

**Appendix 1: Materials used by Mr. Sack**

Material for

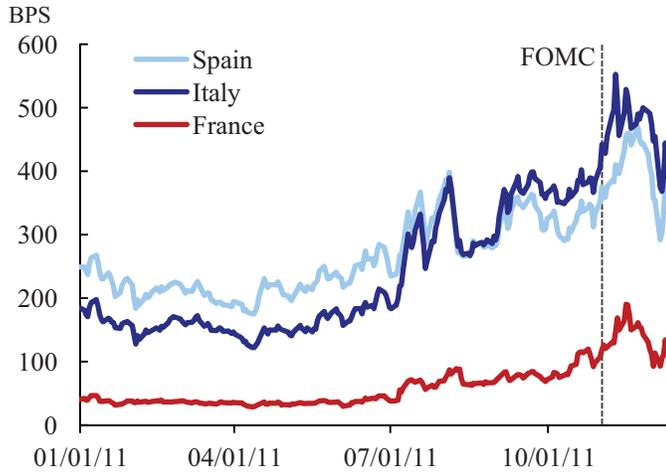
**FOMC Presentation:**

*Financial Market Developments and Desk Operations*

Brian Sack

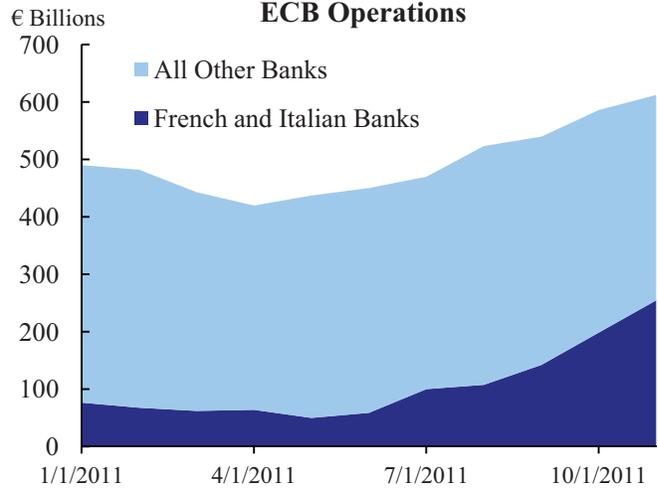
December 13, 2011

**(1) Euro Area Sovereign Debt Spreads\***



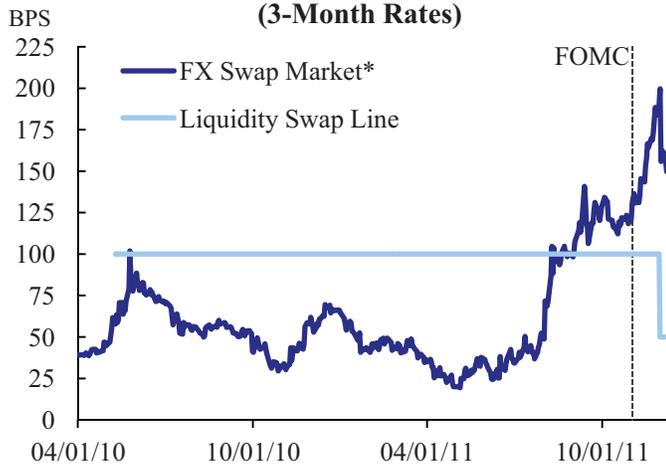
\*10 year spreads to Germany.  
Source: Bloomberg

**(2) Euro Liquidity Provided by ECB Operations**



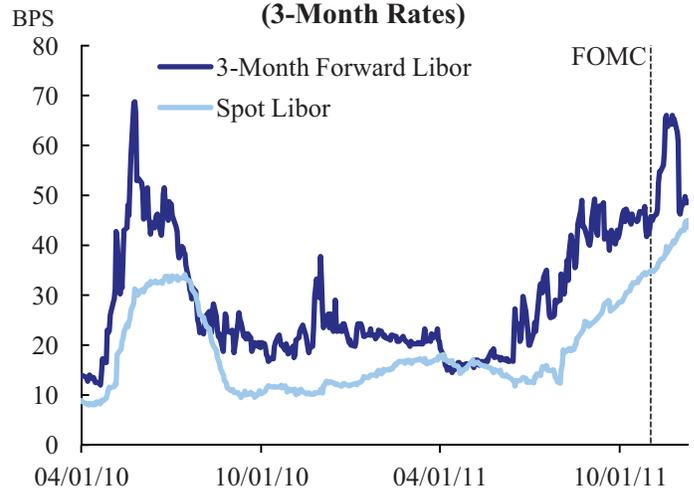
Source: ECB

**(3) Dollar Funding Spreads to OIS (3-Month Rates)**



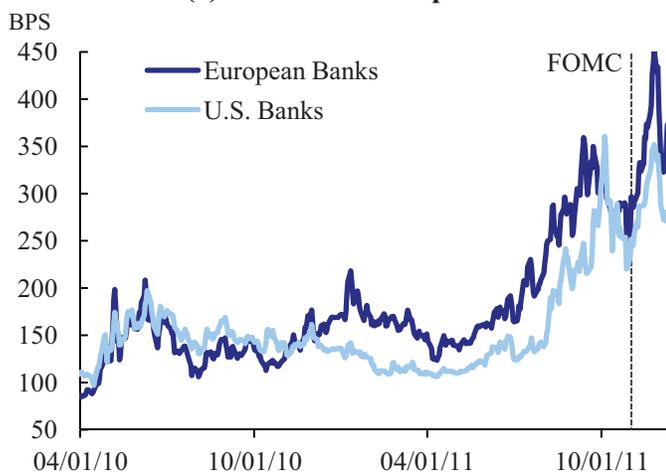
\*Euro Libor rate swapped to dollars.  
Source: Bloomberg, Federal Reserve Bank of New York

