

**Appendix 1: Materials used by Ms. Ihrig, Messrs. Frost, Natalucci, and Martin**

**Class I FOMC – Restricted Controlled (FR)**

*Material for Briefing on the*

**Monetary Policy Normalization**

**Jane Ihrig, Joshua Frost, Fabio Natalucci, Antoine Martin**  
**April 29, 2014**

**Federal Reserve Tools**

- Increasing IOER will raise rates, but probably not 1:1
- Several tools: ON RRP, term RRP, term deposits

**Near-term Approaches**

- Five options
- Not constrained to single option; can choose a mix of options or adapt policy approach over time

**Options**

|    | <u>IOER and full allotment ON RRP facility</u> | <u>Term draining tools</u> | <u>Policy target rate</u> |
|----|--|----------------------------|---------------------------|
| 1. | Fixed ON RRP rate = IOER rate                  |                            | Administered rate         |
| 2. | Fixed ON RRP rate < IOER rate                  |                            | Admin or market rate      |
| 3. | Adjustable ON RRP rate < IOER rate             |                            | Fed funds rate            |
| 4. | Fixed ON RRP rate << IOER rate                 | Conduct operations         | Fed funds rate            |
| 5. | IOER only                                      | Conduct operations         | Fed funds rate            |

**Policy Issues**

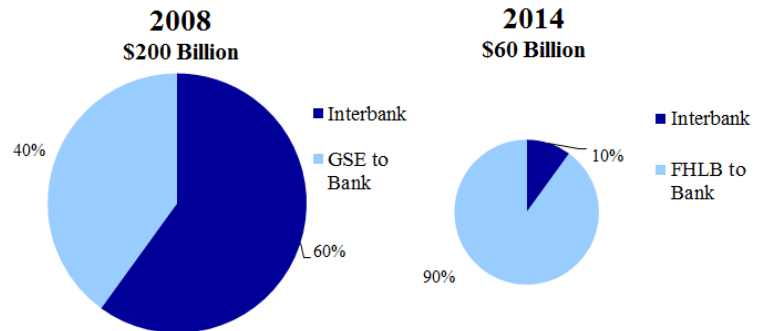
1. Control of short-term interest rates
2. Efficiency in conducting monetary policy
3. Viability of the funds market
4. Financial stability implications
5. Footprint in nonbank financial sector
6. Federal Reserve income

## Federal Funds Rate and Alternatives

### (1) Outline

- Current state of fed funds market
- Construction of effective fed funds rate
- Use in financial markets
- Contractual issues
- Options to address issues
- Review of possible alternative target rates

### (2) Fed Funds Market



### (3) Factors that Could Limit Volume

- Regulatory
  - FDIC charge
  - Basel III
- Behavior of Federal Home Loan Banks
- Monetary policy framework

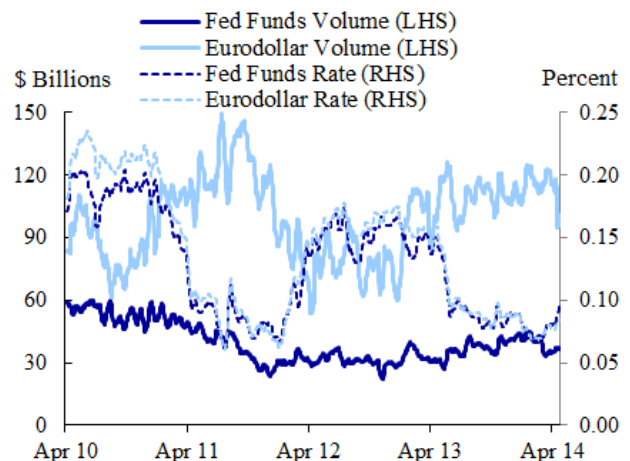
### (4) Possible Responses

- Choose a policy framework with a goal of maintaining the fed funds rate
- Change the definition of fed funds
  - Include Eurodollars in the definition
- Target a different rate

### (5) Alternative Rates

- A different unsecured rate (Eurodollars)
- A secured rate (Treasury GC repo)
- A broad set of short-term rates
- An administered rate

### (6) Fed Funds and Eurodollar Rates and Volumes



\*10-day moving average.

Source: Brokered data obtained by Federal Reserve Bank of New York

## Financial Stability Implications of a FRFA ON RRP Facility

### Potential Benefits and Costs

- The provision of a new, risk-free liquid asset could support financial stability by crowding out private, seemingly safe "money-like" liabilities
- During crises, rapid take-up at the ON RRP facility could magnify flight-to-quality flows and contribute to a decline in the availability of short-term funding

### Three Recent Flight-to-Quality Episodes

- September 2008 and the debt-ceiling standoffs of 2011 and 2013
- Investors ran from short-term vehicles that embedded liquidity and credit risk
- Safe-haven inflows were quite large, although destinations varied

### Possible Amplification Effects

- Cash that would have moved into liquid deposits could go into the ON RRP facility
- Prime MMFs could experience larger outflows
- Availability of short-term funding could decline more quickly
- Additional flight-to-quality flows might occur
- The financial stability implications would depend in large part on the firms that lose funding

### Potential Mitigants

- Lower ON RRP rate
  - Probably not a reliable stand-alone tool
- Caps on usage
  - Individual vs. aggregate caps
  - Rigid vs. flexible caps
- Optimal cap design depends on risk assessment
  - Fixed aggregate caps likely limit liquidity disruptions most
  - Flexible individual caps allow larger supply of safe assets in a crisis and with greater certainty
  - Flexibility likely increases operational cost

1. Should the Committee continue to target the federal funds rate during the period of normalization?
  2. If the Committee were to shift away from a federal funds rate target, what alternative rate or rates might be preferable? In particular, would you support the development, in the near term, of a more robust measure of the overnight, unsecured bank funding rate to serve as a target? Could it be desirable to target an administered rate instead of a market rate?
  3. What is your assessment of the possible benefits and costs of relying on a fixed-rate, full-allotment ON RRP facility during normalization and over the longer run? If you think it might be appropriate to use ON RRP facilities to help implement monetary policy during normalization, what factors do you think should be considered in determining the appropriate spread, if any, between the ON RRP rate and the IOER rate?
  4. Many of the approaches considered in memo 1 would be expected to leave the targeted rate (whether the existing federal funds rate or another market rate) below the IOER rate. How large a divergence between the targeted rate and the IOER rate and how much day-to-day variation in that divergence would be acceptable to you?
  5. Some of the approaches discussed in memo 1 could generate large net interest expense for the Federal Reserve (to the extent that the IOER rate was high relative to market rates, or term draining tools were used to drain a large quantity of reserves at rates well above IOER rate or the ON RRP rate). How comfortable are you with the possibility of incurring such observable additional costs?
  6. If further testing were to suggest that all of the approaches to normalization discussed in memo 1 could be implemented successfully and provide satisfactory control over interest rates, which approach would you prefer at this time? Why? Are there any that you would eliminate from further consideration at this time?
  7. How much additional testing, and with regard to which of the tools, do you think would be most helpful? In particular, are you comfortable with the proposed near-term testing plan for the TDF? Do you think that the additional testing for both the ON RRP facilities and for term operations that were discussed in memo 2 likely would be useful, taking account of the communication risks?
-

**Appendix 2: Materials used by Mr. Potter**

**Class II FOMC – Restricted (FR)**

*Material for Briefing on*

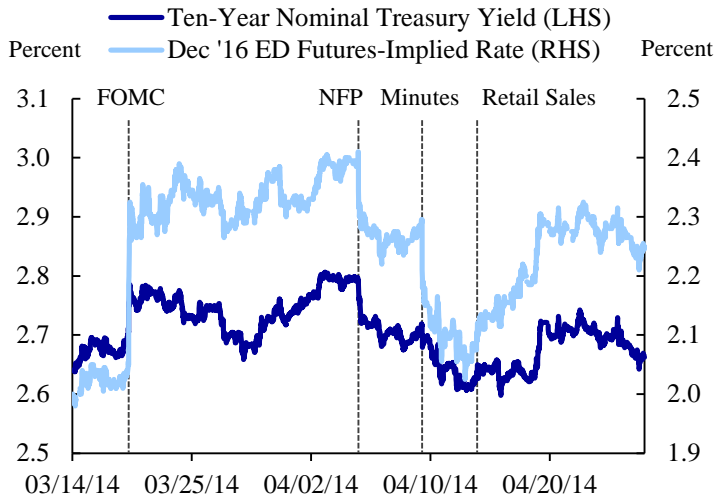
**Financial Developments and  
Open Market Operations**

