Transcript of Chair Yellen's FOMC Press Conference
March 18, 2015

CHAIR YELLEN. Good afternoon. As you know, the Federal Open Market Committee this afternoon reaffirmed the current 0 to ¼ percent target range for the federal funds rate. We also updated our forward guidance, indicating that an increase in the target range for the federal funds rate remains unlikely at our next meeting in April. With continued improvement in economic conditions, however, we do not want to rule out the possibility that an increase in the target range could be warranted at subsequent meetings. Let me emphasize, however, that the timing of the initial increase in the target range will depend on the Committee's assessment of incoming information. Today's modification of our guidance should not be interpreted to mean that we have decided on the timing of that increase. In other words, just because we removed the word "patient" from the statement doesn't mean we are going to be impatient. Moreover, even after the initial increase in the target funds rate, our policy is likely to remain highly accommodative to support continued progress toward our objectives of maximum employment and 2 percent inflation. I'll come back to today's policy decisions in a few moments, but first I would like to review economic developments and the outlook, which formed the basis for our policy decisions.

We have seen continued progress toward our objective of maximum employment. The pace of employment growth has remained strong, with job gains averaging nearly 290,000 per month over the past three months. The unemployment rate was 5.5 percent in February; that's three-tenths lower than the latest reading available at the time of our December meeting. Broader measures of job market conditions—such as those counting individuals who want and are available to work but have not actively searched recently and people who are working part time but would rather work full time—have shown similar improvement. As we noted in our statement, slack in the labor market continues to diminish. Meanwhile, the labor force participation rate—the percentage of working-age Americans either working or seeking work—is lower than most estimates of its trend, and wage growth remains sluggish, suggesting that some cyclical weakness persists. So considerable progress clearly has been achieved, but room for further improvement in the labor market continues.

We continue to expect sufficient underlying strength in economic growth to support ongoing improvement in the labor market. After averaging about 2½ percent over 2014, growth of real gross domestic product appears to have slowed in the first quarter of this year, in part reflecting a moderation in household spending. In addition, the recovery in the housing sector remains subdued, and export growth looks to have weakened. Looking ahead, however, the Committee continues to expect a moderate pace of GDP growth, with robust job gains and lower energy prices supporting household spending.

Inflation has declined further below our longer-run objective, largely reflecting the lower energy prices I just mentioned. Declining import prices have also restrained inflation, and in light of the recent appreciation of the dollar, will likely continue to do so in the months ahead. My colleagues and I continue to expect that as the effects of these transitory factors dissipate and as the labor market improves further, inflation will move gradually back toward our 2 percent objective over the medium term. In making this forecast, we are attentive to the low levels of market-based measures of inflation compensation. In contrast, survey-based measures of longer-term inflation expectations have remained stable. The Committee will continue to monitor inflation developments carefully.

This assessment of the outlook is reflected in the individual economic projections submitted for this meeting by the FOMC participants. As always, each participant's projections are conditioned on his or her own view of appropriate monetary policy. The unemployment rate projections over the next few years and in the longer run are generally a bit lower than the December projections. At the end of this year, the central tendency for the unemployment rate stands at 5 to 5.2 percent, in line with participants' estimates of the longer-run normal unemployment rate. Committee participants generally see the unemployment rate declining a little further over the course of 2016 and 2017. For economic growth, participants generally reduced their projections since December, with many citing a weaker outlook for net exports. Nonetheless, the central tendency of the growth projections for this year and next, at 2.3 to 2.7 percent, remains somewhat above estimates of the longer-run normal growth rate. Finally, FOMC participants project inflation to be quite low this year, largely reflecting lower energy and import prices. The central tendency of the inflation projections for this year is now below 1 percent, down noticeably since December. As the transitory factors holding down inflation abate, the central tendency rebounds to 1.7 to 1.9 percent next year and rises to 1.9 to 2 percent in 2017.