**(4) Dollar Funding Spreads to OIS (3-Month Rates)**



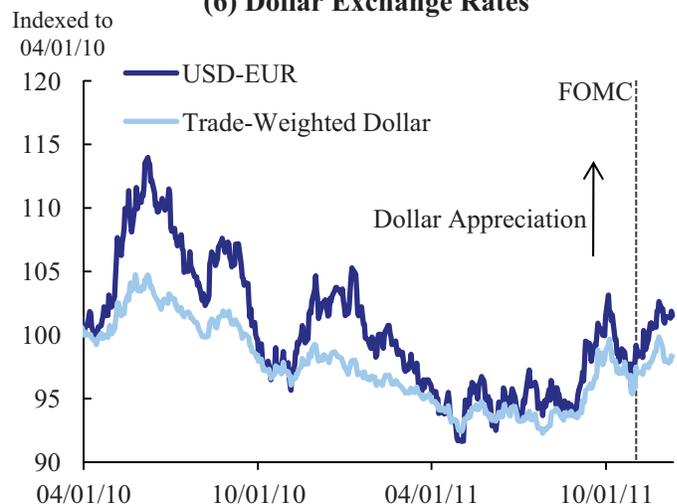
Source: Bloomberg

**(5) Financial CDS Spreads\***



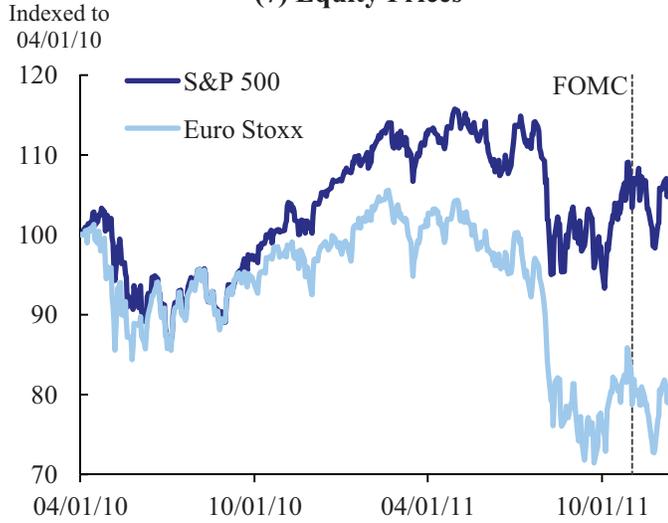
\*Averages of 5 year credit default swap spreads of major financial firms.  
Source: Bloomberg

**(6) Dollar Exchange Rates**



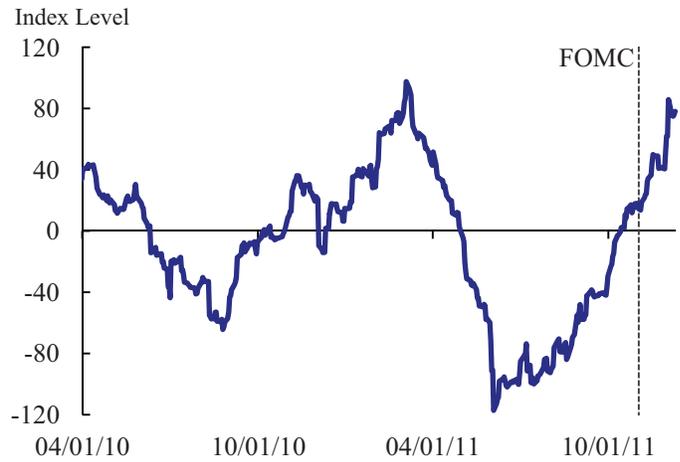
Source: Bloomberg, Federal Reserve Board of Governors

**(7) Equity Prices**



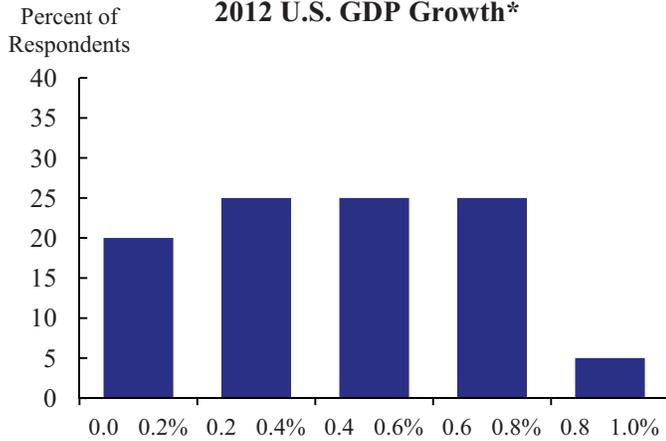
Source: Bloomberg

**(8) Economic News Index\***



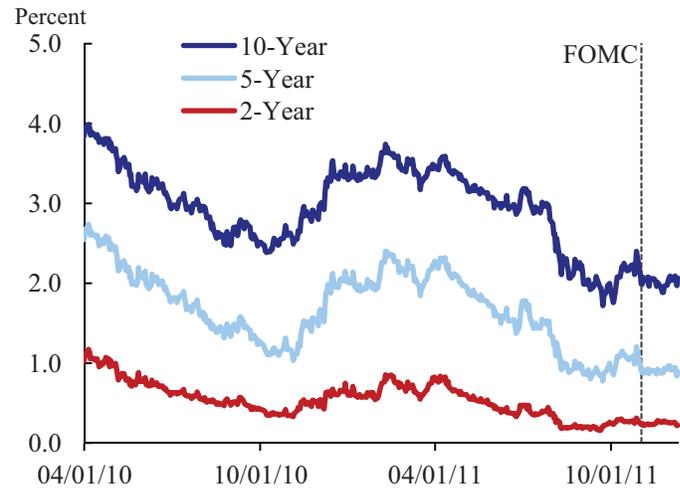
\*Positive readings correspond to stronger than expected economic releases.  
Source: Citigroup

**(9) Effects of European Stress on 2012 U.S. GDP Growth\***



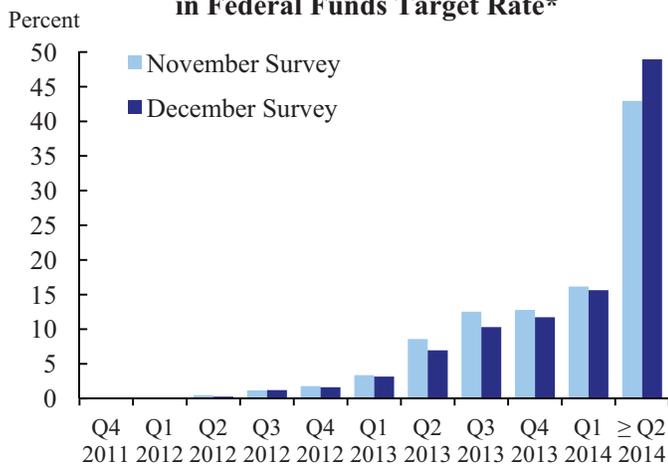
\*Hypothetical change in 2012 GDP forecast if there were a fully convincing resolution to European situation.  
Source: Federal Reserve Bank of New York Survey

