



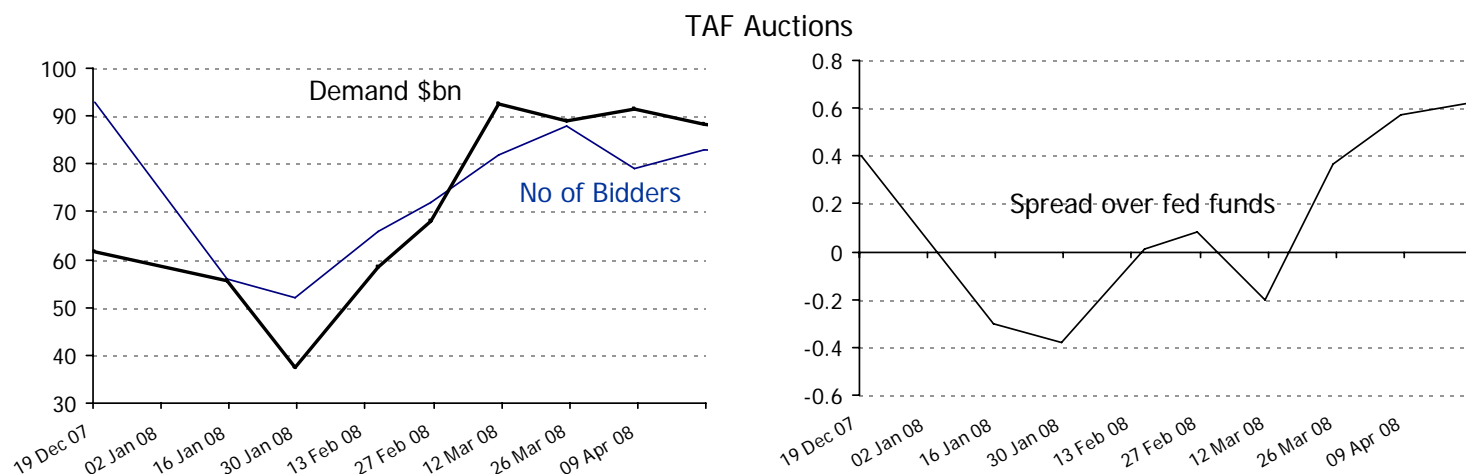
Economic Brief

Fedwatch: Increasing Liquidity Provisions

May 2, 2008

The Fed increased liquidity provisions to financial institutions yet again. This measure -- that comes as response to the markets' pressing request for funding -- underscores the Fed continuing concern with the vulnerability of the financial system. Today's measures reinforced all three of the Fed innovative instruments to manage the current turmoil: Term Auction Facilities (TAF), Term Securities Lending Facilities (TSFL) and temporary reciprocal currency arrangements with other central banks:

1. The Fed increased the amount auctioned in TAF's from \$50 billion to \$75 billion. This comes as a response to the fact that demand for Term Auction Facilities (TAF) has exceeded supply throughout the last two months, gradually increasing the rate of this instrument relative to fed funds.
2. The Fed authorized an expansion in the collateral that can be pledge by primary dealers interested in TSLF's. This collateral may now include AAA/Aaa-rated asset backed securities.
3. The FOMC authorized a further increase in its existing temporary reciprocal currency arrangements with the European Central Bank (from \$30 billion up to \$50 billion) and the Swiss National Bank (from \$6 billion up to \$12 billion). The FOMC also extended the term of these arrangements through January 30, 2009.



Nathaniel Karp, Chief U.S. Economist (832) 813 7738

nathaniel.karp@bbvausa.com

Ignacio Sanmartin, Regional Unit (832) 813 7761

ignacio.sanmartin@bbvausa.com

Alejandro Neut, Macro Unit (212) 728 1692

alejandro.neut@bbvany.com

Marcial Nava, Macro Unit (832) 813 7770

marcial.nava@bbvausa.com