

**DIVISION OF INTERNATIONAL FINANCE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Date: August 5, 2010
To: Federal Open Market Committee
From: Nathan Sheets and Steven Kamin
Subject: Foreign Experience with Monetary Policy Options

The two attached notes address the experience of the European Central Bank (ECB) and the Swiss National Bank (SNB) with monetary approaches that could be undertaken to provide additional stimulus to the economy. These notes complement the analysis in the package circulated by Bill English and Brian Sack.

One option the FOMC might consider would be the aggressive provision of term funding to the money market. The note titled “The ECB’s Use of Term Refinancing Operations” reviews the extension of volumes and maturities in ECB funding operations during the past several years and addresses its impact on interest rates and lending. The ECB’s term funding operations posed no noteworthy operational difficulties and appeared to help restore functionality to the money market during the global financial crisis. However, it is not clear that these operations significantly reduced longer-term interest rates or increased the flow of credit to the economy.

Another option would be to target an interest rate farther out on the yield curve. The note titled “The Swiss National Bank’s Three-month Libor Target” describes the SNB’s experience with targeting a term money market rate. The note finds that the SNB has been able to target three-month Swiss franc Libor about as well as the Federal Reserve has been able to target the federal funds rate. However, it finds no evidence that the SNB has been able to influence longer-term yields any more effectively than the Federal Reserve.

Attachments