

**Transcript of Chair Yellen's Press Conference
June 14, 2017**

CHAIR YELLEN. Good afternoon. Before I get started, I just want to say that our thoughts are with those who were injured this morning.

Today the Federal Open Market Committee decided to raise the target range for the federal funds rate by $\frac{1}{4}$ percentage point, bringing it to 1 to $1\frac{1}{4}$ percent. Our decision to make another gradual reduction in the amount of policy accommodation reflects the progress the economy has made, and is expected to make, toward maximum employment and price stability objectives assigned to us by law.

We also released today, as an addendum to our Policy Normalization Principles and Plans, additional information on the process that we will follow in normalizing the size of our balance sheet once we determine that it is appropriate to begin doing so. I'll have more to say about our interest rate decision and our balance sheet policy, but first I'll review recent economic developments and the outlook.

Following a slowdown in the first quarter, economic growth appears to have rebounded, resulting in a moderate pace of growth so far this year. Household spending, which was particularly soft earlier this year, has been supported by solid fundamentals, including ongoing improvement in the job market and relatively high levels of consumer sentiment and wealth. Business investment, which was weak for much of last year, has continued to expand. And exports have shown greater strength this year, in part reflecting a pickup in global growth. Overall, we continue to expect that the economy will expand at a moderate pace over the next few years.

In the labor market, job gains have averaged about 160,000 per month since the start of the year—a solid rate of growth that, although a little slower than last year, remains well above

estimates of the pace necessary to absorb new entrants to the labor force. The unemployment rate has fallen about ½ percentage point since the beginning of the year and was 4.3 percent in May, a low level by historical standards and modestly below the median of FOMC participants' estimates of its longer-run normal level. Broader measures of labor market utilization have also improved this year. Participation in the labor force has been little changed, on net, for about three years. Given the underlying downward trend in participation stemming largely from the aging of the U.S. population, a relatively steady participation rate is a further sign of improving conditions in the labor market. Looking ahead, we expect that the job market will strengthen somewhat further.

Turning to inflation, the 12-month change in the price index for personal consumption expenditures was 1.7 percent in April, up from less than 1 percent last summer but down somewhat over the past few months. Core inflation—which excludes the volatile food and energy categories and tends to be a better indicator of future inflation—has also edged lower. The recent lower readings on inflation have been driven significantly by what appear to be one-off reductions in certain categories of prices, such as wireless telephone services and prescription drugs. These price declines will, as a matter of arithmetic, restrain the 12-month inflation figures until the extraordinarily low March reading drops out of the calculation. However, with employment near its maximum sustainable level and the labor market continuing to strengthen, the Committee still expects inflation to move up and stabilize around 2 percent over the next couple of years, in line with our longer-run objective. Nonetheless, in light of the softer recent inflation readings, the Committee is monitoring inflation developments closely.

Let me now turn to the economic projections that Committee participants submitted for this meeting. As always, participants conditioned their projections on their own individual views

of appropriate monetary policy, which, in turn, depend on each participant's assessment of the many factors that shape the outlook. The median projection for growth of inflation-adjusted gross domestic product, or real GDP, is 2.2 percent this year and edges down to 1.9 percent by 2019, slightly above its estimated longer-run rate. The median projection for the unemployment rate stands at 4.3 percent in the fourth quarter of this year and ticks down to 4.2 percent in 2018 and 2019, modestly below the median estimate of its longer-run normal rate. Finally, the median inflation projection is 1.6 percent this year and rises to 2 percent in 2018 and 2019. Compared with the projections made in March, real GDP growth is little changed, the unemployment rate follows a moderately lower path, and inflation—although marked down this year for reasons I mentioned earlier—is unchanged over the following two years. In addition, the median estimate of the longer-run normal unemployment rate moved down a tenth to 4.6 percent.

Returning to monetary policy, for the past year and a half the FOMC has been gradually increasing its target range for the federal funds rate as the economy has continued to make progress toward our goals of maximum employment and price stability. Our decision today continues this process.

