Federal Reserve Balance Sheet Developments

November 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. 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 by roughly $140 billion over the course of the second and third quarters of this year, from about $8.9 trillion on March 30, 2022, to about $8.8 trillion on September 28, 2022.

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

Item	March 30, 2022	September 28, 2022	Change from March 30, 2022
Total assets	**8,937**	**8,796**	**−141**
Securities held outright	8,478	8,372	−106
U.S. Treasury securities	5,760	5,672	−88
Federal agency debt securities	2	2	0
Agency mortgage-backed securities	2,715	2,698	−17
Repurchase agreements	0	0	0
Foreign official	0	0	0
Other	0	0	0
Loans	24	21	−3
Discount window	0	6	6
Paycheck Protection Program Liquidity Facility	24	14	−10
Other loans	0	0	0
Net portfolio holdings of Corporate Credit Facility LLC	0	0	0
Net portfolio holdings of Main Street Facilities LLC	29	26	−3
Net portfolio holdings of Municipal Liquidity Facility LLC	7	6	−1
Net portfolio holdings of Term Asset-Backed Securities Loan Facility II LLC	3	2	−1
Central bank liquidity swaps	0	0	0
Other assets	397	369	−28
Total liabilities	**8,896**	**8,754**	**−142**
Federal Reserve notes	2,219	2,229	10
Deposits held by depository institutions other than term deposits	3,773	2,983	−790
Reverse repurchase agreements	2,041	2,638	597
Foreign official and international accounts	255	271	16
Others	1,786	2,367	581
U.S. Treasury, General Account	557	662	105
Treasury contributions to credit facilities	21	18	−3
Other liabilities	285	224	−61
Total capital	**41**	**42**	**1**

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

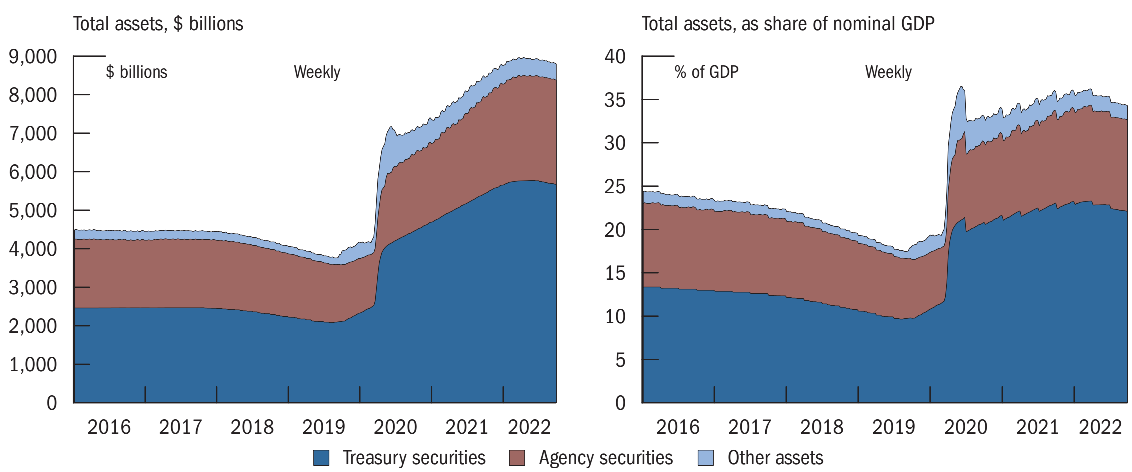
On the asset side of the Federal Reserve's balance sheet, the decrease was concentrated in securities held outright, reflecting the initiation in June 2022 of the plans that the Federal Open Market Committee (FOMC) announced at its May 2022 policy meeting for reducing the size of the Federal Reserve's balance sheet. This runoff is implemented by only reinvesting principal payments received on System Open Market Account securities holdings that exceed pre-specified monthly caps for Treasury securities and agency securities. Prior to its May 2022 announcement, the FOMC released in January 2022 a set of higher-level principles for reducing the size of the Federal Reserve's balance sheet.

On the liability side, the drawdown in reserve balances held by depository institutions slightly outweighed the combined expansionary effects of additional take up at the Federal Reserve's overnight reverse repurchase agreement (ON RRP) facility and a net increase in the Treasury General Account (TGA) balance.

Changes in Federal Reserve Assets

As shown in figure 1, total assets on the Federal Reserve's balance sheet fell by roughly $140 billion over the past two quarters, to stand at nearly $8.8 trillion or 34 percent of gross domestic product as of September 28, 2022. This decrease in total assets was primarily driven by a fall in

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.

securities held outright, which decreased by about $106 billion, mostly reflecting runoff of Treasury securities and to a lesser extent agency mortgage-backed securities.

