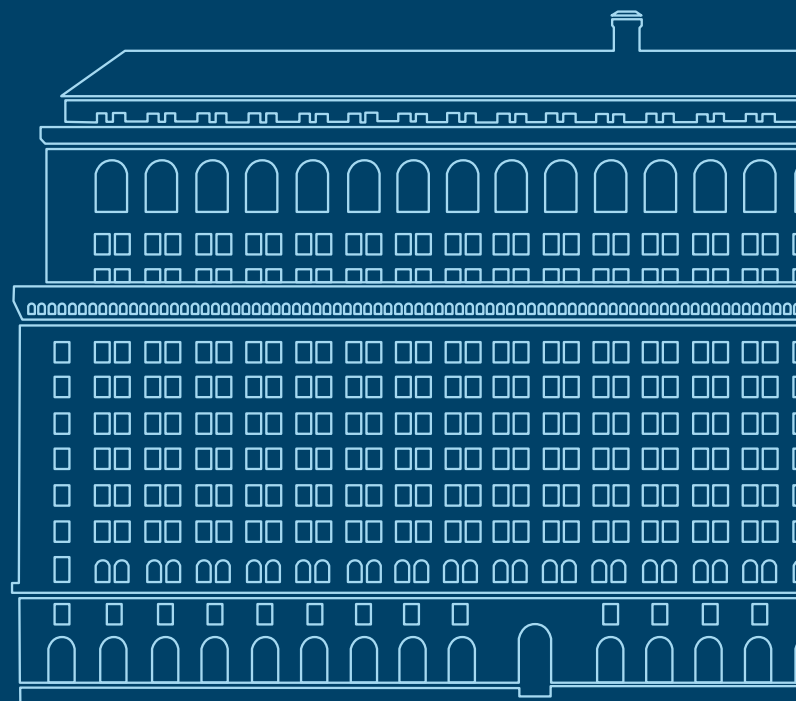


April 2025

Monetary Policy Implementation

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The views here are of the presenter and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System

