

## Minutes of the Federal Open Market Committee January 25–26, 2022

A joint meeting of the Federal Open Market Committee and the Board of Governors of the Federal Reserve System was held by videoconference on Tuesday, January 25, 2022, at 9:00 a.m. and continued on Wednesday, January 26, 2022, at 9:00 a.m.<sup>1</sup>

### Attendance

Jerome H. Powell, Chair  
John C. Williams, Vice Chair  
Michelle W. Bowman  
Lael Brainard  
James Bullard  
Esther L. George  
Loretta J. Mester  
Christopher J. Waller

Meredith Black, Charles L. Evans, Patrick Harker, Naureen Hassan, and Neel Kashkari, Alternate Members of the Committee

Thomas I. Barkin, Raphael W. Bostic, and Mary C. Daly, Presidents of the Federal Reserve Banks of Richmond, Atlanta, and San Francisco, respectively

Kenneth C. Montgomery, Interim President of the Federal Reserve Bank of Boston

James A. Clouse, Secretary  
Matthew M. Luecke, Deputy Secretary  
Brian J. Bonis, Assistant Secretary  
Michelle A. Smith, Assistant Secretary  
Mark E. Van Der Weide, General Counsel  
Michael Held, Deputy General Counsel  
Trevor A. Reeve, Economist  
Stacey Tevlin, Economist  
Beth Anne Wilson, Economist

Shaghil Ahmed, Brian M. Doyle, Carlos Garriga, Joseph W. Gruber, David E. Lebow, Ellis W. Tallman, Geoffrey Tootell, and William Wascher, Associate Economists

Lorie K. Logan, Manager, System Open Market Account

Patricia Zobel, Deputy Manager, System Open Market Account

Ann E. Misback, Secretary, Office of the Secretary, Board

Matthew J. Eichner,<sup>2</sup> Director, Division of Reserve Bank Operations and Payment Systems, Board; Michael S. Gibson, Director, Division of Supervision and Regulation, Board

Daniel M. Covitz, Deputy Director, Division of Research and Statistics, Board; Sally Davies, Deputy Director, Division of International Finance, Board; Rochelle M. Edge, Deputy Director, Division of Monetary Affairs, Board; Michael T. Kiley, Deputy Director, Division of Financial Stability, Board

Jon Faust and Joshua Gallin, Senior Special Advisers to the Chair, Division of Board Members, Board

Antulio N. Bomfim, Jane E. Ihrig, Kurt F. Lewis, and Nitish R. Sinha, Special Advisers to the Board, Division of Board Members, Board

Linda Robertson, Assistant to the Board, Division of Board Members, Board

Michael G. Palumbo, Senior Associate Director, Division of Research and Statistics, Board

Stephanie E. Curcuru,<sup>2</sup> Associate Director, Division of International Finance, Board; Eric C. Engstrom and Christopher J. Gust, Associate Directors, Division of Monetary Affairs, Board; Glenn Follette, Associate Director, Division of Research and Statistics, Board

Erik A. Heitfield, Deputy Associate Director, Division of Research and Statistics, Board; Laura Lipscomb and Zeynep Senyuz,<sup>2</sup> Deputy Associate Directors, Division of Monetary Affairs, Board

<sup>1</sup> The Federal Open Market Committee is referenced as the “FOMC” and the “Committee” in these minutes; the Board of Governors of the Federal Reserve System is referenced as the “Board” in these minutes.

<sup>2</sup> Attended through the discussion of principles for reducing the size of the balance sheet.

Etienne Gagnon<sup>2</sup> and Andrew Meldrum, Assistant Directors, Division of Monetary Affairs, Board

Mark A. Carlson, Adviser, Division of Monetary Affairs, Board

Alyssa G. Anderson and Valerie S. Hinojosa, Section Chiefs, Division of Monetary Affairs, Board; Penelope A. Beattie,<sup>3</sup> Section Chief, Office of the Secretary, Board

Alyssa Arute, Manager, Division of Reserve Bank Operations and Payment Systems, Board

Camille Bryan, Senior Project Manager, Division of Monetary Affairs, Board

David H. Small, Project Manager, Division of Monetary Affairs, Board

Damjan Pfajfar, Mary Tian, and Randall A. Williams, Group Managers, Division of Monetary Affairs, Board

David B. Cashin, Principal Economist, Division of Research and Statistics, Board; Erin E. Ferris, Kyungmin Kim, and Bernd Schlusche,<sup>2</sup> Principal Economists, Division of Monetary Affairs, Board; Colin J. Hottman, Principal Economist, Division of International Finance, Board

David Na,<sup>2</sup> Senior Financial Institution and Policy Analyst, Division of Monetary Affairs, Board

Isaiah C. Ahn, Information Management Analyst, Division of Monetary Affairs, Board

David Altig, Kartik B. Athreya, and Sylvain Leduc, Executive Vice Presidents, Federal Reserve Banks of Atlanta, Richmond, and San Francisco, respectively

Anne Baum, John Clark,<sup>2</sup> Spencer Krane, Paolo A. Pesenti, Julie Ann Remache,<sup>2</sup> Keith Sill, and Mark L.J. Wright, Senior Vice Presidents, Federal Reserve Banks of New York, New York, Chicago, New York, New York, Philadelphia, and Minneapolis, respectively

Deborah Leonard<sup>2</sup> and Rania Perry,<sup>2</sup> Vice Presidents, Federal Reserve Bank of New York

James Dolmas, Economic Policy Adviser and Senior Economist, Federal Reserve Bank of Dallas

Radhika Mithal,<sup>2</sup> Markets Officer, Federal Reserve Bank of New York

#### **Annual Organizational Matters<sup>4</sup>**

The agenda for this meeting reported that advices of the election of the following members and alternate members of the Federal Open Market Committee for a term beginning January 25, 2022, were received and that these individuals executed their oaths of office.

The elected members and alternate members were as follows:

John C. Williams, President of the Federal Reserve Bank of New York, with Naureen Hassan, First Vice President of the Federal Reserve Bank of New York, as alternate

Patrick Harker, President of the Federal Reserve Bank of Philadelphia, as alternate

Loretta J. Mester, President of the Federal Reserve Bank of Cleveland, with Charles L. Evans, President of the Federal Reserve Bank of Chicago, as alternate

James Bullard, President of the Federal Reserve Bank of St. Louis, with Meredith Black, Interim President of the Federal Reserve Bank of Dallas, as alternate

Esther L. George, President of the Federal Reserve Bank of Kansas City, with Neel Kashkari, President of the Federal Reserve Bank of Minneapolis, as alternate.

By unanimous vote, the following officers of the Committee were selected to serve until the selection of their successors at the first regularly scheduled meeting of the Committee in 2023:

Jerome H. Powell	Chair
John C. Williams	Vice Chair
James A. Clouse	Secretary
Matthew M. Luecke	Deputy Secretary
Brian J. Bonis	Assistant Secretary
Michelle A. Smith	Assistant Secretary
Mark E. Van Der Weide	General Counsel
Michael Held	Deputy General Counsel
Richard M. Ashton	Assistant General Counsel

<sup>3</sup> Attended Tuesday's session only.

<sup>4</sup> Committee organizational documents are available at [www.federalreserve.gov/monetarypolicy/rules\\_authorizations.htm](http://www.federalreserve.gov/monetarypolicy/rules_authorizations.htm).

Trevor Reeve	Economist
Stacey Tevlin	Economist
Beth Anne Wilson	Economist

Shaghil Ahmed	
Brian M. Doyle	
Carlos Garriga	
Joseph W. Gruber	
Beverly Hirtle	
David E. Lebow	
Ellis W. Tallman	
Geoffrey Tootell	
William Wascher	Associate Economists

By unanimous vote, the Committee selected the Federal Reserve Bank of New York to execute transactions for the System Open Market Account (SOMA).

By unanimous vote, the Committee selected Lorie K. Logan and Patricia Zobel to serve at the pleasure of the Committee as manager and deputy manager of the SOMA, respectively, on the understanding that these selections were subject to being satisfactory to the Federal Reserve Bank of New York.

Secretary’s note: The Federal Reserve Bank of New York subsequently sent advice that the manager and deputy manager selections indicated previously were satisfactory.

By unanimous vote, the Committee voted to reaffirm without revision the Authorization for Domestic Open Market Operations, as shown below. By unanimous vote, the Committee voted to reaffirm without revision the Authorization for Foreign Currency Operations and to amend the Foreign Currency Directive to remove references to the temporary dollar liquidity swap arrangements with foreign central banks, as shown below. The Guidelines for the Conduct of System Open Market Operations in Federal-Agency Issues remained suspended.