**Simon Potter**

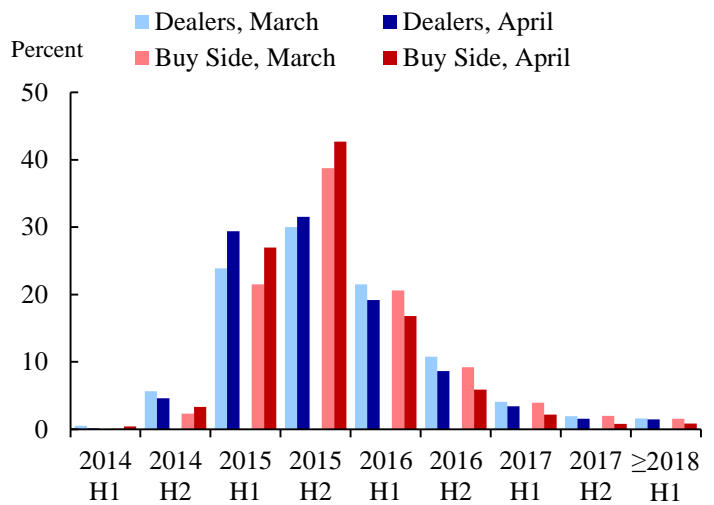
**April 29, 2014**



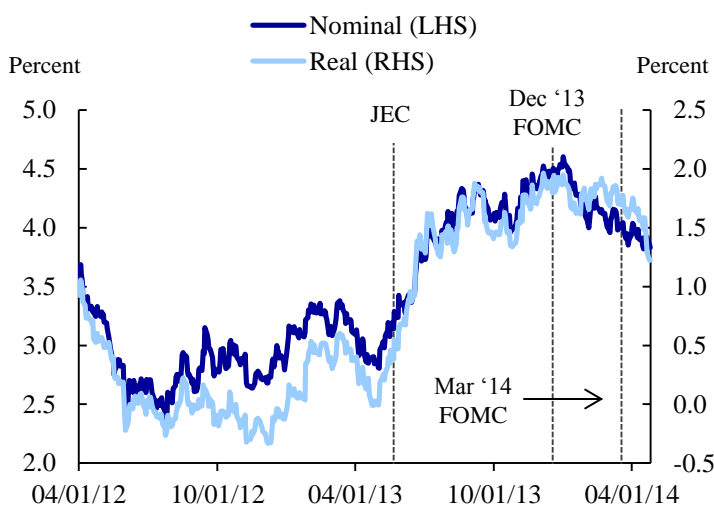
**(1) Treasury and Eurodollar Futures Rates**



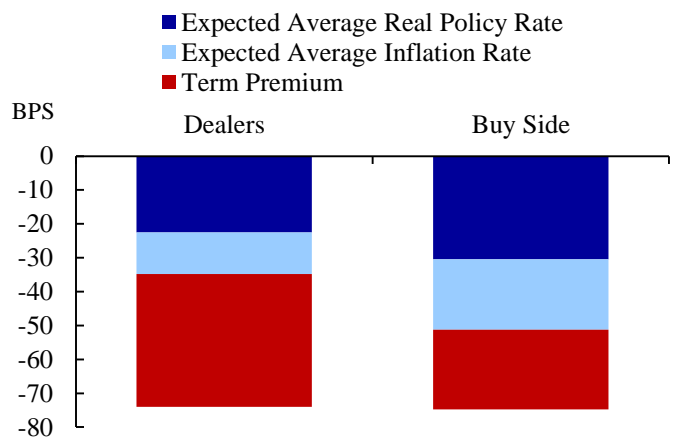
**(2) Probability Distribution of the Timing of Liftoff**



**(3) Five-Year, Five-Year Forward Rates**



**(4) Decomposition of the Decline in the Nominal Five-Year, Five-Year Forward Rate\***

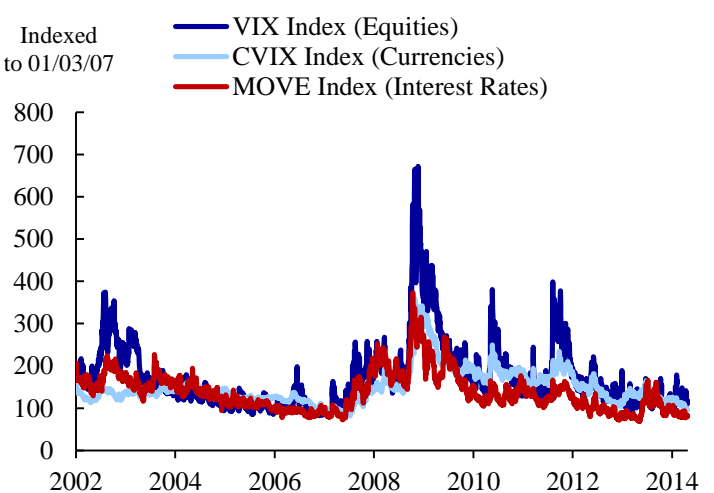


\*From 12/31/13 to 04/17/14. Average of responses shown.

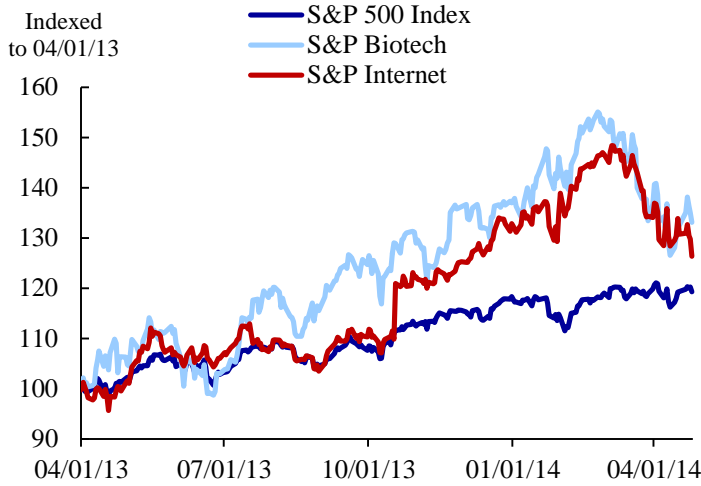
**(5) Swaption-Implied Volatility**



**(6) Implied Volatility Indices**

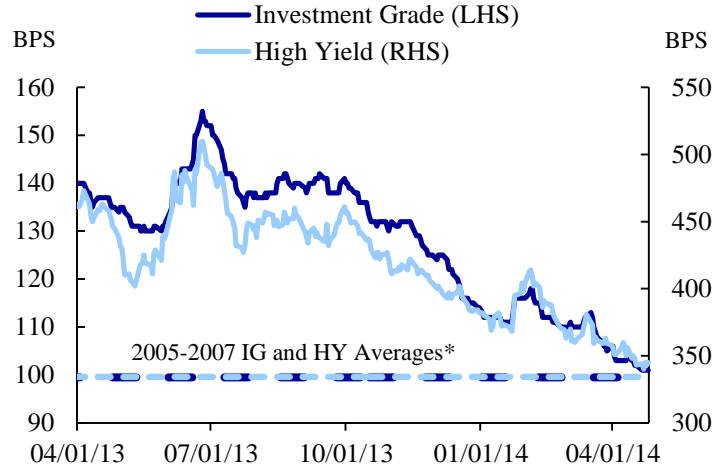


**(7) Equity Performance**



Source: Bloomberg

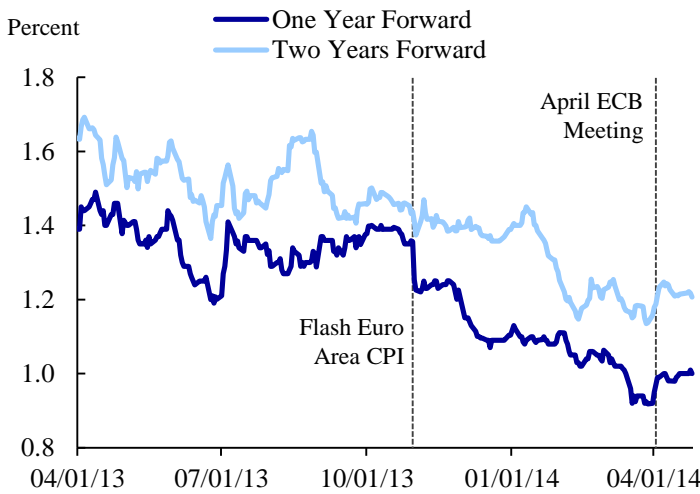
**(8) Corporate Credit Option Adjusted Spreads**



\*2005-2007 IG and HY averages are 99 and 334 BPS, respectively.

