The Federal Reserve's response to the financial crisis and actions to foster maximum employment and price stability

The Federal Reserve responded aggressively to the financial crisis that emerged in the summer of 2007. The reduction in the target federal funds rate from 5-1/4 percent to effectively zero was an extraordinarily rapid easing in the stance of monetary policy. In addition, the Federal Reserve implemented a number of programs designed to support the liquidity of financial institutions and foster improved conditions in financial markets. These programs led to significant changes to the Federal Reserve's balance sheet.

While many of the crisis-related programs have expired or been closed, the Federal Reserve continues to take actions to fulfill its statutory objectives for monetary policy: maximum employment and price stability. Over recent years, many of these actions have involved substantial purchases of longer-term securities aimed at putting downward pressure on longer-term interest rates and easing overall financial conditions.

Related

Policy Implementation Framework
The Crisis and Policy Response
Speech by Chairman Ben S. Bernanke, Jan. 13,
in detail elsewhere on this website.

As a third set of instruments, the Federal Reserve expanded its traditional tool of open market operations to support the functioning of credit markets, put downward pressure on longer-term interest rates, and help to make broader financial conditions more accommodative through the purchase of longer-term securities for the Federal Reserve's portfolio. For example, starting in September 2012, the FOMC decided to increase policy accommodation by purchasing agency-guaranteed mortgage-backed securities (MBS) at a pace of $40 billion per month in order to support a stronger economic recovery and to help ensure that inflation, over time, is at the rate most consistent with its dual mandate. In addition, starting in January 2013, the Federal Reserve began purchasing longer-term Treasury securities at a pace of $45 billion per month. In December 2013, the FOMC announced a modest reduction in the monthly pace of asset purchases and indicated it would likely reduce the pace of asset purchases in further measured steps at future meetings if incoming data pointed to continued improvement in labor market conditions and inflation moving back toward the Committee’s 2 percent longer-run objective.