Transcript of Chairman Bernanke's Press Conference
June 20, 2012

CHAIRMAN BERNANKE. Good afternoon. Before we get to questions, I'll summarize today's policy action by the Federal Open Market Committee and then place the Committee's decision in the context of our economic outlook and our collective judgment about the appropriate path of monetary policy.

As indicated in the statement released earlier this afternoon, the Committee is maintaining a highly accommodative policy. We decided to keep the target range for the federal funds rate at 0 to ¼ percent, and we continue to anticipate that economic conditions are likely to warrant exceptionally low levels of the federal funds rate at least through late 2014. In addition, the Committee decided to continue through the end of the year our program of lengthening the maturity of our securities holdings rather than completing the program this month as previously scheduled. Specifically, the Committee intends to purchase Treasury securities with remaining maturities of 6 years to 30 years at the current pace and to sell or redeem an equal amount of Treasury securities with remaining maturities of approximately 3 years or less. The details of our plans for our securities purchases and sales were described in an accompanying statement released today and can be found on the Federal Reserve Bank of New York's website. The continuation of the maturity extension program should put downward pressure on longer-term interest rates and make broader financial conditions more accommodative than they would otherwise be, thereby supporting economic recovery.

In conjunction with today's meeting, FOMC participants—the 7 Board members and the 12 Reserve Bank presidents—submitted their individual economic projections and policy assessments for the years 2012 to 2014 and over the longer run. These projections are important inputs to the Committee's deliberations. Incoming information suggests that the economy continues to expand at a moderate pace in the face of headwinds generated by the situation in Europe, a still-depressed housing market, tight credit for some borrowers, and fiscal restraint at the federal, state, and local levels. Business and household spending are increasing at rates consistent with moderate economic growth, though household spending appears to be rising at a somewhat slower pace than earlier this year. Employment gains have been smaller in recent months, and the unemployment rate, at 8.2 percent, remains elevated. In light of these developments, Committee participants have generally marked down their projections for economic growth, but most still see the economy as expanding at a moderate pace over coming quarters and then picking up gradually.

Based on their projections for economic growth, FOMC participants foresee slower progress in reducing unemployment than they did in April. Committee participants' projections for the unemployment rate in the fourth quarter of this year have a central tendency of 8.0 to 8.2 percent, declining to 7.0 percent to 7.7 percent in the fourth quarter of 2014, levels that would remain above participants' estimates of the longer-run normal rates of unemployment. In addition to projecting only slow progress in bringing down unemployment, most participants see the risks to the outlook weighted mainly toward slower growth and higher unemployment. In particular, participants noted that strains in global financial markets, associated principally with the situation in Europe, continue to pose significant risks to the recovery and to further improvement in labor market conditions.

Meanwhile, inflation has declined recently, primarily reflecting lower prices of crude oil and gasoline. Longer-term inflation expectations have remained stable, and the Committee anticipates that inflation over the medium run will run at or below the 2 percent rate that it judges most consistent with its statutory mandate for maximum employment and price stability. More specifically, participants' projections of inflation have a central tendency of 1.2 to 1.7 percent for 2012 and 1.5 to 2.0 percent for 2014. The economic projections submitted by FOMC participants are conditioned on their individual assessments of the appropriate path of monetary policy. As you can see from the chart, Committee participants have a range of views about when the initial increase in the federal funds rate is likely to be warranted.

After a thorough discussion of those views, and of the ongoing uncertainty and risks surrounding the outlook, the FOMC—as I mentioned—maintained its collective judgment that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014, and it agreed to provide further support to the economy by continuing the maturity extension program. The Committee is prepared to take further action as appropriate to promote a stronger economic recovery and sustained improvement in labor market conditions in a context of price stability.

Thank you. I'd be glad to take your questions.