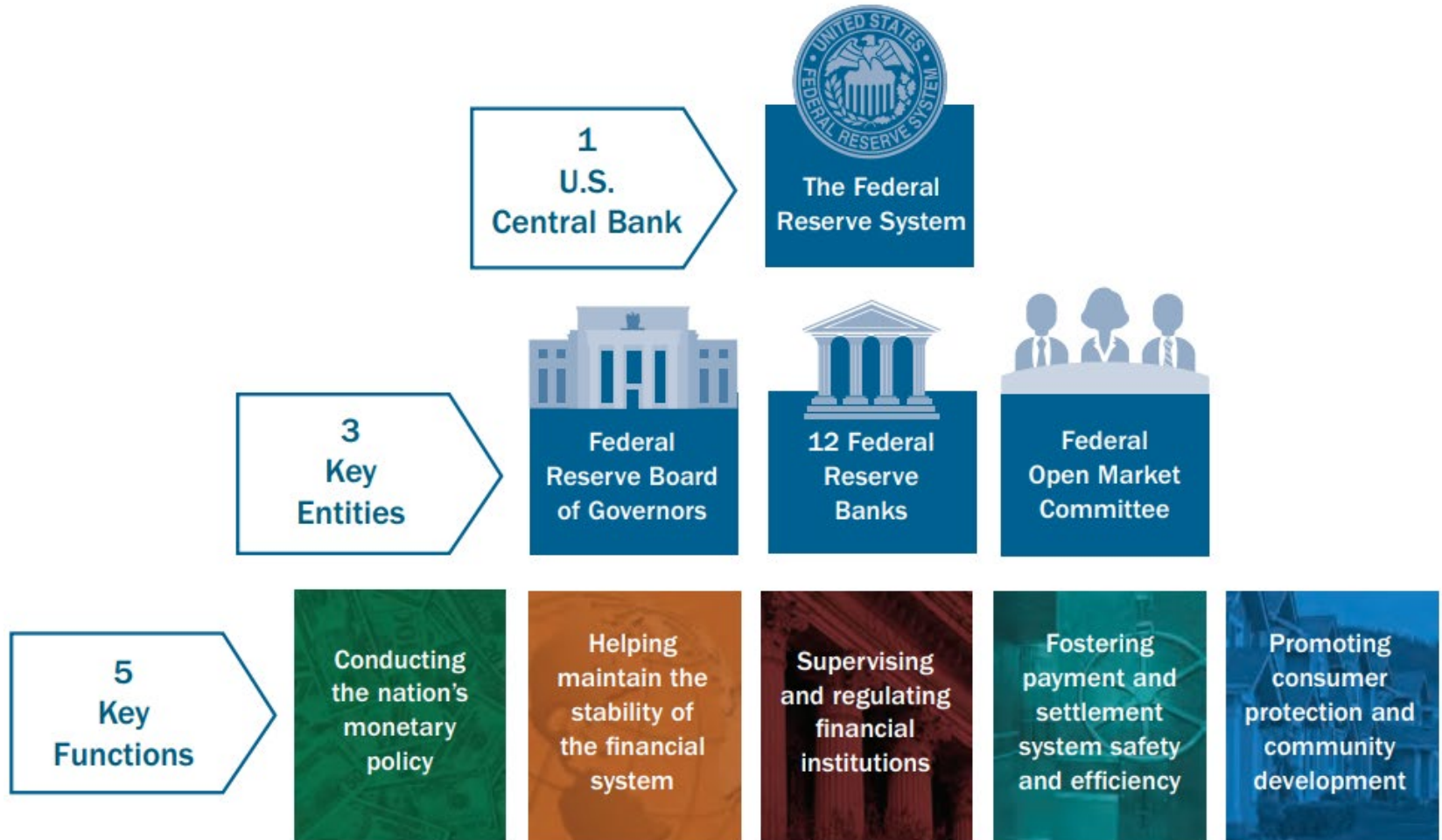
Agenda

- Who We Are and What We Do
- Monetary Policy Implementation
- The Fed's Balance Sheet
- Standing Liquidity Facilities
- Market Monitoring & Analysis



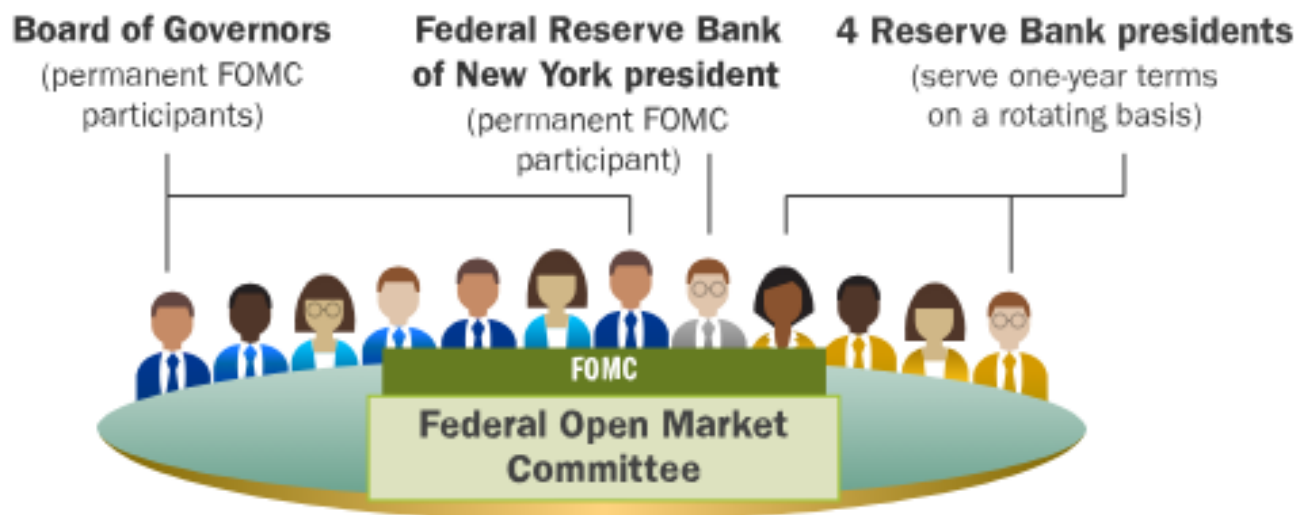
Who We Are and What We Do

The Federal Reserve System



Source: *The Fed Explained: What the Central Bank Does* (Board of Governors of the Federal Reserve System)

Federal Open Market Committee



- In addition, the remaining 7 Reserve Bank presidents attend FOMC meeting and participate in FOMC deliberations

Federal Reserve Bank of New York: Markets Group

Monetary Policy Implementation

◆ Conduct open market operations and foreign currency operations as directed by the FOMC ◆ Produce robust reference rates ◆ Support good market practices.

