

Fluctuations in the TGA and Their Effect on the Fed's Balance Sheet

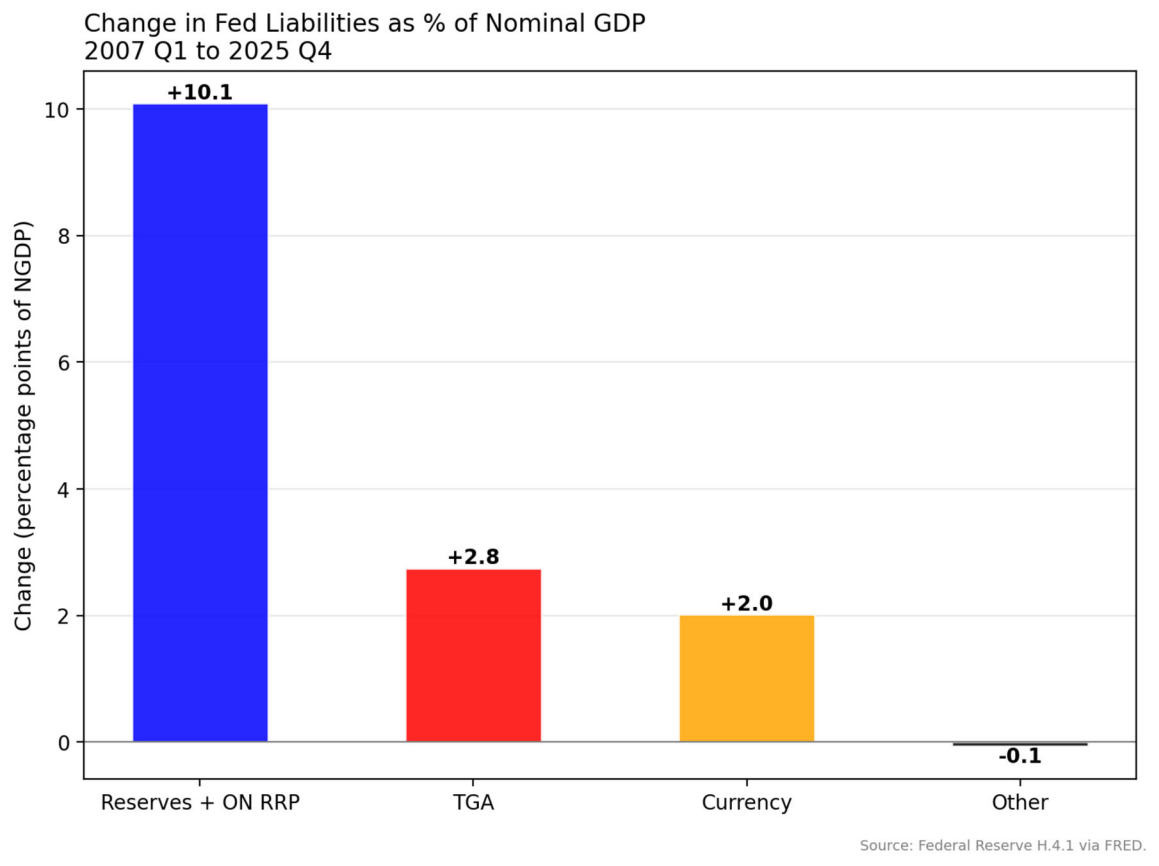
by Annette Vissing-Jorgensen (FRB)

Discussant: Roc Armenter (Wharton, FRB Philadelphia)

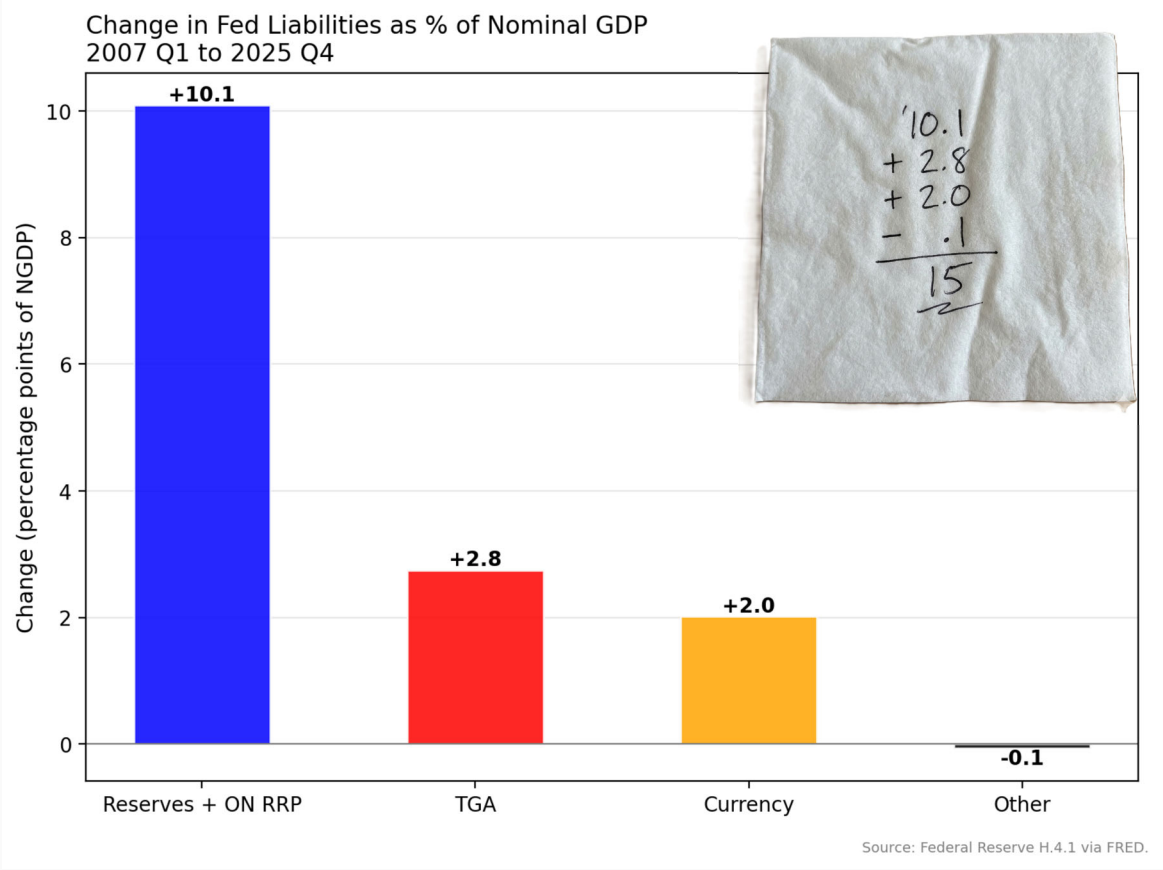
Federal Reserve Bank of San Francisco - March 2026

These are my own views and not those of the FRB Philadelphia or the Federal Reserve System.