#### AUTHORIZATION FOR DOMESTIC OPEN MARKET OPERATIONS

(As reaffirmed effective January 25, 2022)

#### OPEN MARKET TRANSACTIONS

1. The Federal Open Market Committee (the “Committee”) authorizes and directs the Federal Reserve Bank selected by the Committee to execute open market transactions (the “Selected Bank”), to the extent necessary to carry out the most recent domestic policy directive adopted by the Committee:

A. To buy or sell in the open market securities that are direct obligations of, or fully guaranteed as to principal and interest by, the United States, and securities that are direct obligations of, or fully guaranteed as to principal and interest by, any agency of the United States, that are eligible for purchase or sale under Section 14(b) of the Federal Reserve Act (“Eligible Securities”) for the System Open Market Account (“SOMA”):

- i. As an outright operation with securities dealers and foreign and international accounts maintained at the Selected Bank: on a same-day or deferred delivery basis (including such transactions as are commonly referred to as dollar rolls and coupon swaps) at market prices; or
- ii. As a temporary operation: on a same-day or deferred delivery basis, to purchase such Eligible Securities subject to an agreement to resell (“repo transactions”) or to sell such Eligible Securities subject to an agreement to repurchase (“reverse repo transactions”) for a term of 65 business days or less, at rates that, unless otherwise authorized by the Committee, are determined by competitive bidding, after applying reasonable limitations on the volume of agreements with individual counterparties;

B. To allow Eligible Securities in the SOMA to mature without replacement;

C. To exchange, at market prices, in connection with a Treasury auction, maturing Eligible Securities in the SOMA with the Treasury, in the case of Eligible Securities that are direct obligations of the United States or that are fully guaranteed as to principal and interest by the United States; and

D. To exchange, at market prices, maturing Eligible Securities in the SOMA with an agency of the United States, in the case of Eligible Securities that are direct obligations of that agency or that are fully guaranteed as to principal and interest by that agency.

#### SECURITIES LENDING

2. In order to ensure the effective conduct of open market operations, the Committee authorizes the Selected Bank to operate a program to lend Eligible Securities held in the SOMA to dealers on an overnight basis (except that the Selected Bank may lend Eligible Securities for longer than an overnight term to accommodate weekend, holiday, and similar trading conventions).

- A. Such securities lending must be:
- i. At rates determined by competitive bidding;
  - ii. At a minimum lending fee consistent with the objectives of the program;

- iii. Subject to reasonable limitations on the total amount of a specific issue of Eligible Securities that may be auctioned; and
  - iv. Subject to reasonable limitations on the amount of Eligible Securities that each borrower may borrow.
- B. The Selected Bank may:
- i. Reject bids that, as determined in its sole discretion, could facilitate a bidder's ability to control a single issue;
  - ii. Accept Treasury securities or cash as collateral for any loan of securities authorized in this paragraph 2; and
  - iii. Accept agency securities as collateral only for a loan of agency securities authorized in this paragraph 2.

#### OPERATIONAL READINESS TESTING

3. The Committee authorizes the Selected Bank to undertake transactions of the type described in paragraphs 1 and 2 from time to time for the purpose of testing operational readiness, subject to the following limitations:

- A. All transactions authorized in this paragraph 3 shall be conducted with prior notice to the Committee;
- B. The aggregate par value of the transactions authorized in this paragraph 3 that are of the type described in paragraph 1.A.i, 1.B, 1.C and 1.D shall not exceed \$5 billion per calendar year; and
- C. The outstanding amount of the transactions described in paragraphs 1.A.ii and 2 shall not exceed \$5 billion at any given time.

#### TRANSACTIONS WITH CUSTOMER ACCOUNTS

4. In order to ensure the effective conduct of open market operations, while assisting in the provision of short-term investments or other authorized services for foreign central bank and international accounts maintained at a Federal Reserve Bank (the "Foreign Accounts") and accounts maintained at a Federal Reserve Bank as fiscal agent of the United States pursuant to section 15 of the Federal Reserve Act (together with the Foreign Accounts, the "Customer Accounts"), the Committee authorizes the following when undertaken on terms comparable to those available in the open market:

- A. The Selected Bank, for the SOMA, to:
  - i. Undertake reverse repo transactions in Eligible Securities held in the SOMA with the Customer Accounts for a term of 65 business days or less; and

- ii. Undertake repo transactions in Eligible Securities with Foreign Accounts; and
- B. Any Federal Reserve Bank that maintains Customer Accounts, for any such Customer Account, when appropriate and subject to all other necessary authorization and approvals, to:
- i. Undertake repo transactions in Eligible Securities with dealers with a corresponding reverse repo transaction in such Eligible Securities with the Customer Accounts; and
  - ii. Undertake intra-day repo transactions in Eligible Securities with Foreign Accounts.

Transactions undertaken with Customer Accounts under the provisions of this paragraph 4 may provide for a service fee when appropriate. Transactions undertaken with Customer Accounts are also subject to the authorization or approval of other entities, including the Board of Governors of the Federal Reserve System and, when involving accounts maintained at a Federal Reserve Bank as fiscal agent of the United States, the United States Department of the Treasury.

#### ADDITIONAL MATTERS

5. The Committee authorizes the Chair of the Committee, in fostering the Committee's objectives during any period between meetings of the Committee, to instruct the Selected Bank to act on behalf of the Committee to:

- A. Adjust somewhat in exceptional circumstances the stance of monetary policy and to take actions that may result in material changes in the composition and size of the assets in the SOMA; or
- B. Undertake transactions with respect to Eligible Securities in order to appropriately address temporary disruptions of an operational or highly unusual nature in U.S. dollar funding markets.

Any such adjustment described in subparagraph A of this paragraph 5 shall be made in the context of the Committee's discussion and decision about the stance of policy at its most recent meeting and the Committee's long-run objectives to foster maximum employment and price stability, and shall be based on economic, financial, and monetary developments since the most recent meeting of the Committee. The Chair, whenever feasible, will consult with the Committee before making any instruction under this paragraph 5.

## AUTHORIZATION FOR FOREIGN CURRENCY OPERATIONS

(As reaffirmed effective January 25, 2022)

### IN GENERAL

1. The Federal Open Market Committee (the “Committee”) authorizes the Federal Reserve Bank selected by the Committee (the “Selected Bank”) to execute open market transactions for the System Open Market Account as provided in this Authorization, to the extent necessary to carry out any foreign currency directive of the Committee:

A. To purchase and sell foreign currencies (also known as cable transfers) at home and abroad in the open market, including with the United States Treasury, with foreign monetary authorities, with the Bank for International Settlements, and with other entities in the open market. This authorization to purchase and sell foreign currencies encompasses purchases and sales through standalone spot or forward transactions and through foreign exchange swap transactions. For purposes of this Authorization, foreign exchange swap transactions are: swap transactions with the United States Treasury (also known as warehousing transactions), swap transactions with other central banks under reciprocal currency arrangements, swap transactions with other central banks understanding dollar liquidity and foreign currency liquidity swap arrangements, and swap transactions with other entities in the open market.

B. To hold balances of, and to have outstanding forward contracts to receive or to deliver, foreign currencies.

2. All transactions in foreign currencies undertaken pursuant to paragraph 1 above shall, unless otherwise authorized by the Committee, be conducted:

A. In a manner consistent with the obligations regarding exchange arrangements under Article IV of the Articles of Agreement of the International Monetary Fund (IMF).<sup>1</sup>

B. In close and continuous cooperation and consultation, as appropriate, with the United States Treasury.

C. In consultation, as appropriate, with foreign monetary authorities, foreign central banks, and international monetary institutions.

D. At prevailing market rates.

## STANDALONE SPOT AND FORWARD TRANSACTIONS

3. For any operation that involves standalone spot or forward transactions in foreign currencies:

A. Approval of such operation is required as follows:

i. The Committee must direct the Selected Bank in advance to execute the operation if it would result in the overall volume of standalone spot and forward transactions in foreign currencies, as defined in paragraph 3.C of this Authorization, exceeding \$5 billion since the close of the most recent regular meeting of the Committee. The Foreign Currency Subcommittee (the “Subcommittee”) must direct the Selected Bank in advance to execute the operation if the Subcommittee believes that consultation with the Committee is not feasible in the time available.

ii. The Committee authorizes the Subcommittee to direct the Selected Bank in advance to execute the operation if it would result in the overall volume of standalone spot and forward transactions in foreign currencies, as defined in paragraph 3.C of this Authorization, totaling \$5 billion or less since the close of the most recent regular meeting of the Committee.

