

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Date: June 11, 2010
To: Federal Open Market Committee
From: Brian Madigan, Nathan Sheets, and David Stockton
Subject: Recent fiscal developments in Europe and the United States

Recent developments in Europe have brought into sharper focus the need for sizable fiscal adjustments in many of the advanced economies. We attach three memos that highlight the dimensions of these fiscal adjustments and the risks posed to the global and domestic economies by the currently unsustainable fiscal policies being run in a number of advanced countries. The first memo examines the fiscal situation in Europe. The second memo sketches out the fiscal challenges faced by the United States. And, the third memo examines how macroeconomic developments in Europe and the United States could be affected by financial market reactions and spillovers associated with concerns about fiscal sustainability. In this effort, we have explored a wider range of possible outcomes than is typically encompassed by our alternative simulations, with the objective being to put on the table outcomes that not only would present challenges to the conduct of monetary policy but that also are serious enough to raise broader systemic concerns for financial stability.