We continue to expect that the ongoing strength of the economy will warrant gradual increases in the federal funds rate to sustain a healthy labor market and stabilize inflation around our 2 percent longer-run objective. That's based on our view that the federal funds rate remains somewhat below its neutral level—that is, the level of the federal funds rate that is neither expansionary nor contractionary and keeps the economy operating on an even keel. Because the neutral rate is currently quite low by historical standards, the federal funds rate would not have to rise all that much further to get to a neutral policy stance. But because we also expect the neutral level of the federal funds rate to rise somewhat over time, additional gradual rate hikes are likely

to be appropriate over the next few years to sustain the economic expansion. Even so, the Committee continues to anticipate that the longer-run neutral level of the federal funds rate is likely to remain below levels that prevailed in previous decades.

This view is consistent with participants' projections of appropriate monetary policy. The median projection for the federal funds rate is 1.4 percent at the end of this year, 2.1 percent at the end of next year, and 2.9 percent at the end of 2019, about in line with its estimated longer-run value. Compared with the projections made in March, the median path for the federal funds rate is essentially unchanged.

As always, the economic outlook is highly uncertain, and participants will adjust their assessments of the appropriate path for the federal funds rate in response to changes to their economic outlooks and views of the risks to their outlooks. As I've noted previously, policy is not on a preset course.

Let me now turn to our balance sheet. As I noted in our policy statement, we are continuing to maintain the size of our balance sheet by reinvesting proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. Provided that the economy evolves broadly as the Committee anticipates, we currently expect to begin implementing a balance sheet normalization program this year. Consistent with the principles and plans we released in 2014, this program would gradually decrease our reinvestments and initiate a gradual and largely predictable decline in our securities holdings.

The addendum to our Policy Normalization Principles and Plans that we released today provides further information. For both Treasury and agency securities, we will reinvest proceeds from our holdings only to the extent that they exceed gradually rising caps on the reductions in our securities holdings. Initially, these caps will be set at relatively low levels—\$6 billion per

month for Treasuries and \$4 billion per month for agencies. So, any proceeds exceeding those amounts would be reinvested. These caps will gradually rise over the course of a year to maximums of \$30 billion per month for Treasuries and \$20 billion per month for agency securities and will remain in place through the normalization process. By limiting the volume of securities that private investors will have to absorb as we reduce our holdings, the caps should guard against outsized moves in interest rates and other potential market strains.

As I previously noted, when our securities holdings begin to gradually decline, so too will the supply of reserve balances in the banking system. At some point, probably a few years down the road, the Committee will bring the decline in our balance sheet to an end as the quantity of reserves is normalized. I can't tell you what the longer-run normal level of reserve balances will be because that will depend on the Committee's eventual decisions about how to implement monetary policy most efficiently and effectively in the longer run, as well as a number of as-yet unknown elements, including the banking system's future demand for reserves and various factors that may affect the daily supply of reserves. What I can tell you is that we anticipate reducing reserve balances and our overall balance sheet to levels appreciably below those seen in recent years but larger than before the financial crisis.

As readers of our minutes know, the Committee has on previous occasions discussed potential long-run frameworks for implementing monetary policy. Decisions about the appropriate long-run framework do not need to be made for quite some time, and our future deliberations will benefit from the experience we will gain during the normalization process. At this point, I'll just point out that our current system is working well and has some important advantages. In particular, it is simple and efficient to operate, does not require active management of the supply of reserves, and, most importantly, provides good control over the

federal funds rate and effective transmission of changes in the federal funds rate to broader money market rates. And because our current system is likely compatible with a much smaller quantity of reserves, our plan for gradually reducing our balance sheet does not constrain the Committee's future options for how to implement monetary policy.

Finally, as noted in today's addendum, the Committee affirmed that changing the target range for the federal funds rate is our primary means of adjusting the stance of monetary policy. In other words, the balance sheet is not intended to be an active tool for monetary policy in normal times. However, the Committee would be prepared to resume reinvestments if a material deterioration in the economic outlook were to warrant a sizable reduction in the federal funds rate. More generally, the Committee would be prepared to use its full range of tools, including altering the size and composition of its balance sheet, if future economic conditions were to warrant a more accommodative monetary policy than can be achieved solely by reducing the federal funds rate.

Thank you. I'll now be happy to take your questions.