STEVE LIESMAN. Steve Liesman, CNBC. Mr. Chairman, looking back on the last four years of Fed policy, I think it's probably fair to say it has been bold and yet at the same time halting. You did QE1 and then you stopped and then you did QE2. You did "Operation Twist" and you told us it was going to end in June; now you've extended it. How would you respond if, several years from now, a young MIT graduate student came forward and said, "You know what the problem with Fed policy was during this period is it was too incremental, and that the reason why the economy underperformed was because of that incrementalism." And what do you think the dangers are right now that today's action is also too incremental?

CHAIRMAN BERNANKE. Well, of course, you know, we cut the federal funds rate in a continuous fashion until December of 2008. And since then, we've been operating with nonstandard monetary tools, including asset purchases and extension of maturities. By their nature, these tend to be lumpy. We haven't done them in a continuous way. But our view of the effects of these programs on the economy is that the total stock of outstanding securities in our portfolio is what determines the level of accommodation that the economy is receiving. So in that respect, it wouldn't be really a start and stop; rather, whenever we have stopped purchasing, the level of accommodation that was already in the system remains there until conditions warrant further action. Now, underlying all this, of course, is the fact that the outlook has changed. Like many other forecasters, the Federal Reserve was too optimistic early in the recovery about the pace of recovery. And we've had to add additional accommodation going forward, as we have seen, in fact, that the headwinds have kept the recovery from being as strong as we would like. But, again, by the nature of these unconventional tools, they are—tend to be more discreet in their size, but they continue to have accommodative effects even after the pattern of purchases has ended.

STEVE LIESMAN. Don't you worry about incrementalism now?

CHAIRMAN BERNANKE. Well, we've taken a step today, which is a substantive step, which will provide additional accommodation for the economy. And, moreover, we have stated that we're prepared to take further steps if necessary to promote sustainable growth and recovery in the labor market. So, we are prepared to do what's necessary. We are prepared to provide support for the economy.

MARK FELSENTHAL. Mark Felsenthal with Reuters. Mr. Chairman, many analysts have characterized today's step as somewhat modest. Your own outlook has a much lower GDP projection. The unemployment rate in your outlook is—shows possibly no improvement at all in the unemployment rate through the end of this year. The program itself is smaller and of shorter duration than the original Operation Twist. Given this weaker outlook, why such a modest program? And when you say you are prepared to take further action, which is a stronger characterization than in your last meeting, does that mean you are prepared to do a full-on new asset purchase program?

CHAIRMAN BERNANKE. Well, there's been a great deal of economic news since our last meeting. The incoming data were somewhat disappointing—but not entirely clear how to read them. We had issues with weather and seasonal adjustment and other factors. Meanwhile, Europe has had additional problems. We've seen some of those effects in financial markets. So, I think, there is some case to be made for making some additional judgments about where the economy is going. That being said, the step we took, the extension of the maturity extension program, I think, is a substantive step, and it will provide some additional support. And yes, additional asset purchases would be among the things that we would certainly consider if we need to take additional measures to strengthen the economy.

JON HILSENRATH. Jon Hilsenrath from the *Wall Street Journal*. Mr. Chairman, I'd like to ask you to respond to a different set of criticisms. This criticism—which you hear from Capitol Hill and Wall Street and different places—is that the Fed has already pushed interest rates to an extraordinarily low level, a historically low level, and that there isn't anything more that the Fed can do to help the recovery. That—the criticism is that the Fed at this point should stand down and let Congress or the White House attend to the economy's ailments or let market forces attend to the economy's ailments. What do you think of those arguments, and how would you respond to them?

CHAIRMAN BERNANKE. Well, as I've said many times, monetary policy is not a panacea. Monetary policy by itself is not going to solve our economic problems. We welcome help and support from any other part of the government, from other economic policymakers. So, collaboration is—would be great. I wouldn't accept the proposition, though, that the Fed has no more ammunition. I do think that our tools, while they are nonstandard, still can create more-accommodative financial conditions, can still provide support for the economy, can still help us return to a more normal economic situation. That being said, again, any other support that is forthcoming, any other economic policies that are undertaken that are helpful in terms of making our economy stronger are welcome. But I do think that monetary policy still does have some capacity to strengthen the economy by easing financial conditions.