B. Such an operation also shall be:

i. Generally directed at countering disorderly market conditions; or

ii. Undertaken to adjust System balances in light of probable future needs for currencies; or

iii. Conducted for such other purposes as may be determined by the Committee.

C. For purposes of this Authorization, the overall volume of standalone spot and forward transactions in foreign currencies is defined as the sum (disregarding signs) of the dollar values of individual foreign currencies purchased and sold, valued at the time of the transaction.

## WAREHOUSING

4. The Committee authorizes the Selected Bank, with the prior approval of the Subcommittee and at the request of the United States Treasury, to conduct swap transactions with the United States Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934 under agreements in which the Selected Bank purchases foreign currencies from the Exchange Stabilization Fund and the Exchange Stabilization Fund repurchases the foreign currencies from the Selected

Bank at a later date (such purchases and sales also known as warehousing).

#### RECIPROCAL CURRENCY ARRANGEMENTS, AND STANDING DOLLAR AND FOREIGN CURRENCY LIQUIDITY SWAPS

5. The Committee authorizes the Selected Bank to maintain reciprocal currency arrangements established under the North American Framework Agreement, standing dollar liquidity swap arrangements, temporary dollar liquidity swap arrangements, and standing foreign currency liquidity swap arrangements as provided in this Authorization and to the extent necessary to carry out any foreign currency directive of the Committee.

A. For reciprocal currency arrangements all drawings must be approved in advance by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the Committee is not feasible in the time available).

B. For standing and temporary dollar liquidity swap arrangements all drawings must be approved in advance by the Chair. The Chair may approve a schedule of potential drawings, and may delegate to the manager, System Open Market Account, the authority to approve individual drawings that occur according to the schedule approved by the Chair.

C. For standing foreign currency liquidity swap arrangements all drawings must be approved in advance by the Committee (or by the Subcommittee, if the Subcommittee believes that consultation with the Committee is not feasible in the time available).

D. Operations involving standing and temporary dollar liquidity swap arrangements and standing foreign currency liquidity swap arrangements shall generally be directed at countering strains in financial markets in the United States or abroad, or reducing the risk that they could emerge, so as to mitigate their effects on economic and financial conditions in the United States.

E. For reciprocal currency arrangements, standing and temporary dollar liquidity swap arrangements, and standing foreign currency liquidity swap arrangements:

- i. All arrangements are subject to annual review and approval by the Committee;
- ii. Any new arrangements must be approved by the Committee; and
- iii. Any changes in the terms of existing arrangements must be approved in advance by the Chair. The Chair shall keep the Committee informed of

any changes in terms, and the terms shall be consistent with principles discussed with and guidance provided by the Committee.

#### OTHER OPERATIONS IN FOREIGN CURRENCIES

6. Any other operations in foreign currencies for which governance is not otherwise specified in this Authorization (such as foreign exchange swap transactions with private-sector counterparties) must be authorized and directed in advance by the Committee.

#### FOREIGN CURRENCY HOLDINGS

7. The Committee authorizes the Selected Bank to hold foreign currencies for the System Open Market Account in accounts maintained at foreign central banks, the Bank for International Settlements, and such other foreign institutions as approved by the Board of Governors under Section 214.5 of Regulation N, to the extent necessary to carry out any foreign currency directive of the Committee.

A. The Selected Bank shall manage all holdings of foreign currencies for the System Open Market Account:

- i. Primarily, to ensure sufficient liquidity to enable the Selected Bank to conduct foreign currency operations as directed by the Committee;
- ii. Secondly, to maintain a high degree of safety;
- iii. Subject to paragraphs 7.A.i and 7.A.ii, to provide the highest rate of return possible in each currency; and
- iv. To achieve such other objectives as may be authorized by the Committee.

B. The Selected Bank may manage such foreign currency holdings by:

- i. Purchasing and selling obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency thereof ("Permitted Foreign Securities") through outright purchases and sales;
- ii. Purchasing Permitted Foreign Securities under agreements for repurchase of such Permitted Foreign Securities and selling such securities under agreements for the resale of such securities; and
- iii. Managing balances in various time and other deposit accounts at foreign institutions approved by the Board of Governors under Regulation N.

C. The Subcommittee, in consultation with the Committee, may provide additional instructions to the

Selected Bank regarding holdings of foreign currencies.

#### ADDITIONAL MATTERS

8. The Committee authorizes the Chair:
  - A. With the prior approval of the Committee, to enter into any needed agreement or understanding with the Secretary of the United States Treasury about the division of responsibility for foreign currency operations between the System and the United States Treasury;
  - B. To advise the Secretary of the United States Treasury concerning System foreign currency operations, and to consult with the Secretary on policy matters relating to foreign currency operations;
  - C. To designate Federal Reserve System persons authorized to communicate with the United States Treasury concerning System Open Market Account foreign currency operations; and
  - D. From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Policies.
9. The Committee authorizes the Selected Bank to undertake transactions of the type described in this Authorization, and foreign exchange and investment transactions that it may be otherwise authorized to undertake, from time to time for the purpose of testing operational readiness. The aggregate amount of such transactions shall not exceed \$2.5 billion per calendar year. These transactions shall be conducted with prior notice to the Committee.
10. All Federal Reserve banks shall participate in the foreign currency operations for System Open Market Account in accordance with paragraph 3G(1) of the Board of Governors' Statement of Procedure with Respect to Foreign Relationships of Federal Reserve Banks dated January 1, 1944.
11. Any authority of the Subcommittee pursuant to this Authorization may be exercised by the Chair if the Chair believes that consultation with the Subcommittee is not feasible in the time available. The Chair shall promptly report to the Subcommittee any action approved by the Chair pursuant to this paragraph.
12. The Committee authorizes the Chair, in exceptional circumstances where it would not be feasible to convene the Committee, to foster the Committee's objectives by instructing the Selected Bank to engage in foreign currency operations not otherwise authorized pursuant to this Authorization. Any such action shall be made in the context of the Committee's discussion and decisions regarding foreign currency operations. The

Chair, whenever feasible, will consult with the Committee before making any instruction under this paragraph.

<sup>1</sup> In general, as specified in Article IV, each member of the IMF undertakes to collaborate with the IMF and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. These obligations include seeking to direct the member's economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability. These obligations also include avoiding manipulating exchange rates or the international monetary system in such a way that would impede effective balance of payments adjustment or to give an unfair competitive advantage over other members.

#### FOREIGN CURRENCY DIRECTIVE

(As amended effective January 25, 2022)

1. The Committee directs the Federal Reserve Bank selected by the Committee (the "Selected Bank") to execute open market transactions, for the System Open Market Account, in accordance with the provisions of the Authorization for Foreign Currency Operations (the "Authorization") and subject to the limits in this Directive.
2. The Committee directs the Selected Bank to execute warehousing transactions, if so requested by the United States Treasury and if approved by the Foreign Currency Subcommittee (the "Subcommittee"), subject to the limitation that the outstanding balance of United States dollars provided to the United States Treasury as a result of these transactions not at any time exceed \$5 billion.
3. The Committee directs the Selected Bank to maintain, for the System Open Market Account:
  - A. Reciprocal currency arrangements with the following foreign central banks:

Foreign central bank	Maximum amount (millions of dollars or equivalent)
Bank of Canada	2,000
Bank of Mexico	3,000

- B. Standing dollar liquidity swap arrangements with the following foreign central banks:

Bank of Canada  
Bank of England  
Bank of Japan  
European Central Bank  
Swiss National Bank

C. Standing foreign currency liquidity swap arrangements with the following foreign central banks:

Bank of Canada  
 Bank of England  
 Bank of Japan  
 European Central Bank  
 Swiss National Bank

4. The Committee directs the Selected Bank to hold and to invest foreign currencies in the portfolio in accordance with the provisions of paragraph 7 of the Authorization.

5. The Committee directs the Selected Bank to report to the Committee, at each regular meeting of the Committee, on transactions undertaken pursuant to paragraphs 1 and 6 of the Authorization. The Selected Bank is also directed to provide quarterly reports to the Committee regarding the management of the foreign currency holdings pursuant to paragraph 7 of the Authorization.

6. The Committee directs the Selected Bank to conduct testing of transactions for the purpose of operational readiness in accordance with the provisions of paragraph 9 of the Authorization.