NICK TIMIRAOS. Nick Timiraos of the *Wall Street Journal*. Chair Yellen, the principles you released today say the balance sheet wind-down should commence once interest rate normalization is "well under way." With this latest rate increase, do you believe normalization is now well under way?

CHAIR YELLEN. So that is something that we've said for some time, and I've previously—when I've been asked what "well under way" means—said that I don't want to define that in purely quantitative terms but rather in qualitative terms. So there's no specific level of the federal funds rate that means we're well under way. But it's also a question of not only the current level, but our confidence in the outlook and our projections for the future path of

the federal funds rate. So we have increased our federal funds rate target now several times. Our outlook is that we anticipate further increases this year and next year for the federal funds rate, and our statement indicates that if the economy continues to evolve in the manner that we expect, that we would feel the conditions are in—will be in place to begin this process this year.

STEVE LIESMAN. Steve Liesman, CNBC. Madam Chair, I'm wondering if you've talked to the President or members of his staff about the possibility of staying on as Chair for a second term. I'm also wondering if you would consider doing that—that's something you thought about doing. And, finally, there are three vacancies on the Fed. Have you—do you have any comment at all for the President about his failure to nominate anybody for those three positions? Thank you.

CHAIR YELLEN. So what I've said about my own situation is that I fully intend to serve out my term as Chair, which ends in early February. I have not had conversations with the President about future plans. And I do very much hope—I know that they have been working hard to identify appropriate nominees for the open slots, and I do very much hope that there will be nominations in the not-too-distant future, and that the Senate will take those up expeditiously. I look forward to having a full Board.

STEVE LIESMAN. And, I'm sorry, just to follow up: Do you desire to stay on?

CHAIR YELLEN. I really don't have anything for you at this point.

SAM FLEMING. Thanks very much. Sam Fleming from the *Financial Times*. We've now had a very long streak of—or fairly long streak of weak inflation numbers, at least measured by the CPI this morning as well. Marketplace-based inflation expectations are declining. What kind of vigilance are you now saying is needed in terms of weak inflation? How does that interact with your policy outlook? And would further disappointments argue for pressing

“pause” on rate hikes or delaying balance sheet runoff? How do you think about those two potential responses to weak inflation?

CHAIR YELLEN. So let me just say, as I emphasized in my statement and always say, monetary policy is not on a preset course. We indicated in our statement today that we're closely monitoring inflation developments and certainly have taken note of the fact that there have been several weak readings, particularly on core inflation. Our statement indicates that we expect inflation to remain low in the near term. But, on the other hand, we continue to feel that with a strong labor market and a labor market that's continuing to strengthen, the conditions are in place for inflation to move up. Now, obviously we need to monitor that very carefully and ensure, especially with roughly five years of inflation running under our 2 percent objective—that is a goal to which the committee is strongly committed. And we need to make sure that we have in place the policies that are necessary to achieve 2 percent inflation, and I pledge that we will do that.

But let me say, with respect to recent readings, it's important not to overreact to a few readings, and data on inflation can be noisy. As I pointed out, there have been some idiosyncratic factors I think that have held down inflation in recent months, particularly a huge decline in cell telephone service plan prices, some declines in prescription drugs. We had an exceptionally low reading on core PCE in March, and that will continue to hold down 12-month changes until that reading drops out. But we are—this morning's reading on the CPI showed weakness in a number of categories, and it's certainly something that we will be closely monitoring in the months ahead. We will—we're focused on making our policy decisions on the medium-term outlook, and we will, you know, be looking carefully at incoming data and, as always, revising our outlook and policy plans as appropriate.

SAM FLEMING. Any implications for beginning of runoff and further increases in the fed funds rate?

CHAIR YELLEN. So—continue, as today's actions show, to feel that the economy is doing well, is showing resilience. We have a very strong labor market, an unemployment rate that's declined to levels we have not seen since 2001. And, even with some moderation in the pace of job growth, we have a labor market that continues to strengthen and policy remains—remains accommodative. So, I—it's important that inflation move up to our 2 percent objective, as our projections show we continue to expect that and believe the conditions are in place. But we will monitor incoming data, obviously, and be attentive to rethinking our outlook if it seems appropriate.

