Common Market for
Eastern and Southern Africa

UNCONVENTIONAL MONETARY POLICY TOOLS DEPLOYED TO ADDRESS THE SOCIOECONOMIC IMPACT OF COVID-19

Special Report

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The objective of this paper is to present the Unconventional Monetary Policy Tools (UMPTs) introduced by developed, emerging and African countries after the aftermath of COVID-19 and recommendations

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I. Introduction

In pursuit of their mandates and consistent with existing legal frameworks, Central Banks in advanced, emerging and many developing countries introduced new policy instruments and made changes to their monetary policy frameworks in order to address low growth and increase in unemployment which resulted from the impact of COVID-19. They implemented different combinations of what have been identified as Unconventional Monetary Policy Tools (UMPTs) and adapted their operations to the circumstances in their jurisdictions.

The objective of this paper is to present the UMPTs introduced by developed, emerging and African countries after the aftermath of COVID-19 and make recommendations. The paper is organized as follows: The first part defines the most common Unconventional Monetary Policy Tools; the second part highlights the advantages and disadvantages of Quantitative Easing which is the most common (UMPT); the third part discusses UMPTs which were introduced after the COVID-19 in different parts of the World and finally, presents recommendations on the way forward to address the impact of COVID 19.

II. Unconventional Monetary Policy Tools

The most common unconventional monetary policy tools which were pursued during the recent global financial crisis in 2008 and 2009 was Quantitative Easing (QE). QE is a form of unconventional monetary policy in which a Central Bank purchases longer-term securities from the open market in order to increase the money supply and encourage lending and investment. Buying these securities adds new money to the economy, and also serves to lower interest rates by bidding up fixed-income securities. It also expands the central bank’s balance sheet.

When short-term interest rates are either at or approaching zero, the conventional open market operations of a central bank, which target interest rates, are no longer effective. Instead, a central bank can target specified amounts of assets to purchase. QE increases the money supply by purchasing assets with newly-created bank reserves in order to provide banks with more liquidity. To execute quantitative easing, Central Banks increase the supply of money by buying government bonds and other securities. Increasing the supply of money lowers the cost of money. This is the same effect as increasing the supply of any other asset in the market. A lower cost of money leads to lower interest rates. When interest rates are lower, banks can lend with easier terms.

Another Unconventional Monetary Policy Instrument is forward guidance . The two forms of forward Guidance are calendar based and state based. Under calendar-based guidance, the Central Bank makes an explicit commitment not to increase interest rates until a certain point in time. Under state-based guidance, the central bank announces that it will not raise rates until specific economic conditions are met. We have seen examples of both in practice. Some Central Banks also have provided forward guidance regarding their asset purchase programs.

A primary motivation of forward guidance is to reinforce the Central Bank's commitment to low interest rates. The experience has mainly been positive in developed economies after the 2008 global financial crisis, with the guidance helping to reduce uncertainty.

III. Advantages and Disadvantages of QE

Advantages

(i) Gives the Central Bank an extra tool of monetary policy besides changing interest rate.

(ii) Increasing the size of the monetary base helps to lower the threat of price deflation. Without QE the fall in real GDP would have been deeper and the rise in unemployment greater during the 2008 global financial crisis.

(iii) Lowering long term interest rates will keep business confidence higher and gives the commercial banking system extra deposit to use for lending.

(iv) QE can lead to depreciation of the exchange rate which helps to improve the price competitiveness of export industries.

Disadvantages

(i) If central banks increase the money supply, it can create inflation. The worst possible scenario for a central bank is that its quantitative easing strategy may cause inflation without the intended economic growth. An economic situation where there is inflation, but no economic growth, is called stagflation.

(ii) Ultra-low interest rates can distort the allocation of capital and also keep alive inefficient companies.

(iii) Although most Central Banks are created by their countries' governments and have some regulatory oversight, they cannot force banks in their country to increase their lending activities. Similarly, central banks cannot force borrowers to seek loans and invest. If the increased money supply created by quantitative easing does not work its way through the banks and into the economy, quantitative easing may not be effective.