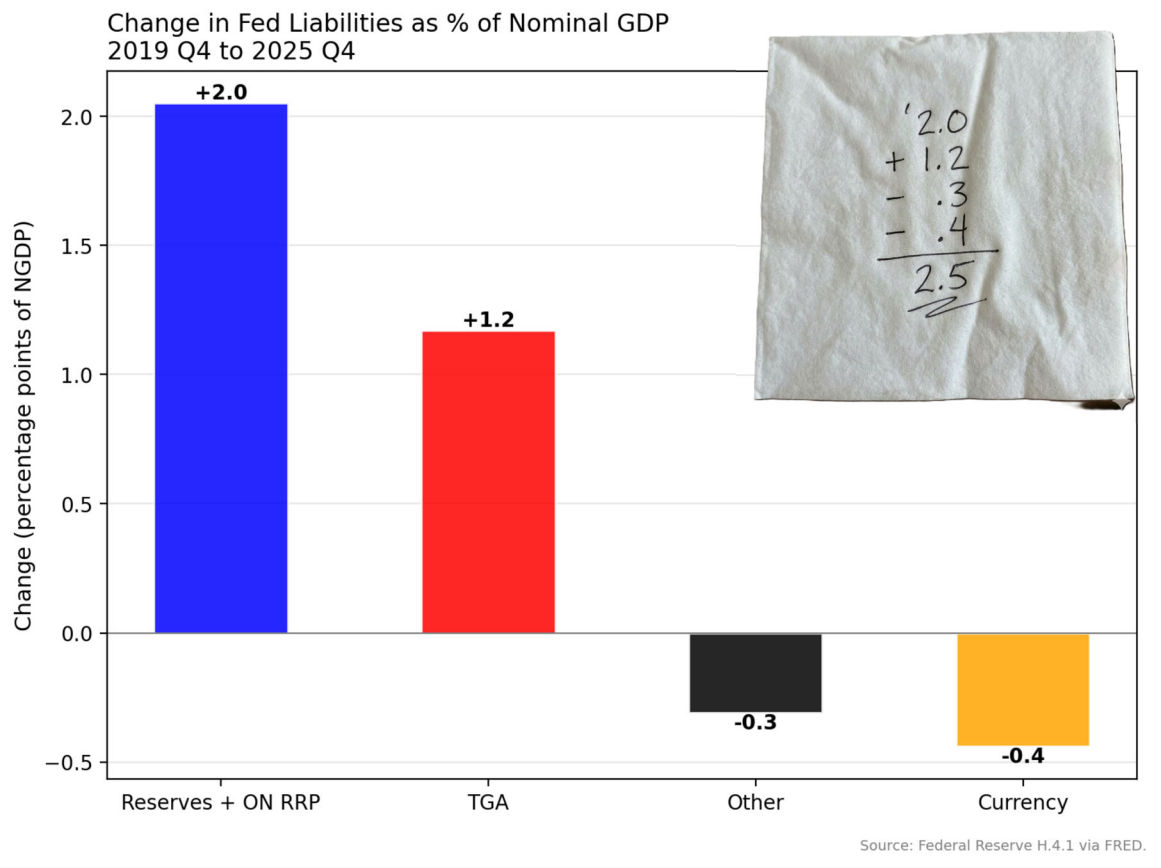
Change in Fed Liabilities



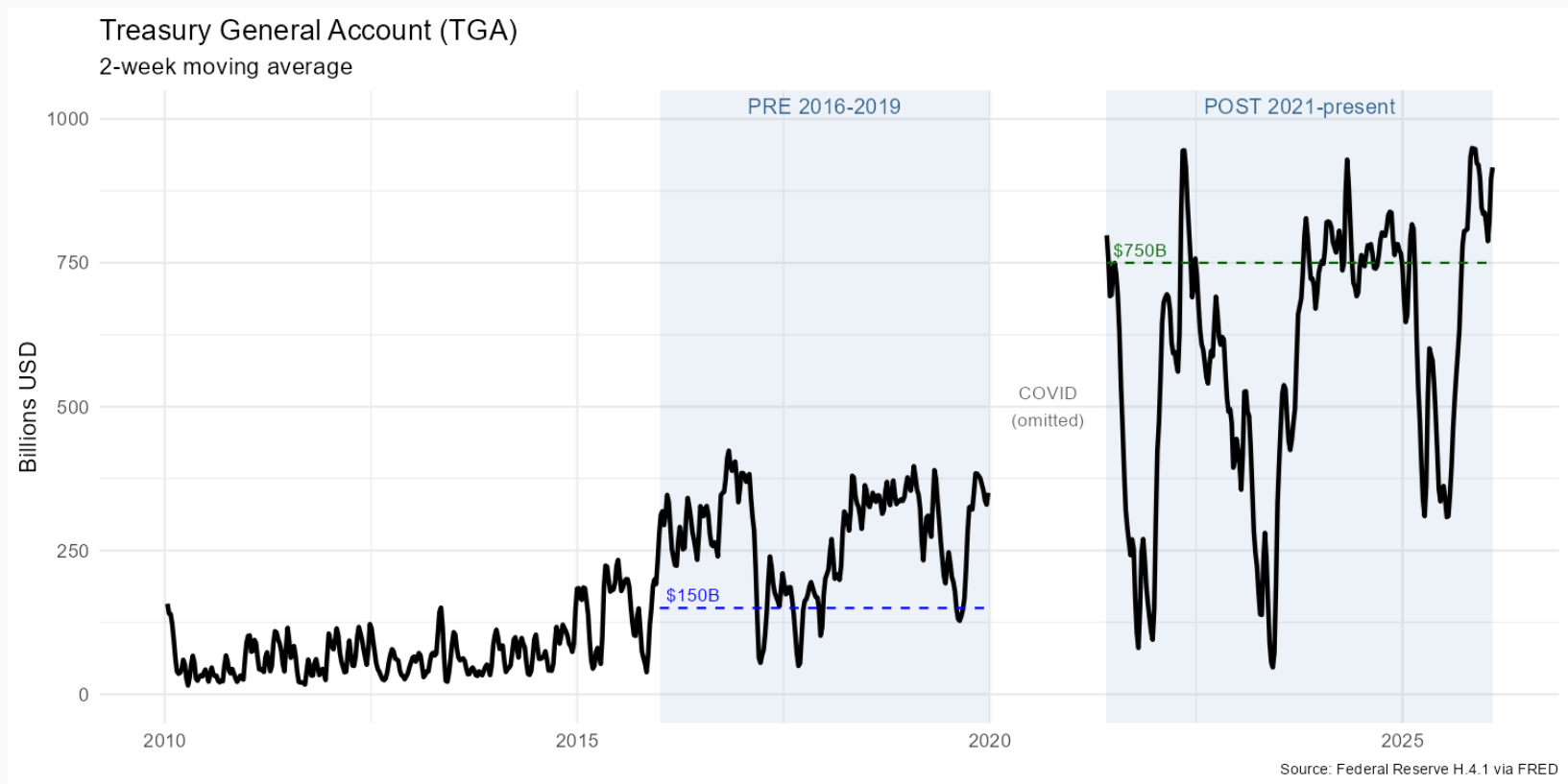
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TGA Balance Since 2010



TGA Rollback to 2016: Napkin Math

- Level shift in (inferred) TGA target balances $\approx -\$500$ bn.
 - Minimum TGA balance of \$150bn. (TBAC, 2015). Inferred target is around \$250 bn.
 - Currently, inferred target is above \$750 bn.

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- If Treasury can't or won't ... can the Fed sterilize TGA fluctuations itself?

Clearing the Bar

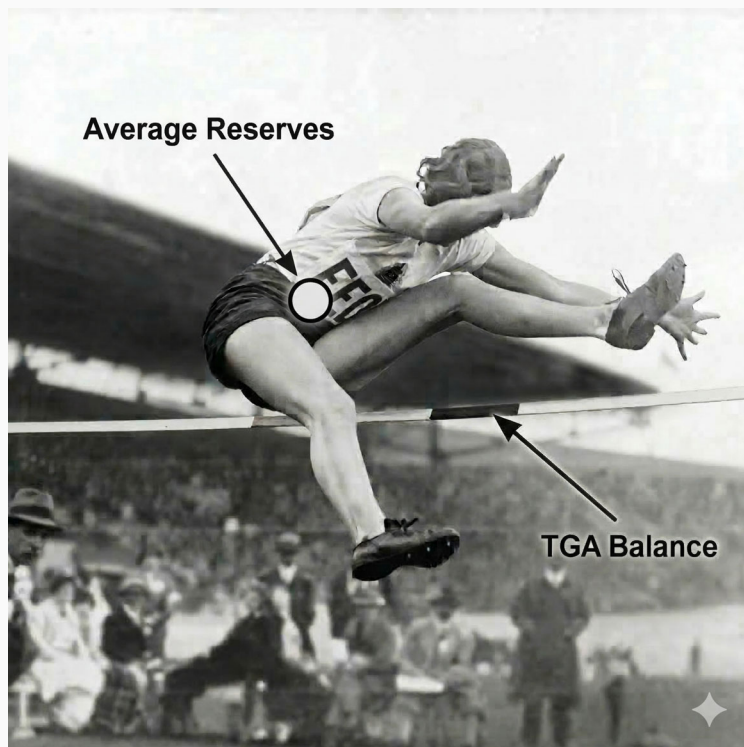
Clearing the Bar

Ample Reserves



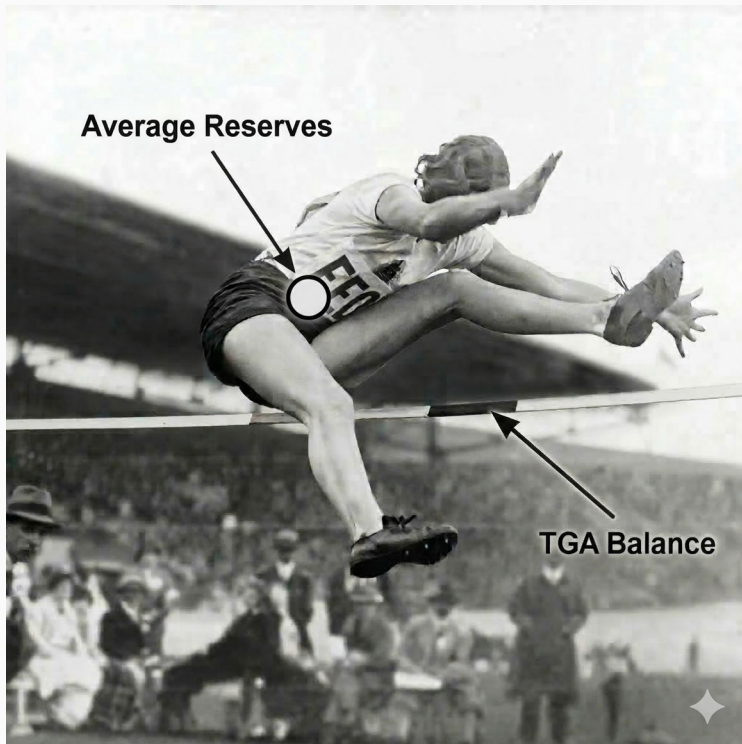
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Clearing the Bar