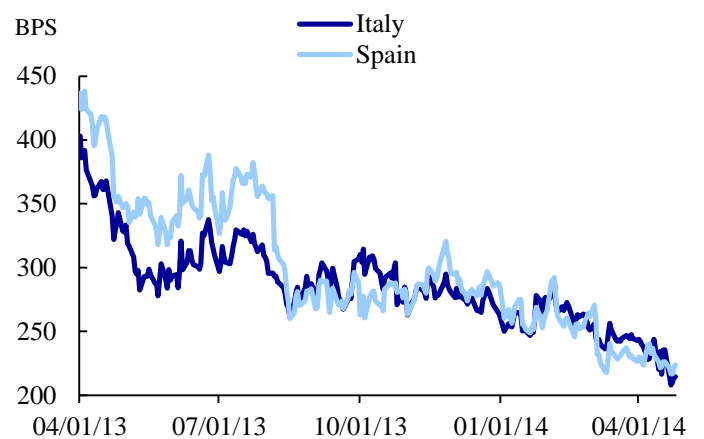
Source: Barclays

**(9) One-Year Euro Area Inflation Swaps**



Source: Barclays

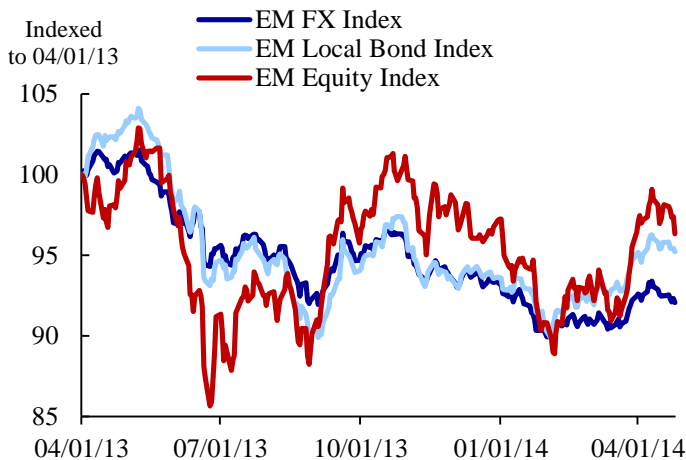
**(10) Euro Area Forward Rate Spreads\***



\*Nominal five-year, five-year forward sovereign rate spreads to German equivalent.

Source: Bloomberg

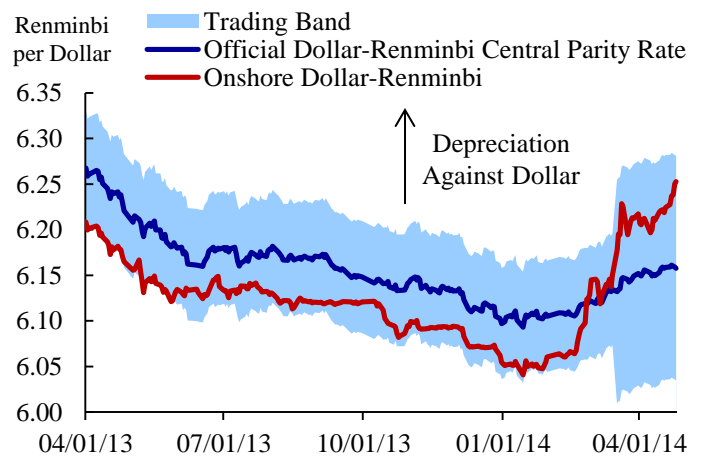
**(11) Emerging Market Asset Returns\***



\*Indices not hedged for foreign exchange exposure.

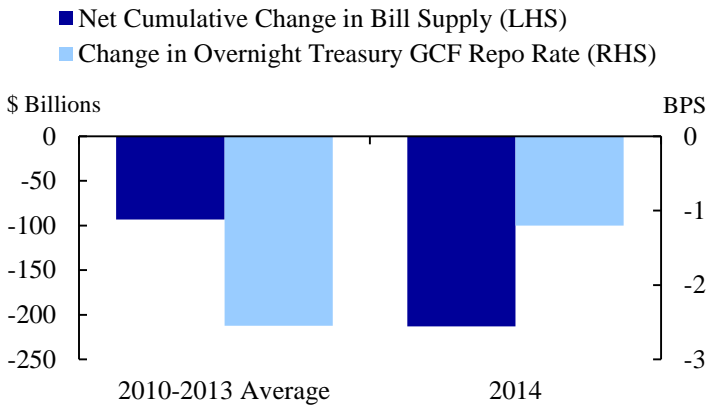
Source: Bloomberg, J.P. Morgan, Markit, MSCI

**(12) Chinese Renminbi Performance Against the U.S. Dollar**



Source: Bloomberg

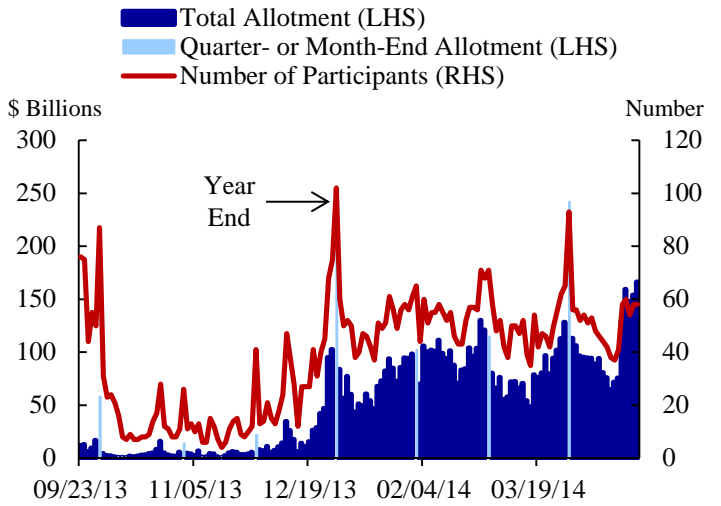
**(13) Change in Treasury Bill Supply and GCF Repo Rate During Tax Season\***



\*Defined as the six-week period beginning with the first weekly decline in outstanding Treasury bills.

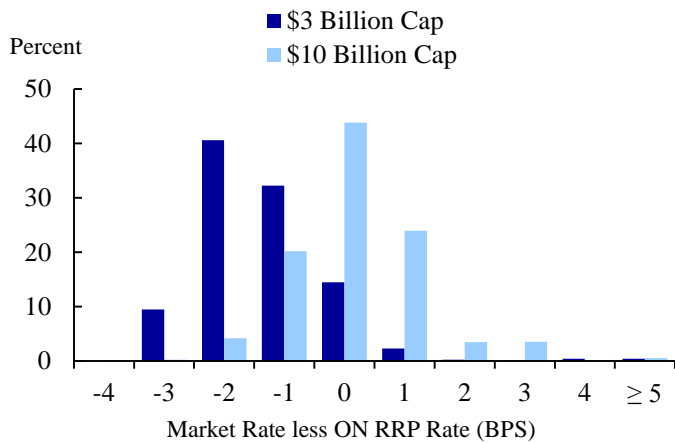
Source: U.S. Treasury Department, Bloomberg

**(14) Overnight RRP Operation Results**



Source: Federal Reserve Bank of New York

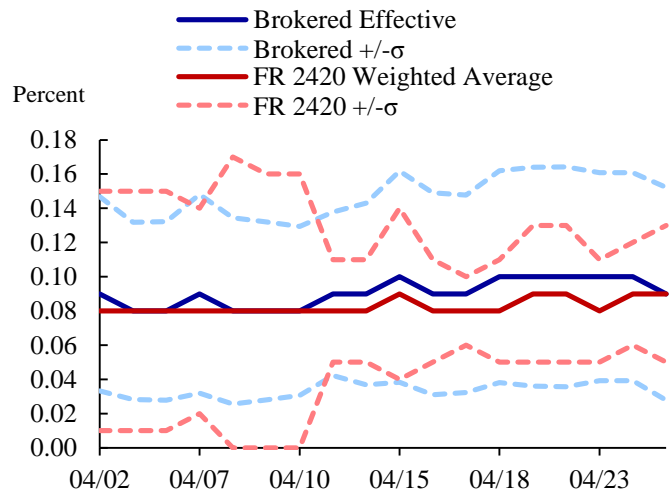
**(15) Distribution of Overnight Treasury Triparty Repo Volumes by ON RRP Counterparties\***



\*Excluding ON RRP participation. Weekly data.

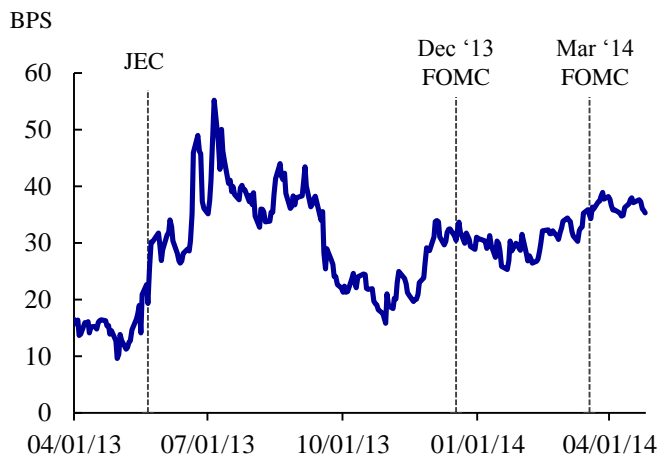
Source: Federal Reserve Bank of New York