(iv) Another potentially negative consequence of quantitative easing is that it can devalue the domestic currency. While a devalued currency can help domestic manufacturers because exported goods are cheaper in the global market (and this may help stimulate growth), a falling currency value makes imports more expensive. This can increase the cost of

production and consumer price levels.

(v) Emerging and developing economies with less credible monetary framework and weak fundamentals, may find themselves between a rock and hard place. In these countries capital flows can put heavy pressure on exchange rate with twin risks of disorderly adjustment (currency crisis) and persistent upsurge in inflation if inflation expectations are poorly anchored and pass through the exchange rate is high.

IV. The Unconventional Monetary Policy Tools During the Covid-19 in Different Parts of the World

(i) Developed Countries

Since the beginning of 2020, policy makers have been busy designing measures to contain the spread of COVID-19. which led to lockdown and resulted in decline in economic activities and rise in unemployment.

In restricting the spread of pandemic and the resulting economic downturn, many developed economies faced short-term interest rates nearing zero, or even slipping to negative. Several central banks around the world engaged in unconventional monetary policy interventions in the form of long-term asset purchase programs, commonly referred to as quantitative easing (QE).

Since March 2020, eight Central Banks of the developed economies made QE announcements. Notably, US initially announced a $700 billion purchase on 16 March 2020, followed by an announcement of ‘unlimited’ purchase on 23 March, 2020. UK announced a purchase on $200 billion on 19 March 2020. See Annex 1 for details on what Fed is doing in response to the COVID-19 Crisis.

COVID-19 QE Announcements by Developed Countries

Country	Central Bank	Date	Size	Type of Asset Purchase
Australia	Reserve Bank of Australia	19/3/2020	Unlimited	Sovereign
Canada	Bank of Canada	27/3/2020	3.5 billion CAD per week	Sovereign
Europe	European Central Bank	18/3/2020	750 billion EUR	Sovereign
Japan	Bank of Japan	26/4/2020	Unlimited JGBs, 20 trillion yen in corporates	Sovereign, Corporate Bonds
New Zealand	Reserve Bank of New Zealand	23/3/2020	30 billion NZD	Sovereign
Sweden	Riksbank	16/3/2020	300 billion SEK	Sovereign
U.K.	Bank of England	19/3/2020	200 billion GBP	Sovereign, Corporate Bonds
U.S.A	Federal Reserve	16/3/2020	700 billion USD	Sovereign, Mortgage Backed Securities (MBS)
U.S.A	Federal Reserve	23/3/2020	Unlimited	Sovereign, MBS, Corporate Bonds

(ii) Emerging and Developing Economies

Amid an unprecedented economic shock and in the wake of decisive action from policymakers in the US and other developed countries, authorities across many regions in the world have effectively combined the fiscal and monetary tools at their disposal to protect incomes and livelihoods of their citizens. They have combined increased transfers and healthcare spending with monetary expansion. Most importantly, which was taken without provoking financial instability. As their economies went

into lockdown many central banks in the Asia Pacific region took similar steps. It was their first leap into QE. For example, Reserve Bank of India, Bank Indonesia, and the Bangko Sentral ng Pilipinas Bank of Korea, Bank of Thailand started purchasing government bonds.

However, the size of the asset purchases in some Asian emerging economies has been on a much smaller scale than in many advanced economies. See in the box below the initiatives of Bank of Korea.