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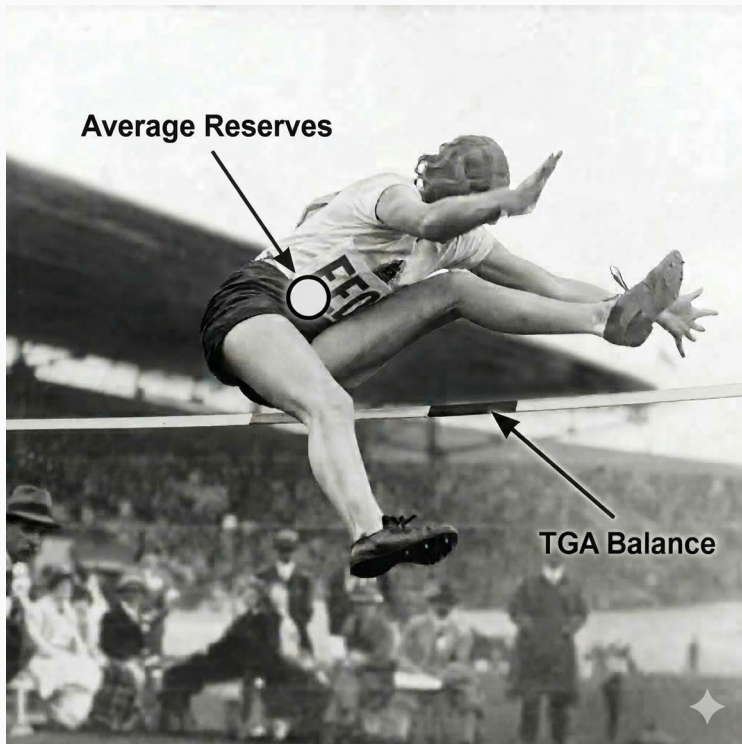


Annette's Proposal

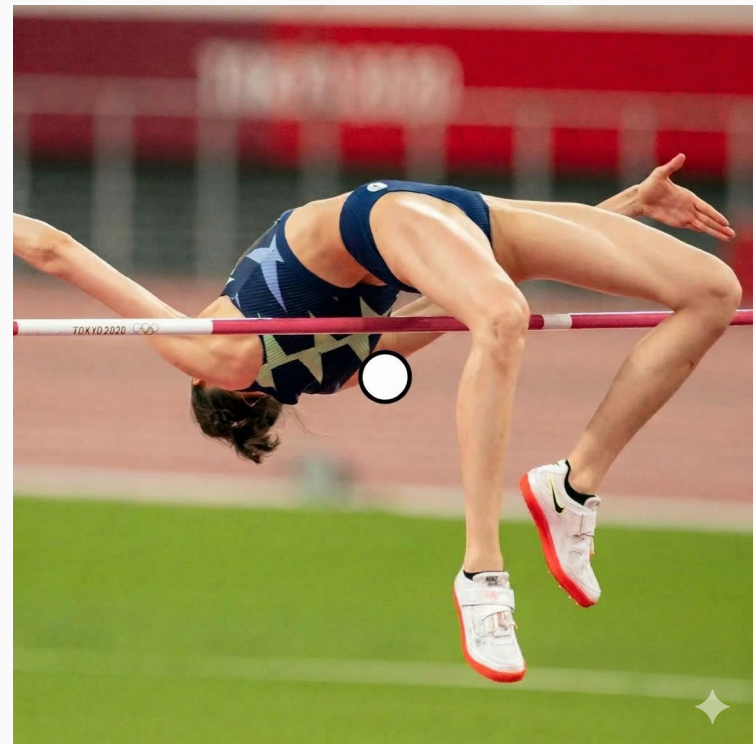


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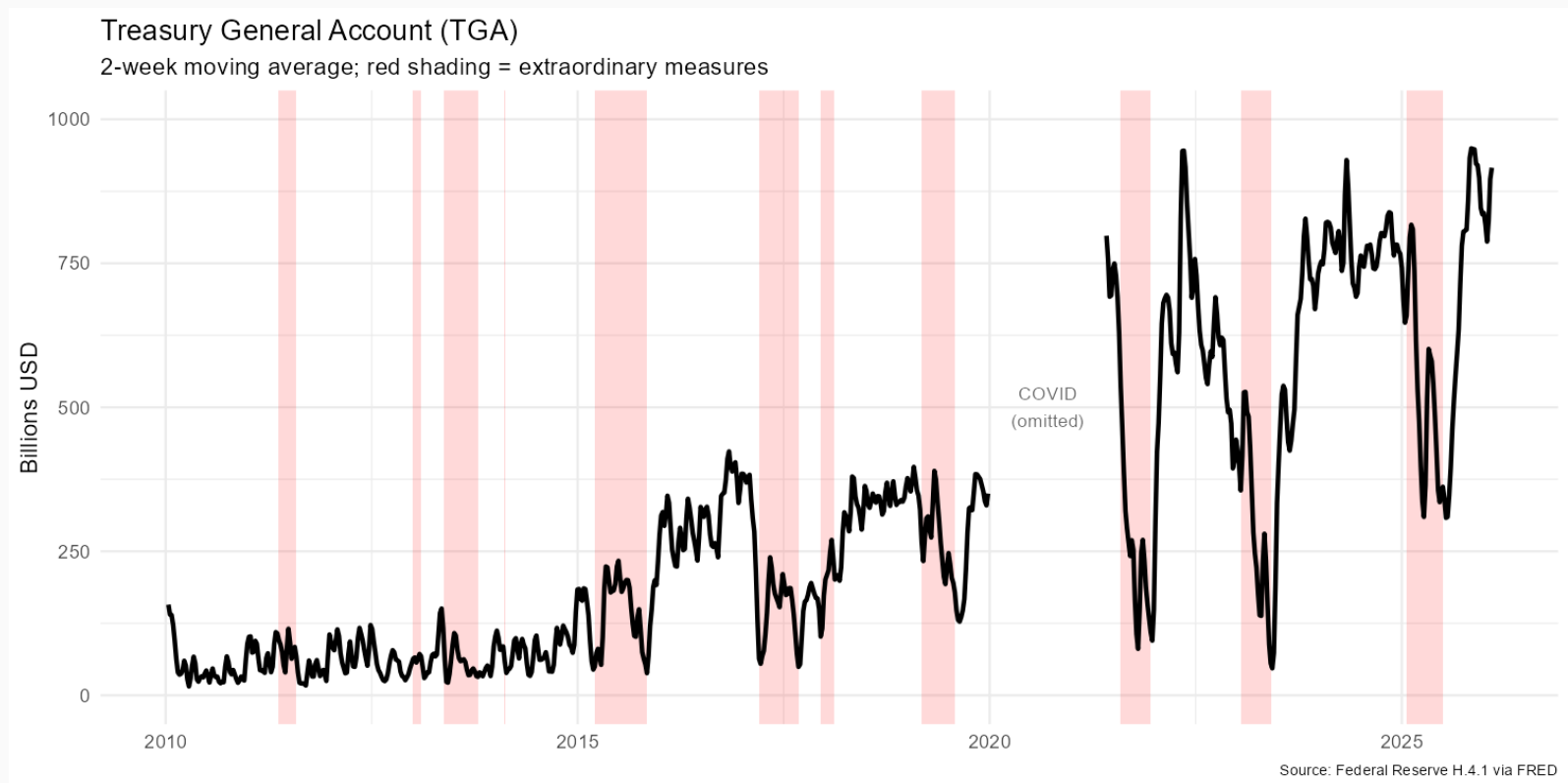


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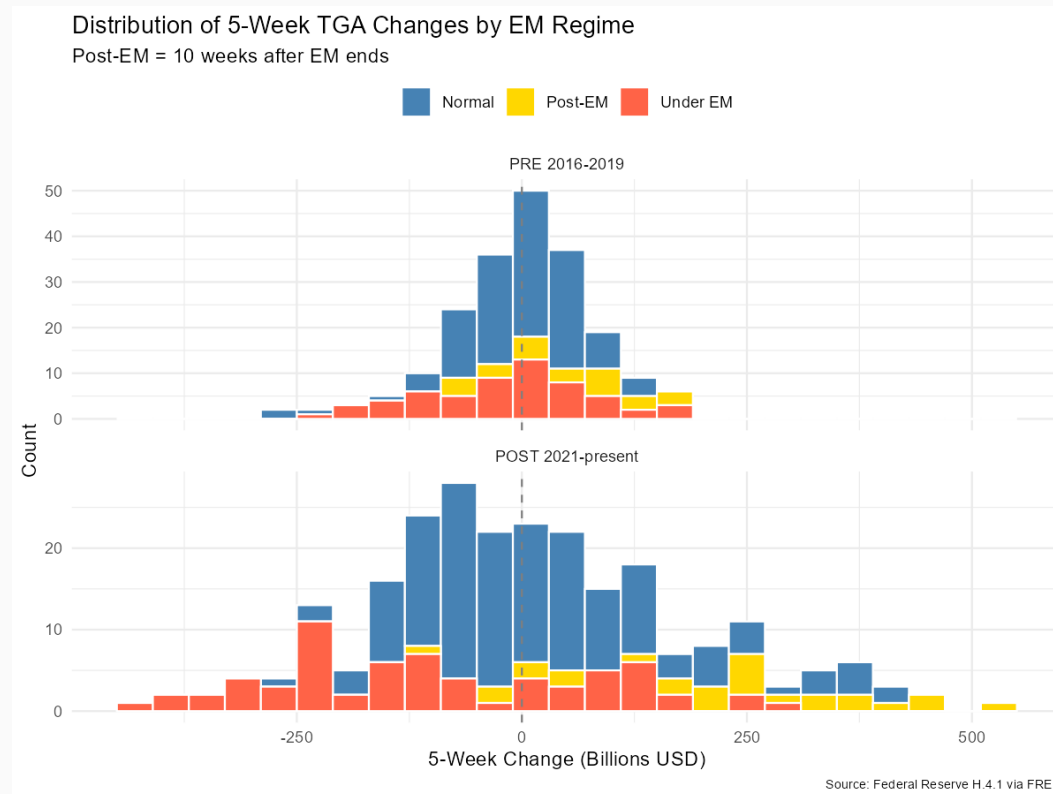
Debt Ceilings and TGA Fluctuations