**(16) Federal Funds Rates**



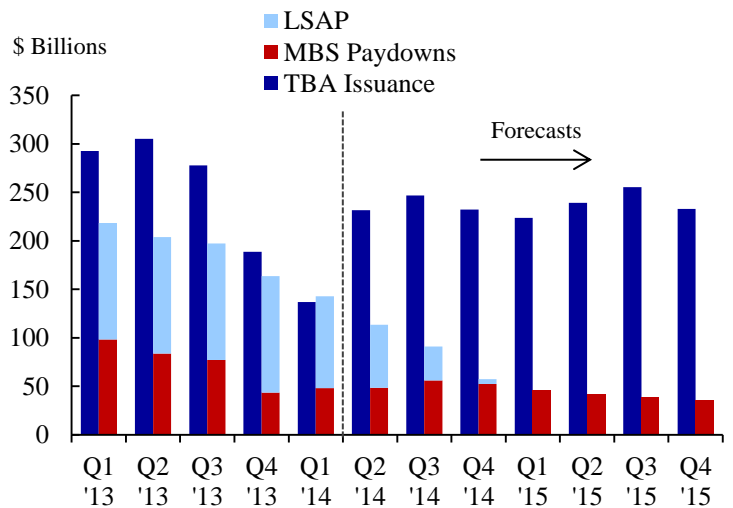
Source: Federal Reserve Bank of New York

**(17) Thirty-Year Fannie Mae Current Coupon Option-Adjusted Spread**



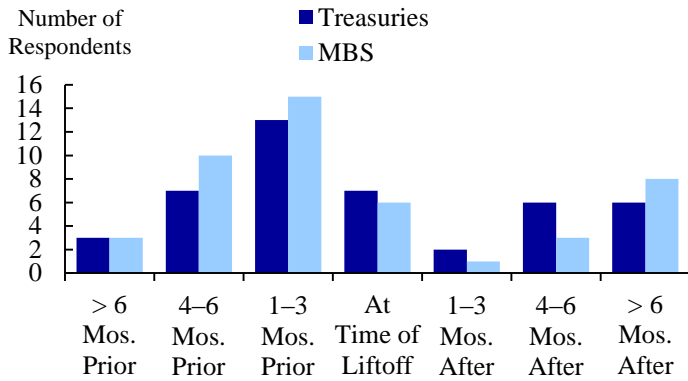
Source: Barclays

**(18) TBA Issuance and MBS Purchases**



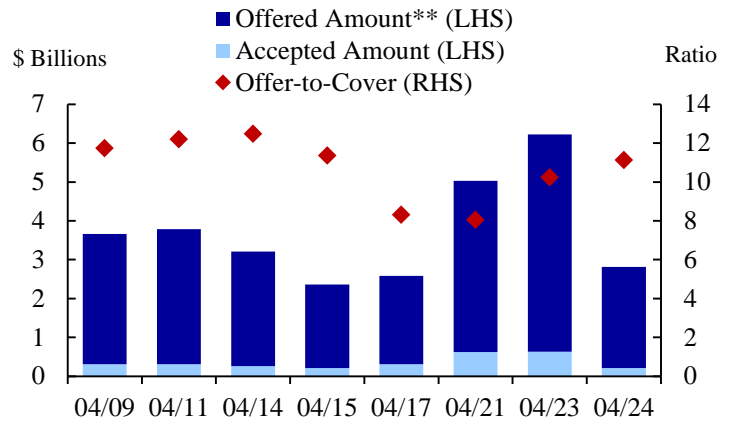
Source: BlackRock, Federal Reserve Bank of New York

**(19) Expected Number of Months Between End of Reinvestments and Liftoff\***



\*Based on all responses from the Survey of Primary Dealers and Survey of Market Participants. One primary dealer and one buy side respondent do not expect the FOMC to cease Treasury reinvestments and are excluded above.  
Source: Federal Reserve Bank of New York

**(20) Offers in MBS FedTrade Operations\***

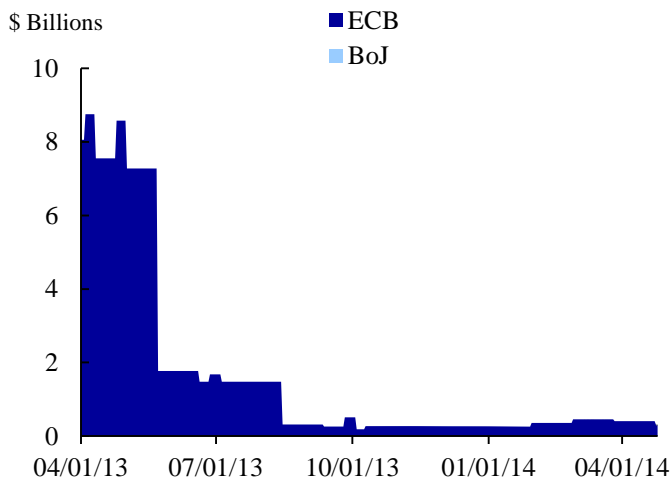


\*Auction on 04/23/14 included two securities.

\*\*Offered amounts are adjusted to exclude aggregate dealer offers that are larger than the publicly-stated maximum size of the operation.

Source: Federal Reserve Bank of New York

**(21) Central Bank Liquidity Swaps Outstanding**



Source: Federal Reserve Bank of New York

**Appendix 3: Materials used by Mr. Wascher**

**Class II FOMC – Restricted (FR)**

*Material for*

**Forecast Summary**

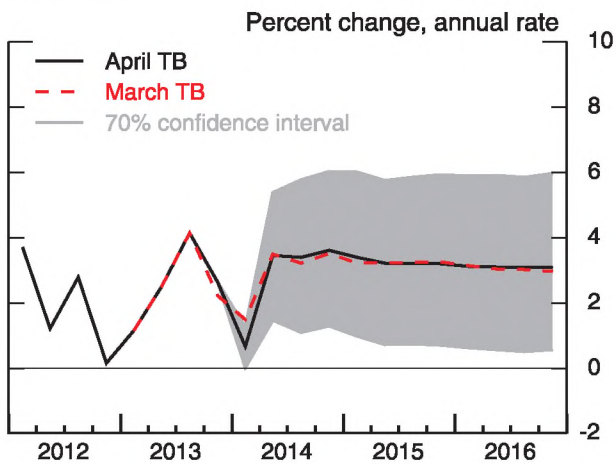
**William Wascher**

**April 29, 2014**

# Forecast Summary

Confidence Intervals Based on FRB/US Stochastic Simulations

## Real GDP

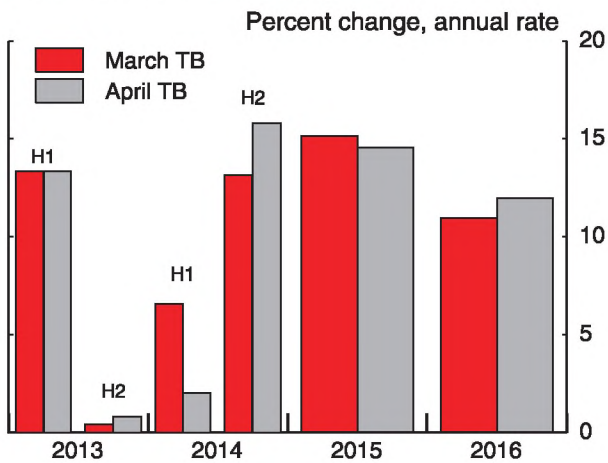


## Near-Term Projection

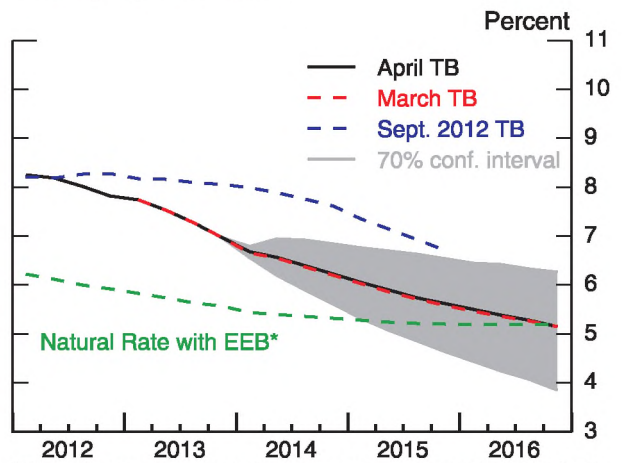
(Percent change at annual rate, except as noted)

|                          | 2013  |       | 2014  |       |
|--------------------------|-------|-------|-------|-------|
|                          | Q4    | Q1    | Q2    | H2    |
| 1. Real GDP              | 2.6   | 0.7   | 3.5   | 3.5   |
| 2. <i>March TB</i>       | (2.2) | (1.5) | (3.5) | (3.4) |
| 3. Pvt. dom. fin. purch. | 3.2   | 2.3   | 4.0   | 4.7   |
| 4. <i>March TB</i>       | (2.5) | (2.5) | (4.2) | (4.4) |
| 5. Weather effect (pp.)  | .0    | -.3   | .4    | -.1   |