Korea Central Bank Rolls out 'QE-light' to ease COVID 19 pain

> The Bank of Korea (BOK) is joining its peers in advanced nations to launch its own version of quantitative easing, buying an unlimited amount of bonds for three months in efforts to calm money markets hammered by the coronavirus pandemic.
> The central bank announced that the repo auctions will be held every week through the end of June, where more financial institutions will be able to borrow unlimited amounts of funds at the repo rate of no higher than 0.85%.
> The BOK also announced that it will accept a wider range of collaterals including notes issued by state-run companies in the repo auctions - where central banks lend money to commercial banks and brokerages who can deposit government debt as collateral.
> The move to offer unlimited cash, if even temporarily, is unprecedented in the central bank's 70-year history, as it uses unconventional firepower to stimulate Asia's fourth-largest economy battling the region's biggest coronavirus outbreak outside China.
> "We're supplying (money) to meet whatever the market demands, so it wouldn't be wrong to say we began quantitative easing," senior deputy governor Yoon Myun-shik told a news conference held over YouTube. He also said that their initiative is different from QE by other advanced nations."
> The BOK also entered unchartered territory by pledging to meet 'unlimited demand' for liquidity after slashing interest rates by 50 basis points to 0.75% on March 16, 2020 in its largest policy easing since the global financial crisis.

(iii) African countries

The following are monetary policy measures which were introduced by some African Countries to combat the economic impact of Corona Virus.

Country Level Financial Interventions in Some African Countries

Name of Country	**Policy Measure**
Algeria	Bank of Algeria decided to reduce the rate of compulsory reserve from 10 to 8% and to lower by 25 basis points (0.25%), the key rate of the Bank of Algeria to fix it at 3.25% and this from March 15, 2020.
Cote d'Ivoire	The government announced $200m as a COVID-19 response. The establishment of a Fund to boost the economic activities, support affected businesses in order to mitigate jobs cut, etc.
Ethiopia	The government has announced that it has allocated $10 million to the fight against the pandemic and put forward the following three-point proposal on how G20 countries can help African countries cope with the coronavirus pandemic: • Calls for a $150 billion aid package - Africa Global COVID-19 Emergency Financing Package. • Implement debt reduction and restructuring plans. • Provide support to the World Health Organization (WHO) and Africa Centers for Disease Control and Prevention (CDC) to strengthen public health delivery and emergency preparedness on the continent.
Equatorial Guinea	The government committed to contribute $10 million to the special emergency fund.
Eswatini	Central Bank of Eswatini announced to reduce the interest rate from 6.5% to 5.5%.

Gambia	Central Bank of The Gambia decided to reduce the Policy rate by 0.5 percentage point to 12 percent. The Committee also decided to increase the interest rate on the standing deposit facility by 0.5 percentage point to 3 percent. The standing lending facility is also reduced to 13 percent from 13.5 percent (MPR plus 1percentage point).
Ghana	Government announced $100 million to enhance Ghana's COVID-19 preparedness and response plan. Bank of Ghana's MPC has decided to lower the Monetary Policy Rate by 150 basis points to 14.5 percent. The Primary Reserve Requirement has been reduced from 10 percent to 8 percent to provide more liquidity to banks to support critical sectors of the Economy. The Capital Conservation Buffer (CCB) for banks of 3.0 percent is reduced to 1.5 percent. This is to enable banks provide the needed financial support to the economy. This effectively reduces the Capital Adequacy Requirement from 13 percent to 11.5 percent. Loan repayments that are past due for Microfinance Institutions for up to 30 days shall be considered as "Current" as in the case for all other SDIs. All mobile phone subscribers are now permitted to use their already existing mobile phone registration details to be on-boarded for Minimum KYC Account.
Kenya	Central Bank of Kenya to help alleviate the adverse effects, the following emergency measures will apply for borrowers whose loan repayments were up to date as at March 2, 2020: - Banks will seek to provide relief to borrowers on their personal loans based on their individual circumstances arising from the pandemic. - To provide relief on personal loans, banks will review requests from borrowers for extension of their loan for a period of up to one year. To initiate this process, borrowers should contact their respective banks. - Medium-sized enterprises (SMEs) and corporate borrowers can contact their banks for assessment and restructuring of their loans based on their respective circumstances arising from the pandemic. - Banks will meet all the costs related to the extension and restructuring of loans. - To facilitate increased use of mobile digital platforms, banks will waive all charges for balance inquiry. - As earlier announced, all charges for transfers between mobile money wallets and bank accounts will be eliminated.