- Since 2010, Treasury has been under emergency measures 20% of the time.
- Running down and rebuilding the TGA balance has led to enormous swings.

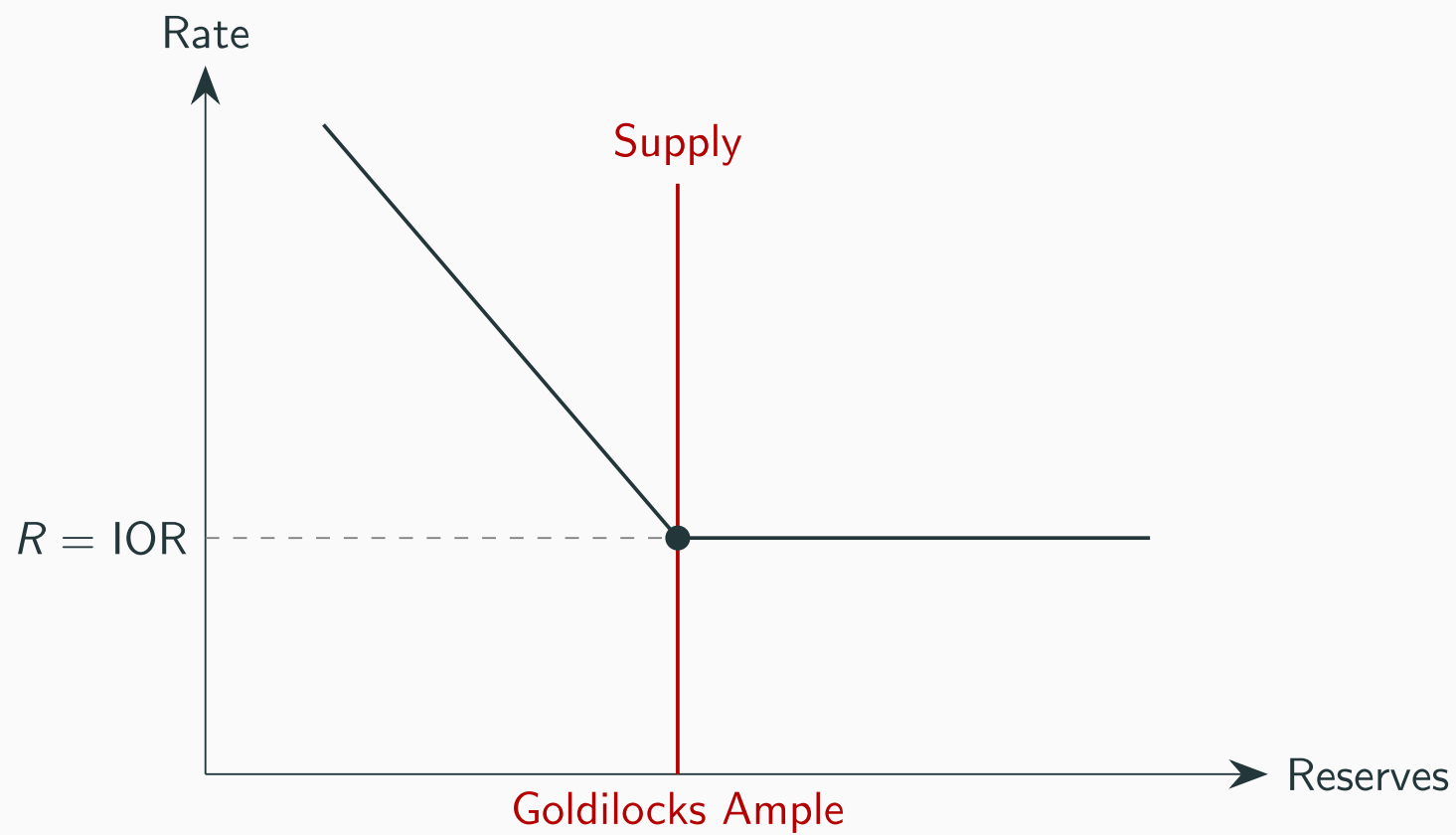


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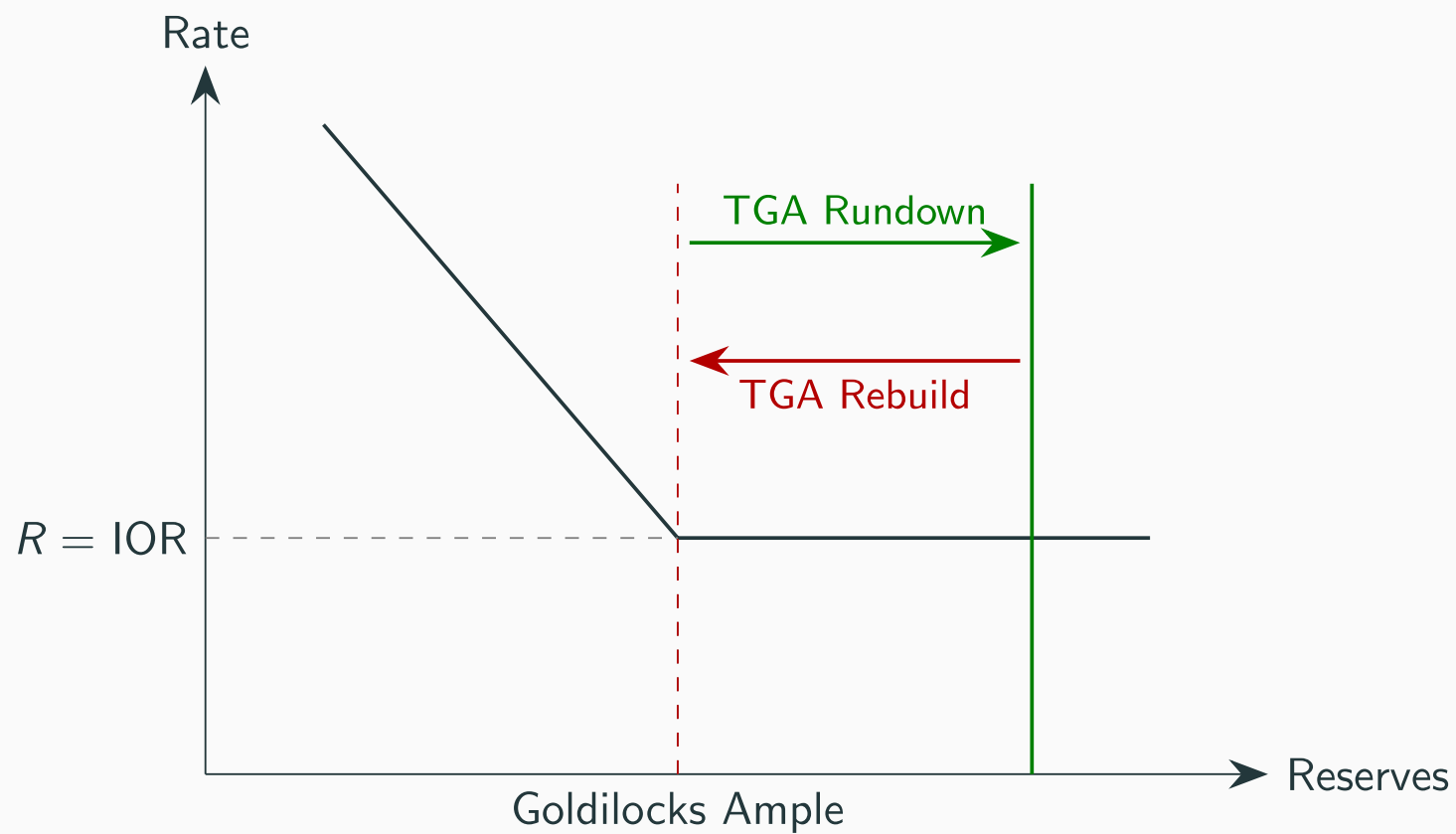
