COVID-19 is making the economy sick, too.

Here's what the Federal Reserve is doing and why

While healthcare experts focus on the COVID-19 pandemic and work to keep people healthy, the Federal Reserve is working to keep the nation's economy healthy. Toward that end, in March 2020, the Fed began taking a number of steps to support the economy.

What is the Fed doing and why?

While the Fed doesn't have the tools to directly affect unemployment or loss of business, by reducing interest rates and supporting the functioning of financial markets, the Fed seeks to keep credit (such as loans) flowing to households and businesses, thereby helping to cushion the economic impacts of the virus.

- To support the economy, the Fed has lowered its main interest rate. The lower range for that rate helps to lower other interest rates—such as those for mortgages and car loans—reducing the costs for people who borrow money and businesses that need loans (here's how that impacts economic activity).
- To encourage banks to lend money to people and businesses that need credit, the Fed is making it cheaper for banks to borrow from the Fed (it also did this after the terrorist attacks of September 11, 2001, and during the financial crisis of 2008 and 2009).
- The Fed has put in place a number of policies and programs to help ensure various financial markets function and to support the ability of households, businesses, and municipalities to borrow. One such action is the Fed's buying of certain assets, such as Treasury securities (here's a video that explains some of this).

The Fed supervises banks. What's it urging them to do?

US banks are strong, and the Fed and other federal banking agencies have encouraged banks to use that strength to support people and businesses. Specifically, the Fed has encouraged banks to use financial cushions built up during the past decade to provide loans and work with their borrowers. In addition, the Fed is encouraging banks to borrow from the Fed to help banks meet borrowers' needs.

Moving forward

The circumstances surrounding the COVID-19 outbreak continue to evolve rapidly. While the primary responses to COVID-19 will come from others, the Fed will continue to closely monitor market conditions and is prepared to adjust its plans as appropriate.

Federal Reserve Bank of Cleveland | Published March 24, 2020 | The Fed's actions to support the US economy are updated in real time here.