

U.S. Fed Flash

Vice Chair Janet Yellen Congressional Confirmation Hearing No hints on taper-start or possible revision of policy thresholds

- **Yellen took balanced approach in both her testimony and responses**
- **“Robust recovery” will be set as FOMC frontline**
- **Yellen reassured to stand firm behind Fed’s 2 percent inflation goal**

At the Congressional hearing today, Fed Vice Chair Yellen stated that the FOMC should be ready to exit the highly accommodative policy once it sees evidence that “recovery takes hold and progresses.” She further confirmed that the decision to reduce the pace of asset purchases is taken one meeting at a time. Yellen kept her views in line with the last FOMC statement that the crucial factor behind the tapering decision is the incoming economic data.

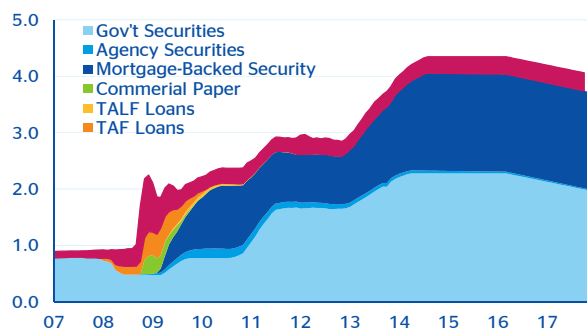
Tapering or not, Yellen plans to support highly accommodative monetary policy with a near-zero policy rate far into the future and will likely hold on to a slower pace of QE3 for some time as well. The nominee to lead the Fed reassured today that she will “continue promoting robust recovery,” putting the “robust recovery” at the frontline of the Fed’s mission. Her testimony read: “I believe that supporting the recovery today is the surest path to returning to a more normal approach to monetary policy.”

To neutralize her support for the ongoing \$85 billion monthly asset purchases, the Vice Chair’s responses emphasized her commitment to the Fed’s dual mandate and her standing firm behind the Fed’s 2 percent inflation goal. The testimony cleverly drew attention that she “led the effort to adopt a statement of the FOMC longer-run objectives, including a 2 percent goal for inflation.” Yellen acknowledged that there are dangers on both sides of the growing Fed balance sheet: ending QE too early or continuing the asset purchase program too long.

The promise that Yellen was obliged to make today was that if confirmed she will be a strong leader in further resolving the “too big-to-fail” problem. The Vice Chair also committed to openness and transparency in Fed communication, upholding the standard set by Chairman Bernanke.

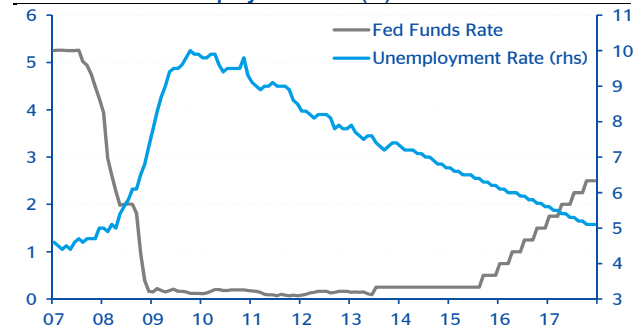
On the down-side, the Congressional hearing did not address whether the FOMC is considering a revision of policy thresholds – “forward guidance.” While some Fed officials are debating whether the 6.5% unemployment rate threshold for the zero policy rate should be further reduced to 6%, this will be an issue to watch in 2014 FOMC statements.

Graph 1
Federal Reserve Balance Sheet (bn.)



Source: FRB & BBVA Research

Graph 2
Fed Funds and Unemployment Rate (%)



Source: FRB, BLS & BBVA Research

Shushanik Papanyan
shushanik.papanyan@bbvacompass.com
+1 713 831 7342

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