

# Policy Normalization

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## FOMC Communications Related to Policy Normalization

On May 4, 2022, the FOMC released a statement to communicate its plans for reducing the size of the Federal Reserve's balance sheet.

### Plans for 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, all Committee participants agreed to the following plans for significantly reducing the Federal Reserve's securities holdings.

- The Committee intends 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). Beginning on June 1, 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 this monthly cap 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.
- Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime.
  - To ensure a smooth transition, the Committee 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 has ceased, reserve balances will likely continue to decline for a time, reflecting growth in other Federal Reserve liabilities, until the Committee judges that reserve balances are at an ample level.
  - Thereafter, the Committee will manage securities holdings as needed to maintain ample reserves over time.
- The Committee is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial

developments.

On January 26, 2022, the FOMC released a statement to communicate high-level principles regarding its approach to reducing the size of the Federal Reserve's balance sheet.

## Principles for Reducing the Size of the Federal Reserve's Balance Sheet

The Federal Open Market Committee agreed that it is appropriate at this time to provide information regarding its planned approach for significantly reducing the size of the Federal Reserve's balance sheet. All participants agreed on the following elements:

- The Committee views changes in the target range for the federal funds rate as its primary means of adjusting the stance of monetary policy.
- The Committee will determine the timing and pace of reducing the size of the Federal Reserve's balance sheet so as to promote its maximum employment and price stability goals. The Committee expects that reducing the size of the Federal Reserve's balance sheet will commence after the process of increasing the target range for the federal funds rate has begun.
- The Committee intends 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).
- Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime.
- In the longer run, the Committee intends to hold primarily Treasury securities in the SOMA, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy.
- The Committee is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments.

## FOMC Discussions Leading to the Statement Regarding the Principles and Plans for Reducing the Size of the Federal Reserve's Balance Sheet

- [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](#)

## History of the FOMC's Policy Normalization Discussions and Communications

Last Update: May 04, 2022