Namibia	On 20th of March 2020, Bank of Namibia decided to cut the Repo rate by 100 basis points to 5.25 %.
Niger	The government announced $1.63m to support the Covid19 response.
Madagascar	Banky Foiben'I Madagasikara (BFM) announced: - Support economic activities by providing banks with the necessary liquidity to finance the economy. - Has injected $111 million beginning of March and will re-inject $53 million at the end of March 2020. - Maintain the availability of foreign currencies on interbank market; - Discuss with banks and financial institutions the impact of the crisis and provide the necessary responses.
Mauritius	The Bank of Mauritius five responses to keep credit flowing to the economy: - Decreased the Key Repo Rate (KRR) by 50 basis points to 2.85 per cent per annum. - A Special Relief Amount of Rs 5.0 Billion through commercial banks to meet cash flow and working capital requirements The central bank cut its cash reserve ratio by a percentage point to 8%. - Released $130 million to fund businesses struggling with the impact of the virus. - Instructed banks to suspend capital repayments on loans for affected businesses. - Eased supervisory guidelines on handling credit impairments; and issued a savings bond.

Morocco	Bank Al-Maghrib announced the following: - The implementation of the integrated business support and financing program 20. - The fluctuation of dirham from ± 2.5% to ± 5% and decided to reduce the interest rate by 25 percentage points base at 2% and continue to monitor all of these developments very closely. - Exemption of Enterprises from paying contribution to the pension fund (CNSS) and Debt moratorium as part of measures to offset economic impact of Covid19; $1bn to upgrade health infrastructure and assist affected sectors. - Hassan II Fund and regions to allocate $261m to address the impact.
Rwanda	The Central Bank announced the following: - Lending facility of around $52 million to commercial banks. - Lowering reserve requirement ratio effective April 1 from 5% to 4% to allow banks more liquidity to support affected businesses. - Allowing commercial banks to restructure outstanding loans of borrowers facing temporary cash flow challenges arising from the pandemic.
Seychelles	The Central Bank of Seychelles (CBS) has announced the following: - Foreign exchange reserve will only be used to procure three items – fuel, basic food commodities and medicines. - Cut the Monetary Policy Rate (MPR) to four per cent from five per cent. - A credit facility of approximately $36 million will be set up to assist commercial banks with emergency relief measures.

Sierra Leone	Central Bank of Sierra Leone took the following actions: • Lower the Monetary Policy Rate by 150 basis points from 16.5 percent to 15 percent. • Create a Le500 Billion Special Credit Facility to Finance the Production, Procurement and Distribution of Essential Goods and Services. • Provide foreign exchange resources to ensure the importation of essential commodities. The list of commodities that qualify for this support will be published in due course. • Liquidity Support to the Banking Sector.
South Africa	South African Reserve Bank undertook the following: • Cut interest rate from 6.25% to 5.25%. • The government announced a plan $56.27m to support small businesses during the outbreak.
Tunisia	Central Bank of Tunisia decided to: • Provide banks with the necessary liquidity to enable them to continue their normal operations; • Carry-over of credits (principal and interest) due during the period from the 1st March until the end of September 2020. • The possibility of granting new funding to beneficiaries of the deferral of deadlines. • The calculation and requirements of the credit / deposit ratio will be more flexible.
Uganda	Bank of Uganda took the following actions: • Intervene in the foreign exchange market to smoothen out excess volatility arising from the global financial markets. • Put in a place a mechanism to minimize the likelihood of sound business going into insolvency due to lack of credit. • Provide exceptional liquidity assistance for a period of up to one year to financial institutions supervised by BoU that may require it. • Waive limitations on restructuring of credit facilities at financial institutions that may be at risk of going into distress.

Zambia	Bank of Zambia decided the following: - To increase the limit on agents and corporate wallets: Individuals Tier 1 from 10000 to 20000 per day (K) and maximum 100,000. Individuals Tier 2 from 20,000 to 100,000 per day (K) and maximum 500,000. SMEs and farmers from 250,000 to 1,000,000 per day (K) and maximum 1,000,000; - Reduce interbank payment and settlement system (ZIPSS) processing fees.