The Committee voted unanimously to approve with minor revisions the Standing Repurchase Agreement Facility Resolution, as shown below. All but one member of the Committee voted to approve with minor revisions the Standing FIMA Repurchase Agreement Resolution. Governor Bowman abstained from the vote on the Standing FIMA Repurchase Agreement Resolution. The resolutions were modified to remove references to a specific facility rate to allow for normal adjustment in the facility rates when the Committee makes changes to the target range for the federal funds rate.

#### STANDING REPURCHASE AGREEMENT FACILITY RESOLUTION

(As amended effective January 25, 2022)

The Federal Open Market Committee (the “Committee”) authorizes and directs the Open Market Desk at the Federal Reserve Bank of New York (the “Selected Bank”), for the System Open Market Account (“SOMA”), to conduct operations in which it offers to purchase securities, subject to an agreement to resell (“repurchase agreement transactions”). The repurchase agreement transactions hereby authorized and directed shall (i) include only U.S. Treasury securities, agency debt securities, and agency mortgage-backed securities; (ii) be conducted as open market operations with primary dealers and depository institutions as participants;

(iii) be conducted with a minimum bid rate set at a level directed by the Committee; (iv) be offered on an overnight basis (except that the Open Market Desk at the Selected Bank may extend the term for longer than an overnight term to accommodate weekend, holiday, and similar trading conventions); and (v) be subject to an aggregate operation limit of \$500 billion. The aggregate operation limit can be temporarily increased at the discretion of the Chair. These operations shall be conducted by the Open Market Desk at the Selected Bank until otherwise directed by the Committee.

#### STANDING FIMA REPURCHASE AGREEMENT RESOLUTION

(As amended effective January 25, 2022)

The Federal Open Market Committee (the “Committee”) authorizes and directs the Open Market Desk at the Federal Reserve Bank of New York (the “Selected Bank”), for the System Open Market Account (“SOMA”), to offer to purchase U.S. Treasury securities subject to an agreement to resell (“repurchase agreement transactions”) with foreign central bank and international accounts maintained at a Federal Reserve Bank (the “Foreign Accounts”). The repurchase agreement transactions hereby authorized and directed shall (i) include only U.S. Treasury securities; (ii) be conducted with Foreign Accounts approved in advance by the Foreign Currency Subcommittee (the “Subcommittee”); (iii) be conducted at an offering rate equal to the minimum bid rate for the standing repurchase agreement facility unless the Subcommittee establishes a different offering rate; (iv) be offered on an overnight basis (except that the Open Market Desk at the Selected Bank may extend the term for longer than an overnight term to accommodate weekend, holiday, and similar trading conventions); and (v) be subject to a per-counterparty limit of \$60 billion per day. The Subcommittee may approve changes in the offering rate, the maturity of the transactions, eligible Foreign Accounts counterparties (either by approving or removing account access), and the counterparty limit; and the Subcommittee shall keep the Committee informed of any such changes. These transactions shall be undertaken by the Open Market Desk at the Selected Bank until otherwise directed by the Committee. The Open Market Desk at the Selected Bank will also report at least annually to the Committee on facility usage and the list of approved account holders.

Regarding the tough and comprehensive ethics rules for senior officials that were announced in October, the Chair indicated that staff were working through comments received from policymakers and were aiming to



circulate a new draft soon. Noting the urgency in bringing the new policy to completion, the Chair proposed that the Committee vote on a final draft as soon in the intermeeting period as possible.

In the Committee's annual reconsideration of the Statement on Longer-Run Goals and Monetary Policy Strategy, all participants supported the statement as written, and the Committee voted unanimously to reaffirm without revision.

In discussing the statement, the Chair noted that, consistent with previous communications, a formal framework review would commence in 2024 and conclude in 2025. That timing would allow perspectives on recent events to inform considerations of potential revisions to the framework.

#### STATEMENT ON LONGER-RUN GOALS AND MONETARY POLICY STRATEGY

(As reaffirmed effective January 25, 2022)

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Employment, inflation, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Monetary policy plays an important role in stabilizing the economy in response to these disturbances. The Committee's primary means of adjusting the stance of monetary policy is through changes in the target range for the federal funds rate. The Committee judges that the level of the federal funds rate consistent with maximum employment and price stability over the longer run has declined relative to its historical average. Therefore, the federal funds rate is likely to be constrained by its effective lower bound more frequently than in the past. Owing in part to the proximity of interest rates to the effective lower bound, the Committee judges that downward risks to employment and inflation have increased. The Committee is prepared to use its full range of tools to achieve its maximum employment and price stability goals.

The maximum level of employment is a broad-based and inclusive goal that is not directly measurable and changes over time owing largely to nonmonetary factors

that affect the structure and dynamics of the labor market. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the shortfalls of employment from its maximum level, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments.

The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the ability to specify a longer-run goal for inflation. The Committee reaffirms its judgment that inflation at the rate of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. The Committee judges that longer-term inflation expectations that are well anchored at 2 percent foster price stability and moderate long-term interest rates and enhance the Committee's ability to promote maximum employment in the face of significant economic disturbances. In order to anchor longer-term inflation expectations at this level, the Committee seeks to achieve inflation that averages 2 percent over time, and therefore judges that, following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

Monetary policy actions tend to influence economic activity, employment, and prices with a lag. In setting monetary policy, the Committee seeks over time to mitigate shortfalls of employment from the Committee's assessment of its maximum level and deviations of inflation from its longer-run goal. Moreover, sustainably achieving maximum employment and price stability depends on a stable financial system. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

The Committee's employment and inflation objectives are generally complementary. However, under circumstances in which the Committee judges that the objectives are not complementary, it takes into account the employment shortfalls and inflation deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

The Committee intends to review these principles and to make adjustments as appropriate at its annual organizational meeting each January, and to undertake roughly

every five years a thorough public review of its monetary policy strategy, tools, and communication practices.

### **Financial Developments and Open Market Operations**

The manager turned first to a review of domestic financial market developments over the intermeeting period. Treasury yields rose across the curve, led by higher real yields. Expectations for tighter monetary policy ahead, as well as an easing of COVID-related concerns, were cited as contributing to the increase in yields. The S&P 500 index declined around 5 percent, with sharp moves toward the end of the period, reportedly prompted by concerns about the implications of a tighter path of monetary policy and rising geopolitical risks.

Regarding the monetary policy outlook, with data showing continuing tightening of labor market conditions and elevated inflationary pressures, policymaker communications were perceived as pointing to an earlier and faster removal of accommodation than market participants had previously expected. Against this backdrop, respondents to the Open Market Desk's surveys of primary dealers and market participants almost uniformly projected that the Federal Reserve's net asset purchases would end by mid-March. The median survey projection for the commencement of balance sheet runoff shifted into the third quarter of this year, roughly a year and a half sooner than in the December surveys. Most survey respondents also expected the portfolio to decline at a significantly faster pace than they did in December.

Expectations for the path of the federal funds rate shifted toward earlier rate increases, and interest rate futures priced in an increase in the target range for the federal funds rate at the March FOMC meeting. On average, respondents to the Desk surveys assigned a roughly 70 percent probability to an increase in the target range in March. The expected path of the federal funds rate in the Desk surveys and derived from interest rate futures also steepened over the period. The median survey projection for the most likely level of the target range at the end of 2024 was about 2 percent, similar to December. Nonetheless, survey respondents attached significant probability to outcomes in which the target range moved up more than indicated by the projected modal path.

Changing views about the likely path of the Federal Reserve's balance sheet following the release of the December FOMC minutes seemed to affect longer-term yields. Far forward real yields moved higher over the period,

with much of the increase following the release of the minutes for the December FOMC meeting. In addition, agency mortgage-backed securities (MBS) spreads widened notably after having been stable at low levels for the past year, reportedly driven by expectations for an earlier and faster runoff of agency MBS than had been expected.

The manager turned next to a discussion of international financial market developments. Sovereign yields increased across advanced foreign economies (AFEs), reportedly driven by receding concerns about the Omicron variant, elevated inflation readings, and, relatedly, expectations that central banks would remove policy accommodation sooner than had been expected. Several central banks concluded their net asset purchases late last year, and more were expected to do so this year. On the outlook for policy rates, several central banks had either already increased their policy rates or were expected to do so later this year.

The manager provided an update on issues related to monetary policy implementation. Reductions in the pace of the Committee's net asset purchases had proceeded smoothly to date and functioning in Treasury and agency MBS markets remained stable. Regarding the potential for the Committee to reduce System Open Market Account (SOMA) holdings in the future, market participants generally anticipated that SOMA redemptions could proceed smoothly at a somewhat faster pace than during the previous period of balance sheet reduction from 2017 to 2019. However, some also noted that SOMA redemptions would require significant adjustments to private-sector balance sheets, as investors absorb the net increase in Treasury and agency MBS issuance to the private sector and money markets transition to lower levels of liquidity, and that these adjustments could take some time.