**(10) Treasury Yields**



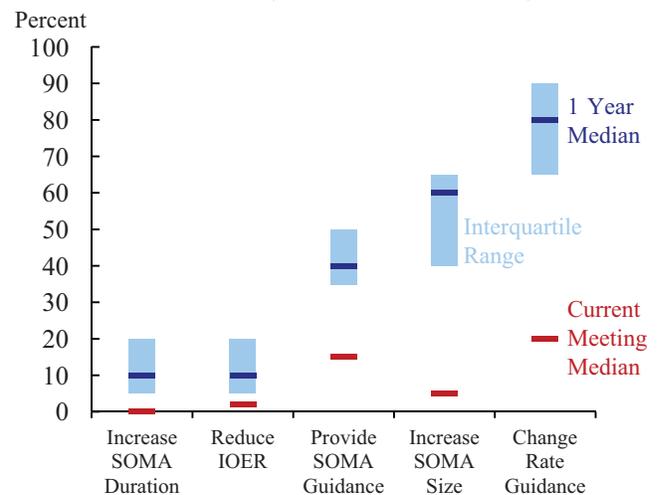
Source: Bloomberg

**(11) Probability Distribution of First Increase in Federal Funds Target Rate\***



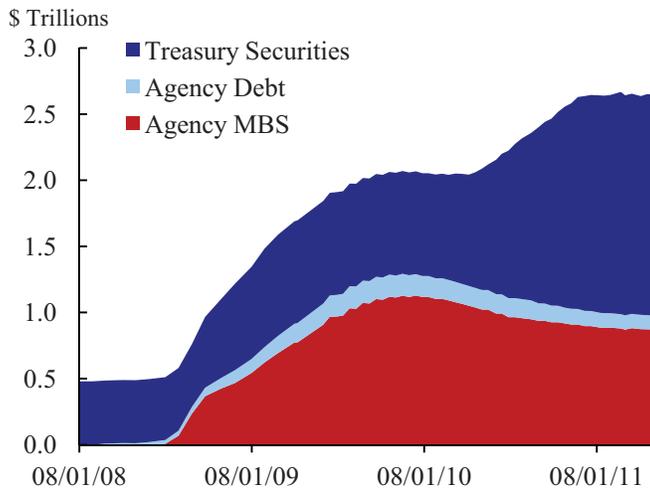
\*Average probabilities from dealer responses.  
Source: Federal Reserve Bank of New York Survey

**(12) Probability of Additional Policy Actions**



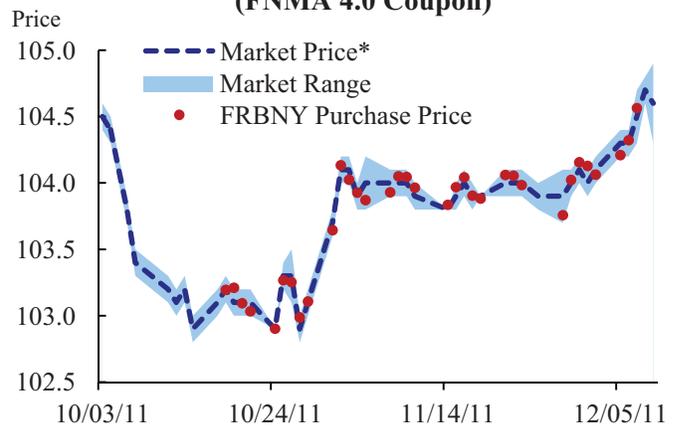
Source: Federal Reserve Bank of New York Survey

**(13) SOMA Portfolio Holdings**



Source: Federal Reserve Bank of New York

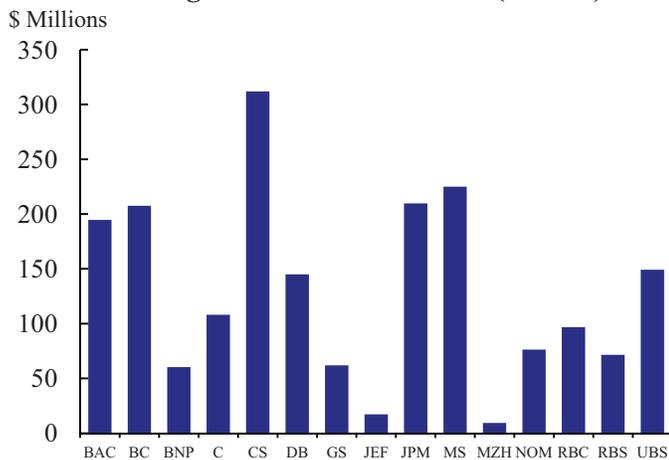
**(14) Transaction Prices for Purchasing MBS (FNMA 4.0 Coupon)**



\*Daily weighted average of prices reported through TRACE. Market range is one standard deviation band of those prices.

Source: FINRA, Federal Reserve Bank of New York

**(15) Balances in Primary Dealer Margin Accounts at FRBNY (12/9/11)**



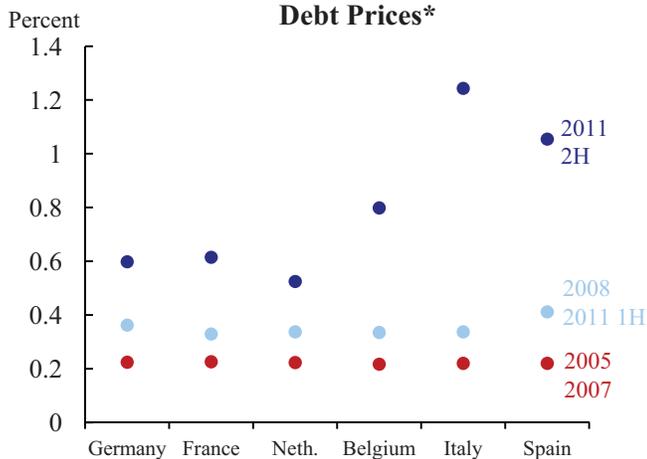
Source: Federal Reserve Bank of New York

