# The Federal Reserve System

**Date:** January 17, 2020

**To:** Federal Open Market Committee

**From:** Dave Altig, Jeff Fuhrer, Marc Giannoni, and Thomas Laubach

**Subject:** Second Background Paper for Review of Monetary Policy Framework and Questions for Discussion

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Attached is the second of two memos, "Considerations Regarding Inflation Ranges," 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 first memo, "Monetary Policy Strategies and Tools: Financial Stability Considerations," was circulated to the Committee on January 10.

In communicating about its inflation objective, a question for the Committee is whether it would like to communicate only the value it considers to be most consistent with its mandate, or also a range in which it views that inflation is likely to fluctuate under appropriate policy, reflecting either intentional or unintentional deviations from the objective. The attached memo presents several notions of inflation ranges, examines their use by foreign central banks, and discusses communications issues associated with their use.

Following the staff presentations of the two memos and Q&A, there will be a full go-round. It would be helpful if, in your comments during that go-round, you could address the questions on the following page. As usual, following the regular financial stability briefing there will be an opportunity for comments on current financial stability issues unrelated to the framework review.

# Questions for Discussion of Framework Review at the January 2020 FOMC Meeting

1. Earlier memos examined the potential benefits of alternative monetary policy strategies and tools, without explicitly considering the effects that the use of such strategies and tools might have on financial vulnerabilities. How do you weigh the benefits of alternative monetary policy strategies and tools for achieving the Committee's objectives against the effects their use might have on financial vulnerabilities?

2. What do you see as the benefits and costs of various concepts of inflation target ranges? How should the Committee's communications balance the focus on its symmetric price stability objective of 2 percent annual PCE inflation against an acknowledgement that deviations of inflation from this objective are likely to occur, intentionally or unintentionally?