ZACH GOLDFARB. Thank you. Mitt Romney recently said that QE2 had a relatively little impact on the economy. He said that was in part because of the President's policies, and he said that QE3 was unwarranted and could have negative effects. Do you agree that QE2 had little effect on the economy? Do you think the President's policies has had an effect on the effectiveness of monetary policy? And do you think it's appropriate for a presidential candidate to comment on the future path of monetary policy?

CHAIRMAN BERNANKE. Well, I'll just say first that we think that both of the asset purchase programs, so-called QE1 and QE2, did have significant effects on asset prices and financial conditions. And although there were certain problems in transmission—for example, the housing market has not been as responsive as it's been in some times in the past—we do think that they were both effective in providing support for the economy, and in particular, so-called QE2 ended what looked to be an incipient deflation problem when we first introduced it. So, I do think those have been effective, and as I said to Mr. Hilsenrath, we think that these kinds of programs can still provide additional support. With respect to the rest of your questions, I just want to reiterate that the Federal Reserve is nonpartisan, we are very serious about taking our decisions based on purely economic grounds without political considerations, and we'll continue to do that.

JIM PUZZANGHERA. Thanks. Jim Puzzanghera with the *L.A. Times*. Long-term interest rates, mortgage rates are already at historic lows. How much more help can an extension of Operation Twist do and—to lower interest rates?

CHAIRMAN BERNANKE. Well, the interest rates are quite low, and they're being pushed down more by safe-haven flows and other factors. That being said, I think we can lower interest rates more. But beyond that, Operation Twist and asset purchases work also through other channels. In particular, by acquiring securities in the market and bringing them onto the Fed's balance sheet, we essentially induce investors to move into substitute securities. So, for example, an investor who sells a Treasury security to the Fed may end up buying a corporate bond instead, and so the effect will be to lower corporate bond rates and corporate spreads. Or a bank may, having sold its Treasury securities, may decide to make a loan instead. So, it's not just the effect on the long-term interest rate, but there's a broader set of effects that feed through other asset prices, other interest rates, other spreads, and provide a broader ease in financial conditions which is supportive to the economy.

JEFF KEARNS. Thank you. Jeff Kearns from Bloomberg News. Given the projections today going out to '14, seeing unemployment almost where it is now for another two years, can you look past 2014, and can you—now that we're five years past the top of the stock market, six years past the top of the housing market, can this go on for a decade? Can this go on longer? Can you reassure Americans that it won't go on for a dozen years like the Depression?

CHAIRMAN BERNANKE. Well, it's our intention to do all we can to make sure that it doesn't go on indefinitely. Unemployment is still too high, but it has come down. It was about 10 percent at the peak, and now it's closer to 8 percent. It's going down too slowly, but it is going down. Our sense is that people are finding jobs, but just not at the rate that we would like to see. And, you know, as I said, and as the statement says, if we don't see continued improvement in the labor market, we'll be prepared to take additional steps if appropriate.

BINYAMIN APPELBAUM. Binya Appelbaum, *New York Times*. I'm looking at the projections you all released today that show that unemployment will be between 8 and 8.2 percent at the end of the year. You told Congress earlier this month that the defining factor in your decision about whether to do more would be whether unemployment was coming down. That's barely a decrease. And I guess I'm struggling to understand why, in that context, you are not doing more now, particularly when you say that you can do more and that you would do more if it wasn't happening.

CHAIRMAN BERNANKE. Well, first of all, again, we are—we did take a substantive step today by extending the maturity extension program to the end of the year. Again, I think that's a meaningful additional step.

BINYAMIN APPELBAUM. The projections included that step, right?

CHAIRMAN BERNANKE. It depends on—each individual has their own path of optimal policy, so we'll provide more information about that in the minutes. But—and again, we're prepared to do more. We have to get, I think, further information about the state of the economy, about where things are going, about what's happening in Europe. I guess I would add to that, though, that, you know, each of these nonstandard programs does have various costs and risks associated with it with respect to market functioning, with respect to financial stability, with respect to the exit process, and so I don't think they should be launched lightly. I think there should be some conviction that they're needed, but if we do come to that conviction, then we'll take those additional steps.

