FOMC Statement and Board Discount Rate Action

Federal Reserve System: Board of Governors

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The Federal Open Market Committee decided today to lower its target for the federal funds rate by 50 basis points to 3 percent. In a related action, the Board of Governors approved a 50 basis point reduction in the discount rate to 2-1/2 percent. The Federal Reserve will continue to supply unusually large volumes of liquidity to the financial markets, as needed, until more normal market functioning is restored. As a consequence, the FOMC recognizes that the actual federal funds rate may be below its target on occasion in these unusual circumstances.

Even before the tragic events of last week, employment, production, and business spending remained weak, and last week's events have the potential to damp spending further. Nonetheless, the long-term prospects for productivity growth and the economy remain favorable and should become evident once the unusual forces restraining demand abate. For the foreseeable future, the Committee continues to believe that against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the risks are weighted mainly toward conditions that may generate economic weakness.

In taking the discount rate action, the Federal Reserve Board approved requests submitted by the Boards of Directors of the Federal Reserve Banks of Richmond, Chicago, Minneapolis, Dallas, and San Francisco.

2001 Monetary policy