V. Recommendations for the Way Forward

The following are key recommendations among others:

(i) Central Banks may need to step in to help provide funding to market segments where liquidity has dried up. Possible tools include: Funding for Lending Schemes, where central banks provide collateralized long-term funding to banks to aid monetary transmission through the banking system and to support provision of new credit to bridge financing needs of specific sectors. However, before implementing such tools, careful consideration should be given to the potential financial risks to central bank balance sheets, the operational readiness of such tools, potential distortions and spill overs and the importance of transparency and accountability in the use of such instruments.

(ii) Central Banks to lower interest rate to increase loans to businesses (and decrease their cost) and provide commercial banks with more liquidity to support business activities.

(iii) In Emerging and Developing Countries (EMDCS) with flexible exchange rates, credible monetary framework, low inflation, and the absence of large currency misalignment, the

exchange rate will be a key shock absorber. In these countries, in addition to the easing of monetary conditions implied by the depreciation an additional lowering of policy rates may help avoid a credit crunch and support demand much in the same way that accommodative monetary policies work in advanced economies.

(iv) Regulatory and supervisory actions should aim to support the provision of credit, while maintaining prudent standards, and confidence in the banking system, mitigating financial risks, and ensuring institutions can operate effectively.

(v) A relaxation of macro-prudential tools, such as Counter Cyclical Capital Buffer, Capital Conservation Buffers, relaxation of reserve requirements in domestic currency etc can help the financial system absorb the impact of the COVID-19 shock and ease a credit crunch that might otherwise amplify the effect on the real economy. However, such relaxation is possible only if macro-prudential buffers are in place.

(vi) A temporary use of capital flow management measures can help prevent a free fall of the exchange rate. Capital flow management measures include a wide range of measures, such as restrictions on resident investments and transfers abroad, caps and other limitations on non-resident transfers abroad etc. Such measures should be implemented with due regard to countries international obligation, in a transparent manner, be temporary and lifted once crisis conditions abates.

(vii) The challenges faced by EMDEs can be eased by supportive actions from advanced economies and the IMF and other international financial institutions. Indeed given the evaporation of dollar liquidity in the aftermath of COVID-19 in many countries, dollar swap lines were highly instrumental in stabilizing EMDEs economies. Of course the IMF also plays a critical role in providing financial support including through its rapid financing instruments, such as the new Short Term Liquidity Line (SLL) and policy advise and capacity building.

(viii) Initiate fiscal stimulus packages provided that there is fiscal space to minimize the impact of the coronavirus pandemic on the national economies. Provide fiscal stimulus to taxpayers impacted by COVID-19 and consider tax suspension.

(ix) Waive tax payments in critical sectors.

(x) Local sourcing by the public sector in its response to the crisis would support the SMEs and other businesses.

(xi) Renegotiate external debt payment plans, and conditions to ensure smooth servicing of the debt, including suspension of interest rates payments during the time of the crisis.

(xii) Negotiations of an ambitious plan for the cancellation of total African external debt.

ANNEX 1.

WHAT IS THE FED DOING TO SUPPORT THE U.S. ECONOMY AND FINANCIAL MARKETS?

Near-Zero Interest Rates

o **Federal funds rate:** The Fed has cut its target for the federal funds rate, the rate banks pay to borrow from each other overnight, by a total of 1.5 percentage points since March 3 2020, bringing it down to a range of 0 percent to 0.25 percent. The federal funds rate is a benchmark for other short-term rates, and also affects longer-term rates, so this move is aimed at lowering the cost of borrowing on mortgages, auto loans, home equity loans, and other loans, but it will also reduce the interest income that savers get.

o **Forward guidance:** Using a tool honed during the Great Recession of 2007-2009, the Fed has offered forward guidance on the future path of its key interest rate, saying that rates will remain low "until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals." Such forward guidance on the overnight rate puts downward pressure on longer-term rates.