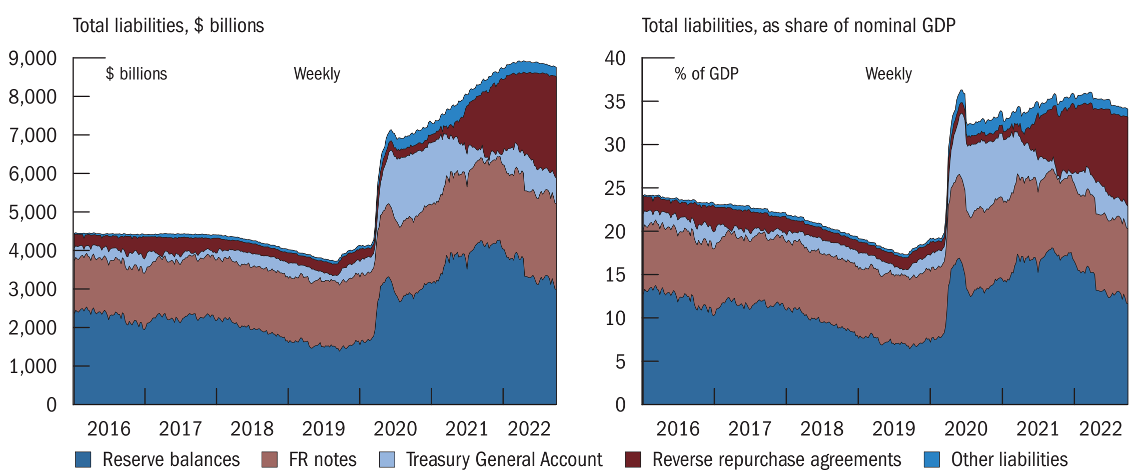
Changes in other Federal Reserve assets during the second and third quarters of 2022, such as discount window lending and portfolio holdings in facilities related to the COVID-19 pandemic, were generally marginal. Most notable among these changes was a $10 billion decrease in outstanding Paycheck Protection Program Liquidity Facility (PPPLF) balances over the period, principally due to Paycheck Protection Program (PPP) loan repayments and the consequent paydown of the associated PPPLF loans.

Changes in Federal Reserve Liabilities

As shown in figure 2, the Federal Reserve's liabilities contracted by roughly $140 billion over the past two quarters. The TGA balance and take-up at the Federal Reserve's ON RRP facility grew, while reserve balances declined. On net, reserve balances decreased by $790 billion, to about $3.0 trillion.

The TGA balance rose on net by about $105 billion to $662 billion between March 30, 2022, and September 28, 2022, which was broadly in line with the projections released in the Treasury's

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.

August 2022 Quarterly Refunding Statement (QRS).[2] The Treasury's most recent marketable borrowing estimate, released in late October, projects that the TGA will tick up slightly to $700 billion by year-end 2022.[3]

Take-up at the ON RRP facility increased about $580 billion to a record high of slightly under $2.4 trillion on September 28, 2022. Similar to prior quarters, elevated ON RRP participation levels have continued to reflect relatively lower yields available on other money market instruments, such as repurchase (repo) agreements and Treasury bills. The facility has also attracted additional participation in recent months because of money market investors' preference for maintaining very short weighted-average maturity in their portfolios, due to elevated uncertainty around the near-term path of interest rates.

Beginning in early September 2022, consolidated net income across the Federal Reserve system turned negative, mainly driven by higher liability costs (i.e., interest expenses) as administered rates moved higher.[4] As of September 28, the Federal Reserve System reported a consolidated deferred asset of $2.1 billion in connection with this accumulated negative net income. Despite consolidated net income turning negative, weekly remittances to the Treasury were continuing at that point, as net income at one Federal Reserve District remained positive. 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.

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
- Minutes of the Federal Open Market Committee, September 20–21, 2022
- Principles for Reducing the Size of the Federal Reserve's Balance Sheet, January 2022

---

[2] The U.S. Treasury's August 2022 QRS projected that the TGA would reach a September quarter-end level of $650 billion. In line with guidance provided in the May 2015 QRS, the U.S. Treasury holds a level of cash generally sufficient to cover one week of outflows in the TGA, 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.

[3] See U.S. Department of the Treasury, "Treasury Announces Marketable Borrowing Estimates," press release (Washington: U.S. Treasury, October 2022), https://home.treasury.gov/news/press-releases/jy1063.

[4] Negative net income appears in 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 reflects the consolidated net income of the Federal Reserve; see the Federal Reserve's website at https://www.federalreserve.gov/releases/h41/.

- Plans for Reducing the Size of the Federal Reserve's Balance Sheet, May 2022
- Federal Open Market Committee Implementation Note, June 15, 2022
- Federal Open Market Committee Implementation Note, July 27, 2022
- Federal Open Market Committee Implementation Note, September 21, 2022