

THE FEDERAL RESERVE SYSTEM

Date: January 10, 2020

To: Federal Open Market Committee

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Subject: Background Paper for Review of Monetary Policy Framework

Attached is the first of two memos, “Monetary Policy Strategies and Tools: Financial Stability Considerations,” that will serve as the basis for the staff presentations during the Committee’s special topic discussion at the upcoming meeting continuing the review of the monetary policy framework. The second memo, which discusses alternative concepts of inflation ranges and their use by foreign central banks, as well as suggested questions for discussion will be circulated closer to the upcoming FOMC meeting.

In choosing a monetary policy strategy and deciding on the appropriate use of its tools, the Committee will want to take account of any potential effects of its choices on the buildup of financial vulnerabilities. The attached memo examines potential interactions between financial stability and the monetary policy strategies and tools discussed in previous memos. The memo also considers the role for macroprudential policy and supervisory tools in pursuing financial stability goals and discusses the limitations of these tools. Additionally, it explores issues related to reflecting financial stability considerations in monetary policy communications.