The manager discussed expectations for the evolution of the Federal Reserve's administered rates in connection with a potential future change in the target range for the federal funds rate. The Desk survey responses suggested expectations for administered rates to be raised by the same increment as the target range for the federal funds rate. The manager noted that the current setting of administered rates relative to the target range had been working well and anticipated that it could continue to support effective policy implementation following any increase in the target range in coming months, although adjustments could be warranted over time.

By unanimous vote, the Committee ratified the Desk's domestic transactions over the intermeeting period. No

intervention operations occurred in foreign currencies for the System's account during the intermeeting period.

### **Principles for Reducing the Size of the Balance Sheet**

Participants continued their discussion of topics associated with potential adjustments in the Committee's policy tools that may be appropriate to support the achievement of sustained strong labor market conditions and a return of inflation to levels consistent with the Committee's longer-run 2 percent objective under a wide range of circumstances. At this meeting, participants discussed high-level principles that could be released to the public to describe the Committee's approach for reducing the size of the Federal Reserve's balance sheet. They agreed that the principles would address, at a high level, the sequence of adjustments in the interest rate and balance sheet tools to reduce policy accommodation, the Committee's approach to balance sheet runoff, and its intentions for the longer-run size and composition of the balance sheet. The participants' discussion was preceded by a staff presentation that reviewed key considerations raised by participants at the December FOMC meeting and examined how the proposed set of principles, which reflected those considerations, compared with the Policy Normalization Principles and Plans issued in 2014.

In their discussion, participants reaffirmed that changes in the target range for the federal funds rate are the Committee's primary means for adjusting the stance of monetary policy, as noted in the Committee's Statement on Longer-Run Goals and Monetary Policy Strategy. Participants judged that the timing and pace of balance sheet reduction would be determined so as to promote the Committee's maximum-employment and price-stability goals and that it would be appropriate to begin the process of reducing the size of the balance sheet after the process of increasing the target range for the federal funds rate has begun. While participants agreed that details on the timing and pace of balance sheet runoff would be determined at upcoming meetings, participants generally noted that current economic and financial conditions would likely warrant a faster pace of balance sheet runoff than during the period of balance sheet reduction from 2017 to 2019. Participants observed that, in light of the current high level of the Federal Reserve's securities holdings, a significant reduction in the size of the balance sheet would likely be appropriate. Participants noted that the level of securities holdings consistent with implementing monetary policy efficiently and effectively in an ample reserves regime was uncer-

tain and probably would remain so. Consequently, market conditions would have to be monitored closely to determine the appropriate longer-run level of reserves and the size of the balance sheet.

Participants agreed that the Committee should reduce the Federal Reserve's securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the SOMA. They also agreed that the SOMA should hold primarily Treasury securities in the longer run. Regarding these two principles, many participants commented that sales of agency MBS or reinvesting some portion of principal payments received from agency MBS into Treasury securities may be appropriate at some point in the future to enable suitable progress toward a longer-run SOMA portfolio composition consisting primarily of Treasury securities.

Participants agreed that it was appropriate at this time for the Committee to publish its high-level principles for reducing the size of the Federal Reserve's balance sheet. They also agreed that it was important for the Committee to retain the flexibility to adjust any of the details of its approach in light of changing economic and financial conditions. Participants noted that the principles would serve as an important guide in future deliberations on balance sheet reduction. While no decisions regarding specific details for reducing the size of the balance sheet were made at this meeting, participants agreed to continue their discussions at upcoming meetings.

Following the conclusion of the discussion, all participants supported the proposed principles for reducing the size of the balance sheet. The Committee voted unanimously to adopt the Principles for Reducing the Size of the Federal Reserve's Balance Sheet, as shown below.

#### **PRINCIPLES FOR REDUCING THE SIZE OF THE FEDERAL RESERVE'S BALANCE SHEET** (As adopted effective January 25, 2022)

The Federal Open Market Committee agreed that it is appropriate at this time to provide information regarding its planned approach for significantly reducing the size of the Federal Reserve's balance sheet. All participants agreed on the following elements:

- The Committee views changes in the target range for the federal funds rate as its primary means of adjusting the stance of monetary policy.

- The Committee will determine the timing and pace of reducing the size of the Federal Reserve's balance sheet so as to promote its maximum employment and price stability goals. The Committee expects that reducing the size of the Federal Reserve's balance sheet will commence after the process of increasing the target range for the federal funds rate has begun.
- The Committee intends to reduce the Federal Reserve's securities holdings over time in a predictable manner primarily by adjusting the amounts reinvested of principal payments received from securities held in the System Open Market Account (SOMA).
- Over time, the Committee intends to maintain securities holdings in amounts needed to implement monetary policy efficiently and effectively in its ample reserves regime.
- In the longer run, the Committee intends to hold primarily Treasury securities in the SOMA, thereby minimizing the effect of Federal Reserve holdings on the allocation of credit across sectors of the economy.
- The Committee is prepared to adjust any of the details of its approach to reducing the size of the balance sheet in light of economic and financial developments.

### Staff Review of the Economic Situation

The information available at the time of the January 25–26 meeting suggested that U.S. real gross domestic product (GDP) growth had picked up in the fourth quarter after slowing in the third quarter. Labor market conditions improved further in December, and indicators of labor compensation continued to show robust increases. Consumer price inflation through November—as measured by the 12-month percentage change in the price index for personal consumption expenditures (PCE)—remained elevated.

Total nonfarm payroll employment posted a moderate gain in December. The unemployment rate declined from 4.2 percent in November to 3.9 percent in December. The unemployment rate for African Americans moved higher, and the Hispanic unemployment rate declined; both rates remained well above the national average. The labor force participation rate was unchanged in December, and the employment-to-population ratio moved up. The private-sector job openings rate, as

measured by the Job Openings and Labor Turnover Survey, moved down in November but remained well above pre-pandemic levels; the quits rate was also elevated. Weekly estimates of private-sector payrolls, constructed by the Board's staff using data provided by the payroll processor ADP that were available through the first half of January, pointed to a slower pace of private employment gains relative to December. Average hourly earnings rose at an annual rate of 6.2 percent over the last three months of the year; although wage increases were widespread across industries, they were particularly notable in the leisure and hospitality sector as well as the transportation and warehousing sector.

Inflation readings remained high, and various indicators suggested that inflationary pressures had broadened over the second half of 2021. Total PCE price inflation was 5.7 percent over the 12 months ending in November, and core PCE price inflation, which excludes changes in consumer energy prices and many consumer food prices, was 4.7 percent over the same period. The trimmed mean measure of 12-month PCE inflation constructed by the Federal Reserve Bank of Dallas was 2.8 percent in November, 1 percentage point higher than its year-earlier rate of increase. In December, the 12-month change in the consumer price index (CPI) was 7.0 percent, while core CPI inflation was 5.5 percent over the same period. The staff's common inflation expectations index, which combines information from many indicators of inflation expectations and inflation compensation, had largely leveled off over the fall and was close to its 2014 average.

Real PCE was unchanged in November, and available indicators—including the components of the nominal retail sales data used to estimate PCE—pointed to a decline in December, possibly reflecting the sharp rise in COVID-19 cases in the second half of that month as well as some holiday sales having been pulled forward to earlier months. Housing demand remained strong, and available indicators suggested that residential investment increased in the fourth quarter. However, shortages of construction materials, buildable lots, and other inputs continued to weigh on activity in this sector.

Business fixed investment appeared to post only a small gain in the fourth quarter, as investment in transportation equipment was held back by supply bottlenecks and limited supplies of construction materials restrained nonresidential structures investment.

Manufacturing output moved down in December after advancing strongly in October and November. Motor

vehicle assemblies reversed some of their November increase; in addition, manufacturing production outside of motor vehicles ticked lower.

Total real government purchases appeared to have fallen in the fourth quarter. Although available data suggested that real federal purchases rose, indicators of real state and local government purchases pointed to a decline in the fourth quarter despite state and local governments' extremely strong budget positions and the widespread return to in-person schooling last fall.

The U.S. international trade deficit widened at the end of last year. Imports of goods rose sharply in November and December, led by increases in consumer goods, while exports of goods were little changed over the two months, on net, after surging in October. Shipping congestion and other bottlenecks continued to restrain the level of trade in goods. Meanwhile, services exports jumped in November, reflecting a sizable increase in exports of travel services after the reopening of U.S. borders to vaccinated foreign travelers early in the month. Even so, services trade was very low relative to pre-pandemic norms, largely because the level of international travel remained depressed.

