

MONETARY POLICY PANEL

Luncheon Meeting, September 5, 2014

AGENDA

Managing the “Exit”: Choice of Tools and Communication Issues During Policy Normalization

Background

As the U.S. economy has displayed further progress toward the FOMC objectives, over its past few meetings the FOMC has discussed the general strategy for the eventual normalization of the stance and conduct of monetary policy. As noted in the July [minutes](#), the Board staff detailed a possible approach for implementing and communicating monetary policy once the Committee begins to tighten the stance of policy, to which participants expressed general support. In particular:

“Almost all participants agreed that it would be appropriate to retain the federal funds rate as the key policy rate.”

“Participants agreed that adjustments in the IOER rate would be the primary tool used to move the federal funds rate into its target range,” and

“[M]ost [participants] thought that temporary use of a limited-scale ON RRP facility would help set a firmer floor under money market interest rates during normalization.”

The issues of when to start reducing policy accommodation, and at what pace to reduce it, are complicated by the multi-dimensional aspect of the current policy stance: the large balance sheet, the policy rate at the effective lower bound, and forward guidance on the balance sheet and the policy rate. When the reduction of policy accommodation becomes appropriate it will require decisions on timing, on the possible deployment of various tools, and appropriate communication.

At this meeting we would like to hear your views on three sets of issues about the normalization process:

- The state of the economy and the *timing* of lift-off
- The tools and the *pace of tightening* after lift-off
- The *communication* of the policy stance.

We would also like to hear your views about the general conduct of monetary policy in a “post-crisis” world.

Questions for Discussion

On the state of the economy and the timing of lift-off

In its [statements](#), the FOMC has conditioned the timing of lift-off of the policy rate to the “progress – both realized and expected – toward its objectives of maximum employment and 2 percent inflation”. The attached “Chartbook” presents our staff overview of the recent developments in the U.S. economy.

- What is your assessment of the current strength of the economy, and what is your degree of confidence in continued progress toward the FOMC objectives?
- How much slack do you see remaining in resource utilization?
- Long-term yields have fallen substantially since the beginning of the year, while equity valuations have risen: how would you interpret the signals from these financial developments in terms of your view of the economy?

According to the July Survey of Primary Dealers, the median respondent saw the third quarter of 2015 as the most likely time for the liftoff of the federal funds rate from the effective lower bound, as shown in the handout. In addition, the respondents’ distribution of the time of liftoff has become more concentrated in 2015.

- Are these expectations aligned with your view of the appropriate timing of lift-off?

On the pace of tightening

The distribution of the “dots” for 2016 in the SEP moved up modestly between December and June, with the median FFR projection rising from 1.75% to 2.50%, suggesting that at least some FOMC participants see a faster rise through 2016 in the FFR as appropriate under their projections. In contrast, the median estimate of the longer-run policy rate declined from 4.00% to 3.75% over the same period.

- What is your view about the likely pace of policy normalization once it has been commenced? What considerations underlie your view?
- What is your assessment of the longer-term normal level of the federal funds rate? Has it changed over the past year? If so, why?

- What are your views regarding the possible interactions between the pace of normalization of the policy rate and the process of normalization of the balance sheet?
- More broadly, how would you assess the Committee's approach to normalization as described in the minutes of the recent FOMC meeting?

On communication

- The most recent use of forward guidance is associated with the zero lower-bound constraint. What are your views regarding the use of forward guidance once the FOMC is no longer constrained by the zero bound?
- What would you suggest to Vice Chair Fischer, the newly appointed chair of the FOMC's subcommittee on communications, as the most urgent matters regarding communications? A revision of the SEP process? Modifications to the FOMC Longer-Run Goals and Monetary Policy Strategy document? A template for developing an FOMC consensus forecast? A template for a Quarterly Monetary Policy Report?

On broader issues

- To what extent do you think the financial crisis and the Great Recession has changed or should change the theory and practice of monetary policy?
- What are your views concerning the ECB's policy measures that were announced in June? Do you believe that the inflation developments cited in ECB President Draghi's speech at Jackson Hole will require further measures by the ECB?
- To what extent do you think the economic situation in the Euro area may be affecting U.S. growth?
- Do you see a need for more monetary policy coordination across central banks?