CRAIG TORRES. Craig Torres from Bloomberg News. Hate to belabor the point on inflation, but I was wondering, I hear a lot of the so-called NAIRU in your conversation now and in other committee members'. It's an unobservable thing. At best, it's an estimate. And the assumptions in there seem to me that the economy today is much like the economy yesterday, when, if anything, we've learned that the post-recession economy is vastly different than it was before the recession. So I'm wondering, something you've talked about is to focus more on the change in inflation—actual inflation, and is it going up or is it going down, and basing policy more on that. What would be the risk of that, and why not adopt that if you have such a long period of underperformance?

CHAIR YELLEN. Well, we are closely looking at the actual performance of inflation and altering our views on the basis of discrepancies between what we see and our expectations. And, well, it is very difficult to pin down what is the longer-run normal rate of unemployment, and there's a great deal of uncertainty about it, and it's hard to pin down, especially given the

fact that the so-called Phillips curve appears to be quite flat. That means that inflation doesn't respond very much or very quickly to movements in unemployment. Nevertheless, that relationship, I believe, remains at work. We have seen that operate historically. Now, in the face of very low unemployment that we have seen, while wage growth has picked up somewhat, it remains low, and inflation is influenced by a number of different factors, but we certainly haven't seen much or any evident upward pressure on inflation. In light of that, the Committee has successively moved down its estimate of the normal longer-run rate of unemployment, and in this projection, it's moved down to 4.6 percent, a tenth lower than it was last time. So, while the unemployment rate is below that, it's not that much—it's not that much below it.

ANA SWANSON. Ana Swanson, the *Washington Post*. We saw measures of consumer and business confidence rise after inauguration on expectations that the Administration would move quickly to introduce policy changes like tax cuts and infrastructure spending. But some of those policy changes have been slower to materialize than initially expected. How do you view the positive and negative risks from policy changes to your outlook, and has your view changed on that at all in the last six months?

CHAIR YELLEN. So I would say that business and household sentiment remains quite strong, although many forecasters have pushed back somewhat the timing of the expected policy changes, such as changes to tax policy or fiscal policy more generally. I would say that, based on my observation of actual spending behavior and my discussions with our wide range of contacts, that I haven't seen very much evidence that, thus far, expectations of policy changes have driven substantial changes in either consumer spending or investment spending. So I really wouldn't expect any significant pullback. Many of our business contacts—I think their

confidence remains high. They've not really changed their plans yet, and they have a wait-and-see attitude.

BINYAMIN APPELBAUM. Binya Appelbaum, the *New York Times*. Measures of financial conditions show that since the Fed started raising interest rates two years ago, financial conditions actually have loosened. Consumer business borrowing costs in many cases are down. Do you have the sense that the market is not listening to you? How much of a concern is that for you? And, at some point, does it convince you that you need to raise rates perhaps more quickly?

CHAIR YELLEN. Well, in deciding what the appropriate path of rates is, we take many different factors into account. We have certainly noticed the stock market is up considerably over the last year. That usually shows up in financial conditions indexes and is an important reason why some of them show easier financial conditions. There's been a modest decrease recently in the value of the dollar, although it's up substantially since mid-2014. So we take those factors into account in deriving our forecasts and deciding the appropriate stance of policy. We have done that, and—but other things also affect the stance of policy. So there really can't be any simple relationship. We're not targeting financial conditions. We're trying to set a path of the federal funds rate, but taking account of those factors and others that don't show up in a financial conditions index. We're trying to generate paths for employment and inflation that meet our mandated objectives.

HOWARD SCHNEIDER. Howard Schneider with Reuters. So, on inflation again, I just wonder, what's the possibility that something more, sort of—I mean, nefarious is at work here, right, which is that the, sort of, weight of central bank credibility now—for a generation, really—plus globalization has just pushed the world into a low-inflation environment that's going to be

very hard to get wages and prices moving again. And then, related to that, you know, if NAIRU is 4.2, why not 4 or why not 3.8? You banked a quarter—you know, a full percentage point now, so you're probably at less risk of falling behind whatever curve exists. Why rush?