Incoming data suggested that foreign economic growth picked up in the fourth quarter of 2021 as economies in emerging Asia bounced back from lockdowns in the third quarter induced by the Delta variant of the COVID-19 virus. Purchasing managers indexes (PMIs) pointed to improved supplier delivery times, and foreign vehicle production rose notably, suggesting that supply bottlenecks continued to ease somewhat. However, the rapid spread of the Omicron variant led to renewed public health restrictions in several countries, particularly in China, and appeared to be weighing on activity at the start of the year. Inflation abroad continued to rise, mostly driven by further increases in retail energy prices, effects from supply bottlenecks, and, in some emerging market economies (EMEs), by rising food prices. That said, input and output price components of PMIs provided some tentative signs that easing supply constraints have started to contribute to some letup in inflationary pressures in several foreign economies.

### **Staff Review of the Financial Situation**

Over the intermeeting period, easing concerns around the economic effects of the Omicron variant and FOMC communications that were viewed as less accommodative than expected contributed to increases in Treasury yields. Long-term sovereign yields in AFEs also rose notably. Broad domestic equity indexes decreased markedly, and spreads of corporate bonds widened modestly.

Short-term funding markets were stable, while participation in the overnight reverse repurchase agreement (ON RRP) facility increased further. Market-based financing conditions remained accommodative, and bank lending standards eased for most loan categories.

The expected path for the federal funds rate over the next few years—implied by a straight read of overnight index swap quotes—rose notably since the December FOMC meeting, apparently reflecting less-accommodative-than-expected FOMC communications and an easing of concerns around the economic effects of the Omicron variant. Those factors also contributed to notable rises in 2-, 5-, and 10-year nominal Treasury yields. Inflation compensation implied by Treasury Inflation-Protected Securities rose slightly, on net.

Broad equity indexes decreased markedly, on net, particularly in the latter part of the intermeeting period, as shifts in expectations about the pace of monetary policy tightening, global inflationary pressures, and escalating tensions between Russia and Ukraine weighed on equity prices. The one-month option-implied volatility on the S&P 500—the VIX—increased considerably, on net, to above the 90th percentile of its historical distribution. Spreads of investment- and speculative-grade corporate bonds widened modestly. Spreads of municipal bonds were roughly unchanged.

Short-term funding markets were stable over the intermeeting period. The effective federal funds rate and the Secured Overnight Financing Rate generally held steady at 8 basis points and 5 basis points, respectively. Participation in ON RRP operations averaged \$1.6 trillion, about \$150 billion higher than during the previous intermeeting period, and reached an all-time high of \$1.9 trillion at year-end. Government money market funds continued to receive investment inflows and accounted for the majority of ON RRP take-up.

Over the intermeeting period, movements in foreign asset prices responded to waning concerns about the Omicron variant's potential economic effects and firming views that monetary accommodation in several advanced economies will be removed at a faster pace than previously expected. Some market participants also pointed to rising geopolitical tensions related to Russia as contributing to the moves. On net, AFE sovereign yields increased notably, most major foreign equity indexes declined moderately, and the broad dollar index decreased modestly. EME sovereign spreads widened, and capital flows into EME-dedicated bond funds remained slightly negative, while flows into EME equity funds turned positive.

In domestic credit markets, financing conditions for nonfinancial firms remained broadly accommodative. Gross issuance of corporate bonds and leveraged loans remained solid but slowed somewhat in December, reflecting seasonal factors. Equity funding raised through initial public offerings continued at a strong pace in November and December, while equity issuance through special purpose acquisition companies remained muted relative to earlier in 2021.

Commercial and industrial (C&I) loans expanded over the fourth quarter following more than a year of declines. In the January Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), banks reported easier standards and stronger demand for C&I loans over the fourth quarter.

The credit quality of large nonfinancial corporations remained strong over the intermeeting period. The volumes of nonfinancial corporate bond and leveraged loan upgrades exceeded those of downgrades in November and December. Trailing default rates on nonfinancial bonds edged down further to historical lows, while market indicators of future expected default rates remained benign and historically low.

In the municipal bond market, financing conditions remained accommodative, as municipal bond yields stayed near historical lows. Issuance of municipal debt was strong in November and December. The credit quality of municipal debt remained stable, and the volume of defaults stayed low.

Financing conditions for small businesses eased a bit over the intermeeting period. In the January SLOOS, small banks reported easing C&I loan standards to small firms over the fourth quarter. Loan originations to small businesses rose in November to near pre-pandemic levels. Banks in the January SLOOS reported stronger loan demand by small firms over the fourth quarter, though loan demand remained weak overall.

Commercial real estate (CRE) loan balances on banks' books expanded at a solid pace in the fourth quarter, and, in the January SLOOS, banks reported an easing of standards on such loans amid stronger demand for most CRE loan categories. Issuance of non-agency commercial mortgage-backed securities (CMBS) surged in the fourth quarter, while issuance of agency CMBS slowed. Delinquency rates on mortgages in CMBS pools continued to fall but remained elevated for hotel and retail mortgages.

In the residential mortgage market, financing conditions remained accommodative, particularly for borrowers

who met standard conforming loan criteria. In the January SLOOS, banks reported easing lending standards for most mortgage categories in the fourth quarter. Mortgage rates increased over the intermeeting period in line with rates on agency MBS and 10-year Treasury securities but remained low by historical standards. The fraction of mortgage borrowers missing payments continued to decline through November.

Financing conditions for consumer credit remained accommodative for most borrowers, especially those with higher credit scores. Lending standards for nonprime consumers in the credit card market continued to ease from the tight levels seen earlier in the pandemic. Banks reported in the January SLOOS that demand for credit card loans strengthened over the fourth quarter, while lending standards eased for auto loans amid a weakening in demand. With sales running low because of constrained supply, auto loan growth continued to slow in October and November from the more rapid pace recorded in the first half of the year.

The staff provided an update on its assessments of the stability of the financial system and, on balance, characterized the financial vulnerabilities of the U.S. financial system as notable. The staff judged that asset valuation pressures remained elevated. In particular, the forward price-to-earnings ratio for the S&P 500 index stood at the upper end of its historical distribution; high-yield corporate bond spreads and the excess loan premium for leveraged loans remained at low levels; and house prices grew strongly, with price-to-rent ratios that were at elevated levels. The staff noted that the market capitalization of crypto-assets had grown significantly over the past decade and had experienced considerable volatility, including sizable declines since late last year. The staff changed its assessment of vulnerabilities associated with nonfinancial leverage from notable to moderate, noting that measures of business leverage had declined to pre-pandemic levels. Household delinquency rates remained relatively low, while household borrowing rose but was concentrated among prime borrowers. Vulnerabilities arising from financial leverage remained moderate. Risk-based capital ratios for banks remained above their pre-pandemic levels even after the resumption of shareholder payouts. In contrast, some available measures of hedge fund leverage continued to increase, and important data gaps continued to limit a full assessment of vulnerabilities posed by many nonbank financial institutions. Vulnerabilities associated with funding risks were characterized as moderate. Prime and tax-exempt money funds continued to have structural vulnerabilities that may lead investors to withdraw funds quickly in a

stress situation and were a potential source of spillovers to other short-term funding markets. In response, the Securities and Exchange Commission proposed reforms in December 2021 to make these funds more resilient. Another vulnerability in funding markets was the significant growth in stablecoin arrangements over the past few years, which may increase challenges related to run risk and pose additional risks from their potential role as a means of payment.

### **Staff Economic Outlook**

The near-term projection for U.S. economic activity prepared by the staff for the January FOMC meeting was weaker than in December, reflecting the sharp rise in COVID-19 infections caused by the rapid spread of the Omicron variant and an assessment that supply constraints would resolve more slowly than previously expected. Although real GDP still appeared to have posted a sizable gain in the fourth quarter of 2021, output growth was expected to slow noticeably in the first quarter of 2022 before picking up again later in the year as COVID-19 cases declined and supply issues continued to be resolved. With most of the boost to growth from the reopening of the economy and easing of supply constraints expected to occur in 2022, real GDP growth was projected to step down in 2023 and to be roughly in line with potential growth in 2023 and 2024. However, the level of real GDP was expected to remain well above potential throughout the projection period, and labor market conditions were expected to remain very tight.