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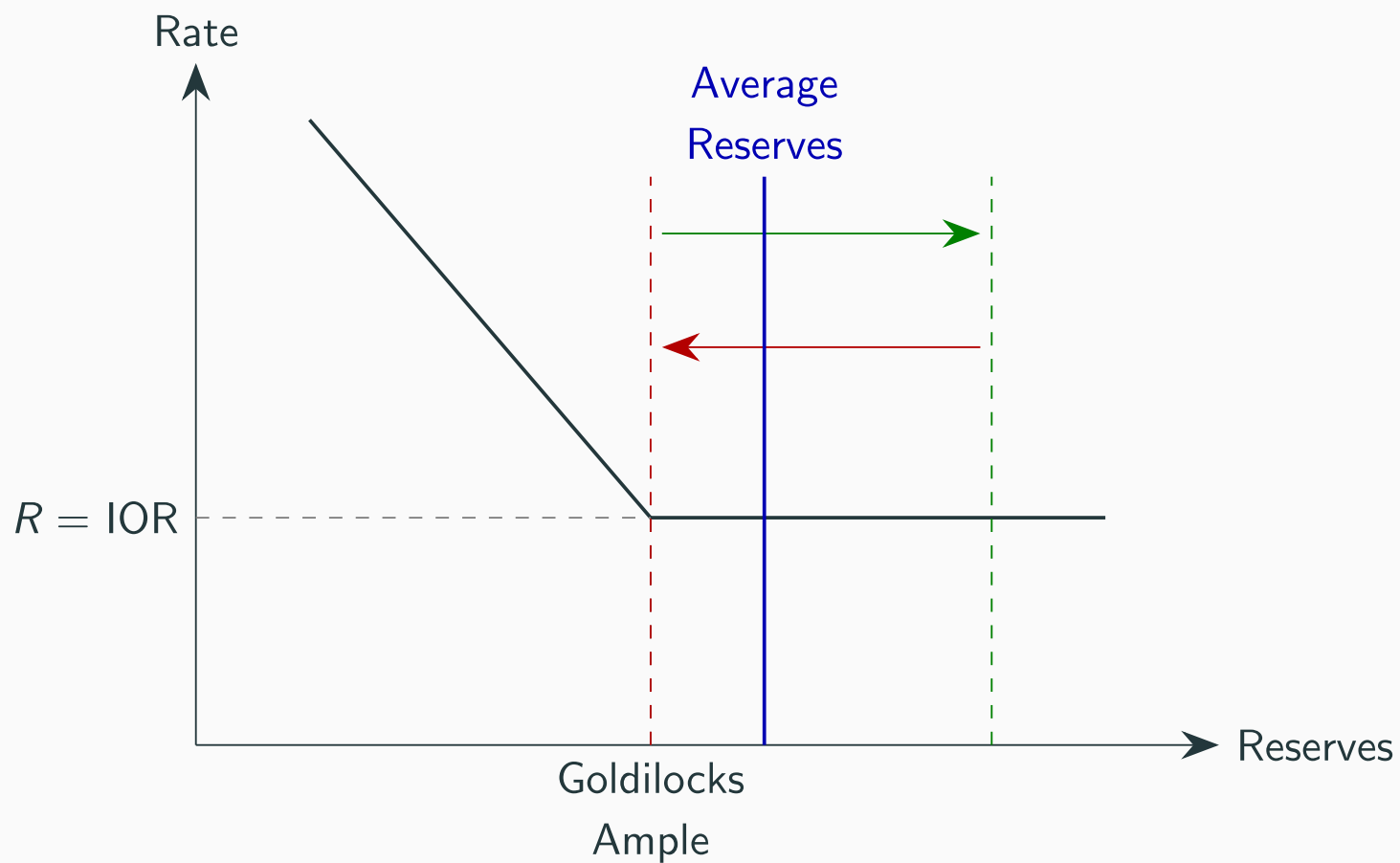
Demand and Supply of Reserves: Nailed It!



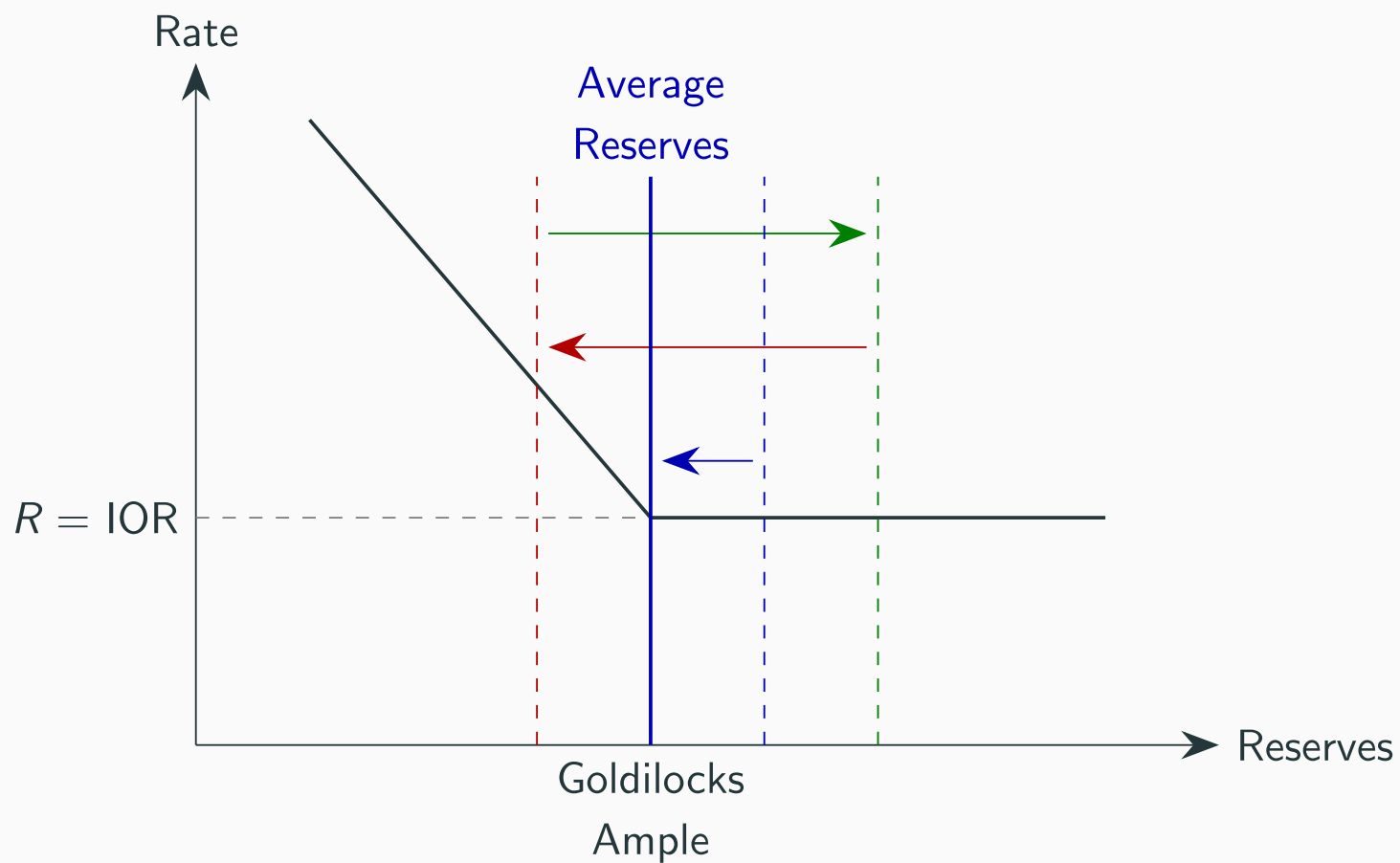
Demand and Supply of Reserves: Debt Ceiling Shock



