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The Fed’s Balance Sheet and Ample Reserves

Jane E. Ihrig, PhD Senior Adviser and Economist

Scott A. Wolla, PhD, Assistant Vice President

Over the past few years, the [Federal Open Market Committee \(FOMC\)](#) has been reducing the size of its **balance sheet** in an effort to move its reserve balances [down to an ample level](#).^{1,2} In December 2025, the FOMC announced that reserves had declined to efficient and effective levels to implement policy in an **ample reserves regime**. What does this mean? And what will happen next?

The table below provides a simplified illustration of the Fed’s balance sheet, with one column for **assets** and one for **liabilities**. Here, the only asset are the securities the Fed holds, which in actuality represent over 98% of the Fed’s assets. For the past two decades these holdings have included a sizable amount of U.S. Treasury securities and agency **mortgage-backed securities**, though the FOMC has said it prefers a portfolio composed of primarily U.S. Treasuries.

The liabilities side is composed of three main components. First is currency held by the public. The amount of currency in circulation fluctuates with the decisions of the public as they decide to hold more currency or less. Currency is a liability on the Fed’s balance sheet because it is something the Fed has issued, the public holds, and the Fed must accept back at face value.

The second liability is the U.S. Treasury General Account (TGA), which serves as the federal government’s checking account. The U.S. Treasury uses the TGA to collect tax payments, receive money from sales of new issues of Treasury securities, and make government payments such as Social Security payments, federal salaries, and defense spending. The TGA balance adjusts as the Treasury accepts funds and uses its account to manage the day-to-day finances of the federal government. The TGA is a liability because it is the U.S. Treasury’s checking account at the Fed, spendable on demand by the U.S. government.

The third liability is reserve balances, or **reserves**, which are banks’ deposits at the Fed. One can think of this liability as banks’ checking accounts at the Fed. This is the line item the FOMC has said it wants to keep at an ample level. And, through purchases or sales of securities, the Fed can increase or decrease the supply of reserves. Like the TGA, reserves are a Fed liability because they are deposit balances owed by the Fed to banks and usable on demand for payments or cash.

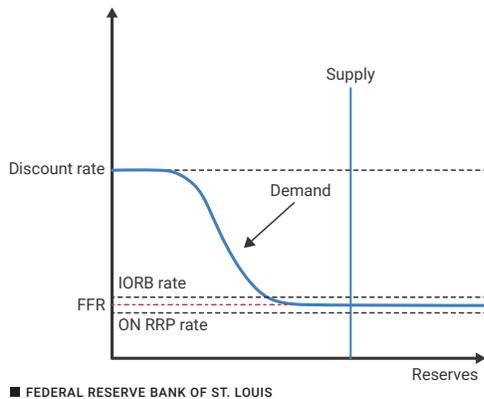
Illustrative Balance Sheet of the Federal Reserve (billions of dollars)

Assets		Liabilities	
Securities holdings	\$6,100	Currency	\$2,400
		TGA	\$800
		Reserves	\$2,900

What Does an Ample Level of Reserves Mean?

In a January 2019 press release the FOMC said “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.” Let’s unpack this statement using Figure 1 below. This is the [standard reserve model](#), as explained in an August 2020 *Page One Economics* article.

Figure 1: **Monetary Policy with Ample Reserves**



NOTE: FFR, federal funds rate; IORB, interest on reserve balances; ON RRP, overnight reverse repurchase agreement. In the ample-reserves framework, the Federal Reserve raises (lowers) its administered rates to move the FFR higher (lower), and small shifts of the supply curve have little or no effect on the FFR rate.

The demand curve represents banks’ demand for reserves, which they want for satisfying customer payment flows and meeting liquidity regulations: It is capped at the top by the Fed’s discount rate. Banks should not be willing to pay for funds at a higher interest rate than they’d have to pay for funds they can borrow from the Fed’s discount window. The second segment of the demand curve is downward sloping, reflecting that banks demand more reserves at lower interest rates.