CHAIR YELLEN. So I don't think central bank credibility—at least the Fed's credibility—has been impaired. We look at a whole variety of indicators of inflation expectations. Professional forecasters—whether it's in the Blue Chip or the Survey of Professional Forecasters, those expectations have remained quite steady and in close alignment with our 2 percent inflation target. TIPS-based measures of inflation compensation do not provide straight reads on market participants' estimates and expectations about inflation. They embody other elements—risk premia and liquidity premia as well. They had moved down and now have moved—they remain at low levels, but they have moved back up again. It is true that some household surveys of inflation expectations have moved down, but overall I wouldn't say that we've seen a broad undermining of inflation expectations.

But you asked also, I guess, about have structural changes perhaps impacted the inflation process, and that certainly is possible. And estimates of the normal longer-run unemployment rate—they are quite uncertain. I agree with your assessment there. We're really not certain what they are. And policy is not being—is not based on some firmly held preconceived notion. We're watching very carefully how the actual economy performs. And, you know, I continue to believe, though, that with job growth running well in excess, even with the moderation of the level that's needed to provide for new entrants in the labor market, we do have a strengthening economy. With policy accommodative, all that we're doing in raising rates is moving—removing a bit of accommodation heading toward a neutral pace. And I see that as appropriate. We're not moving so aggressively as to put a brake on continued improvement in the labor

market. But I think that that's a prudent move, to move in a gradual way to remove accommodation, with unemployment now—and not only, I should say, the unemployment rate, but I think any indicator of labor market performance and tightness that you could look at, whether it's household perceptions of the availability of jobs, difficulty that firms report in hiring workers, the rate at which workers are quitting their jobs, the rate of job openings, all of these indicators do signal a tight labor market.

Now, with inflation below 2 percent, I think it's appropriate that the labor market be that tight. But, on the other hand, I think we want to avoid the risk. We want to keep the expansion on a sustainable path and avoid the risk that at some point we need—we find ourselves in a situation where we've done nothing and then need to raise the funds rate so rapidly that we risk a recession. So moving to some extent in a timely way to remove accommodation with a strong economy and continued labor market strength, the Committee believes, is an appropriate management of risks. But we are attentive to the fact that inflation is running below our 2 percent objective, that we've faced that situation now for a long time, and it's really quite essential that we put in place policies that will succeed in moving inflation back to our 2 percent objective, and it's a symmetric objective. So that's a risk that we face as well. The Committee believes we have conditions in place for inflation to move up, but that's also a risk. And those things point, I think, to a gradual pace of reducing accommodation.

NANCY MARSHALL-GENZER. Hi, Nancy Marshall-Genzer from Marketplace. Recently, a group of economists sent the Fed a letter earlier this month disagreeing with your 2 percent inflation target and saying they would like the economy to run a bit hotter. They don't think the labor market is so tight. You say you're committed to the 2 percent target, but what do you say to them?

CHAIR YELLEN. So, at the time that we adopted the 2 percent target—it was back in 2012—we had a very thorough discussion of the factors that should determine what our inflation objective should be. And, you know, I believe that was a well-thought-out decision. Now, at the moment, we are highly focused on trying to achieve our 2 percent objective. And we recognize the fact that inflation has been running below, and it's essential for us to move inflation back to that objective.

Now, we've learned a lot in the meantime, and assessments of the level of the neutral likely level, currently and going forward, of the neutral federal funds rate have changed and are quite a bit lower than they stood in 2012 or earlier years. And that means that the economy is—has the potential where policy could be constrained by the zero lower bound more frequently than at the time that we adopted our 2 percent objective. So it's that recognition that causes people to think we might be better off with a higher inflation objective, and that's an important set—this is one of our most critical decisions and one we are attentive to evidence and outside thinking. It's one that we will be reconsidering at some future time. And it's important for our decisions to be informed by a wide range of views and research which is ongoing inside and outside the Fed. But a reconsideration of that objective needs to take account not only of benefits of a higher in—potential benefits of a higher inflation target, but also the potential costs that could be associated with it. It needs to be a balanced assessment. But I would say that this is one of the most important questions facing monetary policy around the world in the future, and we very much look forward to seeing research by economists that will help inform our future decisions on this.