The staff's near-term projection for PCE price inflation was revised up relative to December in response to the anticipated slower resolution of supply issues. In particular, the staff continued to expect that monthly inflation rates would move lower as supply constraints eased, but the projected step-down was less pronounced than in the December forecast. Even so, an improvement in supply conditions and a decline in consumer energy prices were expected to slow PCE price inflation to 2.6 percent in 2022. With supply conditions expected to normalize further but with the labor market expected to remain very tight, PCE price inflation was projected to decline to 2 percent in 2023 before edging up to 2.1 percent in 2024.

The staff continued to judge that the risks to the baseline projection for economic activity were skewed to the downside and that the risks to the inflation projection were skewed to the upside. In particular, the possibility that the economic effects of the virus would turn out to be larger than assumed in the baseline projection was

viewed as an important source of downside risk to activity, while the possibility of more severe and more persistent supply issues was viewed as an additional downside risk to activity and as an upside risk to inflation.

### **Participants' Views on Current Conditions and the Economic Outlook**

In their discussion of current economic conditions, participants noted that indicators of economic activity and employment had continued to strengthen. The sectors most adversely affected by the pandemic had improved in recent months but continued to be affected by the recent sharp rise in COVID-19 cases. Job gains had been solid in recent months, and the unemployment rate had declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy had continued to contribute to elevated levels of inflation. Overall financial conditions had remained accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. Participants judged that the path of the economy continued to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints were expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remained, including from new variants of the virus.

With regard to the economic outlook, participants agreed that the Omicron wave of the pandemic would weigh on economic activity in the first quarter of 2022. Indeed, sectors of the economy that are particularly sensitive to pandemic-related disruptions, including travel, leisure, and restaurants, were experiencing sharp reductions in activity as a result of the Omicron wave. Participants commented that, for many afflicted individuals and families, the virus continued to cause great hardship. Participants concurred that if the Omicron wave dissipated quickly, then economic activity would likely strengthen rapidly and economic growth for 2022 as a whole would be robust. Participants cited strong household balance sheets, rising wages, and effective adaptation to the pandemic by the business sector as factors supporting the outlook for strong growth this year. However, a number of participants noted that there was a risk that additional variants could weigh on economic activity this year.

Participants noted that supply chain bottlenecks and labor shortages had continued to limit businesses' ability to meet strong demand, with these challenges exacerbated by the emergence and spread of the Omicron variant. In particular, the Omicron wave had led to much

more widespread worker absences due to illness, virus exposure, or caregiving needs, which had curtailed activity in many sectors including airlines, trucking, and warehousing. Some participants reported that their business contacts were hopeful that the effects of the Omicron wave would be relatively short lived. Nevertheless, several participants reported that their contacts expected the ongoing labor shortages and other supply constraints to persist well after the acute effects of the Omicron wave had waned. Participants' contacts also reported continued widespread input cost pressures, which, amid generally robust demand, they reported having largely been able to pass on to their customers. A few participants commented that agricultural businesses were experiencing higher input costs, and those higher costs were putting strain on the finances of those firms even as they experienced generally strong demand for their products.

In their discussion of the household sector, many participants noted that the onset of the Omicron wave had damped consumer demand, particularly for services, with much of the recent weakness concentrated in high-contact sectors such as travel, dining, and leisure and hospitality. Almost all of those participants anticipated that household demand would recover briskly if the Omicron wave subsided quickly, with spending supported by strong household balance sheets that were bolstered by high rates of saving earlier in the pandemic and ongoing robust gains in labor income.

Participants noted that the labor market had made remarkable progress in recovering from the recession associated with the pandemic and, by most measures, was now very strong. Increases in employment had been solid in recent months; the unemployment rate had declined sharply, reaching 3.9 percent in December; job openings and quits were near record high levels; and nominal wages were rising at the fastest pace in decades. Several participants commented that the gains, on balance, over recent months had been broad based, with notable improvements for lower-wage workers as well as African Americans and Hispanics. Against this backdrop of a generally strong and improving labor market, many participants observed that the effects of the Omicron variant likely would only temporarily suppress the rate of labor market gains. The labor force participation rate had edged up further over the past few months, and some participants indicated that they expected it to continue to increase as the pandemic eased. A couple of participants noted that the participation rate remained lower than trend levels that account for changing demographics.

Participants noted that their District contacts were reporting that labor demand remained historically strong and that labor supply remained constrained, resulting in a broad shortage of workers across many parts of the economy. As a result, there was widespread evidence that the labor market was very tight, including near-record rates of quits and job vacancies as well as nominal wage growth that was the highest recorded in decades. Several participants reported that District business contacts were either planning to implement or had implemented larger wage increases than those of recent years to retain current employees or attract new workers. A few participants also reported contacts having been forced to reduce operating hours or close businesses temporarily because of labor shortages.

Acknowledging that the maximum level of employment consistent with price stability evolves over time, participants expressed a range of views regarding their assessments of current labor market conditions relative to the Committee's goal of maximum employment. Many participants commented that they viewed labor market conditions as already at or very close to those consistent with maximum employment, citing indications of strong labor markets including the low levels of unemployment rates, elevated wage pressures, near-record levels of job openings and quits, and a broad shortage of workers across many parts of the economy. A couple of participants commented that, in their view, the economy likely had not yet reached maximum employment, noting that, even for prime-age workers, labor force participation rates were still lower than those that prevailed before the pandemic or that a reallocation of labor across sectors could lead to higher levels of employment over time.

Participants remarked that recent inflation readings had continued to significantly exceed the Committee's longer-run goal and elevated inflation was persisting longer than they had anticipated, reflecting supply and demand imbalances related to the pandemic and the reopening of the economy. However, some participants commented that elevated inflation had broadened beyond sectors most directly affected by those factors, bolstered in part by strong consumer demand. In addition, various participants cited other developments that had the potential to place additional upward pressure on inflation, including real wage growth in excess of productivity growth and increases in prices for housing services. Participants acknowledged that elevated inflation was a burden on U.S. households, particularly those who were least able to pay higher prices for essential goods and services. Some participants reported that their business



contacts remained concerned about persistently high inflation and that they were adjusting their business practices to cope with higher input costs—for instance, by raising output prices or utilizing contracts that were contingent on their costs. Participants generally expected inflation to moderate over the course of the year as supply and demand imbalances ease and monetary policy accommodation is removed. Some participants remarked that longer-term measures of inflation expectations appeared to remain well anchored, which would support a return of inflation over time to levels consistent with the Committee’s goals.

In their discussion of risks to the outlook, participants agreed that uncertainty regarding the path of inflation was elevated and that risks to inflation were weighted to the upside. Participants cited several such risks, including the zero-tolerance COVID-19 policy in China that had the potential to further disrupt supply chains, the possibility of geopolitical turmoil that could cause increases in global energy prices or exacerbate global supply shortages, a worsening of the pandemic, persistent real wage growth in excess of productivity growth that could trigger inflationary wage–price dynamics, or the possibility that longer-term inflation expectations could become unanchored. A few participants pointed to the possibility that structural factors that had contributed to low inflation in the previous decade, such as technological changes, demographics, and a low real interest rate environment, may reemerge when the effects of the pandemic abate. Uncertainty about real activity was also seen as elevated. Various participants noted downside risks to the outlook, including a possible worsening of the pandemic, the potential for escalating geopolitical tensions, or a substantial tightening in financial conditions.

Participants who commented on issues related to financial stability cited a number of factors that could represent potential vulnerabilities to the financial system. A few participants noted that asset valuations were elevated across a range of markets and raised the concern that a major realignment of asset prices could contribute to a future downturn. A couple of these participants judged that prolonged accommodative financial conditions could be contributing to financial imbalances. A couple of other participants cited reasons why elevated asset valuations might prove to be less of a threat to financial stability than in past reversals of asset prices. In particular, they noted the relatively healthy balance sheet positions of households and nonfinancial firms, the well-capitalized and liquid banking sector, and the fact that the rise in housing prices was not being fueled by a large

increase in mortgage debt as suggesting that the financial system might prove resilient to shocks. Some participants saw emerging risks to financial stability associated with the rapid growth in crypto-assets and decentralized finance platforms. A few participants pointed to risks associated with highly leveraged, nonbank financial institutions or the potential vulnerability of prime money market funds to a sudden withdrawal of liquidity.