KRISTINA PETERSON. Kristina Peterson, Dow Jones. I know that you've said that European policymakers are the first line of defense for the European debt crisis, but under what circumstances would the Fed decide to get more directly involved or coordinate action with other central banks?

CHAIRMAN BERNANKE. Well, as you say, the Europeans are the first line. Europe is a wealthy area. They have adequate resources to address these problems. They are very committed to addressing these problems because keeping the euro zone together, keeping the euro-zone trading bloc together is very important to the economies of those countries, so we leave to them the leadership. The Federal Reserve is very much involved in talking with and consulting with European leaders. I talk frequently to central bankers in Europe, including Mario Draghi and others. We try to provide whatever help and support we can. We did, of course, coordinate earlier in the provision of the dollar swaps to other central banks, which have been useful in reducing pressures in dollar funding markets and allowing European banks to continue lending in dollars, including to U.S. borrowers. So, at this point, we are consulting frequently. We are prepared to work together if that can be done constructively. But at this point, you know, we are mostly just in consultation mode.

PETER BARNES. Peter Barnes, Fox Business. Sir, you had talked about trying to get maybe a little help from some of the other branches of government, so that leads to the questions about the "fiscal cliff." Have you seen any evidence that the lack of progress on resolving the fiscal-cliff issue is having an impact on the economy right now? Is it slowing economic growth right now, job creation as we saw last year during this very same debate? And if you're not seeing it, and if you haven't seen it yet, when could we—might we start to see it hit the economy and hurt the economy?

CHAIRMAN BERNANKE. Well, I think it's still a bit early, but as we move forward in the year, we do anticipate that the uncertainty associated with the so-called fiscal cliff will have some economic effects. We heard anecdotes today in the meeting about firms that might be government contractors that were, you know, not sure about whether the contracts would still be in place come January and making employment decisions based on that. More generally, financial markets don't like uncertainty and, particularly, uncertainty of this magnitude, and that, I think, will be a negative. So that uncertainty is there, that's going to be an issue. I think most importantly, though, is that Congress get the policy right. I've talked about three elements for fiscal policy. The first is to do no harm as far as the recovery is concerned, to try to avoid a fiscal cliff that would significantly damage the recovery. But second, to maintain the effort to achieve a sustainable fiscal path over the longer term. And third, to use fiscal policy effectively—to have a better tax code, to make good use of government spending programs and make them efficient and effective, and so on. So I think if Congress does all those things, the ultimate benefits would be substantial.

PETER COOK. Peter Cook with Bloomberg Television. If I could follow up on my colleague Peter Barnes's question regarding the fiscal cliff, just listening to your answer here, how beneficial would it be for the U.S. economy right now, given some of the talk on Capitol Hill that the lawmakers and the Administration deal with the fiscal-cliff issues, perhaps temporarily kick the can down the road into next year, deal with it sooner rather than later.

Would that end—limit, at least, some of that uncertainty in the short term? Would that be beneficial given the state of the economy at this present moment?

CHAIRMAN BERNANKE. Well, that's a difficult problem. I'm not entirely sure. On the one hand, a little clarity would probably be helpful for the reasons that I described, because people are uncertain about what's going to happen. On the other hand, investors I know would like to see Congress take actions that put us on a long-term, sustainable fiscal path, and simply kicking the can down the road without any other indication of what might be done, what kinds of policies might be enacted, could be a negative for sentiment because it might induce people to worry more about the seriousness of Congress in addressing our fiscal issues.

SHAHIEN NASIRIPOUR. Shahien Nasiripour with the *Financial Times*. Mr. Chairman, one critique of the Fed's accommodative actions over the past few years has been that it's helped those with the least propensity to spend—the wealthy, large businesses and corporations—while the Fed's impact on those with the most propensity to spend—the cash-strapped and middle-income households—has been muted. I was hoping that you could perhaps address this criticism, particularly with a focus on access to credit.