DON LEE. Thank you. Don Lee with the *L.A. Times*. The Fed's projections continue to show the longer-run federal funds rate at 3 percent. The markets are expecting 2 percent. How

big of a concern is that gap in your mind? What are the reasons for the disconnect? And, you know, what are the implications and the risks for the real economy?

CHAIR YELLEN. So let me first say, it's not straightforward to determine exactly what expectations are embodied in market prices because there are term premia that affect these rates, and they may not really be as low as one would infer from a straight read. That said, in part, expectations reflect estimates of what the neutral federal funds rate is and how it's likely to evolve over time. And views have changed about that over time, and there is a good deal of uncertainty about it. So we have recently put out charts that try to show what the range of uncertainty is around our path for the federal funds rate, especially as one goes further out. There's a good deal of uncertainty and—that reflects the, like—all the shocks that can affect the evolution of the economy, and also the fact, we're quite uncertain ourselves about what the likely—what the evolution will be of the neutral federal funds rate.

So we do try to write that down and provide the public with information about our current expectations. And the median now stands at around 3 percent, but we have uncertainty about that. Many of my colleagues and I think that the current neutral level is lower than that. And as I said in my opening statement, the fed funds rate path reflects an expectation that that neutral rate will be moving up some in future years. But that remains uncertain, and I think that's something that market participants are trying to assess, and we will be as well.

DON LEE. But do you see greater volatility in the markets as it adjusts to the difference in the gap between the expectation and what the Fed's projections are for the longer-run federal funds rate?

CHAIR YELLEN. Well, our expectations are little changed. I mean, the projections we released today are essentially identical to those. And I think the market is aware of the views of

participants and is assessing evidence itself to form their own views. And it's important that the market take an independent look, and that we get to understand and see how market participants are interpreting evidence on the evolution of the economy. So it's not an unhealthy thing to have such a gap. And, as I just said, our own views are not set in stone but are likely to evolve as well over time.

MARTIN CRUTSINGER. Marty Crutsinger, Associated Press. Back in 2013, when you—the Fed first raised the possibility of trimming its bond purchases, it created a bit of turbulence in financial markets. The taper tantrum caused you to reassess your communication of that process. This trimming of the bond holdings, though—the financial markets seem to be taking that in a better way. If down the road, though, you see that there is more of an adverse reaction, are you planning to make any changes, perhaps change the caps to \$30 billion, in the \$20 billion caps? How do you assess how you'll handle that going forward?

CHAIR YELLEN. So we have indicated for quite some time, I guess, since our—at least since our 2014 normalization principles, that we wanted to reduce our balance sheet in a gradual and predictable way. And we have tried systematically to communicate more about how we would do that as our plans have evolved. And today's announcement is another step in providing further details about how we plan to proceed so that when this plan does go into effect, no one is taken by surprise and market participants understand how this will work.

I think that we—the plan is one that is consciously intended to avoid creating market strains and to allow the market to adjust to a very gradual and predictable plan. My hope and expectation is that when we decide to go forward with this plan, that there will be very little reaction to it, that it's clear how we intend to proceed, and that this is something that will just run quietly in the background over a number of years, leading to a reduction in the size of our

balance sheet and in the outstanding stock of reserves, and that it's something that the Committee will not be reconsidering from time to time. We think this is a workable plan, and it will, as one of my colleagues, President Harker, described it, it will be like watching paint dry, that this will just be something that runs quietly in the background. So that's my expectation and our intention. Look, of course, if it turns out that there is a surprise and a substantial reaction, that is something we would have to take into account in deciding on the appropriate stance of policy.

MICHAEL MCKEE. Michael McKee from Bloomberg Television and Radio. A couple of comments from Administration officials I wanted to get your reaction to. The Treasury Secretary and others have suggested that Dodd-Frank regulation and the way it's been implied—applied have restricted credit growth in the economy, banks are not making loans that they otherwise would, and that has slowed growth. Do you agree with that? And if you get a new Vice Chair of Supervision who wanted to ease up on regulation, would you go along with that? Also, I wanted to ask you—it's been reported the President has congratulated you on being a “low interest” person. Would you agree with that characterization of your philosophy?