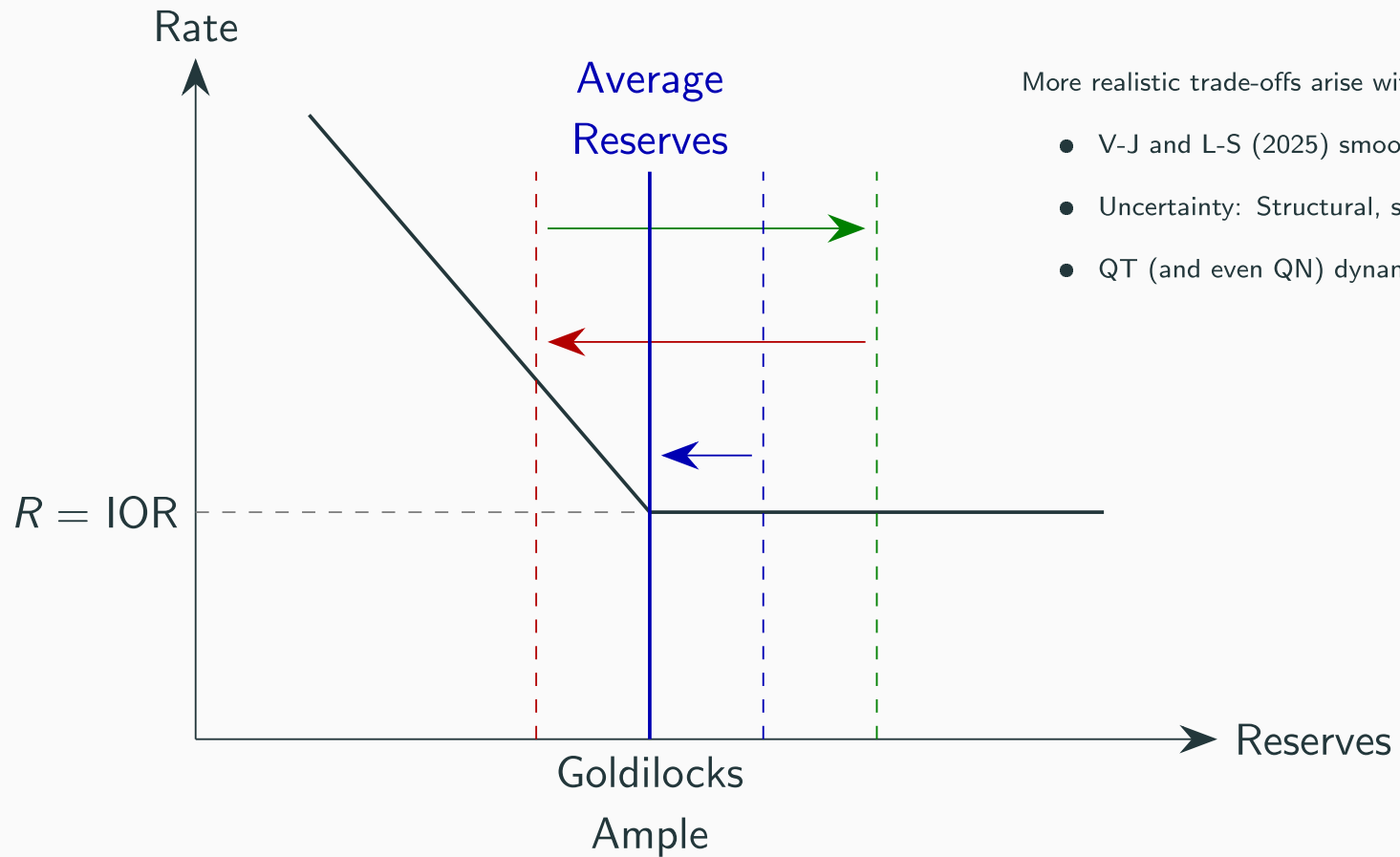
Demand and Supply of Reserves: Average Reserves



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Public Finance Hat: ON

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- Currently, by default, at a corner: All float is absorbed by Reserves.

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 - Likely some modest welfare gains from adjusting default float absorption.

Implementation: Cautiously Optimistic

A proof-of-concept model for $y_t := \log TGA_t$,

$$y_t = \mu_{s_t} + \Phi(L)(y_{t-1} - \mu_{s_{t-1}}) + \varepsilon_t, \quad \varepsilon_t \sim N(0, \sigma^2),$$

where $\Phi(L)$ captures the TGA's management and s_t follows an exogenous Markov process for emergency measures that shifts the "target" μ_s toward zero.

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- **High persistence**, allowing the Fed to substantially smooth reserves even with implementation lags and attenuation.
 - FRBNY Desk Models + Treasury Coordination = Cautiously optimistic.
- **Active Management**, with a weekly $\sigma_{TGA} \approx \$200$ bn., the Desk may need to operate week-to-week and with large sales and purchases.
 - *Monthly* T-bill issuance is \$2 tn., with T-bills ≤ 8 weeks issuance is $\approx \$1$ tn.

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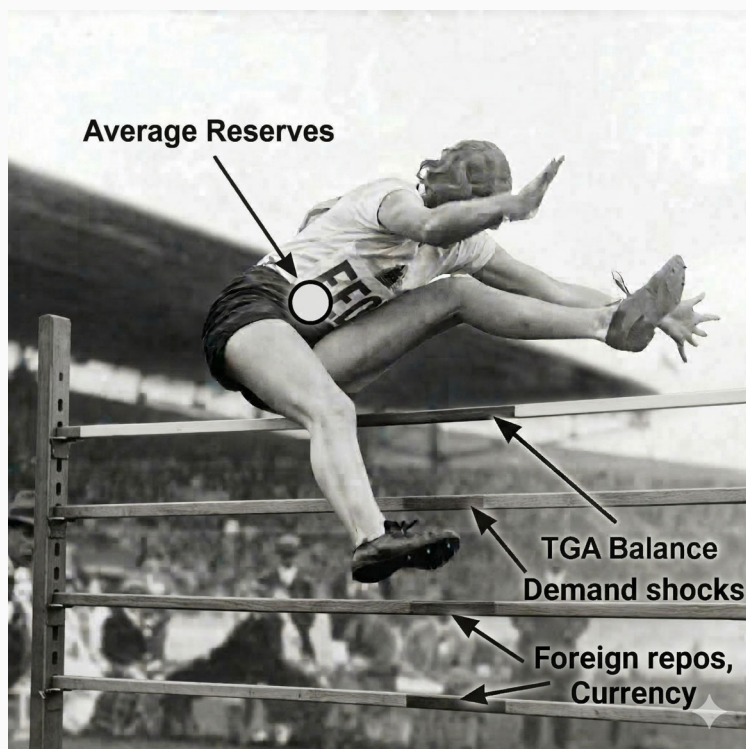
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All variation $\|dTGA\|$ must be distributed to Reserves or Assets. . . Everyone likes “regular and predictable” so where do the irregular and unpredictable go?

Implementation: One Buffer to Rule Them All

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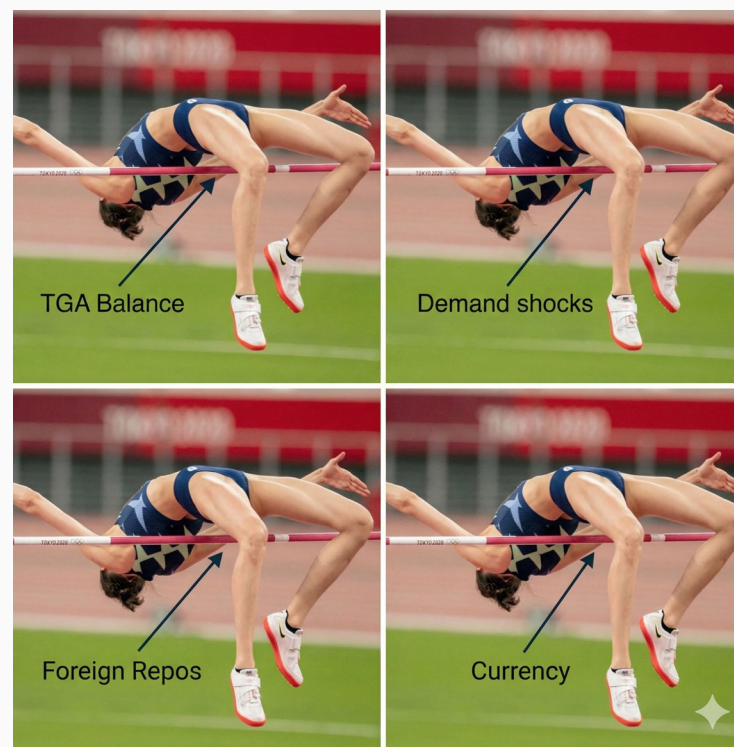