## Real Residential Investment

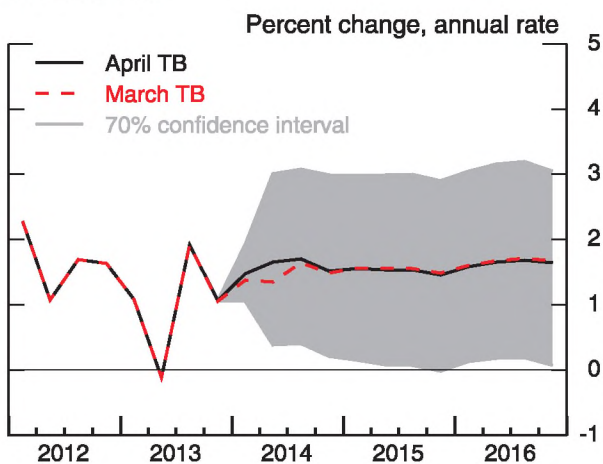


## Unemployment Rate

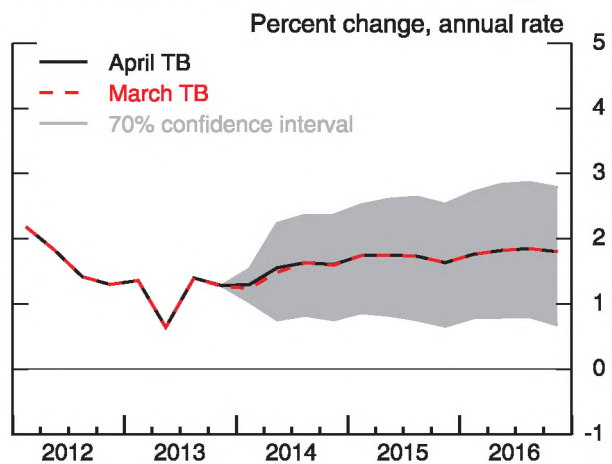


\*Effect of emergency unemployment compensation and state-federal extended benefit programs.

## PCE Prices



## PCE Prices Excluding Food and Energy



**Appendix 4: Materials used by Mr. Covitz**



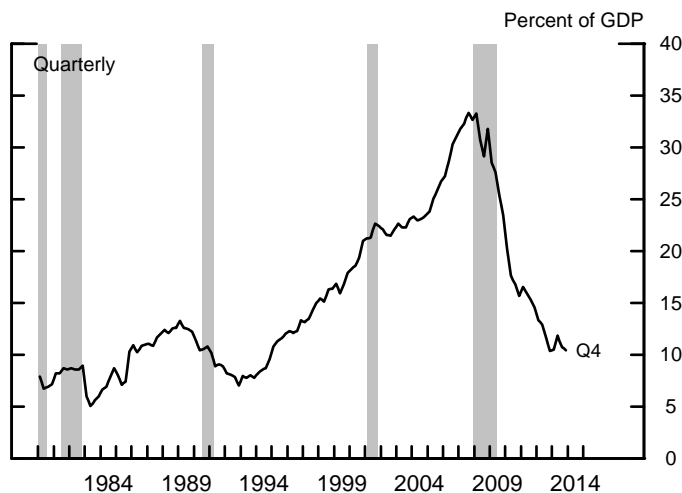
**Class II FOMC – Restricted (FR)**

*Material for*  
Financial Stability Assessment

**Dan Covitz**  
April 29, 2014

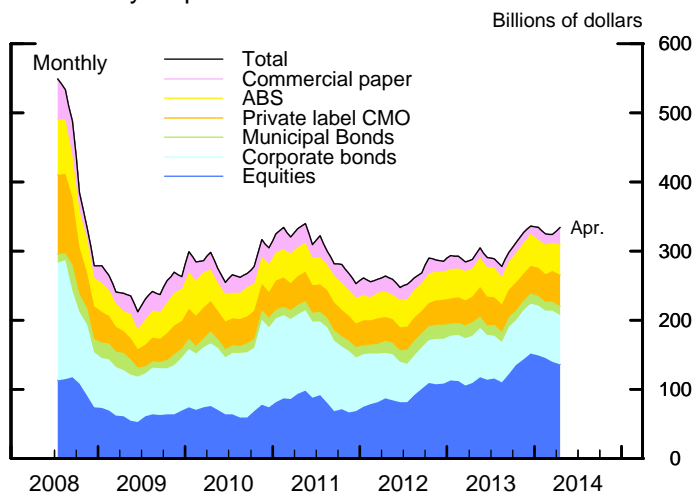
### Maturity Transformation and Leverage

#### 1. Net Short-Term Wholesale Debt of Financial Sector



Source: FOF and staff calculations.

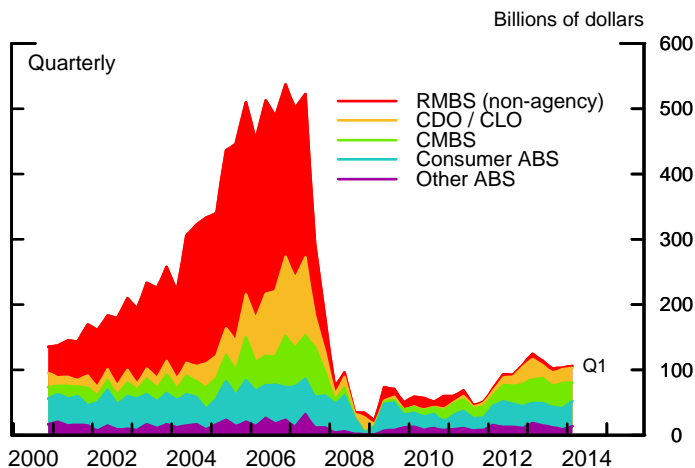
#### 2. Tri-Party Repo: Selected Securities



Note: Excludes repurchase agreements backed by Treasury and Agency securities.

Source: Federal Reserve Bank of New York

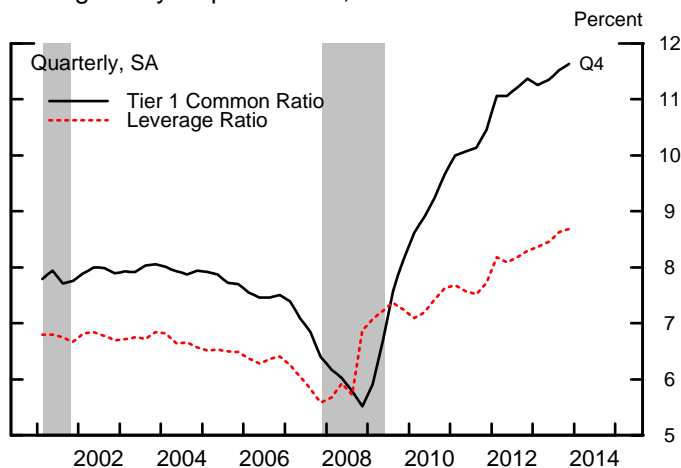
#### 3. US Securitization Issuance



Note: RMBS includes re-REMICs, first-lien RMBS, home equity ABS, and subprime mortgages. Consumer ABS includes securities backed by consumer, student, and auto loans. CDO/CLO includes both CDOs and CLOs pre-crisis but only CLOs post-crisis. The 'other' category includes securities backed by equipment and floorplan loans.

Source: Asset-Backed Alert, Commercial Mortgage Alert.

#### 4. Regulatory Capital Ratios, all BHCs

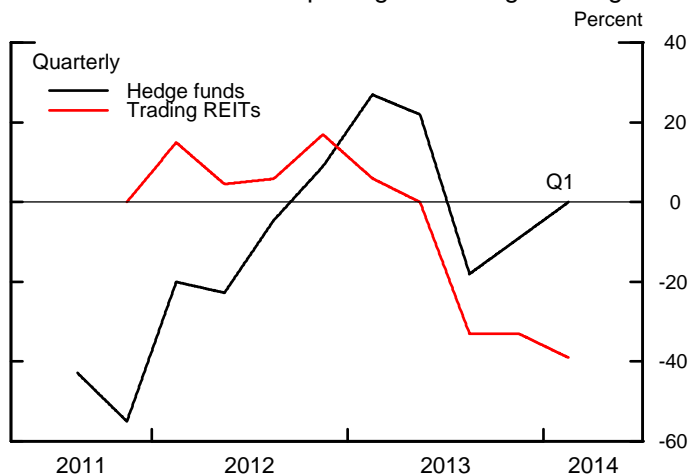


Source: FR Y-9C.

#### 5. Capital Ratios at Large BHCs

- Domestic systemically important BHCs met their minimum required Basel III Tier I capital ratios.
- Stress tests showed 30 largest BHCs projected to exceed minimum capital requirements under adverse scenario, which included large interest rate shock.
- All but one of the largest BHCs projected to exceed minimum capital requirements under severely adverse scenario.