Returning to monetary policy, as I noted at the outset, the Committee reaffirmed its view that the current 0 to ¼ percent target range for the federal funds rate remains appropriate. But with economic conditions improving, and with further improvement expected in the months ahead, we have again modified our forward guidance. In December and January, the Committee judged that it could be patient in beginning to normalize the stance of monetary policy. That meant that we considered it unlikely that economic conditions would warrant an increase in the target range for the federal funds rate for at least the next couple of FOMC meetings. While it is still the case that we consider it unlikely that economic conditions will warrant an increase in the target range at the April meeting, such an increase could be warranted at any later meeting, depending on how the economy evolves.

Let me emphasize again that today's modification of the forward guidance should not be read as indicating that the Committee has decided on the timing of the initial increase in the target range for the federal funds rate. In particular, this change does not mean that an increase will necessarily occur in June, although we can't rule that out. As we noted in our statement, the decision to raise the target range will depend on our assessment of realized and expected progress toward our objectives of maximum employment and 2 percent inflation. We continue to base that assessment on a wide range of information, including measures of labor market conditions, indicators of inflation pressures and inflation expectations, and readings on financial and international developments. We anticipate that it will be appropriate to raise the target range for the federal funds rate when the Committee has seen further improvement in the labor market and is reasonably confident that inflation will move back to its 2 percent objective over the medium term.

Once we begin to remove policy accommodation, we continue to expect that—in the words of our statement—"even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the longer run."

This guidance is consistent with the paths for appropriate policy reported by FOMC participants. Compared with the projections made in December, most participants lowered their path for the federal funds rate, consistent with the downward revisions made to the projections for GDP growth and inflation as well as somewhat lower estimates of the longer-run normal unemployment rate. The median projection for the federal funds rate is just below 2 percent in late 2016 and rises a bit above 3 percent in late 2017. The median projected rate in 2017 remains below the 3¾ percent or so projected by most participants as the rate's longer-run value, even though the central tendency of the unemployment rate by that time is slightly below that of its estimated longer-run value, and the central tendency for inflation is close to our 2 percent objective. Participants provide a number of explanations for the federal funds rate running below its normal longer-run level at that time. These include, in particular, the residual effects of the financial crisis, which are likely to continue to constrain spending and credit availability for some time. I would like to emphasize that these forecasts of the appropriate path of the federal funds rate are conditional on participants' individual projections for economic output, inflation, and other factors. But our actual policy actions over time will be data dependent. Accordingly, if the expansion proves to be more vigorous than currently anticipated and inflation moves higher than expected, then the appropriate path would likely follow a steeper and higher trajectory; conversely, if conditions were to prove weaker, then the appropriate trajectory would be lower and less steep.

Finally, the Committee will continue its policy of reinvesting proceeds from maturing Treasury securities and principal payments from agency debt and mortgage-backed securities. The Committee's sizable holdings of longer-term securities should help maintain accommodative financial conditions and promote further progress toward our objectives.

Thank you. Now I'd be happy to take your questions.

HOWARD SCHNEIDER. Howard Schneider with Reuters. Hi, thank you. So there's been this pretty consistent reference to expectations of above-trend growth over the last few months. Now we're seeing growth downgraded in the context of very explicit references to international and external conditions: weak export growth, oil dragging down inflation, and your own comments now on the dollar. So my question is, doesn't this indicate that the Fed's facing a tougher time—you know, kind of going it alone, decoupling from the rest of the world—than perhaps you expected last fall when this first started to be an issue?

CHAIR YELLEN. Well, it looks like, from incoming data pertaining to the first quarter, that real GDP growth has declined somewhat below where it was for the last several quarters of last year. And that's really why the Committee indicated that growth has moderated somewhat. There has been a slight downgrading of estimates of growth for this year. You mentioned the dollar. We noted that export growth has weakened. Probably the strong dollar is one reason for that.

