

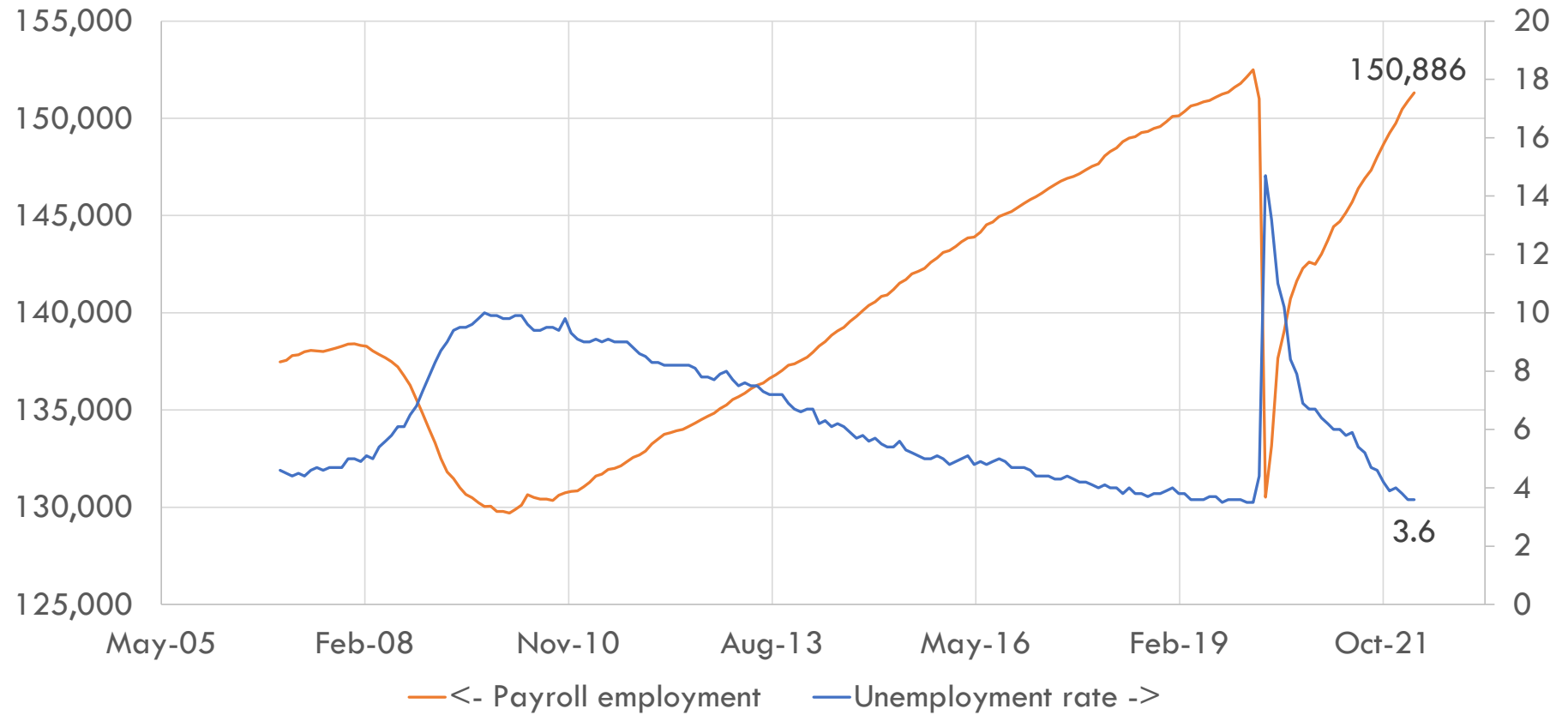


Policy Session 4:

Monetary Policy and Financial Stability Challenges During Balance Sheet Normalization

US employment situation

Thousands of people (<) and share of the workforce, percent (>)



Source: Bureau of Labor Statistics, accessed via FRED on 5/6/22.