Market Monitoring and Policy Analysis

◆ Produce market and portfolio analysis to inform policy-making and financial stability efforts

Central Bank Services

◆ Provide custody/correspondent banking services to foreign and international monetary authorities and settlement/clearing/collateral management services for the System Open Market Account (SOMA)

Discount Window Lending Services

◆ Serve as lender of last resort for the Second District

Fiscal Agency Services

◆ Conduct primary market debt financing auctions for the U.S. Treasury and provide debt management advice ◆ Intervene in foreign exchange markets and manage the Treasury's foreign currency reserves

Monetary Policy Implementation

Why does monetary policy matter?



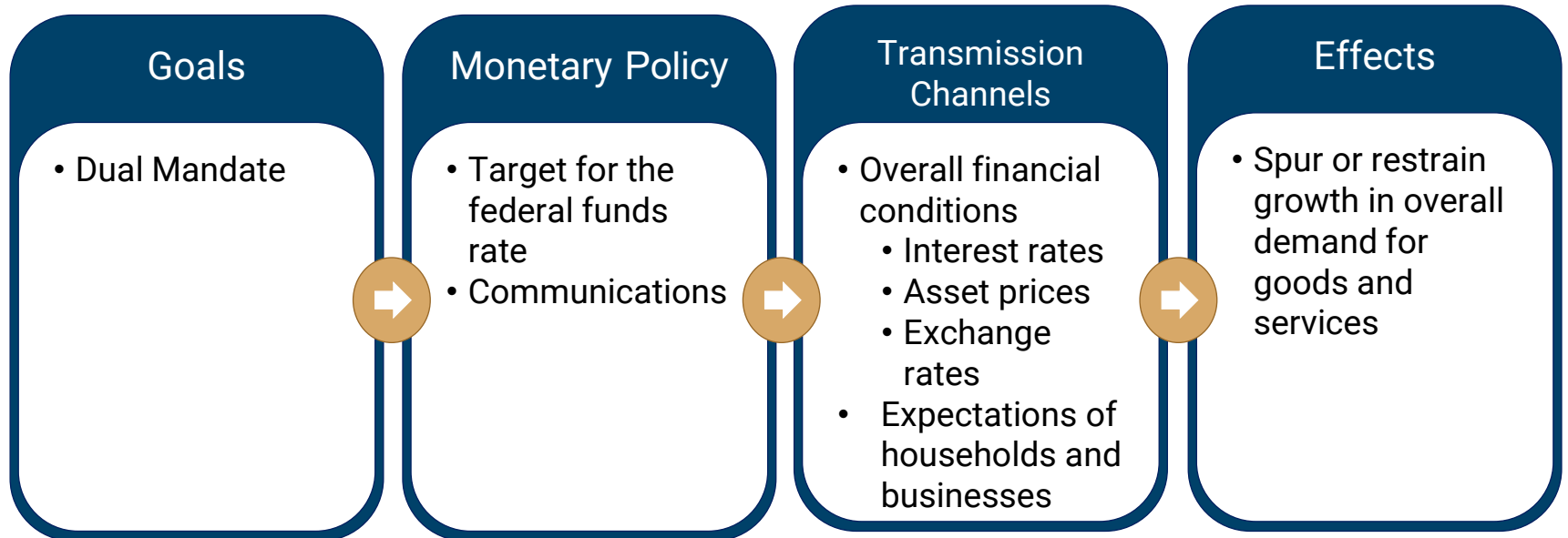
Jerome Powell
Chair of the Federal
Open Market Committee

*“The Federal Reserve remains squarely focused on our dual mandate to promote **maximum employment and stable prices** for the benefit of the American people.”*

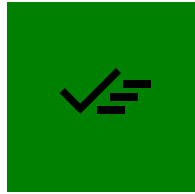
“We understand that our actions affect communities, families, and businesses across the country. Everything we do is in service to our public mission.”