On the other hand, the strength of the dollar also, in part, reflects the strength of the U.S. economy. The strength of the dollar is also one factor that, as I noted, is holding down import prices and, at least on a transitory basis at this point, pushing inflation down. So, we are taking account of international developments, including prospects for growth in our trade partners, in making the forecast we have here.

Nevertheless, it is important to recognize that this is not a weak forecast. Taking everything into account, we continue to project above-trend growth. We continue to project improvement in the labor market by the end of 2015. The central tendency of the participants is, they're looking for an unemployment rate that will be down to 5.0 to 5.2, which is consistent with their estimates of its longer-run normal value. So, we do see considerable underlying strength in the U.S. economy. And, in spite of what looks like a weaker first quarter, we are projecting good performance for the economy.

MARTIN CRUTSINGER. Marty Crutsinger, Associated Press. The policy statement today talks about one of the prerequisites you'll need to start raising rates is to be "reasonably confident" that inflation—your inflation target—will be met at 2 percent, but that is coming out at a time when you've lowered your forecast on inflation, what—which I would think would make you less confident about it. What is it going to take to make you "reasonably confident" about inflation?

CHAIR YELLEN. So, I don't have a mechanical answer for you. There is no single thing where I'd say, "We must see such-and-such in order to achieve that level of confidence." We will be looking at a wide array of data.

Now, we've said that we also want to see continued improvement in the labor market. And a stronger labor market with less labor market slack is one factor that would tend to, certainly for me, increase my confidence that as slack diminishes, that inflation will move up over time. Other things I will be looking at—of course, the inflation data, but as we said, we expect inflation to remain quite low because of the depressing influence of energy price declines and the dollar. But we will be looking at the inflation data carefully to see if we can interpret, for example, low levels of inflation—if we see that, which we expect, as reflecting those influences.

We will be looking at wage growth. We have not seen wage growth pick up. We may not see wage growth pick up, I wouldn't say either that that is a precondition to raising rates. But if we did see wage growth pick up, that would be at least a symptom that inflation would likely move up over time.

We'll be watching inflation expectations. Survey measures have been stable; I expect that to continue, but we will be watching it carefully. And market-based measures of inflation compensation have fallen. They're low. If they were to move up over time, that would probably serve to increase my confidence.

But there are a wide range of things that we will be looking at, including further improvement in the labor market. So there's no simple answer. This is a judgment that the Committee will have to make.

JON HILSENRATH. Jon Hilsenrath from the *Wall Street Journal*. Chair Yellen, the famous dot plot that we always talk about showed that officials' expectations for where interest rates are going to end the year in 2015, '16, and '17 have come down fairly notably. I wonder if you could explain to us your analysis of why those estimates are coming down. And, specifically, is it a reflection of—what's changed? And is it a reflection of the changes in the Fed's economic forecast or a change in the way the Fed is reacting to the economy that it sees—its reaction function?

CHAIR YELLEN. So, it's always hard to know exactly why each participant has written down the forecast they have, but certainly there are changes in the assessments of the economy and forecasts for the economy that would point in the direction of downward adjustment in the funds rate path. For one thing, you do see meaningful downward adjustment in the inflation forecast, certainly for this year.

In addition, importantly, a number of participants have marked down their estimates of the normal longer-run unemployment rate. So that range has moved down noticeably from—previously it was 5.2 to 5.5, and it's now moved down to 5.0 to 5.2. And downward revisions to the longer-run normal unemployment rate in a way suggests that participants are seeing more slack in the economy now than they previously did. So I think both of those things would point to downward revision in the funds rate path.

SAM FLEMING. Sam Fleming from the *Financial Times*. The experience of some other central banks—notably Japan, Sweden also—suggests that tightening early when you're at the zero lower bound can be a risky process—the risks of tightening early can dramatically outweigh the risks of leaving things a little longer. I wonder if you could comment on that international experience and explain how that's influencing the debate in the FOMC at the moment.