However, the demand curve turns flat near the Fed’s administered rates—the interest on reserve balances (IORB) rate and the overnight reverse repurchase agreement (ON RRP) rate. Banks and financial institutions can earn the IORB rate or the ON RRP rate of interest by depositing funds at the Fed in their reserve account or at the ON RRP facility, respectively. Because institutions shouldn’t be willing to accept less than these rates for the funds, the rates act as a floor on market interest rates.

The administered rates are important tools that help steer the federal funds rate (FFR) into the FOMC’s target range. When the Fed raises (or lowers) the administered rates, the bottom of the demand curve shifts up (or down) and the FFR moves similarly. This is because the administered rates affect the return that financial institutions can earn by holding funds in their reserve accounts or at the ON RRP facility.

The supply curve is the Fed’s supply of reserves to the banking system. In Figure 1 above, the supply curve intersects the demand curve where it is flat but near the kink. This is an “ample” level of reserves. That is, the Fed does not need to make daily open market operations to purchase or sell securities that would shift the supply curve right or left, respectively, to keep the FFR at target. In this situation, small shifts of the supply curve (due to a change in either nonreserve liabilities or the Fed’s securities holdings) have little or no effect on the FFR. Similarly, a small shift in the demand curve right or left would not alter the FFR. In this ample-reserves regime, the Fed steers the FFR to its targeted level by adjusting the IORB and ON RRP rates up and down.

How Does One Determine the Right Level of Ample Reserves?

There is not a particular level of “ample” the Fed is targeting. Most likely the Fed is aiming for a range of values to the right of the kink of the demand curve because the level of nonreserve liabilities (e.g., currency, the TGA) changes over time, which affects the level of reserves. In particular, if nonreserve

liabilities increase, reserves will decrease. The Fed does not want to have to take action every day to make sure the level of reserves remains to the right of the kink of the demand curve, so it gives itself some buffer.

Why Will There Be Movement in Currency, the TGA, and Reserves?

We can expect movement from trend growth in nonreserve liabilities that will reduce reserves gradually over time. There will also be day-to-day fluctuations in nonreserve liabilities that can cause reserves to go up or down frequently. So, the ample level of reserves will be set with these movements in mind.

Considering currency, this tends to grow each year at roughly the same pace as nominal gross domestic product. And there are cyclical patterns to currency demand, too, such as an increase during the summer travel season and around the holidays, when people hold more cash—then a possible return of excess cash after these periods end. When a bank orders currency to meet the demand of their customers, the Fed gives the bank currency and subtracts that amount from its reserves account. So, any increase in currency demand by the public will reduce reserve balances. Conversely, any decrease in currency demand by the public will increase reserve balances.

Meanwhile, the TGA will move for a variety of reasons. If government expenses increase each year—say, with inflation—then the TGA will increase because it needs to pay for these expenses. And, within a month, the TGA account will fluctuate notably. When the U.S. Treasury makes big payments such as Social Security payments or interest payments on its debt, the TGA decreases, and the banks that have customers who receive Social Security payments or hold Treasury securities see their reserves increase (and then credit their customers' accounts). In the opposite direction, a known big inflow for the U.S. Treasury is tax collection around mid-April. At this time, the TGA increases and reserves fall as payments are made from the public's bank accounts to the government.

So, an increase in either currency or the TGA will reduce reserves. This means the Fed's liabilities adjust—a nonreserve liability increases and reserves decrease—but the asset side of the balance sheet remains unchanged. This also means the supply curve would shift left by the amount nonreserve liabilities increased. These liabilities could decrease as well, and this would result in the opposite reaction.

A Deeper Dive into How Changes in the TGA Affect Reserve Balances

To hit home the point that changes in the TGA do not change the size of the Fed's balance sheet but rather shift funds between two liabilities—the TGA and reserves—let's walk through an example. Consider a transaction where a household pays \$5,000 in federal income taxes. The following occurs:

1. The household's bank sends \$5,000 in reserves to the Fed.
2. The Fed credits the Treasury's account (the TGA) by \$5,000.