**(16) Operations for Maturity Extension Program (Through 12/9/11)**

	Purchases	Sales
Par Amount (\$ Bil.)	107.5	100.1
Bid-to-Cover (Median)	3.3	7.8
Duration (Years)	10.2	1.6
10-Year Equivalents (\$ Bil.)	120.3	16.4

Source: Federal Reserve Bank of New York

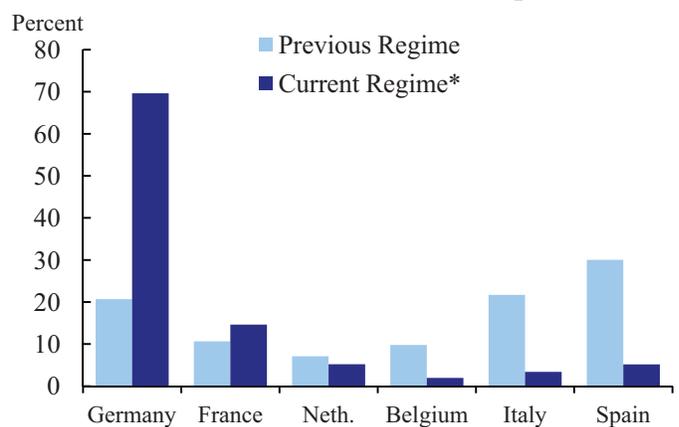
**(17) Volatility of Euro Area Sovereign Debt Prices\***



\*Standard deviations of daily price changes over given period.

Source: Bloomberg, Federal Reserve Bank of New York

**(18) Euro RRP Collateral Composition**



\*Previous regime is average over sample period 3/1/11 - 6/17/11. Current regime began on 10/28/11 and differentiates between six different collateral types. Intervening transitional regime not shown.