CHAIRMAN BERNANKE. Sure. Well, access to credit is a major issue, there's no question about it. Mortgage access is much tighter than it's been for a long time. Even credit card access is more restricted than it has been in the past. And that—what that does is, to some extent, it mutes the impact of the Fed's actions. That being said, I don't think it's at all accurate to say that Federal Reserve policy is not helping the broad public. First of all, many Americans are able to take advantage of lower interest rates. Many people have refinanced or bought homes. Others have taken out loans to buy cars. Auto loans are cheap and broadly available. So, there has been impact through lower interest rates, but I think more broadly is the indirect effects. If a firm has a low cost of capital, and we've seen a lot of corporate borrowing in the last couple of years, then they're more likely to expand, to add capital, to add products, and, consequently, they are more likely to hire. And although, again, the extent to which the payrolls have increased in the last few years has been disappointing, there have been significant increases, and the unemployment rate has come down by 2 percentage points. Some of that comes from the broad impact of Fed policy on spending, on investment, and those effects affect the broad public indirectly by promoting hiring and by promoting demand for products that people are producing.

KEVIN HALL. Hi, thanks. Kevin Hall with McClatchy Newspapers. If you could flesh out a little bit more detail about what—where you think the choke points are in the economy. SIFMA yesterday had their midyear outlook conference call in which they blamed a full percentage point of the slowdown on fiscal cliff and, more importantly, Europe and said, you know, much bigger pass-through than anyone anticipated. Today, the Business Roundtable said, Europe, not so much; it's basically the economy. The CEO of Boeing said, clearly, we're already trimming jobs, we're already cutting back; everybody else in the aerospace, he thinks, is doing the same. What are you hearing? Are you on the phone with people your predecessor was given to calling occasionally? What is your sense of where the choke points are that are continuing to thwart hiring?

CHAIRMAN BERNANKE. Sure. I gave a list of some of the headwinds in my opening remarks. I do think that the European situation is slowing U.S. economic growth. First of all, Europe is, if not in a recession in every country, certainly many countries are in recession, and that affects our trade with Europe and the demand for our products. More broadly, the effects of European concerns on financial markets have added to volatility, have brought down stock prices, have increased credit spreads, and generally have been a negative for economic growth.

So that has been an issue. And more broadly, we've seen some slowing in global economic growth more generally, including in Asia, which also has reduced somewhat our ability to export. So that's one set of concerns that's been important. I'd mentioned two others, I think, as being primarily important. One is housing. Housing usually plays a very important role in economic recovery, both through construction itself and related industries, but also because higher house prices increase consumer wealth and promote consumer spending. Housing does seem to be doing somewhat better. There are some good signs in housing, but nevertheless, we are not getting the size of the boost, the amount of help in the recovery that we would normally get from a housing recovery. The other area is, as you indicated, is fiscal. And that happens at all different levels: federal, state, and local. Notwithstanding programs earlier on, in the last year or two and going forward we have been seeing fiscal consolidation. Particularly at the state and local level, of course, tight budgets have led to a lot of layoffs and cancellation of projects and so on. I understand that these are necessary steps from the perspective of individual states and localities. I'm not criticizing that; it's just a fact, though, that these contractions are affecting the pace of growth in the broader economy. So I think those would be the main things I would point to, and put them all together, and you have an economy which is growing less quickly than it normally would following a recession of the magnitude that we saw.

MARCY GORDON. Thank you. Marcy Gordon with the AP. Given the environment that you've sketched out and the fact that interest rates are at historically low points, would it make sense—would it be an option for the government to issue more long-term debt at this point and take advantage of that?

CHAIRMAN BERNANKE. Well, the government is very gradually increasing the duration of its debt—the Treasury, I mean—and it's been doing that for some period of time.

There's a bit of an issue here, which is that what the Federal Reserve is doing with the program we announced today, the maturity extension program, is we're taking longer-term debt off the market in order to induce investors to move into other assets and to lower longer-term interest rates. To the extent that the Treasury actively sought to lengthen duration of its borrowing, it would, to some extent, offset the benefits of that—of those policies. So my understanding of what the Treasury is doing is that they have a plan, they're sticking to that plan, and therefore, on the margin, the effects of the Fed's actions can be felt.