The Fed balance sheet effects are as follows:

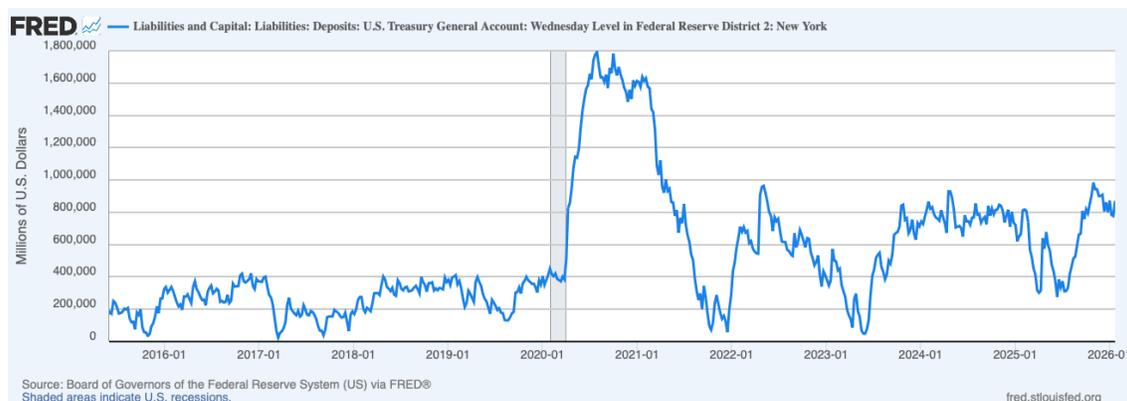
- The TGA increases by \$5,000.
 - Bank reserve balances decrease by \$5,000.
 - Total Fed liabilities are unchanged.
 - Total Fed assets are unchanged.
-

Now think of this transaction across all households and corporations in America around tax time: The TGA increases noticeably around mid-April every year.

There are also regular, large governmental expenses when the U.S. Treasury pays interest on its securities—around the middle and end of each month—where the TGA decreases and reserves increase.

Over time, the TGA regularly moves up and down by billions of dollars. See Figure 2 below. Over the past five years, the average absolute weekly change has been about \$57 billion.

Figure 2: **Balance of TGA Liabilities**



SOURCE: [Liabilities and Capital: Liabilities: Deposits: U.S. Treasury General Account: Wednesday Level in Federal Reserve District 2: New York](#), Board of Governors of the Federal Reserve System via FRED, Federal Reserve Bank of St. Louis; accessed December 30, 2025.

The Fed's Response to Changes in Reserve Balances

The Fed may choose to take actions to offset changes in the level of reserves, if desired.³ When the Fed decides it wants to increase reserves, it buys U.S. Treasury securities on the open market and pays for them with reserves.⁴ This means the asset side of the balance sheet would increase by the amount of securities purchased, and on the liability side reserves would increase by the same amount. This also means the supply curve would shift right by the amount purchased.

In practice, the Fed tries to anticipate how nonreserve liabilities will move, and it tries to estimate the shape of the demand curve. But it also watches for signals about the level of reserves through money market interest rates. In particular, the Fed's Open Market Trading Desk (the Desk) will [watch the level of the FFR and other short-term rates](#) and compare them with the Fed's administered rates, and it will watch their volatility, as explained in a January 2025 *FEDS Notes* article. If it (1) [anticipates](#) a large reduction in reserves, (2) believes there is an outward shift in demand, or (3) sees short-term interest rates start to increase and/or become volatile, the Desk [might conclude](#) reserves could be close to the low side of ample, which suggests the supply curve may be close to intersecting with the kink in the demand curve.⁵ If so, it would be time to increase reserves by purchasing securities.