Source: Federal Reserve Bank of New York

**Appendix 2: Materials used by Mr. Wilcox**

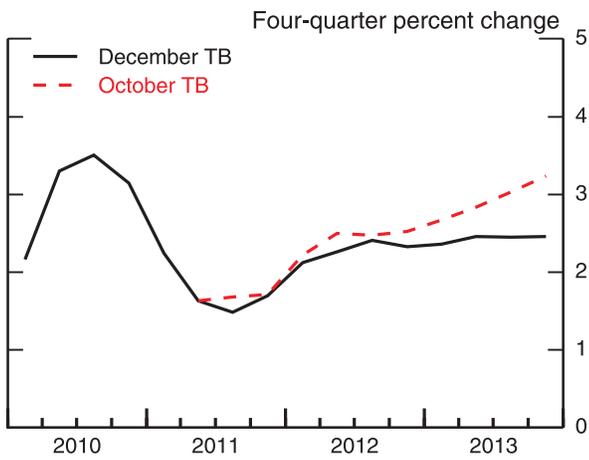
*Material for*  
**Forecast Summary**

**David Wilcox**  
**December 13, 2011**

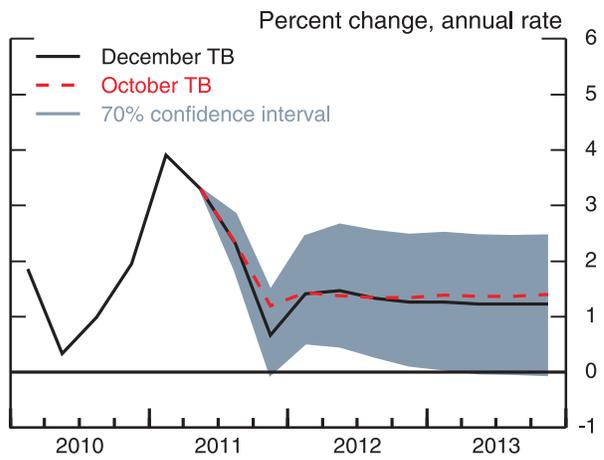
### Forecast Summary

Confidence Intervals Based on Tealbook Track Record

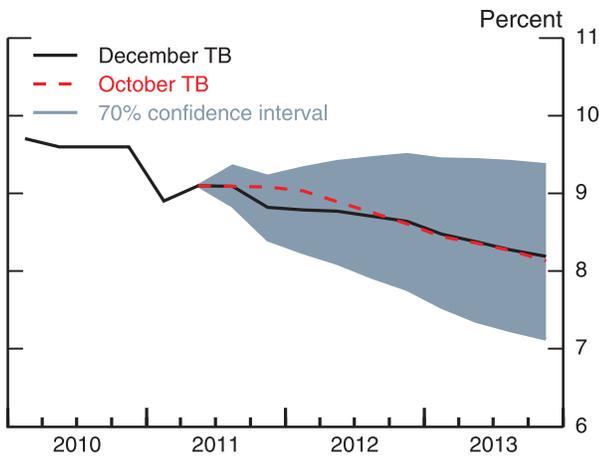
#### Real GDP



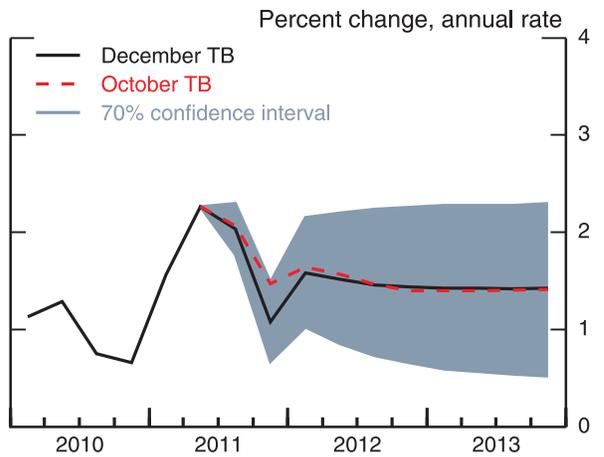
#### PCE Prices



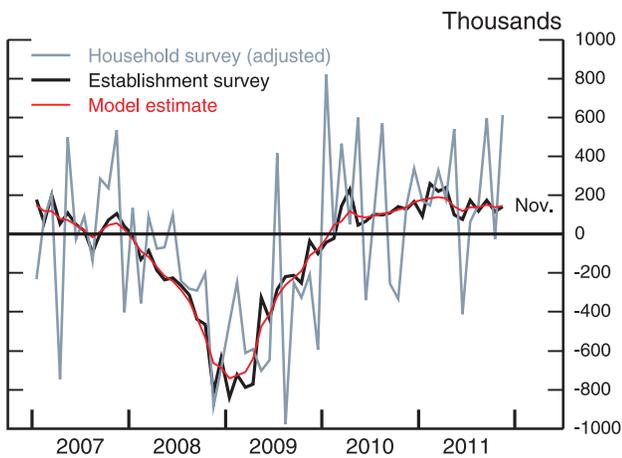
#### Unemployment Rate



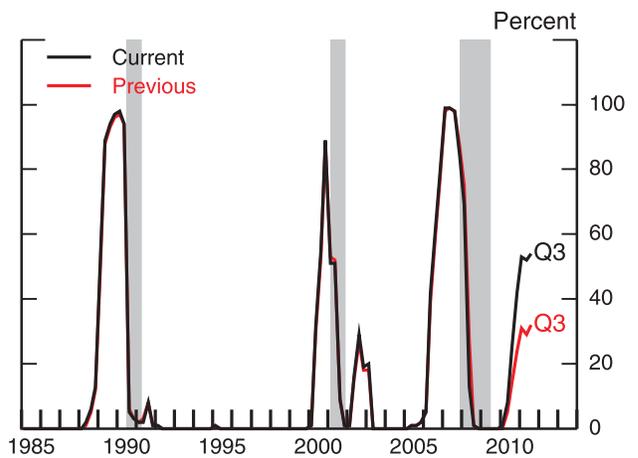
#### PCE Prices Excluding Food and Energy



#### Measures of Monthly Change in Private Payroll Employment



#### Estimated Stall Probability



**Appendix 3: Materials used by Mr. English**

*Material for*

**FOMC Briefing on Monetary Policy Alternatives**

**Bill English**  
**December 13, 2011**

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## NOVEMBER FOMC STATEMENT

1. Information received since the Federal Open Market Committee met in September indicates that economic growth strengthened somewhat in the third quarter, reflecting in part a reversal of the temporary factors that had weighed on growth earlier in the year. Nonetheless, recent indicators point to continuing weakness in overall labor market conditions, and the unemployment rate remains elevated. Household spending has increased at a somewhat faster pace in recent months. Business investment in equipment and software has continued to expand, but investment in nonresidential structures is still weak, and the housing sector remains depressed. Inflation appears to have moderated since earlier in the year as prices of energy and some commodities have declined from their peaks. Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.
5. The Committee will continue to assess the economic outlook in light of incoming information and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.

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**DECEMBER FOMC STATEMENT—ALTERNATIVE A**

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** indicates **suggests** that economic growth strengthened somewhat in the third quarter, reflecting in part a reversal of the temporary factors that had weighed on growth earlier in the year **the economy has been expanding modestly, while global growth appears to be slowing**. Nonetheless **Although** recent indicators point to continuing weakness **some improvement** in overall labor market conditions, and the unemployment rate remains elevated. Household spending has ~~increased at a somewhat faster pace in recent months.~~ **continued to advance, but** business **fixed** investment in equipment and software has continued to expand **appears to be increasing less rapidly** but investment in nonresidential structures is still weak, and the housing sector remains depressed. Inflation appears to have **has** moderated since earlier in the year, as prices of energy and some commodities have declined from their peaks. **and** longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~continues to expect~~ **s that, absent further policy action,** a moderate **the** pace of economic growth **would remain modest** over coming quarters and consequently anticipates that the unemployment rate will **would** decline only **very** gradually toward levels that the Committee judges to be consistent with its dual mandate. Moreover, ~~there are significant downside risks to the economic outlook, including strains in global financial markets.~~ the Committee also anticipates that inflation will **would** settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as the effects of past energy and other commodity price increases dissipate further. **Strains in global financial markets continue to pose significant downside risks to the economic outlook, and the risks to the outlook for inflation also appear to be tilted to the downside.** However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to **purchase a further \$500 billion of agency mortgage-backed securities by the end of December 2012.** **In addition, the Committee intends to** continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is **also** maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **These programs should put downward pressure on longer-term interest rates, provide support to mortgage markets, and help make broader financial conditions more accommodative.** The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.

OR

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- 3'. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to **undertake a program of purchases of agency mortgage-backed securities. The Committee has initially authorized purchases of agency mortgage-backed securities of \$40 billion per month, and will adjust this program as needed to foster its objectives of maximum employment and stable prices. In addition, the Committee will** continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is **also** maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. **These programs should put downward pressure on longer-term interest rates, provide support to mortgage markets, and help make broader financial conditions more accommodative.** The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent. ~~and currently~~ **The Committee now** anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant **this** exceptionally low ~~levels~~ **range** for the federal funds rate at least through ~~mid-2013~~ **the end of 2014**. **Specifically, given its anticipated path for monetary policy, the Committee currently projects that the unemployment rate will be roughly [ 7 ] percent and the inflation rate (as measured by the price index for personal consumption expenditures) will be around [ 2 ] percent at the end of 2014.**
5. The Committee will ~~continue to assess~~ **monitor** the economic outlook ~~in light of incoming information~~ **and financial developments** and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.