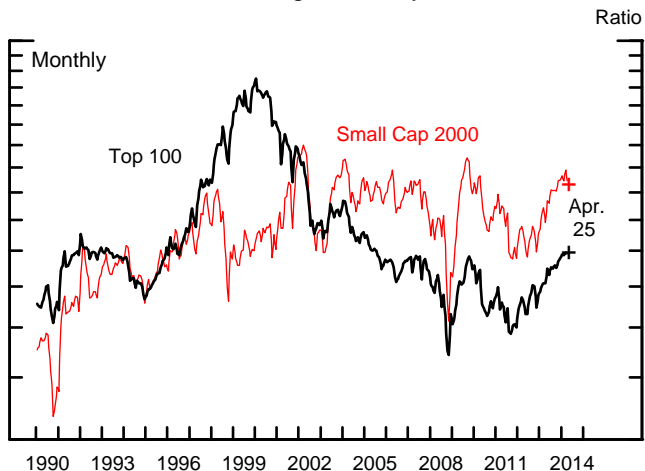
#### 6. Percent of SCOOS Reporting Increasing Leverage



Source: Senior Credit Officer Opinion Survey (SCOOS).

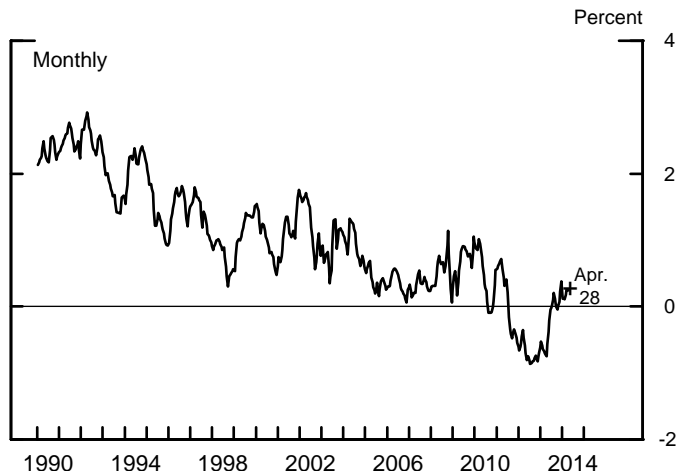
### Asset Valuation Pressures and Liquidity Risk

7. Forward Price-Earnings Ratio by Firm Size



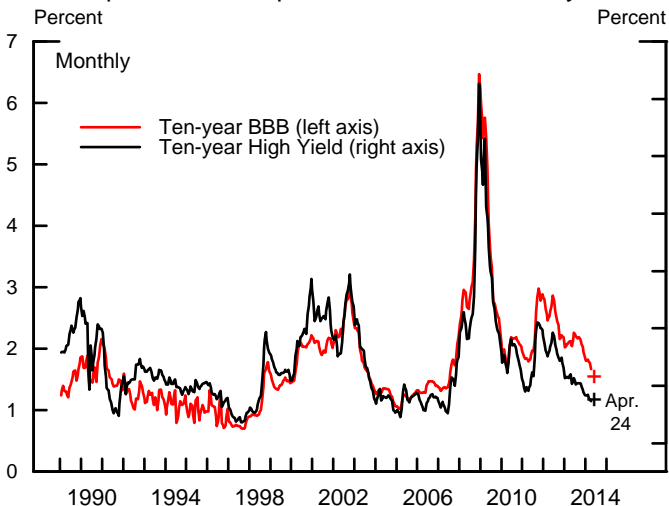
+ Denotes the latest daily observation.  
 Note: Based on expected earnings for twelve months ahead. Aggregate for top 100 S&P 500 firms and median for firms approximating Russell 2000.  
 Source: Thomson Financial.

8. Ten-Year Nominal Term Premium Estimates



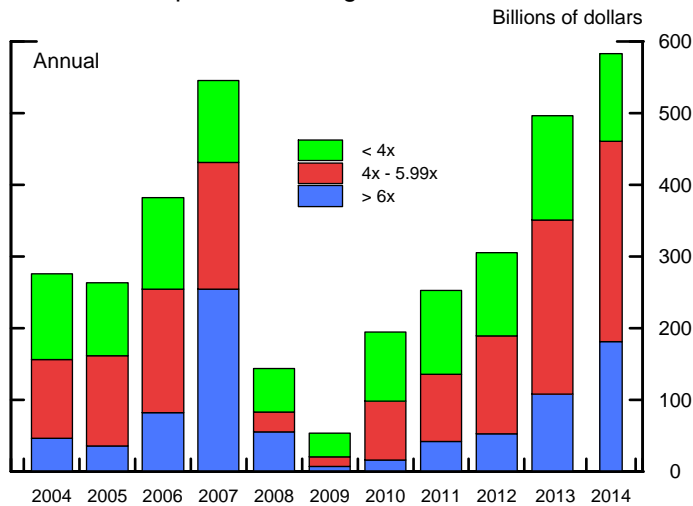
+ Denotes the latest daily observation.  
 Note: Estimated by a three-factor model combining Treasury yields with SPF interest rate forecasts.

9. Corporate Bond Spreads to Similar Maturity Treasury



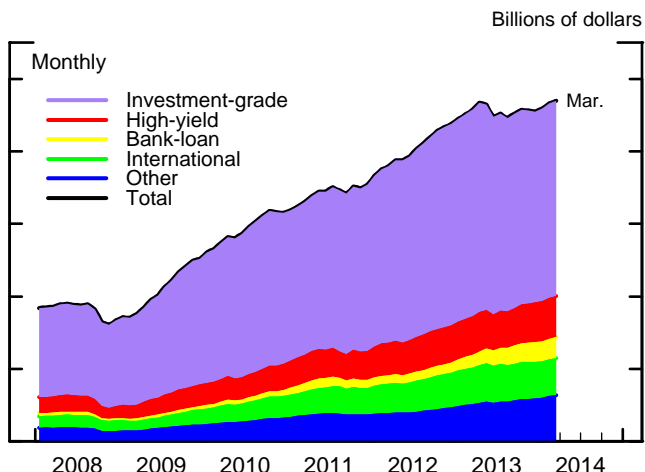
+ Denotes the latest daily observation.  
 Source: Estimated from curve fit to Merrill Lynch bond yields. Treasury yields from smoothed yield curve estimated from off-the-run securities.

10. Debt Multiples of Leveraged Loans



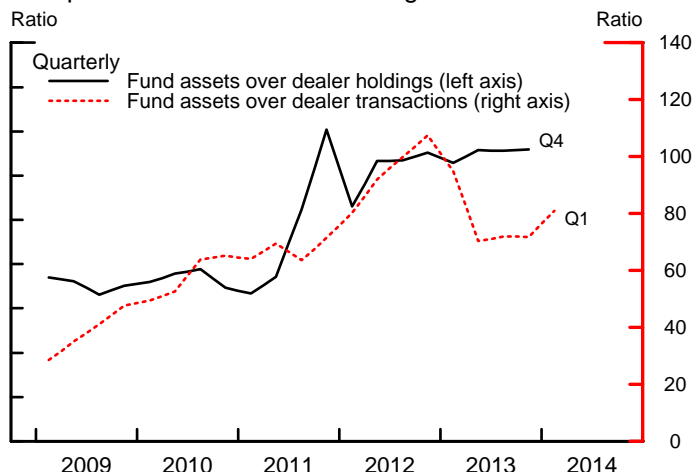
Note: 2014 is annualized Q1 data.  
 Source: S&P Capital IQ LCD.

11. Bond Mutual Funds: Total Assets



Note: Excludes government bond funds and tax-exempt funds.  
 Source: Morningstar.

12. U.S. Corporate Credit Mutual Fund & ETF Assets Compared to Dealer Bond Holdings and Transactions



Note: Corporate credit mutual funds include investment grade and high yield assets. Estimates of quarterly averages of daily dealer corporate debt transactions volumes are used.  
 Source: Flow of Funds, FR 2004, ICI.

**Liftoff Tantrum Simulation**

## 13. Discussion

- Term premiums rise by 120 basis points more than expected first half of 2015, and investment grade bond spreads widen by 70 basis points.
- Triggering event is pull-forward by investors of eventual tightening of conventional monetary policy and effects on the market values of fixed income portfolios.
- The effect on the unemployment rate peaks at three-tenths in 2016 and moderates to two-tenths by 2018, while effect on GDP peaks at 80 basis points and also ebbs a bit.
- However, pockets of vulnerabilities could be more disruptive. Corporate bond market could become highly illiquid. Such an event would be more consequential, although effects mitigated by moderate leverage and by subdued amounts of assets funded with short-term debt.