CHAIR YELLEN. Well, with respect to the impact of credit conditions and bank regulation on slow growth, I've previously, in testifying, indicated that I don't think that our regulations have played an important role, at least broadly speaking, in impeding credit growth and the growth of the economy. And I've pointed in the past to a number of statistics suggesting that credit growth continues to be healthy, including among small—smaller community banks that are most concerned with regulatory burden. I think when banks are undercapitalized and weak, that impedes credit growth. And when banks are strong, they're in a much better position to lend. So that's been a view that I've stated previously.

Now, in terms of regulation, the Treasury recently issued, on Monday, a detailed report. And that's quite a complicated document with lots of recommendations in it. I haven't had a chance to review it thoroughly, so I don't want to comment on too many details. But I would say it underscores the importance of capital, liquidity, stress testing, and resolution planning in having a safe and sound banking system, which are views that I and my colleagues have long espoused. Regulatory burden, when it's possible to ease it, and a good deal of the Treasury report is focused on regulatory burden, that's something that all regulators should be looking to do. We strongly believe in the importance of tailoring our regulation to the size and complexity of institutions, of finding ways to relieve burden for community banks. We have been focused and had a number of initiatives already in that direction, looking for ways, for example, to simplify capital requirements for community banks. And we'll continue in that direction and, in that sense, in those areas certainly share the views expressed in the Treasury report. So there are a number of areas and suggestions where our thinking aligns well. There is probably some areas where we're likely to have differences but quite—you know, quite a number of areas where we're, you know, likely to be able to and already are taking actions that are consistent with those recommendations.

MICHAEL MCKEE. And the characterization of you as a low interest rate person?

CHAIR YELLEN. Well, I have felt that it's been appropriate for interest rates to remain low for a very long time. We are in the process of, as the economy strengthens, normalizing interest rates. But, certainly, we've had a lot of years in which interest rates have been low. I thought it was necessary to support the economy at that time and was strongly in favor of those policies.

KAREN MRACEK. Thank you, Karen Mracek with Market News International. Today you guys outlined the details of the plan to—when you begin to end reinvestments. But you stopped short of saying exactly when it would be implemented, only saying “this year,” and adding that that depended on how the economy evolved. Can you tell us why you decided not to go ahead with it today? Is there certain conditions that you're looking for? And then, as a second question, do you think that the—you could raise rates and begin implementation of the plan at the same time? Thank you.

CHAIR YELLEN. So we have tried as meticulously as we can to provide advanced warning to markets about how we would go about doing this so that market participants can prepare. And today's announcement is another step in that process. So we certainly wanted to get this information out before we actually undertake the beginning of this plan. And, you know, as the statement says, we've made no definite decision on the timing of the plan, but—the timing of initiating the plan. But if the economy evolves in line with our expectations, which, you know, we will be watching—always are—we could put this into effect relatively soon. You asked about whether or not we would do that and raise rates at the same meeting, and I would say, we've made no decision about that, and it really hinges on the outlook and our assessment of conditions.

VICTORIA GUIDA. Hi, Victoria Guida with Politico. You mentioned the Treasury report, and I just wanted to ask, how much weight do you give those recommendations in considering, you know, potential regulatory changes moving forward? And also, more specifically, one of the recommendations relates to the Volcker rule. I know you've said in the past that, you know, it might be a good idea to reduce the burden on community banks, but it also talks about potentially exempting banks with trading assets and liabilities above a certain

level. And I was wondering if you think that that's an idea that's worth exploring, that might be a good idea.

CHAIR YELLEN. So we have previously suggested exempting community banks, smaller banks, entirely from the rule. And a number of my colleagues have spoken about the Volcker rule. Implementation of it is frankly complex, and I'm certainly open to looking at ways to reduce regulatory burden in that area. The report endorses a restriction on proprietary trading. So, in that sense, it endorses the main objective of the Volcker rule, which I was pleased to see. But on implementation, it's true that the rules were—in part reflecting the way the legislation is written—were, I think, necessarily complex, but we do have some ideas for how we might simplify the rule, and certainly it's something we're quite open to looking at.

VICTORIA GUIDA. And how much weight do you give Treasury recommendations?