*Semiannual Monetary Policy Report to the Congress,
July 9, 2024*

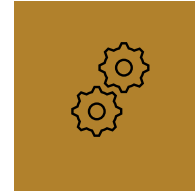
Monetary Policy Transmission



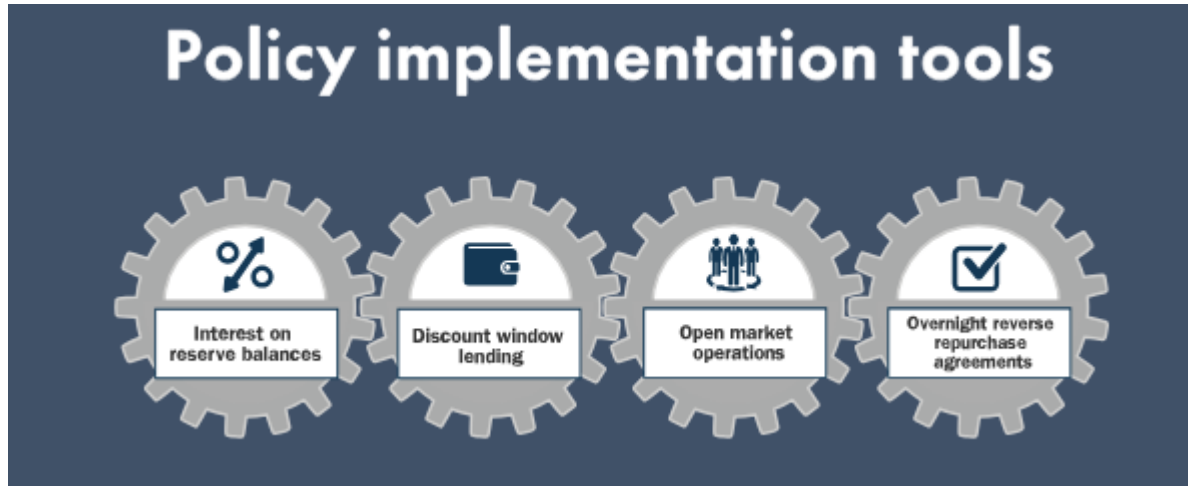
Monetary Policy Formulation & Implementation



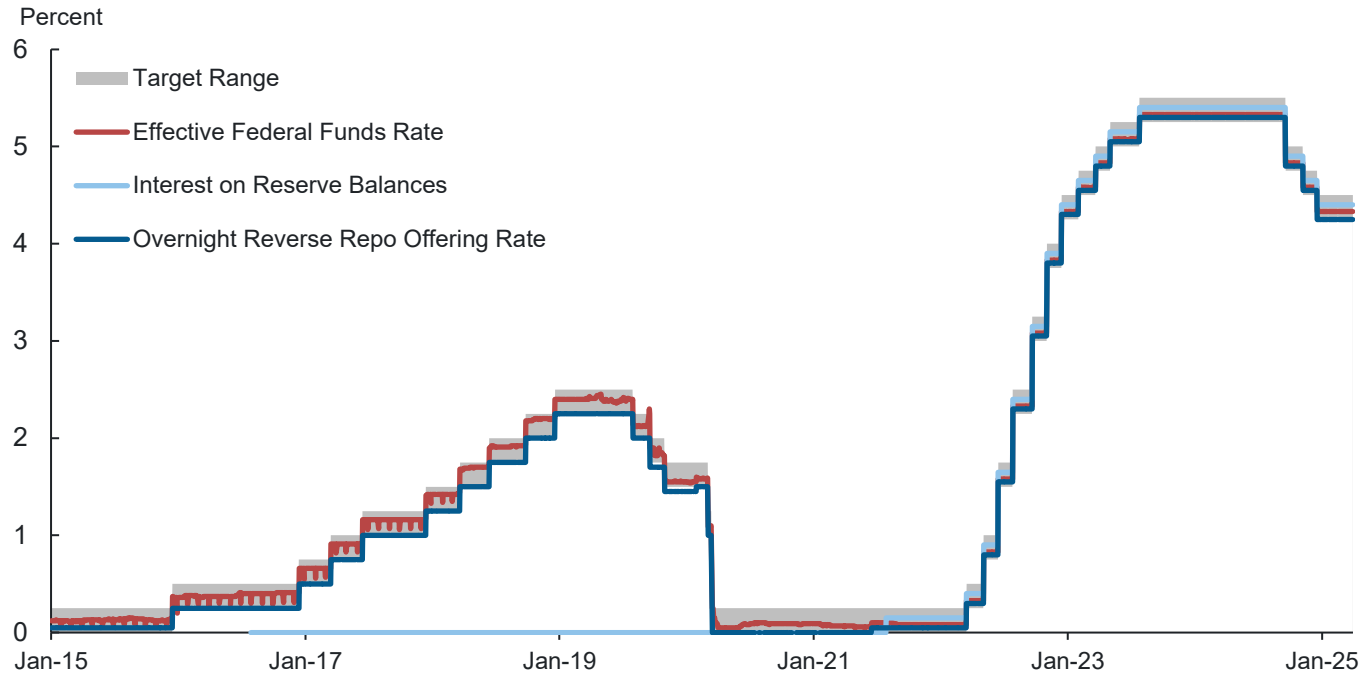
The FOMC decides on the **stance** of monetary policy