CHAIR YELLEN. Well, when an economy is operating at the so-called zero lower bound, there—it creates a situation where there are asymmetric risks. It is possible, if the economy proves stronger than is expected, to respond to that by tightening policy. If there are adverse shocks to demand that tend to push inflation and economic performance in an adverse direction, it's not possible to lower rates. Of course, that's a reason why, for a number of years, we engaged in active asset purchase programs. So there is a situation there of asymmetric risks, and it does point in the direction of waiting longer to raise rates.

But I would say that this is an influence that we—and a set of considerations—that we have long been aware of and have been taking into account, so that it's not something that just comes into play now. It is a reason that we have held our rates at 0 to ¼ percent for, now, roughly six years. So, we are seeing an economy that's growing above trend, the labor market is improving. I think some of the headwinds that have long been holding the economy back are beginning to recede, which is a reason that the Committee wants to be able to evaluate incoming data and consider when it may be appropriate to finally raise rates. But that is a consideration we have long taken into account.

STEVE LIESMAN. Steve Liesman, CNBC. I don't hear, Chair Yellen, any quantitative measures of what increasing confidence is in inflation or heading back towards—or a further improvement in the job market, which is unusual for a Fed that not too long ago was providing us metrics on unemployment about when it would move with rates. Is it now policy to keep the market guessing? And is it thought that you'd have better policy and economic outcomes from less certainty about the path of interest rates? And a kind of related question, if you will: Could you see raising rates while the Committee still judges that the risks are balanced?

CHAIR YELLEN. So, in terms of certainty and providing metrics, we provided a metric or a threshold of 6½ percent several years ago and told market participants and the public that we wouldn't consider it appropriate to raise rates as long as the unemployment rate was higher than that level, as long as inflation was well contained. But our policy needs to be data dependent, and we need to respond to incoming data and our assessment of incoming data in terms of where we think the economy is heading and how close we are to our objectives.

And the markets—so, can we provide certainty? Of course we can't provide certainty because we're not certain what the data will look like and how the economy will evolve. And to achieve our objectives, we need to watch the data, continually reformulate our best guesses—our forecasts of where the economy is going—and respond appropriately. And we can't provide certainty and shouldn't provide certainty because economic developments that will unfold are uncertain. And what market participants should be doing is looking at incoming data just as we are and forming their expectations for where policy will be going and should be going just exactly as we will be doing by attempting to understand economic developments as they unfold. And that's—that is what we're trying to say in this statement, that that's what we will be doing going forward. And we don't want to—and don't think it's appropriate at this point—to provide calendar-based guidance.

STEVE LIESMAN. Can I have the second part about the balance of risks—would you raise rates when risks are balanced?

CHAIR YELLEN. The risks to what?

STEVE LIESMAN. If risks are balanced, as they say in the statement, could you be raising rates in that context?

CHAIR YELLEN. Well, I guess we said the risks to the outlook are balanced. And, I mean, certainly we could raise rates in a situation where the risks are balanced. We need to see, as we have said, we want to see further improvement in the labor market, and we want to feel reasonably confident that the economy is on a trajectory where we will achieve our 2 percent inflation objective.

BINYAMIN APPELBAUM. Binya Appelbaum, *New York Times*. There seems to be an awful lot riding on surveys of inflation expectations, yet those surveys are an imprecise instrument; they don't seem particularly sensitive to the types of changes in inflation that we have seen in recent years, they don't seem to differentiate between, say, 1.5 and 2—the expectations remain stable even through those changes. Could you talk a little bit about why the FOMC has confidence that those measures are accurate reflections of where inflation is likely to go and whether, you know, the concerns that you've articulated about market-based measures at all correspond to concerns that you may have about survey-based measures?