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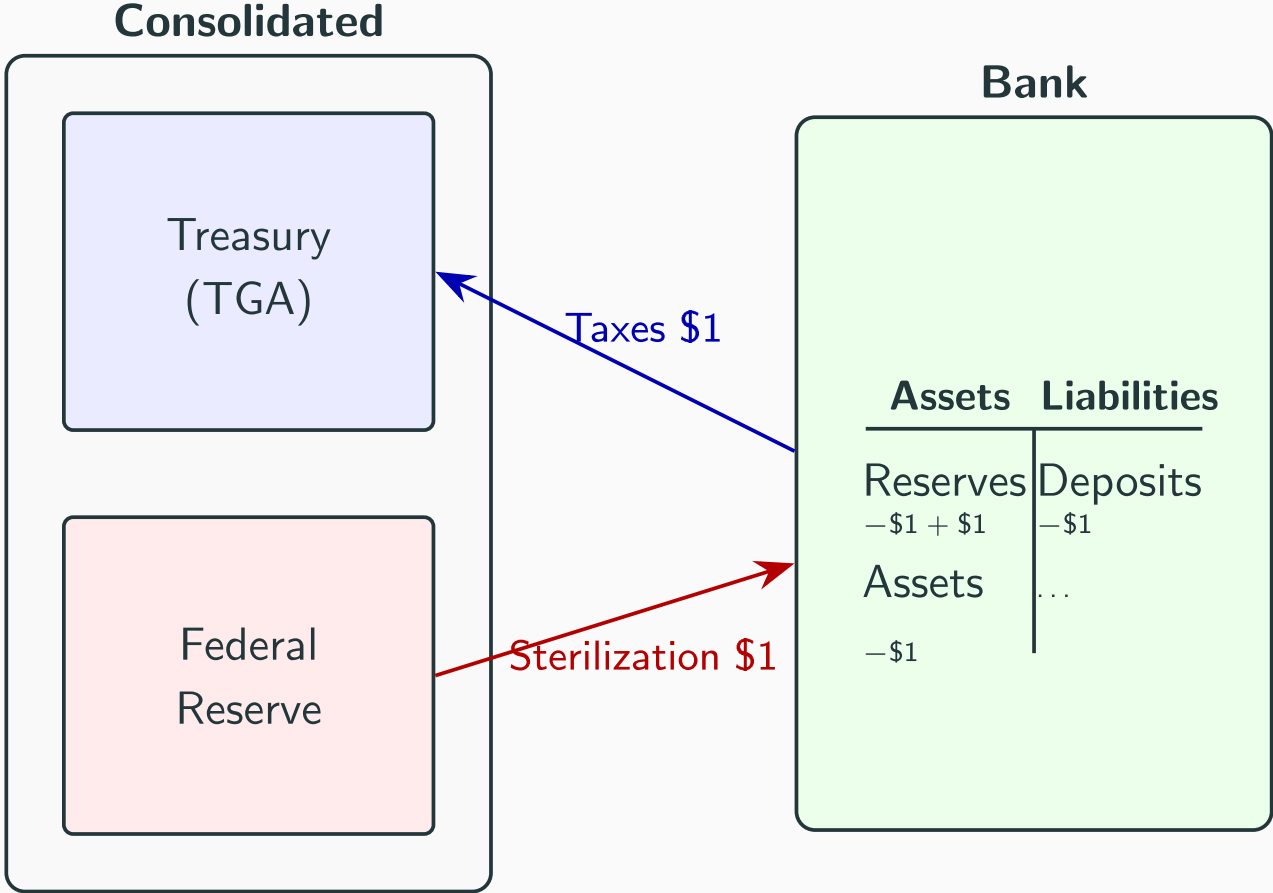
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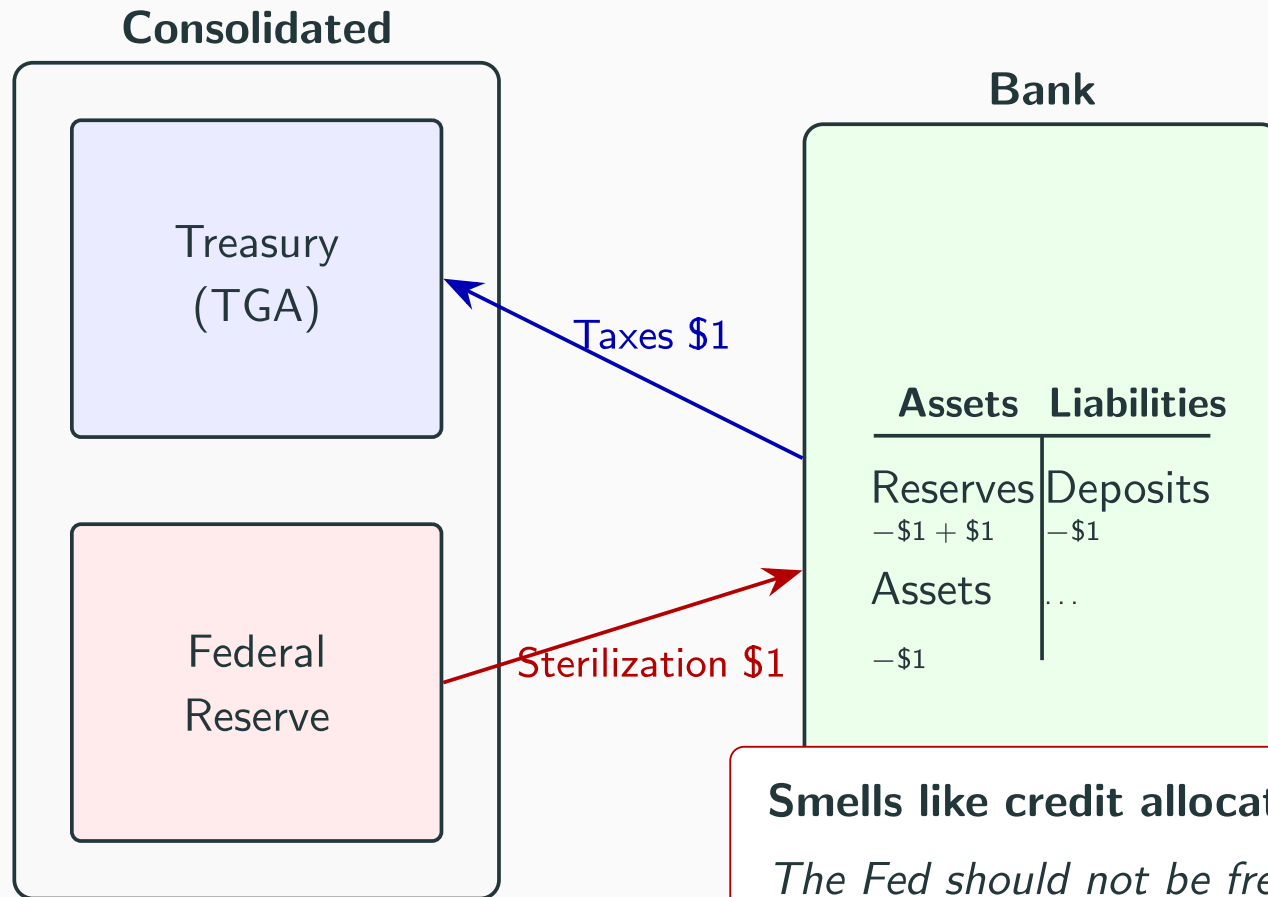
Annette's Proposal