DARREN GERSH. Darren Gersh with *Nightly Business Report*. You clearly seem to be waiting on the labor market. Can you be a little more specific? What exactly are you looking for? Is there a rate of job growth you need to look—to see? And also, if the unemployment rate comes down, is that enough? Or are you going to also look at labor participation and the whole gestalt?

CHAIRMAN BERNANKE. Well, I can't give you any specific numbers because this is ultimately a Committee decision, but what the Committee is going to do is review all the labor market indicators, including unemployment, including participation, and other measures of labor market activity, and try to make a sense—try to get a sense of whether or not the labor market is improving in a sustainable way. It's not a month-to-month proposition. You know, this year already, we've seen a few months of very strong job gains, and we saw two months of weaker gains. Obviously, month to month, there is going to be statistical noise—there is going to be weather, there's going to be a lot of factors that can cause job gains to vary. So the question is, is the improvement sustainable? Is it long lasting? That's the kind of thing that we'll be looking at, but I really can't be too much more specific than that.

STEVE BECKNER. Steve Beckner, Market News International. Mr. Chairman, when we—when you speak of the fiscal cliff, typically you don't differentiate between the automatic tax-hike aspect of that and the automatic spending cuts, which leaves the impression that you are giving equal weight to both sides. Some would contend that the automatic tax hikes would be more onerous. How do you parse the relative importance of those two aspects? And if I may be permitted, I am also curious to know how the Fed is going to conduct open market operations, if, as the New York Fed statement says, by the end of this year, they will essentially have no short-term securities to use.

CHAIRMAN BERNANKE. Well, on the fiscal cliff, I mean, just the way that the programs are set up, the dollar amount associated with the tax expirations—tax-cut expirations, including the payroll tax cut and so on, is larger than the spending cuts, as I understand it. But I'm not making any judgment about individual programs. The point here is that putting all these things together, you have a very substantial withdrawal of income from the economy that will affect spending and will affect the ability of the economy to recover in the short run. Now, again, in making decisions about, you know, how to modify those automatic changes, Congress obviously has to look at the long run, you know—what is the most efficient tax structure, what's the best way to spend our limited resources? Those are tough decisions that Congress has to make, but in terms of the fiscal cliff, in terms of what's going to happen in January, the—it's really the total of both spending cuts and tax increases which has the impact, which not only we, but others like the Congressional Budget Office, have identified as being a concern. We'll still be able to do open market operations with our securities, even if the amount of short-term debt is very low. And indeed, of course, over time, the—as securities come close to maturation, we will have other securities that are of short duration.

DONNA BORAK. Hi Chairman, Donna Borak with *American Banker*. There have been a lot of questions raised as to whether the Volcker rule would have helped prohibit the trading loss of J.P. Morgan. Given that regulators are in the middle of the rule-writing process and also examining what exactly went wrong, as a supervisor, do you think at this moment it's the right time to perhaps "pump the brakes," so to speak, and slow down the rule-writing process or has this recent episode really made it a stronger case for proceeding with the Volcker rule expeditiously? And, secondly, if I may, since—given that you've suggested that regulators might be late on the rule, surpassing the July 21st deadline, could you perhaps give us a target on when regulators are looking to release the rule? Thank you.

CHAIRMAN BERNANKE. Well, on the second question, it's a five-agency rule, I believe, and so a lot of coordination and cooperation is needed, and we had something like 18,000 comment letters, so it's been a very difficult process in terms of the amount of work that has to be done, amount of coordination that has to be done, so I don't have a date for you. I think if there's a silver lining to the events you referred to, it may be that there's some things we can learn in terms of writing the rule and thinking about how it would work. One aspect of our rule that I think would have been important in the context of the loss is that, in the rule, a bank would be required to provide a plan in advance explaining how the hedge was going to be done, how it was going to work. It would be necessary to have an auditing process to make sure that, in fact, that was being followed, that there were adequate risk management and governance rules to oversee the process, and it would be necessary that compensation for the executives involved in the management of the position would not be such that it would incentivize them to take proprietary positions. So, one aspect of the rule that might have been relevant—and again, we are still looking at that situation, as are the OCC and others—would have been the control, the governance aspects of it, and that might have potentially changed the outcome.

