
Foreign official and international accounts	287	255	–32
Others	1,416	1,786	370
U.S. Treasury, General Account	174	557	383
Treasury contributions to credit facilities	26	21	–5
Other liabilities	263	285	22
Total capital	**40**	**41**	**1**

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

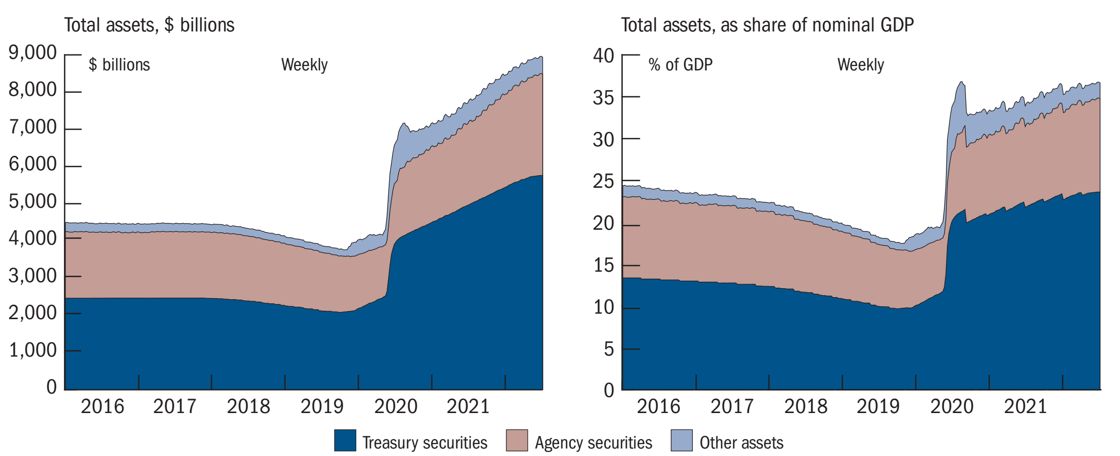
On the asset side of the Federal Reserve's balance sheet, the increase was concentrated in securities held outright, reflecting the net asset purchases that concluded in early March 2022. On the liability side, a decline in reserve balances was more than offset by increases in the Treasury General Account (TGA) balance, take-up at the Federal Reserve's overnight reverse repurchase agreement (ON RRP) facility, and Federal Reserve notes.

Changes in Federal Reserve Assets

As shown in figure 1, total assets on the Federal Reserve's balance sheet rose roughly $490 billion over the past two quarters, to stand at nearly $8.9 trillion or 37 percent of gross domestic product (GDP) as of March 30, 2022. The increase in total assets was primarily driven by the increases in the securities held outright, which rose about $550 billion reflecting the net purchases of Treasury securities and agency mortgage-backed securities (MBS). The Federal Open Market Committee (FOMC) decided to start tapering net asset purchases in November 2021, and net purchases ceased in early March 2022.

The increase in securities held outright was partially offset by the decline in balances associated with the facilities established to support the flow of credit to households and businesses during the disruptions caused by the COVID pandemic. Most notably, outstanding PPPLF balances

Figure 1. Balance sheet assets, 2016–22



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.

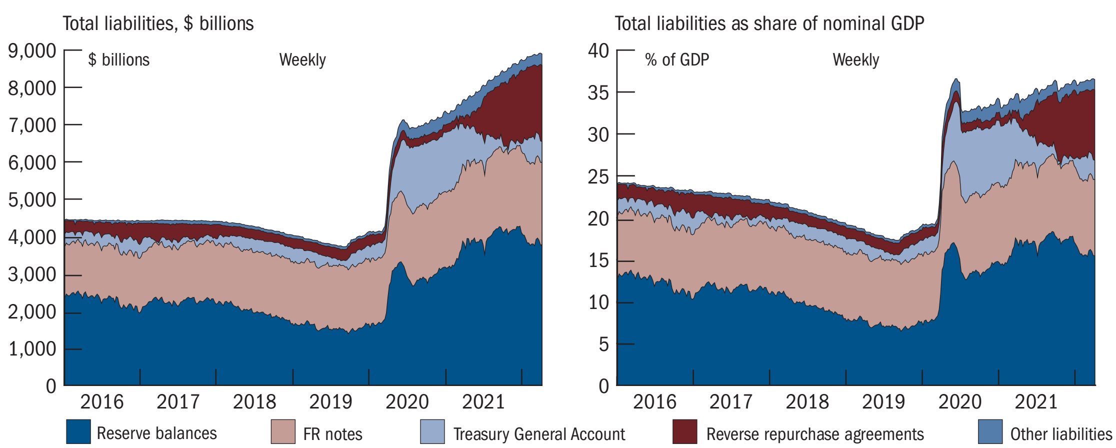
decreased $37 billion to roughly $24 billion, principally due to PPP loan repayment and the consequent paydown of the associated PPPLF loans.[2]