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**DECEMBER FOMC STATEMENT—ALTERNATIVE B**

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** indicates **suggests** that economic growth strengthened somewhat in the third quarter, reflecting in part a reversal of the temporary factors that had weighed on growth earlier in the year **the economy has been expanding moderately, notwithstanding some apparent slowing in global growth**. Nonetheless **While** recent indicators point to continuing weakness **some improvement** in overall labor market conditions, and the unemployment rate remains elevated. Household spending has ~~increased at a somewhat faster pace in recent months~~. **continued to advance, but** business **fixed** investment in equipment and software has continued to expand **appears to be increasing less rapidly** but investment in nonresidential structures is still weak, and the housing sector remains depressed. Inflation ~~appears to have~~ **has** moderated since earlier in the year, as prices of energy and some commodities ~~have declined from their peaks~~. **and** longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee continues to expect a moderate pace of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline only gradually toward levels that the Committee judges to be consistent with its dual mandate. ~~Moreover, there are~~ **Strains in global financial markets continue to pose** significant downside risks to the economic outlook, ~~including strains in global financial markets~~. The Committee also anticipates that inflation will settle, over coming quarters, at levels at or below those consistent with the Committee's dual mandate as ~~the effects of past energy and other commodity price increases dissipate further~~. However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To support a stronger economic recovery and to help ensure that inflation, over time, is at levels consistent with the dual mandate, the Committee decided today to continue its program to extend the average maturity of its holdings of securities as announced in September. The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and currently anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013.
5. The Committee will ~~continue to assess~~ **monitor** the economic outlook ~~in light of incoming information~~ **and financial developments** and is prepared to employ its tools to promote a stronger economic recovery in a context of price stability.

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**DECEMBER FOMC STATEMENT—ALTERNATIVE C**

1. Information received since the Federal Open Market Committee met in ~~September~~ **November** indicates **suggests** that **the pace of** economic growth **activity has** strengthened somewhat ~~in the third quarter, reflecting in part a reversal of the temporary factors that had weighed on growth earlier in the year.~~ Nonetheless, recent indicators point to continuing weakness in overall labor market conditions, and **Although** the unemployment rate remains elevated, **it has declined of late, and employment has continued to increase**. Household spending has increased at a somewhat faster pace in recent months **advanced further, and** business **fixed** investment in equipment and software has continued to expand, but investment in nonresidential structures is still weak, and the housing sector remains depressed. Inflation appears to have **has** moderated **only somewhat** since earlier in the year, **despite a decline in the** as prices of energy and some commodities ~~have declined from their peaks.~~ Longer-term inflation expectations have remained stable.
2. Consistent with its statutory mandate, the Committee seeks to foster maximum employment and price stability. The Committee ~~continues to expect~~ **some strengthening** of economic growth over coming quarters and consequently anticipates that the unemployment rate will decline ~~only~~ gradually toward levels that the Committee judges to be consistent with its dual mandate. ~~Moreover, there are significant downside risks to the economic outlook, including strains in global financial markets.~~ The Committee also anticipates that inflation will settle, over coming quarters, at levels at ~~or below those~~ consistent with the Committee's dual mandate ~~as the effects of past energy and other commodity price increases dissipate further.~~ However, the Committee will continue to pay close attention to the evolution of inflation and inflation expectations.
3. To support a stronger **the** economic recovery and to **while helping to** ensure that inflation, over time, is at **does not exceed** levels **that are** consistent with the dual mandate, the Committee decided today to ~~continue its~~ **reduce by half the size of the** program to extend the average maturity of its holdings of securities as **that it** announced in September. **In particular, the Committee intends to limit purchases and sales of securities under this program to \$200 billion each and to complete these operations by the end of March 2012.** The Committee is maintaining its existing policies of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. The Committee will regularly review the size and composition of its securities holdings and is prepared to adjust those holdings as appropriate.
4. The Committee also decided to keep the target range for the federal funds rate at 0 to ¼ percent and ~~currently~~ **now** anticipates that economic conditions—including low rates of resource utilization and a subdued outlook for inflation over the medium run—are likely to warrant exceptionally low levels for the federal funds rate at least through ~~mid-2013~~ **2012.**

5. The Committee will ~~continue to~~ assess the economic outlook in light of incoming information and is prepared to employ its tools **as appropriate** to promote a stronger economic recovery in a context of price stability **its objectives of maximum employment and stable prices.**

**November 2011 FOMC Directive**

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of \$400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of \$400 billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**December 2011 FOMC Directive — Alternative A**

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of \$400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of \$400 billion. **[ The Committee also directs the Desk to execute purchases of agency mortgage-backed securities in order to increase the total face value of domestic securities held in the System Open Market Account to approximately \$3.1 trillion by the end of December 2012. | The Committee also directs the Desk to execute purchases of agency mortgage-backed securities in order to increase the total face value of domestic securities held in the System Open Market Account by approximately \$40 billion per month. ]** The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities ~~in order to maintain the total face value of domestic securities at approximately \$2.6 trillion.~~ The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**December 2011 FOMC Directive — Alternative B**

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to  $\frac{1}{4}$  percent. The Committee directs the Desk to continue the maturity extension program it began in September to purchase, by the end of June 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of \$400 billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of \$400 billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

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**December 2011 FOMC Directive — Alternative C**

The Federal Open Market Committee seeks monetary and financial conditions that will foster price stability and promote sustainable growth in output. To further its long-run objectives, the Committee seeks conditions in reserve markets consistent with federal funds trading in a range from 0 to ¼ percent. The Committee directs the Desk to ~~continue~~ **modify** the maturity extension program it began in September **so as** to purchase, by the end of ~~June~~ **March** 2012, Treasury securities with remaining maturities of approximately 6 years to 30 years with a total face value of ~~\$400~~ **\$200** billion, and to sell Treasury securities with remaining maturities of 3 years or less with a total face value of ~~\$400~~ **\$200** billion. The Committee also directs the Desk to maintain its existing policies of rolling over maturing Treasury securities into new issues and of reinvesting principal payments on all agency debt and agency mortgage-backed securities in the System Open Market Account in agency mortgage-backed securities in order to maintain the total face value of domestic securities at approximately \$2.6 trillion. The Committee directs the Desk to engage in dollar roll transactions as necessary to facilitate settlement of the Federal Reserve's agency MBS transactions. The System Open Market Account Manager and the Secretary will keep the Committee informed of ongoing developments regarding the System's balance sheet that could affect the attainment over time of the Committee's objectives of maximum employment and price stability.