MARK GREGORY. Mark Gregory, BBC. How much worse will the situation in Europe have to get before it starts seriously denting the prospects for recovery in the American economy, and thus really changing the direction of Fed's policymaking?

CHAIRMAN BERNANKE. Well, we hope it doesn't get worse. I think it's already one of the factors that has been a drag on U.S. recovery—not the only factor by any means, there are a number of others that I mentioned, but it has been having an effect, and it's been having an effect on the economies of other countries as well, countries that export to Europe. So it is a significant issue. We are hopeful that Europe will take additional measures and do all that's necessary to stabilize the situation and to provide the basis for an ongoing stable structure that—in which banks and sovereigns are both stabilized, in which there's a program for growth, and in which fiscal arrangements are clear—are made much clearer. So there's a lot of work to be done. Again, we think that the policymakers in Europe have very strong incentives to get this right, and we're very hopeful that they will get it right, and we are in close contact with them as they work on these issues. But again, it is also important for us to be prepared for any further problems that might emerge from Europe, and we have been doing that. For example, you know, we recently did our stress tests of the large bank holding companies to make sure they had enough capital even in the face of a severe financial crisis or a European crisis. We have been monitoring the exposures of banks and other financial institutions to Europe and, of course, monitoring the situation there very closely. So we are hoping for the best, we are hoping that European policymakers will take the additional steps they need to take to stabilize the situation.

But we are prepared, in case things get worse, to protect the U.S. economy and the U.S. financial system.

GREG ROBB. Thank you, Mr. Chairman. Greg Robb, MarketWatch. I just wanted to get back to lending and credit. The U.K. has started a program where the Bank of England is going to make lending to banks only if they lend to households and companies. Is that something the Fed has under consideration? Would that be something you'd start here?

CHAIRMAN BERNANKE. Well, we're very interested in it, and we're certainly going to follow it. The details are not yet available. And I think it should be noted that it's not just a Bank of England program, but it's joint with the British Treasury. So the question—one question might be, how much of a fiscal component is there? Is there some kind of fiscal subsidy being included there?

But we are looking for—as you know, throughout the crisis, we've looked for new programs, new ways to help the economy. And this will be a type of thing that will be on the list of programs that we look at.

GREG IP. Hi. Greg Ip of the *Economist*. You have an inflation target of 2 percent, but your projections show inflation centered below 2 percent over the medium term. I was wondering if you could explain why. And secondly, you said that the Fed is prepared to do more if necessary. Could you briefly comment on what sort of form additional action might take? And, specifically, what are the relative costs and benefits of doing more QE versus more maturity extension?

CHAIRMAN BERNANKE. Well, the—in terms of the inflation forecasts, again, I think it should be said, as a preliminary point, that economic projections have a lot of uncertainty about them. We talk about that uncertainty in the survey of economic projections. So we shouldn't take a false sense of precision from those numbers.

That being said, there is an issue about whether or not there's sufficient stimulus in the economy. As I mentioned earlier, one problem is that we are now at the zero bound, and that the types of unconventional programs that are available are—we know less about them, they have various costs and risks, and, for that reason, you may get a different amount of financial accommodation in this kind of regime than you would in one where short-term interest rates can be varied freely. So I think that's really a critical issue.

Now, in terms of the costs, I would list, briefly, large asset purchases increase the size of our balance sheet and therefore ultimately will make exit a more extended process. Large asset purchases—which means that the Fed owns a larger share of a particular type of asset—may have implications for market functioning, which in turn might affect the ability of the Fed to have stimulative effects on the economy. There are some financial stability issues that we are monitoring and that have to be taken into account. So any kind of assessment of appropriate policy must look both at the outlook for the economy and for—and at the costs and risks associated with new measures, new steps that might be taken.