**Appendix 5: Materials used by Mr. Wascher**

**Real Gross Domestic Product and Related Items**  
 (Percent change from previous period at a compound annual rate;  
 based on seasonally adjusted data, chain-type quantity indexes)

| Item   | 2013:Q3<br>Third | 2013:Q4<br>Third | 2014:Q1<br>Advance |
|--|------------------|------------------|--------------------|
| Gross Domestic Product                         | 4.1              | 2.6              | .1                 |
| Final sales                                    | 2.5              | 2.7              | .7                 |
| Consumer spending                              | 2.0              | 3.3              | 3.0                |
| Goods  | 4.5              | 2.9              | .4                 |
| Durables                                       | 7.9              | 2.8              | .8                 |
| Nondurables                                    | 2.9              | 2.9              | .1                 |
| Services                                       | .7               | 3.5              | 4.4                |
| Nonresidential private fixed investment        | 4.8              | 5.7              | -2.1               |
| Nonresidential structures                      | 13.4             | -1.8             | .2                 |
| Equipment                                      | .2               | 10.9             | -5.5               |
| Intellectual property products                 | 5.8              | 4.0              | 1.5                |
| Residential investment                         | 10.3             | -7.9             | -5.7               |
| Federal government                             | -1.5             | -12.8            | .7                 |
| State and local government                     | 1.7              | .0               | -1.3               |
| Exports of goods and services                  | 3.9              | 9.5              | -7.6               |
| Imports of goods and services                  | 2.4              | 1.5              | -1.4               |
| <i>ADDENDA:</i>                                |                  |                  |                    |
| Inventory investment <sup>1</sup>              | 115.7            | 111.7            | 87.4               |
| Net exports of goods and services <sup>1</sup> | -419.8           | -382.8           | -414.4             |
| Nominal GDP                                    | 6.2              | 4.2              | 1.4                |
| Real GDI                                       | 1.8              | 2.7              | n.a.               |
| Statistical discrepancy <sup>2</sup>           | -91.7            | -94.7            | n.a.               |
| Change in economic profits <sup>2</sup>        | 39.1             | 47.1             | n.a.               |
| Profit share <sup>3</sup>                      | 12.4             | 12.5             | n.a.               |
| Real disposable personal income                | 3.0              | .8               | 1.9                |
| Personal saving rate (percent)                 | 4.9              | 4.3              | 4.1                |

1. Level, billions of chained (2009) dollars.

2. Billions of dollars.

3. Economic profits as a share of GNP.

n.a. not available.

Source: Bureau of Economic Analysis.

**Price Indexes for Gross Domestic Product**  
(Based on seasonally adjusted data, chain-type indexes)

| Item   | 2013:Q3 | 2013:Q4 | 2014:Q1 |
|--|---------|---------|---------|
|  | Third   | Third   | Advance |
| Gross domestic product                             | 2.0     | 1.6     | 1.3     |
| Gross domestic purchases                           | 1.8     | 1.5     | 1.4     |
| Personal consumption expenditures                  | 1.9     | 1.1     | 1.4     |
| Food and Beverages                                 | 1.2     | .1      | 1.4     |
| Energy   | 11.8    | -1.0    | 4.1     |
| Excluding food and energy                          | 1.4     | 1.3     | 1.3     |
| Market-based components                            | 1.4     | 1.0     | 1.0     |
| Nonresidential private fixed investment            | 1.2     | 1.2     | 1.2     |
| Equipment  | .3      | .0      | .9      |
| Computers and peripheral equipment                 | -.7     | -1.4    | -.4     |
| Intellectual property products                     | 1.0     | .9      | 1.0     |
| Nonresidential structures                          | 3.1     | 4.3     | 2.2     |
| Residential investment                             | 5.2     | 7.6     | 8.3     |
| Government consumption expenditures and investment | 1.6     | 3.0     | .6      |
| Exports of goods and services                      | 1.0     | .5      | 2.6     |
| Imports of goods and services                      | .2      | .2      | 3.0     |
| Nonpetroleum goods                                 | -3.8    | 1.0     | 3.8     |
| <i>ADDENDA:</i>                                    |         |         |         |
| GDP less food and energy                           | 1.9     | 1.9     | 1.3     |
| Gross domestic purchases less food and energy      | 1.5     | 1.8     | 1.4     |

NOTE: Percent change from previous period at compound annual rates  
Source: Bureau of Economic Analysis.

**Appendix 6: Materials used by Mr. English**



**Class I FOMC – Restricted Controlled (FR)**

*Material for*

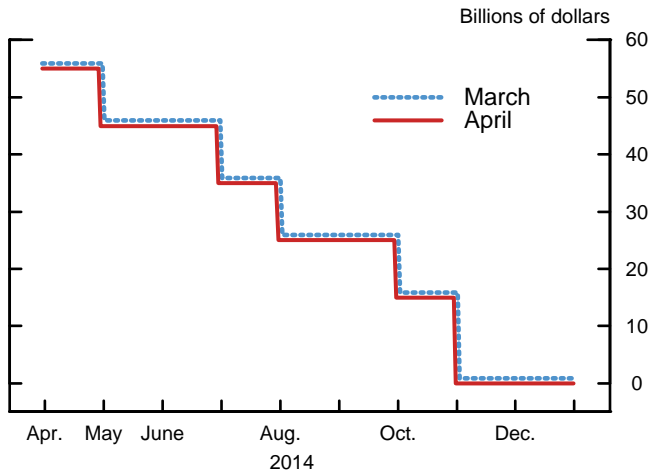
**Briefing on Monetary Policy Alternatives**

**Bill English**

**April 29-30, 2014**

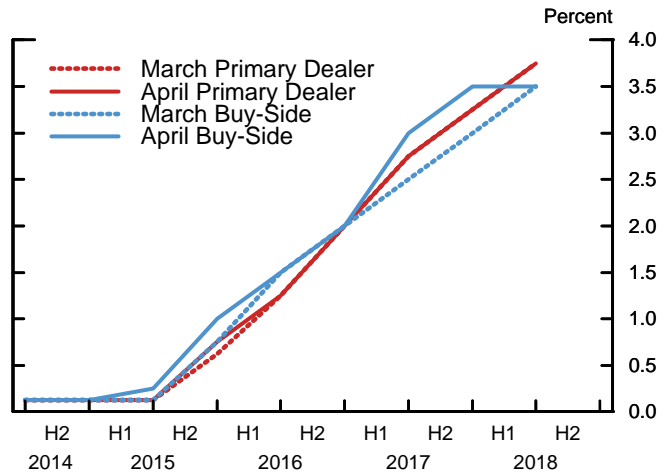
### Market Expectations and Policy Issues

Median Dealer Purchase Expectations



Source: April 2014 Primary Dealer Survey.

Median Expected Path of the Federal Funds Rate

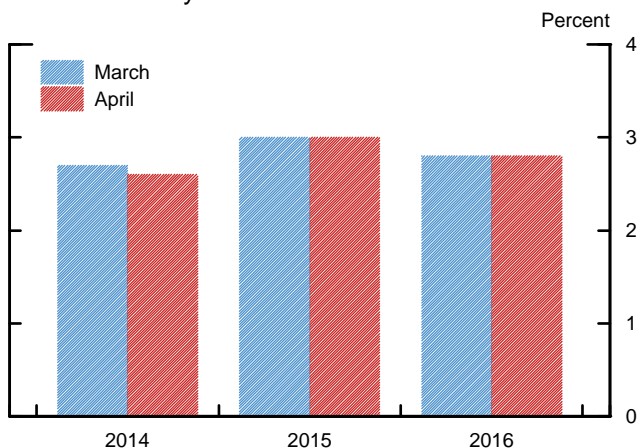


Source: April 2014 Primary Dealer and Buy-Side Surveys.

### Forward Guidance and the Path for Policy

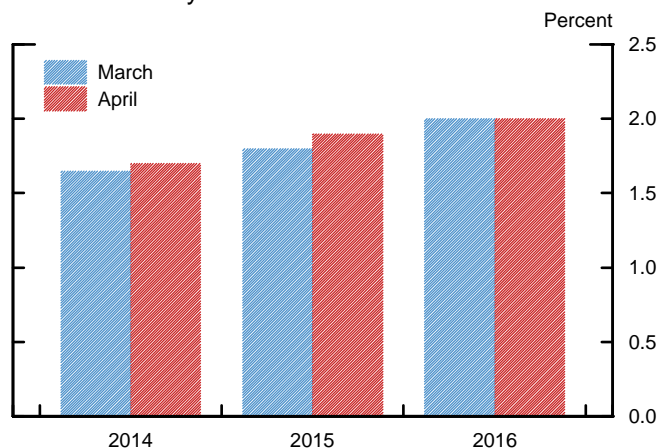
- Relatively small changes to the policy outlook suggest market participants did not see the new forward guidance as indicating a change in the Committee’s policy intentions.
- Survey respondents remain fairly uncertain about timing of liftoff, as well as the level of the federal funds rate at the end of 2015.
  - Consistent with sizeable odds of either slower or quicker adjustment in rates, depending on economic developments.

Median Primary Dealer Real GDP Forecast



Note: Figures represent the percent change from the fourth quarter of the previous year to the fourth quarter of the year indicated.  
Source: April 2014 Primary Dealer Survey.

Median Primary Dealer Total PCE Inflation Forecast



Note: Figures represent the percent change from the fourth quarter of the previous year to the fourth quarter of the year indicated.  
Source: April 2014 Primary Dealer Survey.

