A Summary of Unconventional Monetary Policies

Federal Reserve Balance Sheet Data http://www.federalreserve.gov/releases/h41/

Tracking Changes in the Federal Reserve Balance Sheet

http://blogs.wsj.com/economics/2011/06/21/a-look-inside-the-feds-balance-sheet-11/tab/interactive/

At the onset of the crisis, the **Fed expanded its balance sheet** through several programs aimed at providing **liquidity** to the markets. As markets stabilized the Fed shifted out of emergency programs and into **large-scale asset purchases (LSAP)**, including ABS, MBS, Federal agency debt securities, and U.S. Treasury bonds, to drive down **long-term interest rates** and encourage more borrowing and growth in two separate rounds.

Two Main Phases of Large-Scale Asset Purchases (LSAP)

(1) In late November 2008, the Fed started buying long-term securities, including ABS, MBS, and Treasury notes and bonds, and Federal agency debt securities. By June 2010, these long-term securities held by the Fed reached $2.1 trillion.

(2) In November 2010, the Fed announced a second round of quantitative easing, or “QE2”, mainly buying Treasury securities by the end of the second quarter of 2011. By Feb, 23, 2012, the Fed held $1.6 trillion of U.S. Treasury securities and $0.95 trillion of Federal agency debt securities and MBS. The liabilities are mainly comprised of $1.6 trillion of bank reserves and $1 trillion of currency. Meanwhile, other assets tied to emergency programs are disappearing.

Credit Easing versus Quantitative Easing

In a speech at LSE in Jan. 2009, the Federal reserve Chairman B. Bernanke explained that the Federal Reserve's approach to supporting credit markets is conceptually distinct from quantitative easing (QE), the policy approach used by the Bank of Japan from 2001 to 2006. The Fed’s approach - which could be described as "credit easing" - resembles quantitative easing in one respect: **It involves an expansion of the**

central bank's balance sheet (mainly assets purchased in Assets and bank reserves in Liabilities). However, although the Bank of Japan's policy approach during the QE period was quite multifaceted, the overall stance of its policy was gauged primarily in terms of its target for **bank reserves**.

In contrast, the Federal Reserve's credit easing approach focuses on the mix of loans and securities that it holds and on how this **composition of assets** affects credit conditions for households and businesses. To stimulate aggregate demand in the current environment, the Federal Reserve focus its policies on reducing credit interest spreads and improving the functioning of private credit markets more generally.

The stimulative effect of the Federal Reserve's credit easing policies depends sensitively on the particular mix of lending programs and securities purchases that it undertakes. Because various types of lending have heterogeneous effects, the stance of Fed policy in the current regime - in contrast to a QE regime - is not easily summarized by a single number, such as the quantity of excess reserves or the size of the monetary base. In addition, the usage of Federal Reserve credit is determined in large part by borrower needs and thus will tend to increase when market conditions worsen and decline when market conditions improve. The lack of a simple summary measure or policy target poses an important communications challenge.