Personal consumption expenditure price index

Twelve-month change, percent

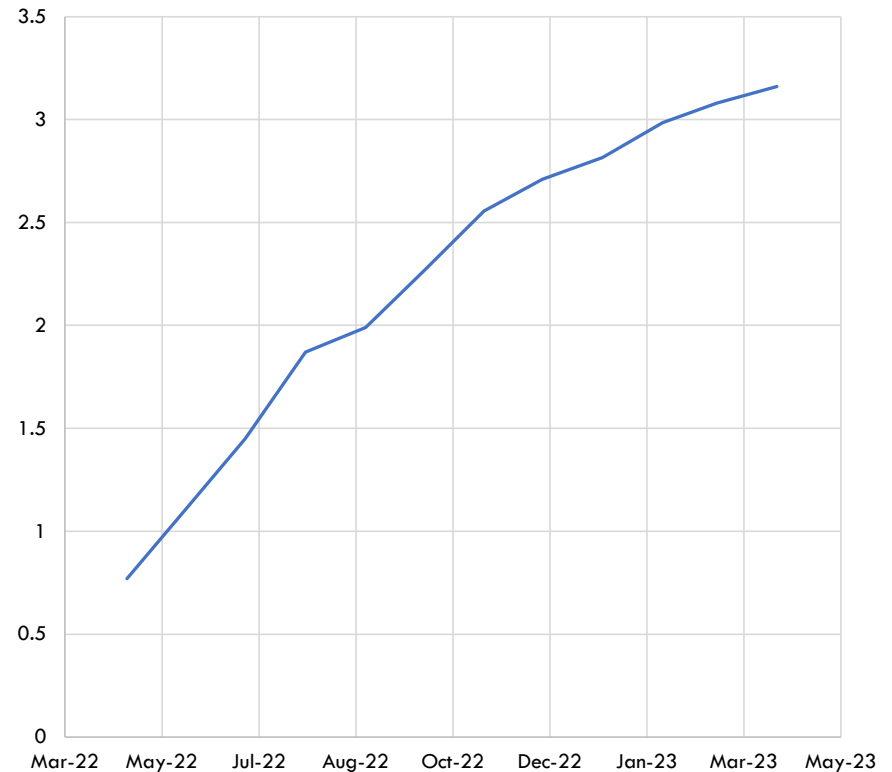


Source: Bureau of Economic Analysis, accessed via FRED on 5/6/22.

“The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. With appropriate firming in the stance of monetary policy, the Committee expects inflation to return to its 2 percent objective and the labor market to remain strong. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 3/4 to 1 percent and anticipates that ongoing increases in the target range will be appropriate. In addition, the Committee decided to begin reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities on June 1, as described in the Plans for Reducing the Size of the Federal Reserve’s Balance Sheet that were issued in conjunction with this statement.”

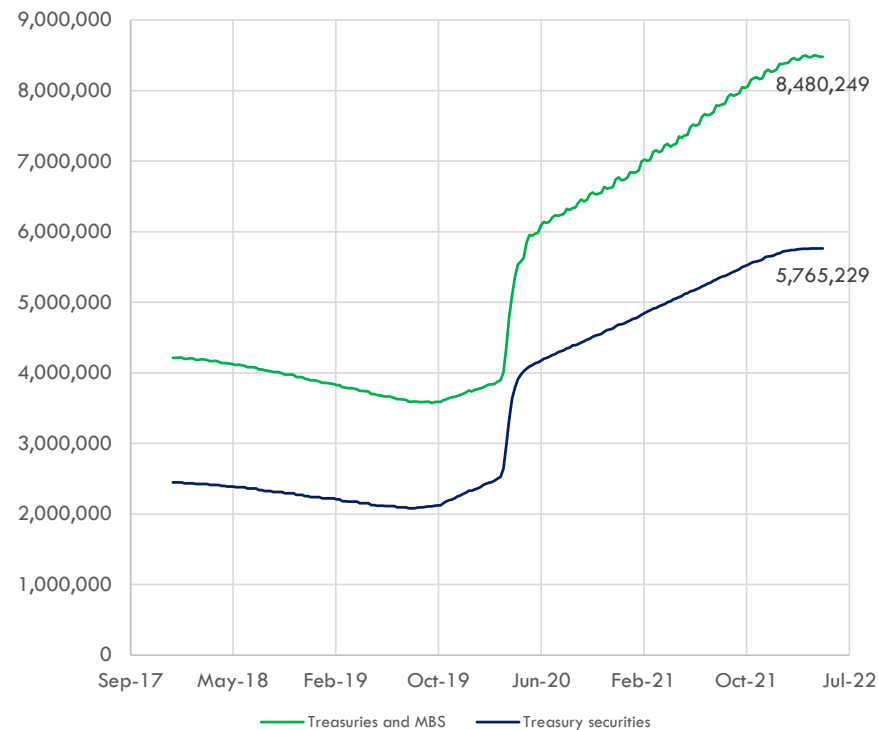
Source: Statement of the Federal Open Market Committee, May 5, 2022, at <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504a.htm>

Fed funds rate expectations
 Implied from 30-day interest rate futures, percent



Source: CME Group as of settlement on May 5, 2022, accessed at: <https://www.cmegroup.com/markets/interest-rates/stirs/30-day-federal-fund.settlements.html>

Holdings of the Federal Reserve System Open Market Account (SOMA)
 Millions of dollars



Source: Board of Governors of the Federal Reserve, accessed via FRED on 5/6/22.

“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.”

Source: Plans for Reducing the Size of the Federal Reserve Balance Sheet, May 4, 2022, at <https://www.federalreserve.gov/newsevents/pressreleases/monetary20220504b.htm>



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