CHAIR YELLEN. Well, survey-based measures aren't perfect. And the mean—often the mean or even the median of those measures does not line up very well with actual inflation, so they seem to be biased. Nevertheless, they do seem to be useful in predicting actual movements in inflation. And because we think inflation expectations are a determinant of price setting, we need to be looking at the best data that we can, even if it's imperfect, in trying to gauge inflation expectations. And so we do look at survey measures.

Now, the fact that survey measures are stable, even if they are stable at levels consistent with inflation objectives that a central bank wants to achieve, that's not a guarantee that inflation will, over time, move to be consistent with those expectations. An example is Japan, I would give you, where for many years the households and businesses expected positive inflation but there was a consistent undershoot. So, this isn't a single metric that is perfect, but it's one of many things we'd look at.

We also look at measures of inflation expectations based on market differentials between nominal and real or TIPS yields. They're also informative but can move around for reasons pertaining to liquidity in the Treasury market and in the TIPS market, and also because of changing perceptions of inflation risk. So, they're not a pure read, either. And we want to look at both things and not take away any simple morals.

PETER BARNES. Peter Barnes, Fox Business. Chair Yellen, I wanted to check in again with you on whether or not you see or have any concerns about bubbles out there in the economy, particularly the financial markets—debt and equity markets. And I wanted to refer to your most recent *Monetary Policy Report* to Congress last month, in which you said "overall equity valuations by some conventional measures are somewhat higher than their historical levels . . . valuation metrics in some sectors continued to appear stretched relative to historical norms." In the same report last year, in July, the report specifically mentioned biotech and social media stocks as being "substantially"—let me see here—"substantially stretched." Do you still feel that way and can you comment on bubbles and particularly these sectors?

CHAIR YELLEN. Well, I don't want to comment on those particular sectors. You know, as we said in the report, overall measures of equity valuations are on the high side but not outside of historical ranges. In some corporate debt markets, we do see evidence of unusually low spreads, and that's what was referred to in the report.

More broadly, we do try to assess potential threats to financial stability. And in addition to looking at asset valuations, we also look at measures of credit growth, of the extent of leverage being used in the economy and in the financial sector, and the extent of maturity transformation. And taking into account a broad range of metrics that bear on financial stability, our overall assessment at this point is that threats are moderate.

JENNIFER LIBERTO. Jen Liberto, *Politico*. So, I want to switch gears a little bit and ask about some of the tension between the Fed and Congress lately, with some lawmakers calling for more transparency and accountability measures. And I wanted to ask to what degree that there might be room for the Fed to consider some of these measures, like maybe a rules-based approach like the Taylor rule, or some of these measures that would change up who has a voting seat on the FOMC. To what degree does that make it more difficult to accomplish your mission?

CHAIR YELLEN. So, I believe the Federal Reserve is already one of the most transparent central banks of any around the globe. We provide an immense amount of information, both financial—about our balance sheet—and our monetary policy operations. We have audited financial statements. We publish our balance sheet every week. If you want to know exactly what's in the SOMA portfolio, it's listed on the New York Fed website on a CUSIP-by-CUSIP basis. I have press conferences. We issue minutes. We have, you know, statements that we release right after meetings and transcripts within five years. So, if you put all that together, we are a transparent central bank.

With respect to congressional changes that are under consideration that would politicize monetary policy by bringing Congress in to make policy judgments about, in real-time, on our monetary policy decisions. Congress itself decided in 1978 that that was a bad thing to do, that it would lead to poor economic performance, and they carved out this one area of policy reviews, of monetary policy decisionmaking, from GAO audits. The GAO looks at everything else that goes on within the Fed. And I think that that is a central bank best practice.

The global experience shows that giving central banks independence to make monetary policy decisions that they think are in the best interest of the country and consistent with their mandates leads to lower inflation and more stable macroeconomic outcomes. So, I feel very strongly about that, but we are accountable to Congress. Of course, we're ready to provide information that Congress needs to evaluate the Fed's decisionmaking, in monetary policy and elsewhere.