CHAIR YELLEN. Well, I mean, Treasury has a—set out a list of objectives for regulation that I'm sympathetic to and endorse. I think looking for ways to reduce regulatory burden, when it can be done without sacrificing safety and soundness or creating systemic risk, that's something that all regulators should want to do. We've done an awful lot of rule writing over the last five or six years. And coming back and looking at where we have created burdens and ways in which we can simplify to reduce, that is an objective that is core to the Treasury review and that we are very sympathetic with. So, while we may not agree on every detail, certainly the suggestions that are made there are ones that we will pay attention to and in many cases are already on our own list of things we should review.

MICHAEL DERBY. Mike Derby from Dow Jones Newswires. In light of the plans to trim the balance sheet hopefully later this year, what have you learned about QE and your bond-buying policies as a tool for monetary policy? When they were launched, it wasn't something

you had, you know, engaged in on that scale before—a lot of fears that it was going to create hyperinflation. That hasn't ever seemed to come to pass. So, in light of QE as potentially a tool for the future—you know, it might come back again—what have you learned about how it works in the economy? Like, where do you see it affect things? You know, what are sort of the lessons learned of the experience?

CHAIR YELLEN. Well, thanks. That's a great question. I mean, staff in the Federal Reserve and outside economists have done a great deal of work trying to evaluate QE. I think the general conclusion is that it has worked in that it has put some downward pressure on longer-term interest rates, so-called term premiums embedded in longer-term interest rates. There's disagreement among economists about exactly how large those effects are, and it's something that's difficult to pin down. But, obviously, it has not caused runaway inflation, quite the contrary. I mean, that was never my expectation, but I do remember when people were afraid that that would happen.

We do have the tools. We have, you know, even with a large balance sheet—we intend to shrink our balance sheet now, but even with a large balance sheet, we retain the ability to move the fed funds rate and set it as appropriate for the needs of the economy. So I think we have learned that it works. It's a valuable part of the toolkit. It's something that, if we were to encounter an episode in the future of extreme weakness where—I've said we want the fed funds rate and movements in short-term interest rates, that's our go-to number one main policy tool—but if we were to hit the zero lower bound and constrained in our use of that tool, certainly balance sheet policies and forward guidance of the type that we provided, I believe, based on the evidence of how they worked, ought to remain part of our toolkit. And we have said in the

bullets that we released today on our balance sheet that in such of—an episode of such extreme weakness in the future, those are things we would consider going forward.

MICHAEL DERBY. One small follow-up. Is \$4½ trillion sort of a natural limit to how high you might want to push the balance sheet, or could you envision it going higher if you needed it to?

CHAIR YELLEN. Well, we've had no discussion of that issue, you know. And our focus now is on getting it back to a more normal size. But I would say, the use of QE in the United States relative to the size of our economy is not as high as it's been in some other countries that have employed it. But that's something we haven't seriously even discussed.

PATRICK GILLESPIE. Chair Yellen, Patrick Gillespie with CNN. It's workforce development week at the White House, and you highlighted several job training—successful job training programs in your speech in March. The President's budget has a 40 percent cut to job training programs. What is your response to the budget cut to job training programs even though they expect to expand apprenticeship programs? And do you believe that job training programs and apprenticeships are needed to help fix the job skills gap in the economy?

CHAIR YELLEN. Well, I'm not going to comment on the President's budget, and these programs can be undertaken at many different levels. I've seen many nonprofits and states and local authorities put in place programs that looked to me to be successful. I do think we have a tight labor market and one where employers have jobs where they're finding difficulty identifying workers with the appropriate skills. In my own discussions with businesses, what I hear more of—and this is something I think is a great aspect of a tight labor market—larger firms are spending more on training and trying to, given that they can't hire workers with the ideal skills, are training people to fill jobs that they have available. What I hear from CEOs of smaller

firms is that they don't have the ability to launch such programs. They would really very much like to participate along, for example, with community colleges or nonprofits to see such programs launched and have jobs that people could fill if they received the appropriate training. So I do think that this is an important area, and, especially given the pressures that have, you know, existed for a long time—downward pressure on wages and job opportunities, especially for those with less skills—I think that this is something that deserves priority.