

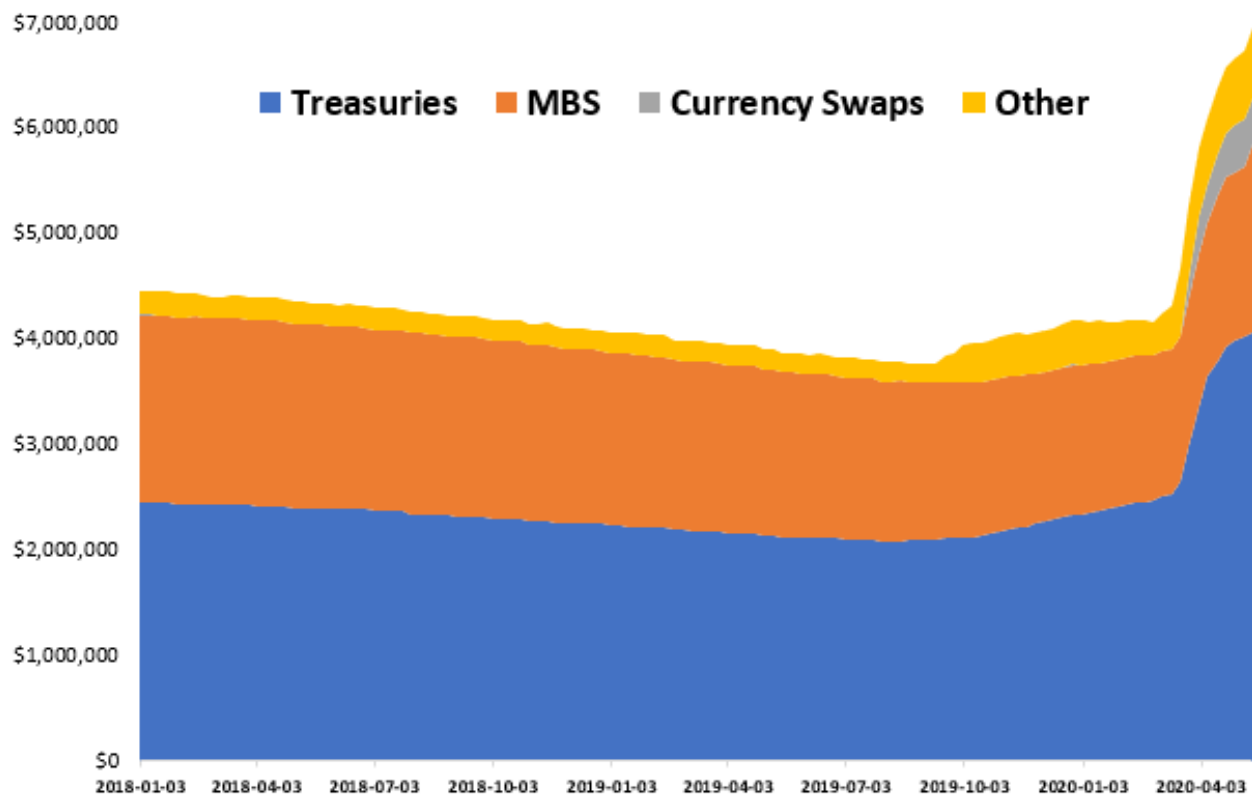
The Fed's Balance Sheet Has Reached a Record High

The Federal Reserve has been active in its response to the economic fallout from COVID-19. It has enormously increased liquidity in the financial markets. These actions have just about doubled the size of the Fed's balance sheet.

The Fed had been reducing, or tapering, its balance sheet through the end of August when total assets fell to \$3.76 trillion. It began increasing it slowly in the fall because of disruptions in the financial markets, but really ramped up large scale asset purchases in recent weeks. The Fed's total assets are now almost \$7 trillion, a record high.

The Fed is buying more of all the types of assets it normally buys, including Treasury bonds and mortgage backed securities (MBS). Currency swaps with other central banks have also increased in recent weeks. Other assets consist mainly of repurchase agreements and the liquidity facilities the Fed has instituted with the Treasury Department.

Composition of Federal Reserve's Assets



For every asset the Fed acquires it also logs a liability, just like any other business. Banks' reserves are a liability to the Fed. Bank reserves at the Fed have increased more than \$2.5 trillion since the end of February.

These actions are necessary to prevent a financial crisis and to slow deflation. However, once the economy recovers, the large amount of reserves in the system could create the risk of rapid inflation. That's a worry for another day right now though. The Fed will deal with that problem when and if it arises in the future.

–Curtis Dubay, Senior Economist, U.S. Chamber of Commerce