Supporting Financial Market Functioning

o **Securities purchases (QE):** The Fed has resumed purchasing massive amounts of securities, a key tool employed during the Great Recession, when the Fed bought trillions of long-term securities. Treasury and mortgage-backed securities markets have become dysfunctional since the outbreak of COVID-19, and the Fed's actions aim to restore smooth market functioning so that credit can continue to flow. On March 15, the Fed said that it would buy at least $500 billion in Treasury securities and $200 billion in government-guaranteed mortgage-backed securities over "the coming months." Then on

March 23, it made the purchases open-ended, saying it would buy securities "in the amounts needed to support smooth market functioning and effective transmission of monetary policy to broader financial conditions. Market function subsequently improved, and the Fed tapered its purchases through April and May. On June 10, however, the Fed said it would stop tapering and would buy at least $80 billion a month in Treasuries and $40 billion in residential and commercial mortgage-backed securities until further notice. Between mid-March and mid-June, the Fed's portfolio of securities held outright grew from $3.9 trillion to $6.1 trillion.

Lending to securities firms: Through the Primary Dealer Credit Facility(PDCF), a program revived from the global financial crisis, the Fed will offer low interest rate (currently 0.25 percent) loans up to 90 days to 24 large financial institutions known as primary dealers. The dealers will provide the Fed with equities and investment grade debt securities, including commercial paper and municipal bonds, as collateral. The goal is to keep the credit markets functioning at a time of stress when institutions and individuals are inclined to avoid risky assets and hoard cash, and dealers may encounter barriers to financing rising inventories of securities they may accumulate as they make markets. To re-establish the PDCF, the Fed had to obtain the approval of the Treasury Secretary to invoke emergency lending authority under Section 13(3) of the Federal Reserve Act for the first time since the crisis.

o **Backstopping money market mutual funds:** The Fed has re-launched the crisis-era"Money Market Mutual Fund Liquidity Facility MMLF)", which lends to banks against collateral they purchase from prime money market funds, the ones that invest in corporate short-term IOUs known as commercial paper, as well as in Treasury securities. At the outbreak of COVID-19, investors withdrew from money market funds en masse. To meet outflows, these funds sold securities, but disruptions in the financial markets made it difficult to sell, even if the securities were all of high quality and very short maturities. The Fed said that the facility "will assist money market funds in meeting demands

for redemptions by households and other investors, enhancing overall market functioning and credit provision to the broader economy." The Fed invoked Section 13(3) and obtained permission from Treasury, which provided $10 billion from its Exchange Stabilization Fund to cover potential losses.

- **Repo operations:** The Fed has vastly expanded the scope of its repurchase agreement (repo) operations to funnel cash to money markets and is now essentially offering an unlimited amount of money. The repo market is where firms borrow and lend cash and securities short-term, usually overnight. Disruptions in the repo market affect the federal funds rate, the Fed's primary tool for achieving its price stability and employment mandate. The Fed's facility makes cash available to the primary dealers in exchange for Treasury and other government-backed securities. Before coronavirus turmoil hit the market, the Fed was offering $100 billion in overnight repo and $20 billion in two-week repo. It has greatly expanded the program—both in the amounts offered and the length of the loans. It is offering $1 trillion in daily overnight repo, and $500 billion in one month and $500 billion in three-month repo.