Fed uses various tools to **implement** the stance of monetary policy



Effective Federal Funds Rate and Target Range

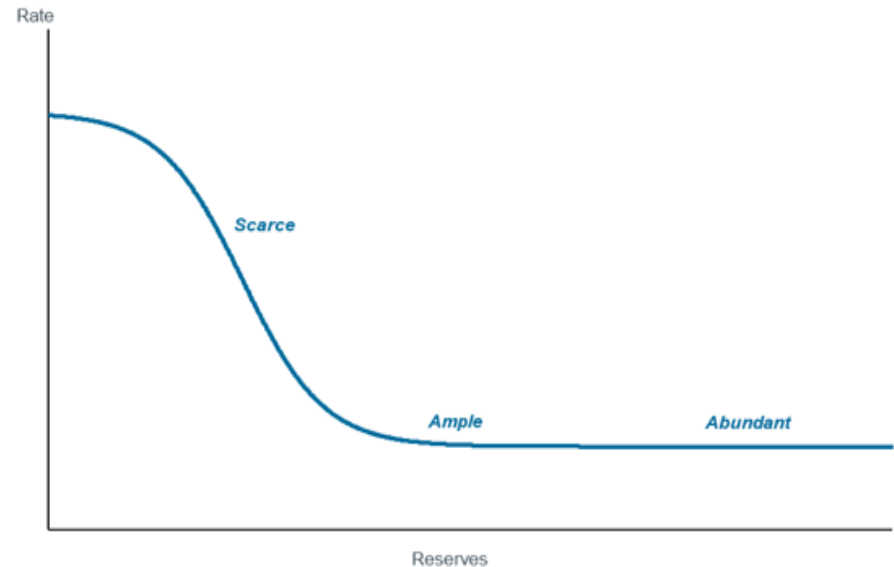


Source: Board of Governors, Federal Reserve Bank of New York

Ample Reserves Regime

- **Reserves** are deposits held by banks at the Federal Reserve
- **Demand for reserves** is driven by banks' payment needs and to manage their liquidity risk
- In a **floor system**, the Fed operates on the “flat” part of the reserve demand curve
- By maintaining an “ample” **supply of reserves**, the interest rate is not particularly sensitive to short-term changes in the supply of reserves

Stylized Reserve Demand Curve



Administered Rates

Interest on Reserve Balances (IORB)