So where is the Fed as of December 2025? The FOMC has stated that [reserves are at an ample level \(PDF\)](#), and it directed the Desk to purchase securities to maintain an ample level. The Desk stated, "reserve management purchases" would be "[sized to accommodate projected trend growth](#) in the

demand for Federal Reserve liabilities as well as seasonal fluctuations, such as those driven by tax payment dates." The Desk announced it will begin by purchasing approximately \$40 billion in Treasury bills in the first month, and it will release a statement each subsequent month telling the public how many securities it aims to buy in the following weeks to keep reserves in the ample range.

The Desk's monthly purchases are a background action to keep reserves ample and money market interest rates in normal ranges. Note that this is balance sheet management; it is different from quantitative easing, which is where the Fed typically buys longer-term securities when the policy rate is near zero to put downward pressure on longer-term interest rates and ease financial conditions. The FOMC's decision at each meeting is focused on the target range it wants to set to move the economy toward its dual mandate of maximum employment and price stability.

Conclusion

The Fed has taken a significant step in its balance sheet normalization strategy to transition from an abundant-reserves regime (after COVID-era quantitative easing) to a more-sustainable ample-reserves regime. This framework allows the FOMC to efficiently and effectively control short-term interest rates through its administered rates while accommodating natural fluctuations in nonreserve liabilities such as currency and the TGA.

Looking forward, the Fed's monthly reserve management purchases represent routine balance sheet maintenance rather than extraordinary monetary policy actions. The Fed will need to monitor both demand and supply factors to determine the desired levels of ample. Its goal is to ensure reserves remain ample so that making adjustments to the target range is the primary monetary policy tool used to achieve its dual mandate of maximum employment and price stability for the American economy.

Glossary

Ample reserves regime: The name of the Fed's approach to implementing monetary policy. This regime features a sizable level of reserves in the banking system such that small adjustments to the level do not affect the market-determined federal funds rate.

Asset: A resource with economic value that an individual, corporation, or country owns with the expectation that it will provide future benefits.

Balance sheet: A statement of the assets and liabilities of a firm or individual at some given time.

Federal Open Market Committee (FOMC): A Committee created by law that consists of the seven members of the Board of Governors; the president of the Federal Reserve Bank of New York; and, on a rotating basis, the presidents of four other Reserve Banks. Nonvoting Reserve Bank presidents also participate in Committee deliberations and discussion.

Liability: A company's debts and financial obligations owed to external parties.

Mortgage-backed securities: Debt obligations, such as bonds, that represent claims on the interest and principal payments of residential mortgage loans. Most of these securities are issued by the government-sponsored enterprises Fannie Mae and Freddie Mac.

Reserves (bank): The funds that banks hold on deposits at their Federal Reserve Bank.

Notes

¹ On January 30, 2019, the FOMC released a statement saying it intended to implement monetary policy in a regime with an ample supply of reserves.

² During the COVID-19 pandemic, the FOMC purchased securities when the policy rate was near zero in an effort to lower longer-term interest rates and help stimulate the economy. These purchases increased reserves to an abundant level. Once the economy recovered, the FOMC began reducing reserves to a more-desirable level. On June 1, 2022, the FOMC began slowly declining the size of the balance sheet, which it stopped on December 18, 2025, when the FOMC judged that reserve balances had declined to an ample level. See the Fed's May 2022 statement "Plans for Reducing the Size of the Federal Reserve's Balance Sheet" for more details.

³ The Fed may also anticipate a drawdown in reserves, such as knowing the TGA will increase in April around tax collection and so preemptively adjust the buffer of reserves.

⁴ In extraordinary situations, the Fed has conducted quantitative easing purchase, such as during the COVID-19 pandemic. The focus of this article is on normal operations and not these extraordinary actions that are targeted at lowering longer-term interest rates when the FFR target is near zero.

⁵ In September 2019 the level of reserves got too low for what, looking back, was ample. As a result, overnight money market interest rates spiked and exhibited significant volatility. As a result, the Open Market Trading Desk did operations to boost reserves and return interest rates to what were considered normal levels and volatility. In 2024-25 the Fed reduced reserves from an abundant level toward ample while watching a variety of money market indicators to signal when to stop the process.

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