That being said, again, I think at this point, we still do have considerable scope to do more, and we are prepared to do more. We'll continue to monitor the economy and see how things evolve. And if—again, we're looking primarily at the labor market in this respect—if we're not seeing a sustained improvement in the labor market, that would require additional action.

In terms of balance sheet actions, we are unlikely to do more maturity extension for a while because we have taken that about as far as we can. So we would have to take other types of steps in order to add to the amount of stimulus in the economy.

TOSHIKI YAZAWA. Thank you, Chairman. I'm Toshiki Yazawa from *Nikkei*. I hear a lot of conversations on liquidity trap in U.S. That was a familiar concept in Japan after a bubble burst in the lost decades. Is U.S. economy in liquidity trap? And if that happens, how could economy escape from here? Thank you.

CHAIRMAN BERNANKE. Well, the U.S. economy is in a situation where short-term interest rates are close to zero. And so what that means is the Federal Reserve cannot add monetary accommodation by cutting short-term interest rates, the usual approach. It's been one of the themes of my own work for a long time, including some of the work I did on the Bank of Japan, that central banks are not out of tools once the short-term interest rate hits zero. There are additional steps that can be taken. And we have demonstrated through both communications techniques—guidance about future policy, which is something the Japanese have done as well, by the way—and through asset purchases, also something the Bank of Japan has done, that central banks do have some ability to provide financial accommodation to support their recovery even when short-term interest rates are close to zero.

That being said, as I mentioned to Mr. Ip, these nonstandard policies are less well understood, and they do have some costs and risks. But I do think that, at the same time, that they can be effective in helping the economy.

JENNIFER LIBERTO. Jennifer Liberto, CNNMoney. Chairman, are you at all concerned that Operation Twist could affect banks' earnings and their willingness to lend? Does it undercut your ability to increase credit to consumers?

CHAIRMAN BERNANKE. Credit to consumers? No, I don't think so. If—take, for example, I've heard the argument that by lowering interest rates, you make it unattractive to lend. I don't think that's quite right. What we're lowering is the safe interest rate, the Treasury rate. That should make it even more attractive for banks, rather than to hold securities, to look for borrowers and to earn the spread between the safe rate and what they can earn by lending to households and businesses.

So I think that macropolicy and monetary policy can, in fact, support lending. Now, the question arises in some contexts whether there are other barriers to lending as exist, for example, in some parts of the mortgage market. But lower interest rates on securities and other types of assets, all else equal, would induce banks to look for higher-yielding returns, higher-yielding assets in the form of loans to household and businesses.

MERRILL GOOZNER. Merrill Goozner, the *Fiscal Times*. Returning to Europe, briefly—some analysts have said that should the situation deteriorate there, the Fed could step in by buying European sovereign debt of various countries. Are there any countries that you would rule out in such a strategy?

CHAIRMAN BERNANKE. The Federal Reserve isn't going to be buying European sovereign debt, except we have a very limited amount of European sovereign debt as part of our foreign exchange reserves, and it comes primarily from a small number of countries. So that's not something that we would be engaged in.

CATHERINE HOLLANDER. You have two new Fed Governors aboard. Did that change the tenor of the discussion at all this week? And did Jeremy Stein and Jay Powell push you in any particular policy direction?

CHAIRMAN BERNANKE. Well, they are two terrific people with great experience. I've known Jeremy for a long time. He's an outstanding academic and knows a lot about finance. Jay has both market experience and a lot of experience in government. They both bring a lot to the table. This was their first meeting, so I think, to some extent, they were in listening mode. But they do have an awful lot to offer, and I really do look forward to working with them because I think that they are exceptional people. And I'm glad, for the first time—I believe it's the case that this is the first time that we had seven Governors at an FOMC meeting since 2005. So it's great to have a full complement of people, and it will help us do our other work as well as our monetary policy work more effectively.

CATHERINE HOLLANDER. Thank you.

CHAIRMAN BERNANKE. Thank you.