Changes in Federal Reserve Liabilities

As shown in figure 2, the Federal Reserve's liabilities expanded roughly $490 billion over the past two quarters. The TGA balance, take-up at the Federal Reserve's ON RRP facility, and Federal Reserve notes grew, while reserve balances declined. On net, reserve balances decreased roughly $320 billion, to about $3.8 trillion, as growth in assets was more than offset by increases in other non-reserve liabilities.

The TGA balance rose on net about $383 billion to $557 billion on March 30, 2022. In December 2021, just prior to the debt limit resolution, the TGA had declined to a trough of roughly $42 billion. However, following the resolution, the Treasury used large increases in net bill and coupon issuance to raise the level of the TGA back above its five-day cash need.[3,4] According to

Figure 2. Balance sheet liabilities, 2016–22



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.

---

2 The special purpose vehicle established to purchase corporate bonds and exchange-traded funds (Corporate Credit Facilities LLC) was terminated on December 17, 2021.

3 On December 16, 2021, President Biden signed a bill to raise the debt limit by $2.5 trillion to about $31.4 trillion.

4 In the May 2015 Quarterly Refunding Statement, the U.S. Treasury made changes to its cash management policy to hold a level of cash generally sufficient to cover one week of outflows in the Treasury General Account, subject to a minimum balance of roughly $150 billion. See U.S. Department of the Treasury, Quarterly Refunding Statement, press release (Washington: U.S. Treasury, May 2015), https://home.treasury.gov/news/press-releases/jl10045.

the Treasury's May 2022 Quarterly Refunding Statement, the TGA is expected to rise further and reach a June quarter-end level of $800 billion.

Take-up at the ON RRP facility increased about $370 billion to $1.8 trillion on March 30, 2022. Ongoing elevated participation reflected low repo rates and limited Treasury bill supply, though participation declined somewhat in January as bill supply increased. Finally, Federal Reserve notes increased about $71 billion to $2.2 trillion.

Box 1. Principles and Plans for Reducing the Size of the Federal Reserve's Balance Sheet

At its January 2022 meeting, the FOMC issued a statement informing the public about the approach it would take to reducing the size of the Federal Reserve's balance sheet. This statement communicated high-level principles regarding the FOMC's intended approach, which included information on the sequencing for removing policy accommodation with the Committee's balance sheet and interest rate tools as well as the intended longer-run size and composition of portfolio holdings.

At its May 2022 meeting, the FOMC announced plans for significantly reducing the size of the Federal Reserve's balance sheet. Consistent with the Principles for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in January 2022, the statement outlines the Committee's intention to reduce the Federal Reserve's securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the System Open Market Account (SOMA).

Specifically, beginning in June 2022, principal payments from securities held in the SOMA will be reinvested to the extent that they exceed monthly caps. For Treasury securities, the cap will initially be set at $30 billion per month and after three months will increase to $60 billion per month. The decline in holdings of Treasury securities under these monthly caps will include Treasury coupon securities and, to the extent that coupon maturities are less than the monthly cap, Treasury bills. For agency debt and agency mortgage-backed securities, the cap will initially be set at $17.5 billion per month and after three months will increase to $35 billion per month.

Lastly, to ensure a smooth transition, the Committee announced that it intends to slow and then stop the decline in the size of the balance sheet when reserve balances are somewhat above the level it judges to be consistent with ample reserves. Once balance sheet runoff ceases, reserve balances will likely continue to decline at a slower pace, reflecting growth in other Federal Reserve liabilities, until the Committee judges that reserve balances are at an ample level. At that point, reserve management purchases of securities would begin to maintain ample reserves over time.

Related Links

- Minutes of the Federal Open Market Committee, November 2–3, 2021
- Minutes of the Federal Open Market Committee, December 14–15, 2021
- Minutes of the Federal Open Market Committee, January 25–26, 2022
- Minutes of the Federal Open Market Committee, March 15–16, 2022
- Principles for Reducing the Size of the Federal Reserve's Balance Sheet, January 2022
- Plans for Reducing the Size of the Federal Reserve's Balance Sheet, May 2022

www.federalreserve.gov
0522