Encouraging Banks to Lend

Direct lending to banks: The Fed lowered the rate that it charges banks for loans from its discount window by 1.5 percentage points, from 1.75 percent to 0.25 percent, lower than during the Great Recession. These loans are typically overnight—meaning that they are taken out at the end of one day and repaid the following morning—but the Fed has extended the terms to 90 days. Banks pledge a wide variety of collateral (securities, loans, etc.) to the Fed in exchange for cash, so the Fed is not taking on much risk in making these loans. The cash allows banks to keep functioning: depositors can continue to withdraw money, and the banks can make new loans. Banks are sometimes reluctant to borrow from the discount window because they fear that if word leaks out, markets and others will think they are in trouble. To counter this stigma, eight big banks agreed to borrow from the discount window.

o **Temporarily relaxing regulatory requirements:** The Fed is encouraging banks—both the largest banks and community banks—to dip into their regulatory capital and liquidity buffers, so they can increase lending during the downturn. The reforms instituted after the financial crisis require banks to hold additional loss-absorbing capital to prevent future bailouts. But these capital buffers can be used during a downturn to stimulate lending, and the Fed is encouraging that now, including through a technical change to its TLAC (total loss-absorbing capacity) requirement, which includes capital and long-term debt. (To preserve capital, big banks also are suspending buybacks of their shares.) The Fed also eliminated banks' reserve requirement—the percent of deposits that banks must hold as reserves to meet cash demand—though this is largely irrelevant because banks currently hold far more than the required reserves. The Fed also relaxed the growth restrictions previously imposed on Wells Fargo, as part of an enforcement action related to widespread consumer protection violations, so that the bank could increase its participation in the Fed's lending programs for small- and mid-sized businesses.

Supporting Corporations and Small Businesses

Direct lending to major corporate employers: In a significant step beyond its crisis-era programs, which focused mainly on financial market functioning, the Fed on March 23 established two new facilities to support highly rated U.S. corporations. The Primary Market Corporate Credit Facility (PMCCF) allows the Fed to lend directly to corporations by buying new bond issuances and providing loans. Borrowers may defer interest and principal payments for at least the first six months so that they have cash to pay employees and suppliers. But during this period, borrowers may not pay dividends or buy back stocks. And, under the new Secondary Market Corporate Credit Facility (SMCCF), the Fed may purchase existing corporate bonds as well as exchange-traded funds investing in investment-grade corporate bonds. These facilities will "allow companies access to credit so that they are better able to maintain business operations and capacity during the period of dislocations related to the pandemic," the Fed said. Initially supporting $100 billion in new financing, the Fed announced

on April 9 a massive expansion—the facilities will now backstop up to $750 billion of corporate debt. And, as with previous facilities, the Fed invoked Section 13(3) of the Federal Reserve Act and received permission from the U.S. Treasury, which provided $75 billion from its Exchange Stabilization Fund to cover potential losses.

Commercial Paper Funding Facility (CPFF): Commercial paper is a $1.2 trillion market in which firms issue unsecured short-term debt to certain money market funds and others, to finance day-to-day operations. Through the CPFF, another reinstated crisis-era program, the Fed buys commercial paper, essentially lending directly to corporations for up to three months at a rate between 1 to 2 percentage points higher than overnight lending rates. “By eliminating much of the risk that eligible issuers will not be able to repay investors by rolling over their maturing commercial paper obligations, this facility should encourage investors to once again engage in term lending in the commercial paper market,” the Fed said. “An improved commercial paper market will enhance the ability of businesses to maintain employment and investment as the nation deals with the coronavirus outbreak.” As with other non-bank lending facilities, the Fed invoked Section 13(3) and received permission from the U.S. Treasury, which put $10 billion into the CPFF to cover any losses.

o **Supporting loans to small- and mid-sized businesses:** The Fed’s Main Street Lending Program, announced on April 9 and subsequently expanded and broadened to include more potential borrowers, aims to support businesses too large for the Small Business Administration’s Paycheck Protection Program (PPP) and too small for the Fed’s two corporate credit facilities. Through three programs—the New Loans Facility, Expanded Loans Facility, and the Priority Loans Facility—the Fed will fund up to $600 billion in five-year loans. Businesses with up to 15,000 employees or up to $5 billion in annual revenue can participate. Under the changes announced in June, the Fed lowered the minimum loan size for New Loans and Priority Loans, increased the maximum for all facilities, and extended the

repayment period. Lenders retain 5 percent of the loans. As with other facilities, the Fed invoked Section 13(3) and received permission from the U.S. Treasury, which through the CARES Act put $75 billion into the three Main Street Programs to cover losses. Borrowers are subject to restrictions on stock buybacks, dividends, and executive compensation. The Fed also has a Paycheck Protection Program Liquidity Facility that will facilitate loans made under the PPP. Bank lending to small businesses can borrow from the facility using PPP loans as collateral.