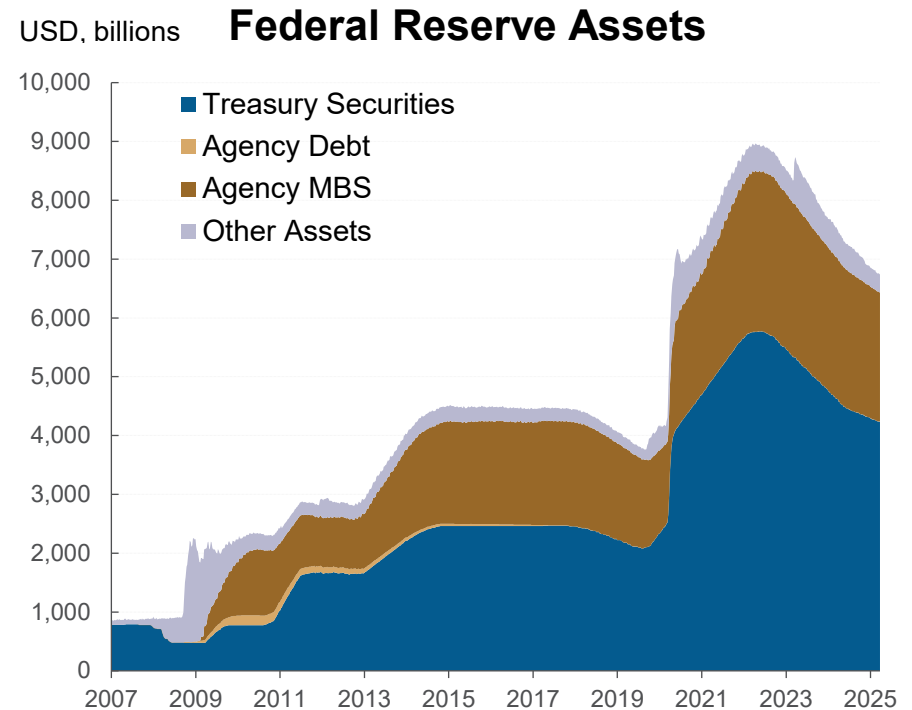
- Only banks are eligible to earn IORB
- Floor for rates below which banks are unlikely to lend reserves
- Some other financial institutions have Fed deposits that don't earn interest and may lend fed funds below IORB

Overnight Reverse Repo (ON RRP) Offering Rate

- Available to a wider set of nonbank investors, including primary dealers, money market mutual funds, and government sponsored enterprises, in addition to banks
- Usage of the ON RRP varies based on money market conditions
- Serves as an alternative investment option for money markets

Balance Sheet Policy

- Large-scale asset purchases (“quantitative easing”) can **provide monetary policy accommodation**
 - Generally used when the policy rate is at the effective lower bound
- Asset purchases can also be used to **support market functioning**
- The Fed is currently reducing its securities holdings (“quantitative tightening”)
- In longer-run, reserve management purchases will be conducted as needed to **support growth in demand for Federal Reserve liabilities**



The Fed's Balance Sheet

The Balance Sheet: A Record of Actions

- The Fed balance sheet is made up of its **assets**, acquired through open market operations or backstop lending, and its **liabilities** which are issued to provide base money to the financial system and the public.
- As such, **the balance sheet is a “record” of monetary policy** and other actions used to achieve the Fed’s dual mandate.
- Policy decisions have resulted in significant changes in the Fed’s balance sheet.



The Fed's Liabilities

Liabilities supply safe assets to a range of entities across the financial system, such as:

- **Currency (FR Notes)** – used in everyday transactions
- **Treasury General Account** – account of the U.S. Treasury at the Fed
- **FIMA Reverse Repo** – short-term investment for foreign central bank customers
- **Overnight Reverse Repo** – helps support interest rate control
- **Reserves** – deposits banks hold at the Fed

Currency

Treasury General
Account

FIMA Reverse
Repo

ON Reverse
Repo

Reserves

The Fed's Assets

Most assets on the Fed's balance sheet are financial securities and loans extended to banks:

- **System Open Market Account (SOMA)**
 - **Domestic SOMA** – security holdings of Treasuries, agency MBS and agency debt
 - **Foreign SOMA** – foreign currency-denominated (€, ¥) securities and cash holdings
- **Discount Window Loans** – short-term loans to banks to help address unexpected payment needs or temporary liquidity shortages
- **Specialty Lending Facilities** – temporary credit/loans to support specific sectors of the economy during times of stress

Domestic SOMA

Foreign SOMA

Discount Window

Loans

Federal Reserve Balance Sheet (\$, billions)

Assets		Liabilities & Capital	
Domestic SOMA	6,429	Currency in Circulation	2,322
Treasury	4,237	Treasury General Acct	316
Agency MBS	2,189	FIMA Reverse Repo	387
Foreign SOMA	18	ON RRP	241
Discount Window Loans	2	Reserves	3,451
Other Loans	9	Other Liabilities &	
Other Assets	282	Capital	23
Total	\$6,740	Total	\$6,740

As of March 26, 2025

Source: *H.4.1 Factors Affecting Reserve Balances* (Board of Governors of the Federal Reserve System)

Standing Liquidity Facilities

The Role of Liquidity Facilities

- **Market disruptions occasionally require rapid provision of liquidity.** Standing liquidity facilities serve this need.
- **“Standing” means the facilities are offered on an ongoing basis.** They act as a signal to curb rate pressures and promote efficient distribution of liquidity.
- **Designed as “backstops”** rather than primary sources of liquidity.



