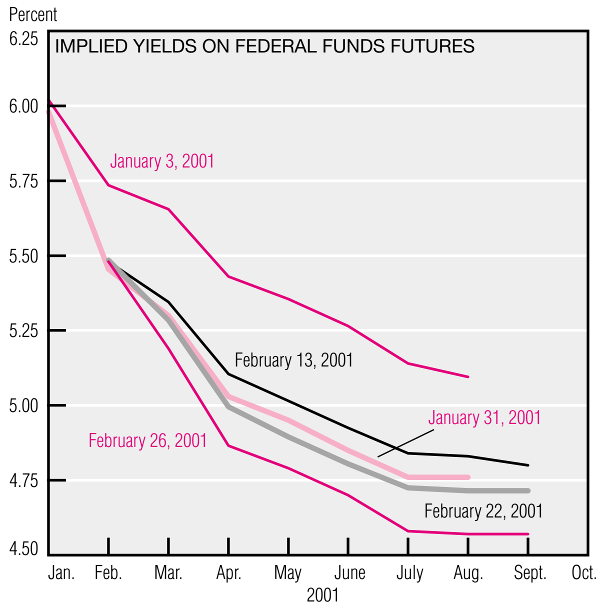
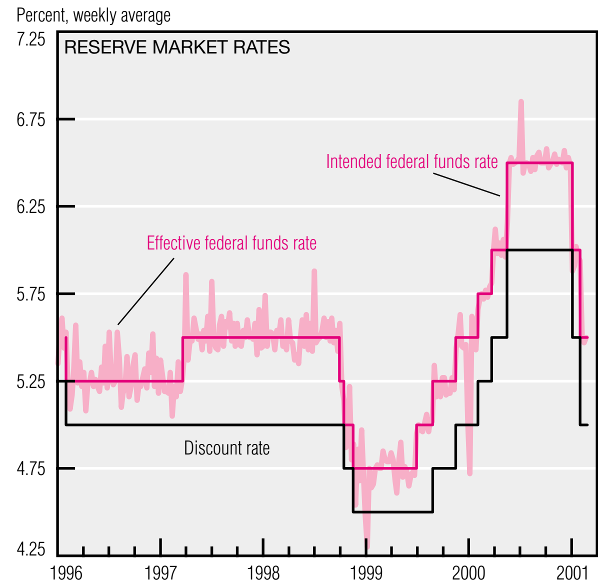
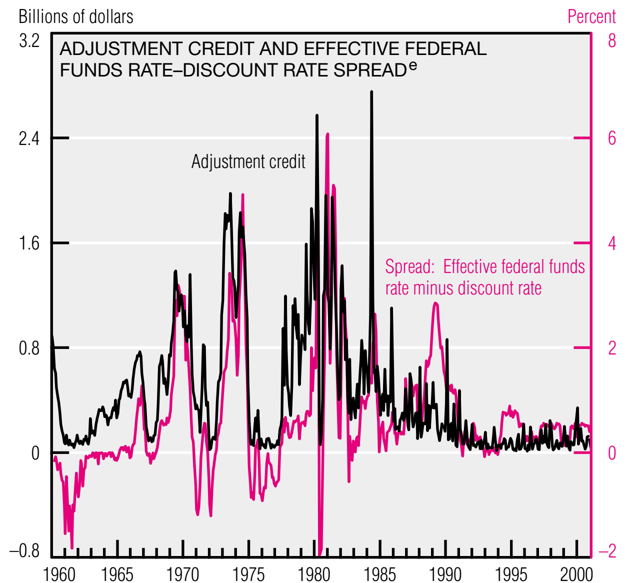
# Monetary Policy




| Economic Indicators (percent) | | | |
|---|---|---|---|
| | | Projections for 2001[a] | |
| | 2000 Actual | Range | Central tendency |
| Nominal GDP[b] | 5.9 | 3¾–5¼ | 4–5 |
| Real GDP[c] | 3.5 | 2–2¾ | 2–2½ |
| PCE Chain-type Price Index[b] | 2.4 | 1¾–2½ | 1¾–2¼ |
| Civilian unemployment rate[d] | 4.0 | 4½–5 | About 4½ |




a. By Federal Reserve governors and Reserve Bank presidents.
b. Change, fourth quarter to fourth quarter.
c. Change, fourth quarter to fourth quarter, chain weighted.
d. Average level, fourth quarter.
e. Monthly, not seasonally adjusted.
SOURCES: Board of Governors of the Federal Reserve System; and Chicago Board of Trade.

On February 13, the Board of Governors of the Federal Reserve System submitted its semiannual Monetary Policy Report to Congress, and Federal Reserve Chairman Alan Greenspan testified before the Senate Committee on Banking, Housing, and Urban Affairs. Chairman Greenspan expressed optimism about "the prospects for sustaining strong advances in productivity in the years ahead," but also noted that "downside risks predominate" over a shorter horizon. Implied yields on federal funds futures did not react strongly to his testimony. Market participants continue to place a high probability on a further cut of 50 basis points in the federal funds rate by the end of March.

The report's 2001 central tendencies of projections for real GDP growth and inflation (the Personal Consumption Expenditure Chain-type Price Index) were revised downward from the July report's 3¼–3¾% and 2–2½% to 2–2½% and 1¾–2¼%, respectively. Fourth-quarter civilian unemployment rate projections rose from 4–4¼% to about 4½%.

Banks' borrowing through the Federal Reserve's discount window has fallen significantly in recent years. One might expect a positive relationship between discount window borrowing and the spread between the federal funds rate and the discount rate. A larger spread presumably would encourage banks to exploit arbitrage possibilities by borrowing more heavily from the Fed. Before 1985, about 70% of changes in adjustment credit could be accounted for by changes in the federal funds–discount rate spread; since 1985, it is only 10%. Bank failures in the late 1980s may have made banks hesitant to visit the discount window lest market participants perceive its use as a sign of weakness.