In their consideration of the stance of monetary policy, participants agreed that it would be appropriate for the Committee to keep the target range for the federal funds rate at 0 to  $\frac{1}{4}$  percent in support of the Committee’s objectives of maximum employment and inflation at the rate of 2 percent over the longer run. They also anticipated that it would soon be appropriate to raise the target range. In discussing why beginning to remove policy accommodation could soon be warranted, participants noted that inflation continued to run well above 2 percent and generally judged the risks to the outlook for inflation as tilted to the upside. Participants also assessed that the labor market was strong, having made substantial, broad-based progress over the past year.

In light of elevated inflation pressures and the strong labor market, participants continued to judge that the Committee’s net asset purchases should be concluded soon. Most participants preferred to continue to reduce the Committee’s net asset purchases according to the schedule announced in December, bringing them to an end in early March. A couple of participants stated that they favored ending the Committee’s net asset purchases sooner to send an even stronger signal that the Committee was committed to bringing down inflation.

Participants discussed the implications of the economic outlook for the likely timing and pace for removing policy accommodation. Compared with conditions in 2015 when the Committee last began a process of removing monetary policy accommodation, participants viewed that there was a much stronger outlook for growth in economic activity, substantially higher inflation, and a notably tighter labor market. Consequently, most participants suggested that a faster pace of increases in the target range for the federal funds rate than in the post-2015 period would likely be warranted, should the economy evolve generally in line with the Committee’s expectation. Even so, participants emphasized that the appropriate path of policy would depend on economic and financial developments and their implications for the outlook and the risks around the outlook, and they will be updating their assessments of the appropriate setting for the policy stance at each meeting. Participants noted

that the removal of policy accommodation in current circumstances depended on the timing and pace of both increases in the target range of the federal funds rate and the reduction in the size of the Federal Reserve's balance sheet. In this context, a number of participants commented that conditions would likely warrant beginning to reduce the size of the balance sheet sometime later this year.

In their discussion of the outlook for monetary policy, many participants noted the influence on financial conditions of the Committee's recent communications and viewed these communications as helpful in shifting private-sector expectations regarding the policy outlook into better alignment with the Committee's assessment of appropriate policy. Participants continued to stress that maintaining flexibility to implement appropriate policy adjustments on the basis of risk-management considerations should be a guiding principle in conducting policy in the current highly uncertain environment. Most participants noted that, if inflation does not move down as they expect, it would be appropriate for the Committee to remove policy accommodation at a faster pace than they currently anticipate. Some participants commented on the risk that financial conditions might tighten unduly in response to a rapid removal of policy accommodation. A few participants remarked that this risk could be mitigated through clear and effective communication of the Committee's assessments of the economic outlook, the risks around the outlook, and the appropriate path for monetary policy.

### **Committee Policy Action**

In their discussion of monetary policy for this meeting, members agreed that indicators of economic activity and employment had continued to strengthen. They noted that the sectors most adversely affected by the pandemic had improved in recent months but were being affected by the recent sharp rise in COVID-19 cases. Job gains had been solid in recent months, and the unemployment rate had declined substantially. Members remarked that supply and demand imbalances related to the pandemic and the reopening of the economy had continued to contribute to elevated levels of inflation. Overall financial conditions remained accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses. Members also acknowledged that the path of the economy continued to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints were expected to support continued gains in economic

activity and employment as well as a reduction in inflation, but risks to the economic outlook remained, including from new variants of the virus.

In order to support the Committee's maximum-employment and price-stability objectives, members agreed to keep the target range for the federal funds rate at 0 to ¼ percent. With inflation well above 2 percent and a strong labor market, members expected that it would soon be appropriate to raise the target range for the federal funds rate. Members agreed to continue to reduce the monthly pace of the Committee's net asset purchases, bringing them to an end in early March. Specifically, beginning in February, the Committee would increase its holdings of Treasury securities by at least \$20 billion per month and of agency MBS by at least \$10 billion per month. Members noted that the Federal Reserve's ongoing asset purchases and holdings of securities would continue to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

Members agreed that, in assessing the appropriate stance of monetary policy, they would continue to monitor the implications of incoming information for the economic outlook and that they would be prepared to adjust the stance of monetary policy as appropriate in the event that risks emerged that could impede the attainment of the Committee's goals. They also concurred that, in assessing the appropriate stance of monetary policy, they would take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments.

Members agreed to remove the opening sentence from previous postmeeting statements regarding using the Federal Reserve's full range of tools to support the U.S. economy. This language was adopted during the height of the financial market turmoil in March 2020, when the Committee began its asset purchase program, and members acknowledged that it was no longer warranted in light of the strong economy as well as the Committee's announcement that net asset purchases would end in early March. Members agreed that the postmeeting statement should be updated to reflect the Committee's expectation that it would soon be appropriate to raise the target range for the federal funds rate in light of elevated inflation pressures and the strong labor market.

At the conclusion of the discussion, the Committee voted to authorize and direct the Federal Reserve Bank of New York, until instructed otherwise, to execute

transactions in the SOMA in accordance with the following domestic policy directive, for release at 2:00 p.m.:

“Effective January 27, 2022, the Federal Open Market Committee directs the Desk to:

- Undertake open market operations as necessary to maintain the federal funds rate in a target range of 0 to ¼ percent.
- Complete the increase in System Open Market Account (SOMA) holdings of Treasury securities by \$40 billion and of agency mortgage-backed securities (MBS) by \$20 billion, as indicated in the monthly purchase plans released in mid-January.
- Increase the SOMA holdings of Treasury securities by \$20 billion and of agency MBS by \$10 billion, during the monthly purchase period beginning in mid-February.
- Increase holdings of Treasury securities and agency MBS by additional amounts as needed to sustain smooth functioning of markets for these securities.
- Conduct overnight repurchase agreement operations with a minimum bid rate of 0.25 percent and with an aggregate operation limit of \$500 billion; the aggregate operation limit can be temporarily increased at the discretion of the Chair.
- Conduct overnight reverse repurchase agreement operations at an offering rate of 0.05 percent and with a per-counterparty limit of \$160 billion per day; the per-counterparty limit can be temporarily increased at the discretion of the Chair.
- Roll over at auction all principal payments from the Federal Reserve’s holdings of Treasury securities and reinvest all principal payments from the Federal Reserve’s holdings of agency debt and agency MBS in agency MBS.
- Allow modest deviations from stated amounts for purchases and reinvestments, if needed for operational reasons.
- Engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve’s agency MBS transactions.”

The vote also encompassed approval of the statement below for release at 2:00 p.m.:

“Indicators of economic activity and employment have continued to strengthen. The sectors most adversely affected by the pandemic have improved in recent months but are being affected by the recent sharp rise in COVID-19 cases. Job gains have been solid in recent months, and the unemployment rate has declined substantially. Supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.

The path of the economy continues to depend on the course of the virus. Progress on vaccinations and an easing of supply constraints are expected to support continued gains in economic activity and employment as well as a reduction in inflation. Risks to the economic outlook remain, including from new variants of the virus.

The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to keep the target range for the federal funds rate at 0 to ¼ percent. With inflation well above 2 percent and a strong labor market, the Committee expects it will soon be appropriate to raise the target range for the federal funds rate. The Committee decided to continue to reduce the monthly pace of its net asset purchases, bringing them to an end in early March. Beginning in February, the Committee will increase its holdings of Treasury securities by at least \$20 billion per month and of agency mortgage-backed securities by at least \$10 billion per month. The Federal Reserve’s ongoing purchases and holdings of securities will continue to foster smooth market functioning and accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary

policy as appropriate if risks emerge that could impede the attainment of the Committee's goals. The Committee's assessments will take into account a wide range of information, including readings on public health, labor market conditions, inflation pressures and inflation expectations, and financial and international developments."

**Voting for this action:** Jerome H. Powell, Chair; John C. Williams, Vice Chair; Michelle W. Bowman; Lael Brainard; James Bullard; Esther L. George; Patrick Harker; Loretta J. Mester; and Christopher J. Waller.

**Voting against this action:** None.

Patrick Harker voted as an alternate member at this meeting.

Consistent with the Committee's decision to leave the target range for the federal funds rate unchanged, the Board voted unanimously to maintain the interest rate

paid on reserve balances at 0.15 percent, effective January 27, 2022. The Board also voted unanimously to approve the establishment of the primary credit rate at the existing level of 0.25 percent.

It was agreed that the next meeting of the Committee would be held on Tuesday–Wednesday, March 15–16, 2022. The meeting adjourned at 10:10 a.m. on January 26, 2022.

**Notation Vote**

By notation vote completed on January 4, 2022, the Committee unanimously approved the minutes of the Committee meeting held on December 14–15, 2021.

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**James A. Clouse**  
Secretary