With respect to monetary policy rules, they can be useful, and I find them useful—and long have—as a kind of benchmark for thinking about what might be the appropriate stance of policy. But to chain a central bank to follow a simple mathematical rule that fails to take account of many things that are very important in making monetary policy—for example, I was earlier asked about being against the zero lower bound, which is an important special consideration—that would be a very foolish thing to do, and I oppose it.

With respect to proposals having to do with voting and the structure of the Fed that you mentioned, a lot of ideas have been mentioned. I would say, for my part, I think the Federal Reserve works well. The system we have was put into place by Congress decades ago. I don't think it's a system that's broken. Of course, Congress can revisit the decisions it's made about the structure of the Fed. There were good reasons for making the decisions that were made about how to structure voting and other things, but—and I don't think the system is broken, I think it's working well. So I don't see a need for changes. But, of course, it's up to Congress to review that.

STEVEN MUFSON. I was wondering whether you could quantify the effect that the stronger dollar has had on economic output so far this year; the extent to which it's sort of acted as its own rate increase; and what sort of obligation you feel, if any, to make life easier for the ECB, Bank of Japan, and the many emerging market countries that are struggling with some of the issues we struggled with not that long ago.

CHAIR YELLEN. So, with respect to the impact of the dollar on the U.S. economy, I don't have a quantitative estimate to offer you, but I certainly expect net exports to serve as a notable drag, this year, on the outlook. But, remember, we have to put that in context: There are a lot of things that affect the U.S. outlook, and while that is serving as a drag on economic growth, overall the Committee continues to see sufficient strength—particularly in private spending—that we are expecting above-trend growth, even so.

With respect to our neighbors, we look very carefully at what's happening in the global environment. We realize that our own policies affect performance in the rest of the world, and that performance in other countries has an influence on us, so we spend a good deal of time discussing global developments. It is important for us to keep our own house in order, to put in place the policy that's consistent with the objectives that Congress has given us, and I think a strong U.S. economy certainly is something that is good for other countries as well. We have pledged to communicate as clearly as we can about monetary policy, and I am trying to do that, and will continue to do so.

NANCY MARSHALL-GENZER. Nancy Marshall-Genzer with Marketplace. We talked about the risk of tightening too early. What about the risk of waiting too long, especially since it can take a while for Fed actions to work their way through the economy?

CHAIR YELLEN. Well, I agree with that. Many, many studies over decades and decades have showed that there are lags in the way monetary policy affects the economy, and, therefore, monetary policy does have to be forward looking. That's why we spend so much time preparing forecasts and discussing them, and we want to put in place a policy that will be appropriate for where the economy is heading. That's—that is, you know, a reason that many of my colleagues—most of my colleagues—are anticipating that it will be appropriate to begin to tighten policy sometime this year. In spite of the fact that they are projecting that inflation will be low, they're looking forward and they see that, by the end of 2016 or 2017, with the labor market recovering, and assuming that inflation expectations remain stable and transitory influences no longer affecting inflation, they see inflation heading back to our 2 percent objective. So just as we don't want to be premature in tightening policy and aborting a recovery that we have worked long and hard to proceed as far as it has, we also don't want to be behind the curve in beginning to tighten given those lags.

CRAIG TORRES. Madame Chair, I'd like to preface this by saying, I do believe you stand for accountability. And—so, recently, a bunch of us, we're in a room over there, there was a police guard outside, and your staff had taken our cell phones, and they controlled the Internet in the room—all this to guard the security of the FOMC statement. If one of us had leaked it, we would lose our jobs. Surely there would be a prosecution, and my friends here in the press would certainly have a banner day with that story.

There was a leak in the FOMC. We don't know what happened. I've asked, I can't get an answer. And now Congress is asking. Both parties want to know. I'm not going to ask about the IG's probe—I understand that's an active case now, suddenly, after two years of just sitting there. But I would like to ask what you've found at the Board. You weren't Chairman then, you were Vice Chair, I believe. So what answers do you have, and are you going to respond to Congress?