o **Supporting loans to non-profit institutions:** The Fed in July expanded the Main Street Lending Program to non-profits, including hospitals, schools, and social service organizations that were in sound financial condition before the pandemic. Borrowers must have at least 10 employees and endowments of no more than $3 billion among other conditions. The loans are for five years, but payment of principal is deferred for the first two years. As with loans to businesses, lenders retain 5 percent of the loans.

o **Supporting Households and Consumers :**The Fed on March 23 restarted the crisis-era Term Asset-Backed Securities Loan Facility (TALF). Through this facility, the Fed supports lending to households, consumers, and small businesses by lending to holders of asset-backed securities collateralized by new loans. These loans include student loans, auto loans, credit card loans, and loans guaranteed by the SBA. In a step beyond the crisis-era program, the Fed expanded eligible collateral to include existing commercial mortgage-backed securities and newly issued collateralized loan obligations of the highest-quality. Like the programs supporting corporate lending, the TALF will initially support up to $100 billion in new credit. To restart it, the Fed invoked Section 13(3) and received permission from the Treasury, and the Treasury allocated $10 billion from the Exchange Stabilization Fund.

Supporting State and Municipal Borrowing

o **Direct lending to state and municipal governments:** During the 2007-2009 financial crisis, the Fed resisted backstopping municipal and state borrowing, seeing that as the responsibility of the Administration and Congress. But, in the current crisis, the Fed is lending directly to state and local governments through the Municipal Liquidity Facility, which was created on April 9. The Fed expanded the list of eligible borrowers on April 27 and June 3. The municipal bond market was under enormous stress in March, and state and municipal governments found it increasingly hard to borrow as they battled COVID-19. The Fed's facility will offer loans to U.S. states, including the District of Columbia, counties with at least 500,000 residents, and cities with at least 250,000 residents. In June, Illinois became the first government entity to tap the facility. Under changes announced in June, the Fed will allow governors in states with cities and counties that don't meet the population threshold to designate up to two localities to participate. Governors also will be able to designate two revenue bond issuers—airports, toll facilities, utilities, public transit—to be eligible. The Fed will lend up to $500 billion to government entities that had investment-grade credit ratings as of April 8 in exchange for notes tied to future tax revenues with maturities of less than three years. The Fed invoked Section 13(3) with the approval of the U.S. Treasury, which will use the CARES Act to provide $35 billion to cover any potential losses.

o **Supporting municipal bond liquidity:** The Fed is also using two of its credit facilities to backstop munis. It expanded the eligible collateral for the MMLF to include highly rated municipal debt with maturities of up to 12 months, and also included municipal variable-rate demand notes. It also expanded the eligible collateral of the CPFF to include high-quality commercial paper backed by tax-exempt state and municipal securities. These steps will allow banks to funnel cash into the municipal debt market, where stress has been building due to a lack of liquidity.

Cushioning U.S. Money Markets from International Pressures

- **International swap lines**: Using another tool that was important during the Great Recession, the Fed is making U.S. dollars available to other central banks, so they can lend to banks that need them. The Fed gets foreign currencies in exchange, and charges interest on the swaps. The Fed has cut the rate it charges on those swaps with central banks in Canada, England, the Eurozone, Japan, and Switzerland, and extended the maturity of those swaps. It has also extended the swaps to the central banks of Australia, Brazil, Denmark, Korea, Mexico, New Zealand, Norway, Singapore, and Sweden.

- The Fed also is offering dollars to central banks that don't have an established swap line through a new repo facility called FIMA (for "foreign and international monetary authorities"). The Fed will make overnight dollar loans to the central banks, taking U.S. Treasury debt as collateral.

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