FEDERAL RESERVE press release

For release at 2 p.m. EDT March 20, 2019

Balance Sheet Normalization Principles and Plans

In light of its discussions at previous meetings and the progress in normalizing the size of the Federal Reserve's securities holdings and the level of reserves in the banking system, all participants agreed that it is appropriate at this time for the Committee to provide additional information regarding its plans for the size of its securities holdings and the transition to the longer-run operating regime. At its January meeting, the Committee stated that it intends to continue to implement monetary policy in a regime in which an ample supply of reserves ensures that control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve's administered rates and in which active management of the supply of reserves is not required. The Statement Regarding Monetary Policy Implementation and Balance Sheet Normalization released in January as well as the principles and plans listed below together revise and replace the Committee's earlier Policy Normalization Principles and Plans.

- To ensure a smooth transition to the longer-run level of reserves consistent with efficient and effective policy implementation, the Committee intends to slow the pace of the decline in reserves over coming quarters provided that the economy and money market conditions evolve about as expected.
  - The Committee intends to slow the reduction of its holdings of Treasury securities by reducing the cap on monthly redemptions from the current level of $30 billion to $15 billion beginning in May 2019.
  - The Committee intends to conclude the reduction of its aggregate securities holdings in the System Open Market Account (SOMA) at the end of September 2019.
  - The Committee intends to continue to allow its holdings of agency debt and agency mortgage-backed securities (MBS) to decline, consistent with the aim of holding primarily Treasury securities in the longer run.
    - Beginning in October 2019, principal payments received from agency debt and agency MBS will be reinvested in Treasury securities subject to a maximum amount of $20 billion per month; any principal payments in excess of that maximum will continue to be reinvested in agency MBS.
    - Principal payments from agency debt and agency MBS below the $20 billion maximum will initially be invested in Treasury securities across a range of maturities to roughly match the maturity composition of Treasury securities outstanding; the Committee will revisit this reinvestment plan in

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connection with its deliberations regarding the longer-run composition of the SOMA portfolio.

- It continues to be the Committee's view that limited sales of agency MBS might be warranted in the longer run to reduce or eliminate residual holdings. The timing and pace of any sales would be communicated to the public well in advance.

- The average level of reserves after the FOMC has concluded the reduction of its aggregate securities holdings at the end of September will likely still be somewhat above the level of reserves necessary to efficiently and effectively implement monetary policy.
  - In that case, the Committee currently anticipates that it will likely hold the size of the SOMA portfolio roughly constant for a time. During such a period, persistent gradual increases in currency and other non-reserve liabilities would be accompanied by corresponding gradual declines in reserve balances to a level consistent with efficient and effective implementation of monetary policy.
- When the Committee judges that reserve balances have declined to this level, the SOMA portfolio will hold no more securities than necessary for efficient and effective policy implementation. Once that point is reached, the Committee will begin increasing its securities holdings to keep pace with trend growth of the Federal Reserve's non-reserve liabilities and maintain an appropriate level of reserves in the system.