CHAIR YELLEN. So, let me say that the Committee and I, personally, take very seriously our responsibility to safeguard confidential information. We have a set of policies and procedures that are in place that we're to follow if we believe that there have been leaks of confidential information. And this is something that doesn't occur very often, but if it does occur, we follow those procedures. It has been reported that our Inspector General is engaged in a review at this time of this matter, and in light of that ongoing review, I'm not going to get into details, but let me just say that we welcome that review and are looking forward to its conclusions. With respect to Congress, congressional inquiries—we have arranged to brief members of Congress who've asked about this, and we'll certainly cooperate in trying to provide them the information that they seek.

JOHN HELTMAN. Madame Chair, thanks for taking my question. The banking sector has clearly improved since the crisis in terms of capital retention, but there's also seemingly a number of scandals involving forex manipulation, of course LIBOR. Do you think that the culture at the banks is where it ought to be? And, if not, what is the Fed going to do to improve it, and when?

CHAIR YELLEN. Well, it's certainly been—I mean, it's certainly been very disappointing to see what have been some really brazen violations of the law, and we absolutely expect the banks that we supervise to comply with the law and to have in place controls that ensure compliance in organizations. And while changing the culture of organizations is not something that we can achieve through supervision, we will make sure that the banks that we supervise have appropriate compliance regimes in place. And to the extent that compensation schemes might be incenting such behavior that inappropriately rewards risk-taking, that's something that was—we will, you know, look for in our supervision as well.

JOHN HELTMAN. I have a follow-up. When you introduced—you introduced a compensation rule in 2011. When do you think we might see some movement on that—on that rule?

CHAIR YELLEN. Well, the agencies—the agencies are working jointly to bring out a rule on this, but we do have supervisory policies in place concerning the structure of incentive pay and compensation, and our supervision covers that topic now. And we have seen, I think, meaningful changes already in the structure of compensation and banking organizations to diminish ways in which it might incent risk-taking.

PEDRO DA COSTA. Pedro da Costa with Dow Jones Newswires. I guess I have two follow-ups, one with regard to Craig's question. So, before the IG's investigation, according to Republican Congressman Hensarling's letter to your office, he says that, "It is my understanding that although the Federal Reserve's General Counsel was initially involved in this investigation, the inquiry was dropped at the request of several members of the FOMC." Now, that predates the IG. I want to know if you could tell us who are these members of the FOMC who struck down this investigation? And doesn't not revealing these facts kind of go directly against the sort of transparency and accountability that you're trying to bring to the central bank?

CHAIR YELLEN. That is an allegation that I don't believe has any basis in fact. I'm not going to go into the details, but I don't know where that piece of information could possibly have come from.

PEDRO DA COSTA. If I could follow up on his question. I think when you get asked about financial crimes and the public hears you talk about compliance, you get a sense that there's not enough enforcement involved in these actions, and that it's merely a case of kind of trying to achieve settlements after the fact. Is there a sense in the regulatory community that financial crimes need to be punished sort of more forcefully in order for them to be—for there to be an actual deterrent against unethical behavior?

CHAIR YELLEN. So, the—you're talking about within banking organizations? So, the focus of regulators—the banking regulators—is safety and soundness, and what we want to see is changes made as rapidly as possible that will eliminate practices that are unsafe and unsound. We can't—only the Justice Department can bring criminal action, and they have taken up cases where they think that that's appropriate. In some situations, when we are able to identify individuals who were responsible for misdeeds, we can put in place prohibitions that bar them from participating in banking, and we have done so and will continue to do so.

