

THE FEDERAL RESERVE SYSTEM

Date: April 20, 2018
To: Federal Open Market Committee
From: Thomas Laubach and Simon Potter
Subject: Memo on IOER and the Target Range for the Federal Funds Rate

The attached memo, “The Effective Federal Funds Rate and the Target Range,” discusses the narrowing of the spread between the interest rate on excess reserves (IOER) and the effective federal funds rate (EFFR). That trend has put the EFFR about 6-7 basis points below IOER, on average, in recent weeks. As discussed in the memo, the anticipated reduction in reserves in the banking system along with other factors are expected to result in some further narrowing of the EFFR relative to IOER. At some point, the spread could be narrow enough that policymakers may wish to consider a technical realignment of the level of IOER relative to the top of the target range for the federal funds rate for efficient implementation. For example, a small reduction in the level of IOER below the top of the target range could help keep federal funds trading below the top of the target range. The memo discusses possible ways that such a technical adjustment could be communicated and the advantages and disadvantages associated with each option. The Desk briefing at the upcoming meeting will summarize key elements of the memo, and participants will have an opportunity to ask questions and comment during the Q&A session following the briefing. Of course, staff would be happy to answer questions you might have before then as well.