Standing Liquidity Facilities

Discount Window

Backup liquidity against a wide range of collateral for banks and a tool for maintaining fed funds in its target range

- *Primary credit* – loans to sound banks up to 90 days at the top of the fed funds range
- *Secondary credit* – for banks not eligible for primary credit
- *Seasonal credit* – for small banks managing seasonal swings in their balance sheet

Standing Repo Facility (SRF)

Designed to avoid excessive upward pressure on overnight interest rates

- *Offers overnight repos to a range of counterparties*
- *Daily operations with minimum bid rate currently at the top of the fed funds range*

International Dollar Facilities

Central bank swap lines and the Foreign and International Monetary Authorities (FIMA) repo facility help insulate U.S households, businesses, and financial markets from global dollar funding strains

- *Swap lines* – liquidity backstops that help improve conditions in global dollar funding markets during times of stress that could spill over to the U.S. and disrupt the flow of credit to U.S. households and businesses
- *FIMA repo* – allows exchange of U.S. Treasuries held at the Federal Reserve for U.S. dollars to help address pressures in global dollar funding markets that could otherwise adversely affect U.S. financial market conditions

Market Monitoring and Analysis

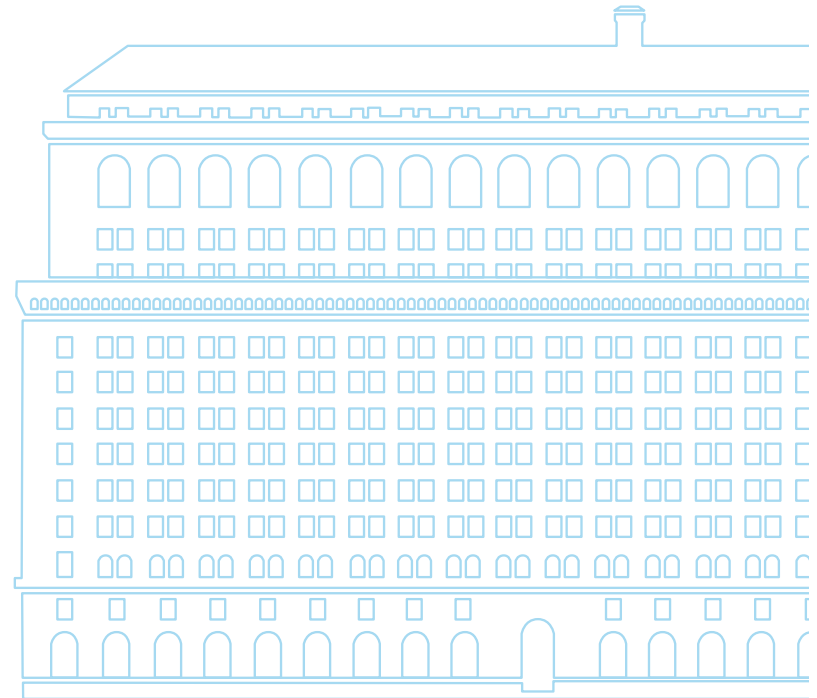
Market Monitoring and Analysis

- Desk staff monitor and report on financial market developments round-the-clock and provide thematic analysis
- We solicit a wide range of perspectives from market participants, official sector institutions, academia
- Insights are compiled and shared broadly with experts across the Federal Reserve System
- These insights remain critical inputs for the Desk and ultimately help us in achieving our key objective of effective policy implementation

References

References

- [The Federal Reserve and its Monetary Policy Implementation Framework](#)
- [The Role of the Federal Reserve's Balance Sheet in Monetary Policy Implementation](#)
- [The Federal Reserve's Standing Liquidity Facilities](#)



For more information and resources, please visit:
[NewYorkFed.org](https://www.newyorkfed.org)