

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
DIVISION OF MONETARY AFFAIRS
FOMC SECRETARIAT

Date: January 16, 2015
To: Governors and Reserve Bank Presidents
From: Matthew M. Luecke
Subject: Liftoff Discussions at Upcoming FOMC Meeting

Two discussions of liftoff-related topics are planned for the upcoming FOMC meeting: The first one will be focused on policy tools and possible liftoff options, and the second will be focused on the timing of liftoff and the pace of tightening. Each discussion will have a staff briefing, questions for participants to address (attached), and a full go-round. Below are descriptions and lists of the eight memos, in two groups, that will support these discussions. The listed memos are attached to this cover with the exception of memo 2, which will be distributed next week.

Liftoff tools and possible liftoff options: The first group of memos (titles listed below) provides background information for the Committee's discussion of policy tools and possible liftoff options. The first memo in this group discusses options for the use of policy tools at the time of liftoff and related issues. Memo 2 focuses on the experience and lessons learned from the testing of overnight and term RRP operations around the year-end. Memo 3 provides some background on a technical issue associated with the payment of interest on reserves that may be relevant around the time of liftoff.

Liftoff tools background memos:

1. Illustrative Approaches to Operationalize the FOMC's Policy Normalization Principles and Plans Around the Time of Liftoff
2. Assessment of Overnight and Term Reverse Repo Testing over Year End (will be distributed next week)
3. Technical Issues Associated with the Payment of Interest on Reserves

Timing of liftoff and the pace of tightening: The second group comprises five memos (titles listed below) that provide background information for the Committee's discussion of the timing of liftoff and the pace of tightening. The first memo in this group (memo 4) discusses a broad range of policy issues that the Committee may wish to consider in its decisions regarding the timing and pace of policy firming. Memo 5 reviews the key factors that U.S. policymakers focused on in advance of previous episodes of policy tightening. Memo 6 describes the experience of foreign central banks with increasing rates after sustained periods at a very low level. Memo 7 examines the macroeconomic implications of alternative strategies for the timing of liftoff and pace of policy firming based on stochastic simulations of the FRB/US model. Finally, memo 8 provides and discusses options for evolving FOMC statement language leading up to and including the first increase in the target range for the federal funds rate.

Liftoff timing background memos:

4. Issues Concerning the Timing and Pace of Policy Firming
5. FOMC Deliberations Prior to the Initial Tightening of Monetary Policy in 1994, 1999, and 2004
6. Foreign Experience with Liftoff from the Effective Lower Bound
7. Stochastic Implications of Alternative Strategies for the Beginning of Policy Normalization
8. Options for Evolving the Statement Language in Preparation for Liftoff

Questions for the Committee Discussion

Discussion of Policy Tools and Liftoff Options

1. How should greater ex-ante certainty of a smooth liftoff be balanced with concerns regarding the potential size of an ON RRP program or more aggressive use of other policy tools?
2. What are your general views of the options presented in the Illustrative Approaches memo (memo 1)?
 - a. Would a significant temporary increase in the ON RRP cap at the time of liftoff be desirable?
 - b. Would conducting term RRP's in size either in advance of liftoff or immediately thereafter be attractive?
 - c. Are other possible adjustments discussed in the memo attractive, such as narrowing the spread of IOER to the ON RRP rate, adjusting the IOER and ON RRP rates relative to the target range for the federal funds rate, or making use of term deposits?
3. Are there any other steps that you think should be taken to support a smooth liftoff?

Discussion of Liftoff Timing and the Pace of Policy Firming

1. How should the Committee, in its decisions about the path of the federal funds rate, weigh the risks of lifting off prematurely versus the risks of waiting too long to liftoff?
2. At your expected time of liftoff, what developments would you need to see in the data to be reasonably confident that inflation will move back toward the Committee's 2 percent longer-run objective over time? What information would undermine that confidence?
3. Do you think the suggestions for how the statement language might evolve in advance of liftoff that were included in the staff memo (memo 8) are useful for conveying the Committee's policy intentions? Do you have alternative suggestions?