

United States Senate

July 29, 2024

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue Northwest
Washington, DC 20551

Dear Chair Powell:

I am again writing regarding the Federal Reserve's continued failure to meet its own targets for balance sheet reduction. As I have repeatedly emphasized in our previous communications, the size of the Federal Reserve's \$7.2 trillion balance sheet poses an unprecedented risk to American taxpayers and our economy.¹

In my letter to you last November, I highlighted that the Federal Reserve's balance sheet remained nearly half a trillion dollars higher than projected based on your own reduction plans.² It is alarming to see that months later, this situation has not improved.³

The Federal Reserve announced its new balance sheet reduction policy on May 1, 2024. This policy included slowing the pace of its balance sheet drawdown. Specifically, starting June 1, 2024, the Federal Reserve reduced the cap on Treasury securities it allows to mature and not be replaced to \$25 billion per month, down from the previous cap of up to \$60 billion per month. The cap for mortgage-backed securities remains at \$35 billion per month, with any excess principal payments reinvested into Treasuries.⁴ This means the balance sheet should be reduced by \$60 billion every month beginning in June 2024.

It is unacceptable that the Federal Reserve has failed to meet its new, even lower targets. On June 6 – the Federal Reserve's first data posting since the start of its new program – the total balance sheet stood at \$7.26 trillion. As of July 25, the balance sheet totaled \$7.205 trillion, which equates to roughly \$60 billion in total balance sheet runoff

¹ https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

² <https://www.rickscott.senate.gov/services/files/8CB6C67B-7E2E-4467-8319-BBC260CB81CA>

³ <https://www.federalreserve.gov/releases/h41/>

⁴ <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240501a.htm>;

over the past seven weeks.⁵ At this current pace, the Federal Reserve is already missing its new balance sheet targets.

Looking only at U.S. Treasuries and mortgage-backed securities, the Federal Reserve is already at least \$43.25 billion behind its new, lower targets within the first seven weeks of implementation.⁶ Without significant reduction this week, the Federal Reserve will have severely missed its new balance sheet runoff goals. The lack of accountability shown in missing the goals you have set for yourself is alarming and must be corrected.

The Federal Reserve's inability to adhere to its own more modest goals for balance sheet reduction is not only concerning, but also misleading to both the public and Congress about your true intentions to address this critical issue.

Further, the Federal Reserve's new balance sheet reduction policy falls woefully short of what is needed to address the massive size of the Federal Reserve's balance sheet. It is incomprehensible why the Federal Reserve cannot meet its own goals and reduce its balance sheet at a dramatically faster pace, especially given the ongoing challenges of record inflation and rising federal debt.

In light of these concerns, I write to you today to request answers to the following questions:

- What specific factors have prevented the Federal Reserve from meeting its planned balance sheet reductions since the implementation of the new policy?
- Given these shortfalls, will the Federal Reserve revisit or change its targets for balance sheet reduction at upcoming meetings? How does the Federal Reserve intend to accelerate the pace of balance sheet reduction to catch up with its previously stated targets?
- Does the Federal Reserve plan to discuss moving away from capped targets to a more active process for reducing the balance sheet?
- How is the large size of the balance sheet, a slower pace of runoff, and the Federal Reserve's continued purchasing of assets impacting inflation and the money supply?
- What is the Federal Reserve's long-term target for the size of its balance sheet, and what is the projected timeline to reach this goal?

⁵ https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

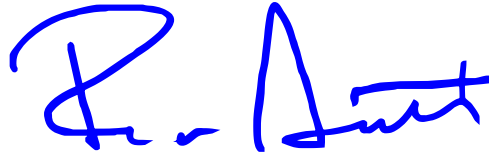
⁶ <https://www.federalreserve.gov/releases/h41/>

The Honorable Jerome Powell
July 29, 2024
Page Three

I remain committed to addressing America's debt crisis and the harmful effects of inflation. It is crucial that the Federal Reserve takes immediate and decisive action to reduce its balance sheet and mitigate the risks it poses to our economy and future inflation.

I look forward to your prompt response to these important questions.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rick Scott". The signature is stylized and cursive.

Rick Scott
United States Senator