Optics: Challenging for the Fed



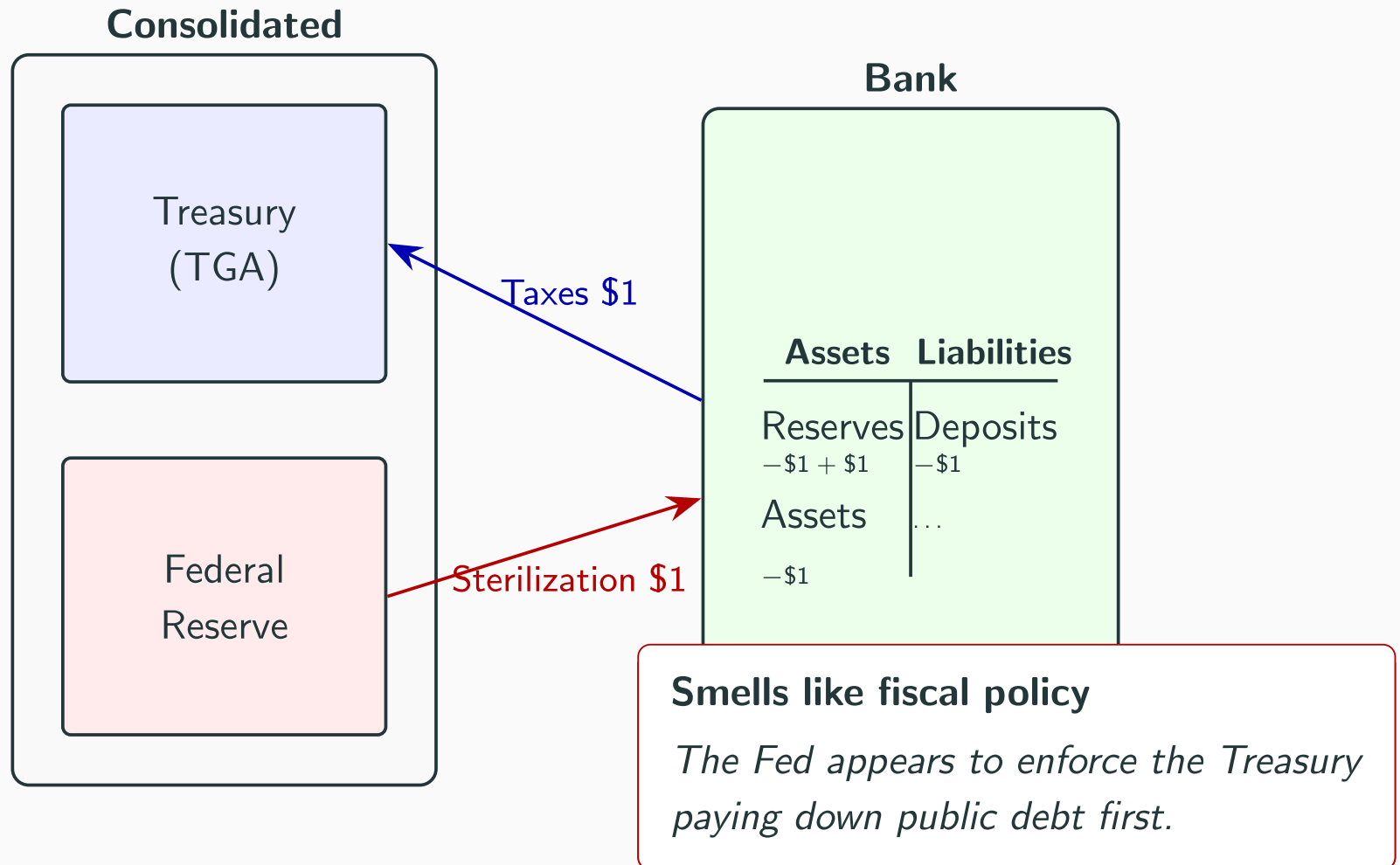
Optics: Challenging for the Fed



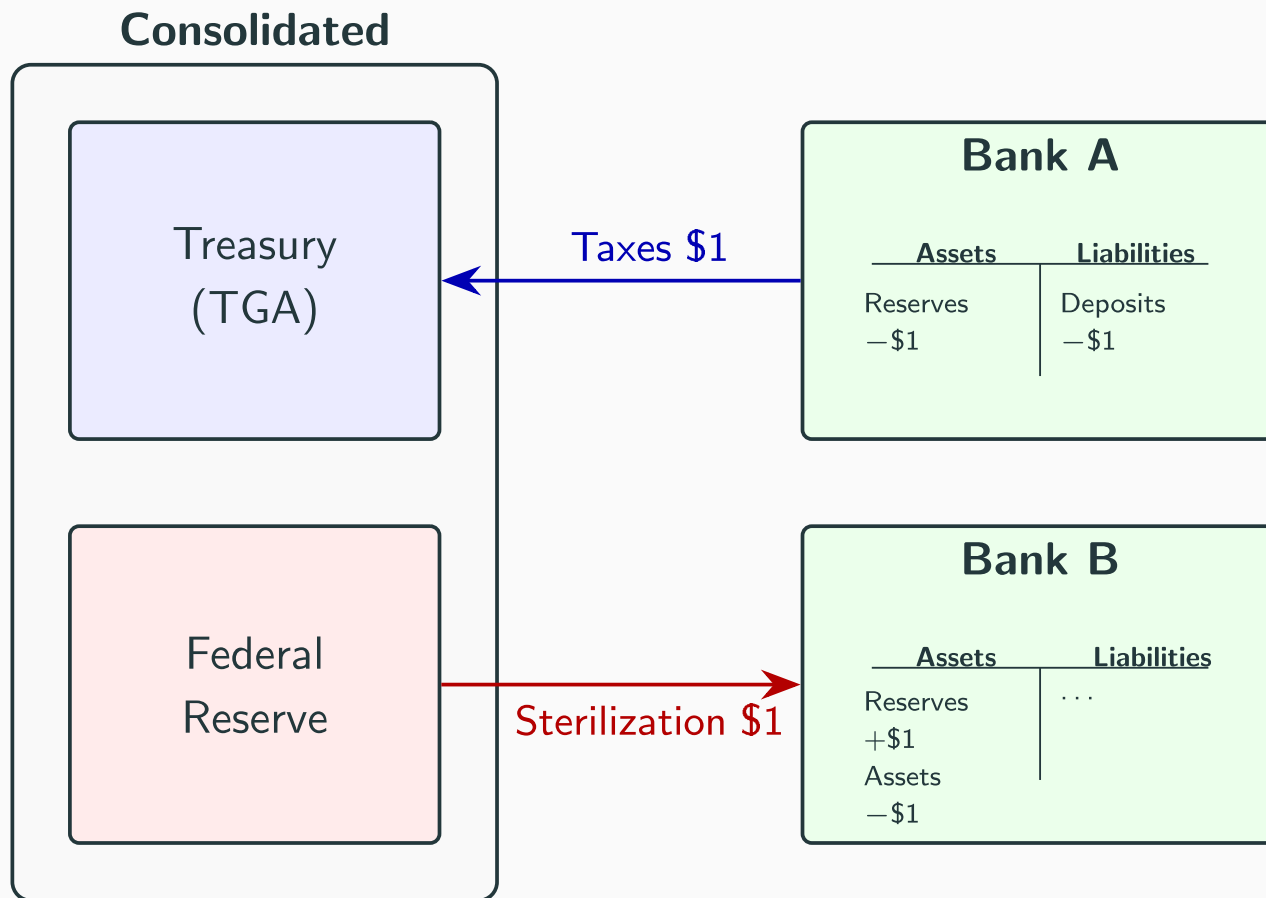
Smells like credit allocation

The Fed should not be free to choose which assets to use for sterilization.

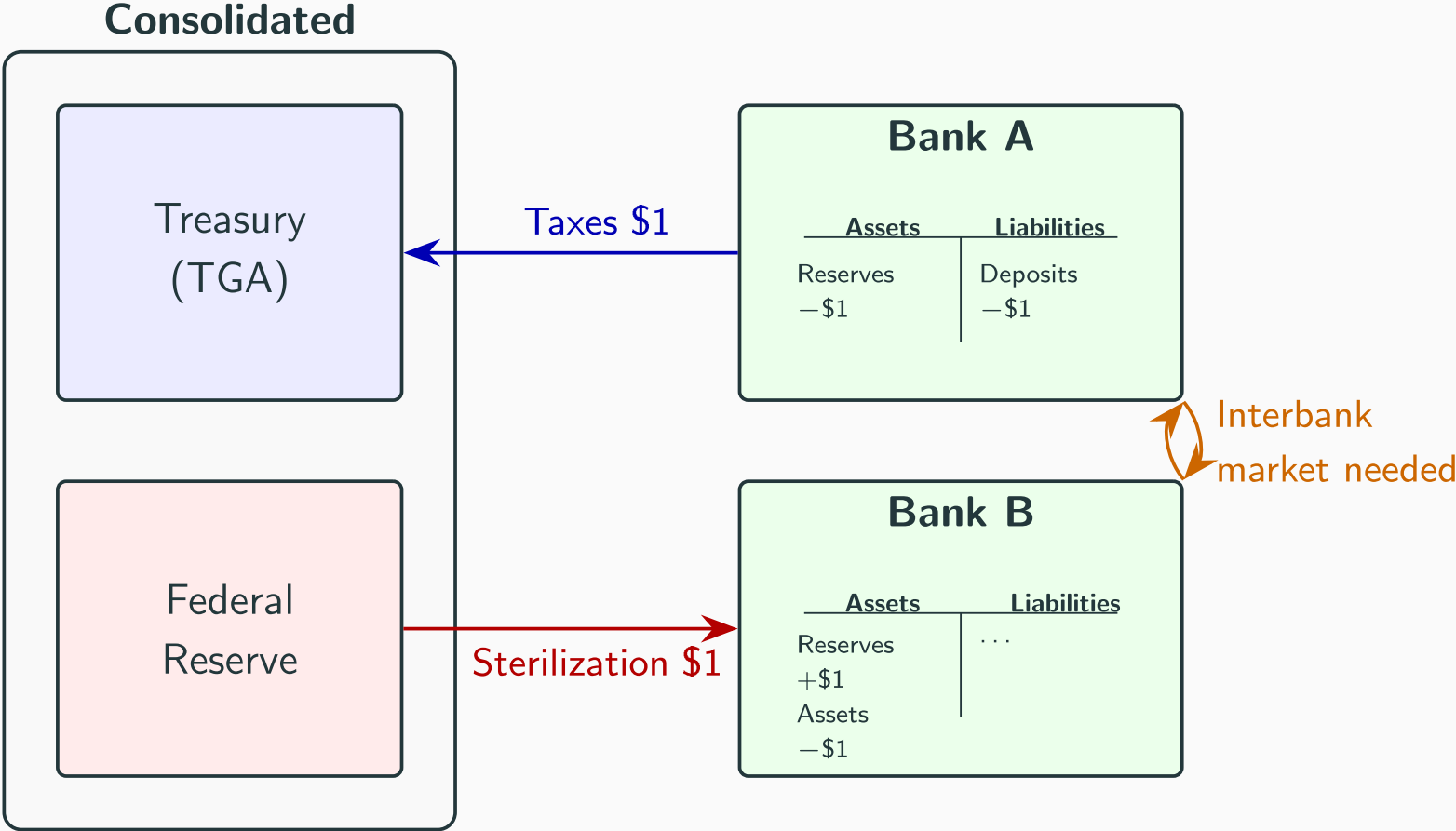
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- *Third Best*: Fed sterilizes on its own, on the basis of a smaller balance sheet.
 - Concerning optics on credit allocation and fiscal policy (and debt ceilings).
 - Possibly resulting in a modest reduction.