STEVE BECKNER. Steve Beckner of MNI. Good afternoon, Madame Chair. The FOMC said last September that it will wait 'til after the first rate hike to stop or to discontinue reinvesting proceeds of its MBS holdings and stop rolling over maturing Treasuries. What is the FOMC's current thinking about how long after liftoff you should wait to stop reinvestments and rollovers? And, given the very large amounts of Treasuries maturing next year, would it make sense for the FOMC to vary the pace of runoff that it allows?

CHAIR YELLEN. So, we issued in September a set of normalization principles, and, as you noted, the Committee indicated that we will eventually cease reinvestments or diminish the pace of reinvestments as a way of gradually reducing the size of our portfolio over time. We said we would do that when economic conditions were appropriate after we begin raising rates, because we want changes in the—our target range for the federal funds rate to be the main tool by which we shift the stance of monetary policy. We've not made any decision at this point about how long it will be, once we begin to raise rates, before we reduce or cease reinvestment. We will see how things go, and the Committee will revisit that and make a decision at a later time.

You also indicated that we have a substantial quantity of Treasuries that will roll off our balance sheet over the next several years. That's true, and that will—I think, over the next two years, almost $800 billion will mature—and that they will be short-term, obviously, Treasuries at that point, and that's a way in which we anticipate diminishing the size of our portfolio.

STEVE BECKNER. Can I follow up, please? Some people have suggested that you might need to manage those runoffs a little more granularly, if that's a word, perhaps pursue a different track for Treasuries versus MBS or, you know, at given quarters when you have very large amounts maturing, and there might be a spike in long-term interest rates, that maybe you would vary the rate of runoff. Is that—any consideration given to that?

CHAIR YELLEN. That's something for which we've made no plans, and I don't really have anything for you on that.

GREG ROBB. Greg Robb from MarketWatch. We hear that productivity takes a long time before you can understand it, but it's been very low in this cycle. What does that mean for Fed policy?

CHAIR YELLEN. Well, I agree, it has been very low—it's been disappointingly low. A positive aspect of what is fundamentally a disappointment is that the labor market has improved more rapidly than might have been expected given the pace of economic growth. So the unemployment rate has come down more rapidly than I would have expected, and the labor market has improved more rapidly than I would have expected. We have written down our estimates of potential output. In the long run, it is a disappointing factor about the ultimate prospects for the U.S. economy if it continues. I would expect it to pick up, and as you can see from the longer-run growth projections, most FOMC participants believe it will pick up above current levels. But it means it's something that would, if it persists, retard living standards and would likely retard real wage growth and improvement in living standards for ordinary households.

PETER COOK. Peter Cook of Bloomberg Television. Madame Chair, one clarification, if I could, logistically, and then a question about Congress, a follow-up. First of all, you've been asked this before, I just want to see if we can clarify. When you decide to start raising interest rates, could that decision happen at a meeting in which you—it's not followed by a press conference? And, on my congressional question, I would like to get your reaction to your—the treatment you received up on Capitol Hill the other day. It didn't look like a very pleasant experience, certainly in front of the House, at least at moments. I wondered if you have concerns about that. Has the relationship between the Fed and Congress deteriorated to a point that it causes you concern? What, if anything, can you do about it as well?

CHAIR YELLEN. So let me start with the press conferences. I said this previously, and let me reiterate it, that every meeting that the Federal Open Market Committee has is a live meeting at which we could make a decision. Clearly, if we decided for the first time to raise the federal funds rate, it is something—I think it would be appropriate to answer questions and explain in more detail. We have long had the capacity to call a press conference after a meeting that we would hold by teleconference—by conference call—and that's a capacity that was used on a number of occasions by my predecessor during the financial crisis. It is something that remains a capacity we have and would expect to use if it were necessary.

On the second part of your question, with respect to testimony, you know, it's very important for the Federal Reserve to be accountable to Congress. We have a wide range of responsibilities, and it's entirely appropriate for me to testify and be quizzed on a range of topics by members of Congress. I—you know, I think I need to be ready to answer questions on any aspect of Federal Reserve behavior, and that's an important principle.