

29. January 2009

# Economic News

## US MONETARY POLICY

### Fed not yet ready to buy Treasuries

Yesterday, the US central bank confirmed its exceptionally low key rate level and held out the prospect that it would remain at this level for some time. It will continue to purchase various types of securities, and it may possibly even expand the volume and duration of the program to improve the monetary parameters for businesses and households and thereby counter a credit crunch. Probably the most important news item is: The US central bank is prepared to purchase longer-term Treasury securities if evolving circumstances indicate that such transactions would be particularly effective in improving conditions in private credit markets, but not immediately.

- At its first meeting this year, the Federal Open Market Committee of the US central bank confirmed its target range for the federal funds rate at 0 to 0.25%.
- At the same time, the Fed indicated that it will retain the exceptionally low key rate level of almost zero percent for some time and that it will take all measures necessary to stabilize the financial markets.
- Even though the measures adopted in recent weeks by the US administration and the Fed to support the financial sector are showing initial successes, credit conditions for businesses and households remain extremely tight. For that reason, the Fed will in the near future continue to purchase large quantities of mortgage-backed securities to provide support to the mortgage and housing markets. It stands ready to expand the quantity of such purchases and the duration of the purchase program as conditions warrant. From February, the Fed will furthermore implement the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses.
- Since yesterday, the Fed is, moreover, prepared to purchase longer-term Treasury securities. But the dissent among the FOMC members – Jeffrey Lacker advocated, in contrast to the other members, already expanding the monetary base at this time by purchasing US Treasury securities – shows that for the time being the Fed would like to use other instruments to create more favourable credit conditions for businesses and households (“credit easing”). If, however, the monetary parameters do not improve noticeably in the near future, it will then probably also take the final step and commence with the direct purchase of Treasury securities.

#### FOMC meetings in 2009

<del>27/28 Jan. 09</del>	11 Aug. 09
17 Mar. 09	22 Sep. 09
28/29 Apr. 09	3 /4 Nov. 09
23/24 Jun. 09	15 Dec. 09

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