---

## MARCH FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in January indicates that growth in economic activity slowed during the winter months, in part reflecting adverse weather conditions. Labor market indicators were mixed but on balance showed further improvement. The unemployment rate, however, remains elevated. Household spending and business fixed investment continued to advance, while the recovery in the housing sector remained slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace and labor market conditions will continue to improve gradually, moving toward those the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.
3. The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in April, the Committee will add to its holdings of agency mortgage-backed securities at a pace of \$25 billion per month rather than \$30 billion per month, and will add to its holdings of longer-term Treasury securities at a pace of \$30 billion per month rather than \$35 billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings. However, asset purchases are not on a

---

preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to ¼ percent target range for the federal funds rate, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.
6. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.
7. With the unemployment rate nearing 6½ percent, the Committee has updated its forward guidance. The change in the Committee's guidance does not indicate any change in the Committee's policy intentions as set forth in its recent statements.

---

**FOMC STATEMENT—APRIL 2014 ALTERNATIVE A**

1. Information received since the Federal Open Market Committee met in ~~January~~ **March** indicates that growth in economic activity slowed **sharply** during the winter ~~months~~, in part reflecting adverse weather conditions, **but suggests that it is picking up**. Labor market indicators were mixed but on balance showed further improvement. The unemployment rate, however, remains elevated. Household spending ~~and business fixed investment~~ continued to advance, **but business fixed investment edged down**, while the recovery in the housing sector remained slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation ~~has been running~~ **continues to run well** below the Committee's longer-run objective, ~~but~~ **even though** longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace and labor market conditions will continue to improve gradually, moving toward those the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as nearly balanced. The Committee **anticipates that inflation will gradually return to 2 percent. However, it** recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.
3. The Committee ~~currently judges~~ **has become somewhat less confident** that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions **and to return inflation to 2 percent over the medium run**. ~~In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in April~~ **For this reason**, the Committee **decided to maintain the current pace of its asset purchases and await additional information bearing on the outlook for economic activity, the labor market, and inflation. The Committee** will **continue to** add to its holdings of agency mortgage-backed securities at a pace of \$25 billion per month ~~rather than \$30 billion per month~~, and will add to its holdings of longer-term Treasury securities at a pace of \$30 billion per month ~~rather than \$35 billion per month~~. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.

- 
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases in ~~further~~ measured steps at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.
  5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to ¼ percent target range for the federal funds rate, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee ~~continues to~~ anticipates, based on its assessment of these factors, that it ~~likely~~ will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and **at least as long as inflation between one and two years ahead is projected to be below 2 percent**, provided that longer-term inflation expectations remain well anchored.
  6. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.
  7. ~~With the unemployment rate nearing 6½ percent, the Committee has updated its forward guidance. The change in the Committee's guidance does not indicate any change in the Committee's policy intentions as set forth in its recent statements.~~

---

**FOMC STATEMENT—APRIL 2014 ALTERNATIVE B**

1. Information received since the Federal Open Market Committee met in ~~January~~ **March** indicates that growth in economic activity **has picked up recently, after having** slowed **sharply** during the winter months, in part ~~reflecting~~ **because of** adverse weather conditions. Labor market indicators were mixed but on balance showed further improvement. The unemployment rate, however, remains elevated. Household spending **appears to be rising more quickly.** ~~and~~ Business fixed investment ~~continued~~ **continues** to advance **edged down**, while the recovery in the housing sector ~~remained~~ **remains** **remained** slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace and labor market conditions will continue to improve gradually, moving toward those the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully for evidence that inflation will move back toward its objective over the medium term.
3. The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in ~~April~~ **May**, the Committee will add to its holdings of agency mortgage-backed securities at a pace of ~~\$25~~ **\$20** billion per month rather than ~~\$30~~ **\$25** billion per month, and will add to its holdings of longer-term Treasury securities at a pace of ~~\$30~~ **\$25** billion per month rather than ~~\$35~~ **\$30** billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward

---

its longer-run objective, the Committee will likely reduce the pace of asset purchases in further measured steps at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to ¼ percent target range for the federal funds rate, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.
6. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.
7. ~~With the unemployment rate nearing 6½ percent, the Committee has updated its forward guidance. The change in the Committee's guidance does not indicate any change in the Committee's policy intentions as set forth in its recent statements.~~



---

**FOMC STATEMENT—APRIL 2014 ALTERNATIVE C**

1. Information received since the Federal Open Market Committee met in ~~January~~ **March** indicates that growth in economic activity ~~slowed during the winter months, in part reflecting adverse weather conditions~~ **is picking up as the effects of unusually severe winter weather and other transitory factors fade**. Labor market indicators ~~were mixed but on balance~~ showed further improvement **with payroll employment expanding at a solid pace**. The unemployment rate, however, remains elevated. Household spending **appears to be rising more quickly**, and Business fixed investment ~~continued~~ **continues** to advance **edged down**, while the recovery in the housing sector ~~remained~~ **remains** **remained** slow. Fiscal policy is restraining economic growth, although the extent of restraint is diminishing. Inflation has been running below the Committee's longer-run objective, but longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee expects that, with appropriate policy accommodation, economic activity will expand at a moderate pace and labor market conditions will continue to improve gradually, moving toward those the Committee judges consistent with its dual mandate. The Committee sees the risks to the outlook for the economy and the labor market as nearly balanced. The Committee recognizes that inflation persistently below its 2 percent objective could pose risks to economic performance, and it is monitoring inflation developments carefully ~~for evidence;~~ **however, the Committee continues to anticipate** that inflation will move back toward its objective over the medium term.
3. The Committee currently judges that there is sufficient underlying strength in the broader economy to support ongoing improvement in labor market conditions. In light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions since the inception of the current asset purchase program, the Committee decided to make a further measured reduction in the pace of its asset purchases. Beginning in ~~April~~ **May**, the Committee will add to its holdings of agency mortgage-backed securities at a pace of ~~\$25~~ **\$15** billion per month rather than ~~\$30~~ **\$25** billion per month, and will add to its holdings of longer-term Treasury securities at a pace of ~~\$30~~ **\$20** billion per month rather than ~~\$35~~ **\$30** billion per month. The Committee is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee's sizable and still-increasing holdings of longer-term securities should maintain downward pressure on longer-term interest rates, support mortgage markets, and help to make broader financial conditions more accommodative, which in turn should promote a stronger economic recovery and help to ensure that inflation, over time, is at the rate most consistent with the Committee's dual mandate.
4. The Committee will closely monitor incoming information on economic and financial developments in coming months and will continue its purchases of Treasury and agency mortgage-backed securities, and employ its other policy tools as appropriate, until the outlook for the labor market has improved substantially in a context of price

---

stability. If incoming information broadly supports the Committee's expectation of ongoing improvement in labor market conditions and inflation moving back toward its longer-run objective, the Committee will likely reduce the pace of asset purchases ~~in further measured steps~~ at future meetings. However, asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

5. To support continued progress toward maximum employment and price stability, the Committee today reaffirmed its view that a highly accommodative stance of monetary policy remains appropriate. In determining how long to maintain the current 0 to ¼ percent target range for the federal funds rate, the Committee will assess progress—both realized and expected—toward its objectives of maximum employment and 2 percent inflation. This assessment will take into account a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial developments. The Committee continues to anticipate, based on its assessment of these factors, that it likely will be appropriate to maintain the current target range for the federal funds rate for a considerable time after the asset purchase program ends, especially if projected inflation continues to run below the Committee's 2 percent longer-run goal, and provided that longer-term inflation expectations remain well anchored.
6. When the Committee decides to begin to remove policy accommodation, it will take a balanced approach consistent with its longer-run goals of maximum employment and inflation of 2 percent. The Committee currently anticipates that, even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run.
7. ~~With the unemployment rate nearing 6½ percent, the Committee has updated its forward guidance. The change in the Committee's guidance does not indicate any change in the Committee's policy intentions as set forth in its recent statements.~~

**March 2014 Directive**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. Beginning in April, the Desk is directed to purchase longer-term Treasury securities at a pace of about \$30 billion per month and to purchase agency mortgage-backed securities at a pace of about \$25 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

---

**Directive for April 2014 Alternative A**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. ~~Beginning in April,~~ The Desk is directed to ~~purchase~~ **continue purchasing** longer-term Treasury securities at a pace of about \$30 billion per month and to ~~purchase~~ **continue purchasing** agency mortgage-backed securities at a pace of about \$25 billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

---

**Directive for April 2014 Alternative B**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. Beginning in ~~April~~ **May**, the Desk is directed to purchase longer-term Treasury securities at a pace of about ~~\$30~~ **\$25** billion per month and to purchase agency mortgage-backed securities at a pace of about ~~\$25~~ **\$20** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

---

**Directive for April 2014 Alternative C**

Consistent with its statutory mandate, the Federal Open Market Committee seeks monetary and financial conditions that will foster maximum employment and price stability. In particular, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to undertake open market operations as necessary to maintain such conditions. Beginning in ~~April~~ **May**, the Desk is directed to purchase longer-term Treasury securities at a pace of about ~~\$30~~ **\$20** billion per month and to purchase agency mortgage-backed securities at a pace of about ~~\$25~~ **\$15** billion per month. The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions. The Committee directs the Desk to maintain its policy of rolling over maturing Treasury securities into new issues and its policy of reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.