FEDERAL RESERVE press release

For release at 11:00 a.m. EDT October 11, 2019

Frequently Asked Questions for the Federal Open Market Committee's Statement Regarding Monetary Policy Implementation

1. What process did the FOMC follow to approve these actions?

The FOMC met by videoconference on Friday, October 4 to discuss issues related to the recent pressures in money markets and monetary policy implementation. There was broad agreement following that discussion on appropriate technical operations to address these issues. Specific plans were developed for review by the Committee this week. As noted in the announcement, the final plans for these technical operations were approved by notation vote that was completed today.

2. What is the purpose of the program announced by the Federal Open Market Committee on October 11? Specifically, why is the Federal Reserve purchasing Treasury bills?

As the Committee noted in its Statement Regarding Monetary Policy Implementation, the FOMC authorized purchases of Treasury bills into the second quarter of next year in order to maintain ample reserves in the banking system over time at or above levels that prevailed in early September. Without these purchases, the level of reserves would decline significantly in coming months because of recent and expected growth in non-reserve liabilities such as currency in circulation. In addition, the Federal Reserve will conduct overnight and term repurchase agreement operations to address sharp declines in reserves or pressures in money markets that might adversely affect monetary policy implementation.

The FOMC adjusts the stance of monetary policy primarily through changes in the target range for the federal funds rate. In contrast, the operations announced on October 11 are purely technical measures aimed at maintaining an appropriate level of reserves in the banking system and have no material implications for the stance of monetary policy. In particular, purchases of Treasury bills likely will have little if any effect on longer-term interest rates, broader financial conditions, or the overall stance of monetary policy. As a result, these purchases should not have any meaningful effects on household and business spending decisions and the overall level of economic activity.

3. Will the purchases of Treasury securities change the stance of monetary policy or an increase the level of monetary policy support for the U.S. economy?

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The FOMC adjusts the stance of monetary policy primarily through changes in the target range for the federal funds rate. In contrast, the open market operations announced by the FOMC on October 11, 2019, are purely technical measures aimed at managing the level of reserves in the banking system. As noted in the Committee's Statement Regarding Monetary Policy Implementation, these operations will be conducted to maintain ample reserves in the banking system over time at or above levels that prevailed in early September. These operations have no material implications for the stance of monetary policy. In particular, purchases of Treasury bills likely will have little if any impact on the level of longer-term interest rates and broader financial conditions. As a result, these purchases should not have any meaningful effects on household and business spending decisions and the overall level of economic activity.

4. How do the Treasury security purchases announced on October 11 differ from the large-scale asset purchases conducted by the Federal Reserve during the financial crisis and its aftermath?

Large scale asset purchases conducted by the Federal Reserve during the financial crisis and its aftermath were concentrated in purchases of longer-term securities—principally longer-term Treasury securities and agency mortgage-backed securities. These operations were aimed at putting downward pressure on longer-term interest rates. The associated easing in financial conditions then helped to support economic recovery, particularly at a time when the traditional tool of monetary policy—the federal funds rate—had already been lowered to its effective lower bound.

The purchases of Treasury bills announced on October 11 should have little if any effect on longer-term interest rates and other asset prices and thus should have little if any effect on household and business spending decisions and the overall level of economic activity. These purchases are purely technical operations aimed at maintaining reserves in the banking system at an ample level that supports the efficient and effective implementation of monetary policy.

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