**Appendix 4: Materials used by Mr. Krane**

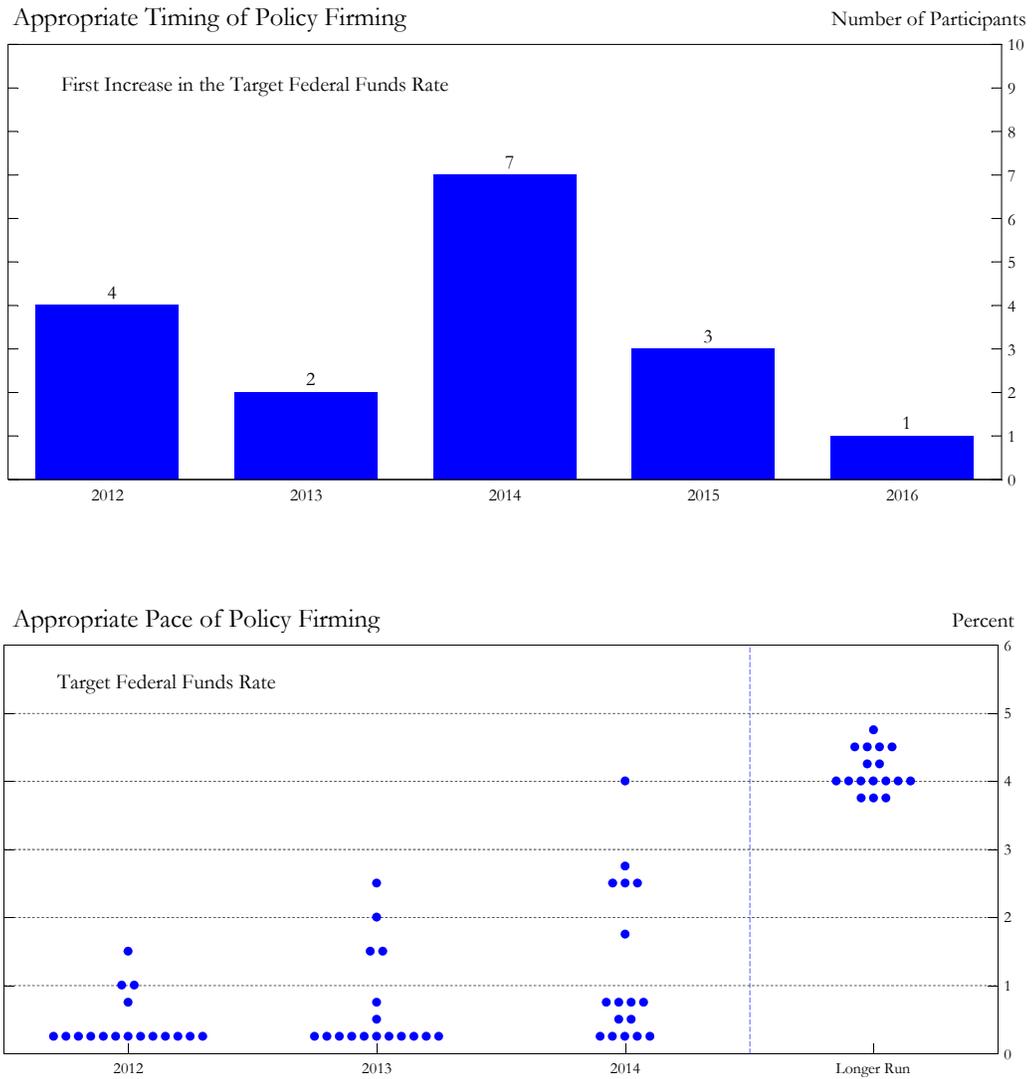
*Material for*

**FOMC Briefing on Communications Initiatives**

**Spencer Krane**

**December 13, 2011**

### Exhibit 1: Overview of FOMC Participants' Assessments of Appropriate Policy



NOTE: In the upper panel, the height of each bar denotes the number of FOMC participants who judge that, under appropriate policy and in the absence of further shocks to the economy, the first increase in the target federal funds rate from its current range of 0 to ¼ percent will occur in the specified calendar year. In the lower panel, each shaded circle indicates the value (rounded to the nearest 0.25 percent) of an individual participant's judgment of the appropriate level of the target federal funds rate in the fourth quarter of the specified calendar year or over the longer run.

## Exhibit 2: Mockup of New SEP Narrative

### Overview

As shown in figure 2, most participants judged that highly accommodative monetary policy was likely to be warranted over coming years in order to promote a stronger economic recovery in a context of price stability. In particular, as shown in the upper panel, about two-thirds of participants anticipated that, under appropriate monetary policy, the target federal funds rate would stay at its current range at least through the end of 2013, and nearly all of those participants expected policy firming to commence in 2014 or 2015. The remaining participants judged that raising the target funds rate would be appropriate within the next two years in order to forestall inflationary pressures. As shown in the lower panel, participants generally agreed that the pace of firming was likely to be gradual and that the target funds rate in the fourth quarter of 2014 would still be well below their assessments of its longer-run level.

### Appropriate Monetary Policy

Most participants anticipated that, under appropriate monetary policy, the target federal funds rate would stay at or close to its current range of 0 to  $\frac{1}{4}$  percent through the fourth quarter of 2013. In particular, seven participants expected that policy firming would commence during 2014, while four others judged that an increase in the target funds rate would not be appropriate until after the end of 2014. In contrast, six participants judged that an increase in the target rate would be appropriate within the next two years, and those participants expected the target rate to be increased to around 1.5 to 4 percent by the fourth quarter of 2014.

Participants generally viewed the current weak economic conditions and a moderating outlook for inflation as warranting highly accommodative monetary policy for an extended period, though at some point a reduction in accommodation would become appropriate in order for the recovery to proceed in the context of price stability. A number of other key factors informed participants' projections of the appropriate path for the policy rate, including their judgments regarding the extent to which current conditions deviate from longer-

run goals and the mechanisms through which policy actions affect economic activity and inflation over time.

Nearly all participants projected that the target federal funds rate in late 2014 would still be substantially below its longer-run level. Most expected that the target rate would converge over time to a value in the interval of about 4.0 to 4.5 percent. However, a few participants' longer-run projections were a notch lower at around 3.75 percent, and one participant's projection was about 4.75 percent. Participants noted that their longer-run projections reflected their judgments of the mandate-consistent inflation rate as well as their estimates of the longer-run equilibrium level of the real federal funds rate.

Figure 4.E depicts the distribution of Committee participants' judgments regarding the appropriate level of the target federal funds rate in the fourth quarter of each calendar year from 2012 to 2014 and over the longer run. Participants noted a number of factors that contributed to the dispersion in these judgments. In particular, those participants who expected that policy firming should commence within the next two years cited the need to forestall inflation pressures, the implications of financial and structural imbalances, and the importance of keeping inflation expectations firmly anchored. In contrast, participants who anticipated a later onset of policy firming generally referred to the slow pace of economic growth, persistently low levels of resource utilization, the subdued medium-term outlook for inflation, and the degree to which monetary policy is constrained by the effective lower bound on the federal funds rate.

