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Macro Roundup Article

Headline: The Fed's Remittances to the Treasury: Explaining the 'Deferred Asset'

Article Link: https://www.stlouisfed.org/on-the-economy/2023/nov/fed-remittances-treasury-explaining-deferred-asset

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Publication	Federal Reserve Bank of St. Louis
Publication Date	November 30, 2023

Tweet: According to @mfariacastro @samajordanwood, the Federal Reserve should return to positive net income in 2025 and will resume transfers to the Treasury in 2027.

Summary: Remittances rose considerably in the aftermath of the balance sheet expansion following the global financial crisis of 2007-08; they went from 0.2% of GDP and 1.3% of government receipts in 2007 to 0.6% and 3.4%, respectively, in 2015. Remittances then fell due to the 2015-18 tightening cycle, but they rose again in 2020 as the Fed slashed interest rates and resumed its balance sheet expansion (additionally, GDP fell in 2020, which partly explains the positive jump). Between 2021 and 2022, remittances as a percent of GDP dropped from 0.5% to 0.3%. Once the Fed returns to earning a positive net income, it will pay down the value of the deferred asset until it reaches zero, at which point the Fed will resume sending remittances to the Treasury. As of Nov. 8, 2023, the Fed had accumulated a deferred asset of $116.9 billion. In April 2023, the New York Fed estimated that the Fed will return to positive net income in 2025. Combining those New York Fed projections with the latest data on net income, we estimate that the Fed will carry this deferred asset until mid-2027, after which it will resume transfers to the Treasury.

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