

## BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

---

**Date:** May 22, 2020

**To:** Federal Open Market Committee

**From:** Thomas Laubach and Stacey Tevlin

**Subject:** Memo on Macroeconomic Effects of Alternative Monetary Policies in Pandemic-Driven Recession Scenarios

---

As background for the discussion at the upcoming FOMC meeting, the attached memo—prepared by Hess Chung, David Miller, and Matthias Paustian (Division of Research and Statistics), and Etienne Gagnon, James Hebden, Edward Nelson, Bernd Schlesche, and James Trevino (Division of Monetary Affairs)—presents model simulations of additional monetary policy measures that the Committee might undertake in response to the recession caused by the pandemic.

The memo’s analysis focuses on threshold-based forward guidance and balance sheet policies of the kind used during the previous recession and its aftermath. It first summarizes both the staff’s baseline monetary policy assumptions and market expectations regarding further Committee policy actions. It then shows results that indicate that the aforementioned policy measures can help support the labor market recovery and return of inflation to 2 percent, and that prompt actions might help the economy face the disruptive consequences of a second wave of COVID-19 transmission. Because some of the model assumptions may not be valid in the current environment, the memo also discusses factors that might alter the potency of these policy actions, along with a number of considerations for the design of these programs. If you have any questions about the content of this memo, please do not hesitate to contact the authors of the memo directly or either of the two of us.

Next week, staff will distribute a second background memo for the June meeting on the foreign and historical experience with yield curve targeting.