Some participants noted that appropriate monetary policy would involve further clarification of the Committee's forward guidance regarding the likely path of the target federal funds rate. A few judged that further expansion of the FOMC's securities holdings could be appropriate to provide additional monetary accommodation, whereas others indicated that the Federal Reserve's balance sheet would need to shrink substantially over coming years in conjunction with the process of policy firming.

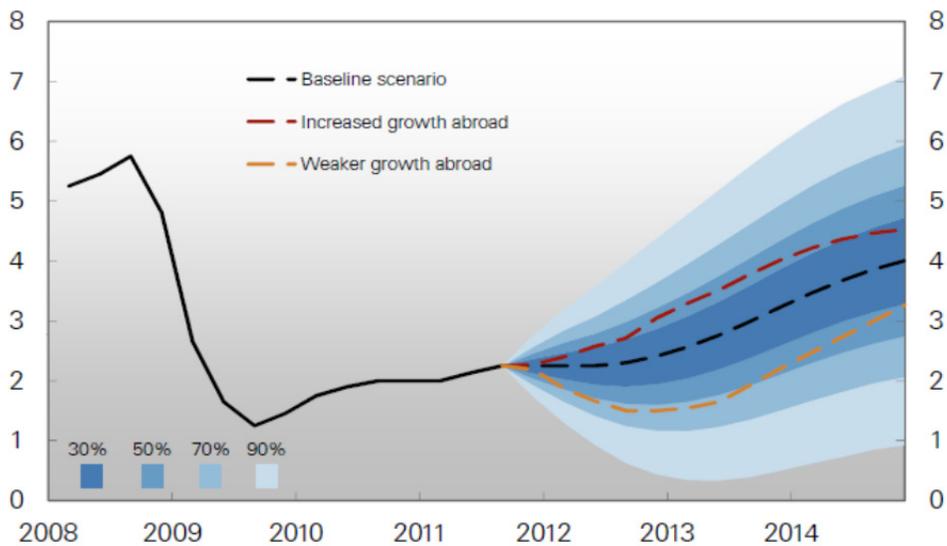
### Exhibit 3: Approaches of Foreign Central Banks

<b>Market Expectations:</b>	Bank of England, Bank of Japan
<b>Constant Interest Rates:</b>	Reserve Bank of Australia, Swiss National Bank
<b>Staff Forecast:</b>	European Central Bank
<b>Projections of Appropriate Policy:</b>	Reserve Bank of New Zealand, Norges Bank, Sveriges Riksbank

Note: The Bank of England is also providing quantitative assumptions for asset purchases, and the Swiss National Bank noted their current forecast was conditioned on a further weakening in the Swiss franc.

### Norges Bank Policy Projections, October 2011

Chart 1.24a Key policy rate in the baseline scenario and in the alternative scenarios. Per cent. 2008 Q1 – 2014 Q4



Source: Norges Bank

## Exhibit 4: The FOMC's Longer-Run Goals and Policy Strategy

Following careful deliberations at its recent meetings, the Federal Open Market Committee (FOMC) has reached broad agreement on the following principles regarding its longer-run goals and its monetary policy strategy. The Committee intends to reaffirm these principles and to make adjustments as appropriate at its annual organizational meeting each January.

1. The FOMC is strongly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, price stability, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity not only enhances transparency and accountability, which are essential in a democratic society, but also facilitates well-informed decision-making by households and businesses, reduces economic and financial uncertainty, and increases the effectiveness of monetary policy.
2. Inflation, employment, and long-term interest rates fluctuate over time in response to economic disturbances. Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee's policy decisions at each point in time reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks.
3. The inflation rate over the longer run is primarily determined by monetary policy, and hence the Committee has the latitude to specify a longer-run goal for inflation. The Committee judges that inflation of 2 percent, as measured by the annual change in the price index for personal consumption expenditures, is most consistent over the longer run with the Federal Reserve's statutory mandate. Communicating this inflation goal clearly to the public helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the Committee's ability to promote maximum employment in the face of significant economic disturbances.
4. The maximum level of employment is largely determined by nonmonetary factors, such as the pace of technological innovation and the structure of the labor market, that may change over time and that may not be directly measurable. Consequently, it would not be appropriate to specify a fixed goal for employment; rather, the Committee's policy decisions must be informed by assessments of the maximum level of employment, recognizing that such assessments are necessarily uncertain and subject to revision. The Committee considers a wide range of indicators in making these assessments, and information about Committee participants' estimates of the longer-run normal rates of output growth and unemployment is published four times per year in the FOMC's Summary of Economic Projections. For example, in the most recent projections, FOMC participants' estimates of the longer-run normal rate of unemployment had a central tendency of 5.2 percent to 6.0 percent, roughly unchanged from last January but substantially higher than the corresponding interval several years earlier.
5. In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. The Committee follows a balanced approach in promoting these objectives, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

## **Exhibit 5: Questions for Discussion of FOMC Communications Initiatives**

### **1. Enhancements to the Summary of Economic Projections**

- a. In its December 2 memo to the FOMC, the Subcommittee on Communications recommended a particular approach for incorporating policy projections into the Summary of Economic Projections (SEP). Does that approach seem reasonable, or do you think that a substantially different approach would be preferable?
- b. Do you concur with the Subcommittee's recommendation to start publishing policy projections in the January SEP?
- c. Are there any other potential enhancements to the SEP—such as the items that were noted in the concluding paragraph of the December 2 memo—that the Subcommittee should explore over coming months?

### **2. Statement of Longer-Run Goals and Policy Strategy**

- a. In its December 6 memo to the FOMC, the Subcommittee presented a draft statement regarding the Committee's longer-run goals and policy strategy. Could you support the adoption of a statement along these lines? If not, what modifications would be needed to garner your support?
- b. Do you agree that such a statement should be a "living and breathing document" that would be reaffirmed, with any appropriate adjustments, at the annual organizational meeting each January? If so, are there any further aspects of the Committee's longer-run goals and policy strategy that you think should be clarified and communicated over time?