

# **The FOMC's Statement on Longer-Run Goals and Monetary Policy Strategy: A 2025 Checklist**

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# A Checklist for The Fed's Current Review

- The Fed's current document checks  a lot of boxes
- However, it needs to clarify  a few issues and address omitted **X** important topics of monetary policy strategy
- These proposed changes will strengthen the document's ability to communicate policy expectations and thereby improve the efficacy of policy

# #1 The “Dual” Mandate

- ✓ Reaffirm the commitment to Price Stability and Maximum Employment
- ✓ Define Price Stability and Maximum Employment
- ✓ Reaffirm the long run determinants of each
- ✓ Reaffirm that the expectations of price stability:
  - ✓ Help to foster price stability;
  - ✓ Moderate long-term interest rates; and
  - ✓ Promotes maximum employment

## #2 Define the “Nominal Anchor”

- ✓ PCE annual inflation rate at the rate of 2 percent over the longer run
- ✓ Articulate a Monetary Policy Response that is:
  - ✓ Data/Evidence Dependent
  - ✗ Systematic
  - ✗ Provides Automatic Policy Constraint

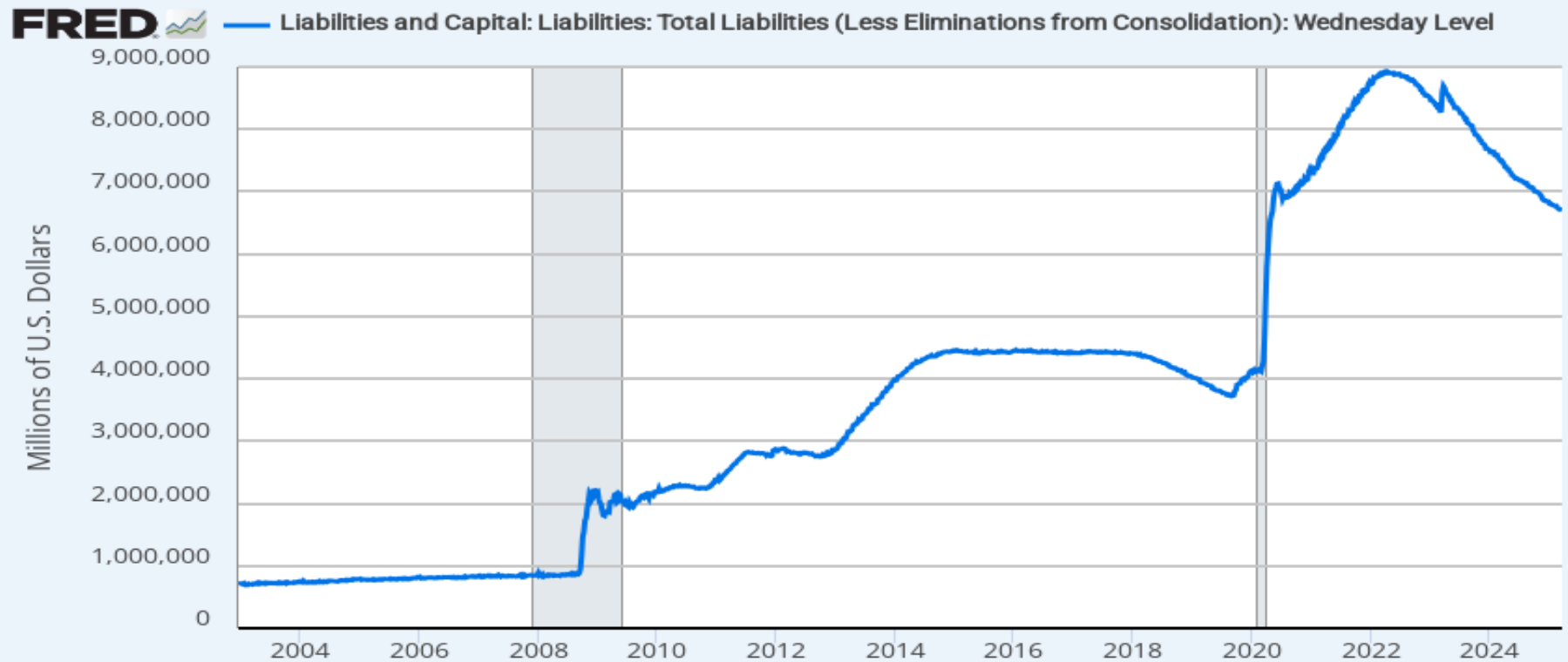
# #3 Strategy for the Target Federal Funds Rate

- ✓ Reaffirm monetary policy's "Long and Variable Lags"
- Describe how the target federal funds rate will respond to:
  - ✓ Demand shocks
  - ✓ Supply shocks
  - Inflation scares / perceived transitory increases (of varying size) to the rate of inflation
- Reaffirm whether  $r^*$  continues to be low by historical standards such that an asymmetric policy response to inflation from its target is warranted given the funds rate's effective lower bound.

## #4 Strategy for the Fed's Balance Sheet

- ✘ What is the Fed's strategy for altering the size of its balance sheet to support/conduct monetary policy?
  - Is it primarily liability driven to obtain its dual mandate?
- ✘ What is the Fed's strategy for altering the asset mix to support/ conduct monetary policy?
  - Are operations to “twist” the Treasury yield curve implemented to obtain its dual mandate?

# Federal Reserve Total Liabilities



Source: Board of Governors of the Federal Reserve System (US) via FRED®

*Shaded areas indicate U.S. recessions.*

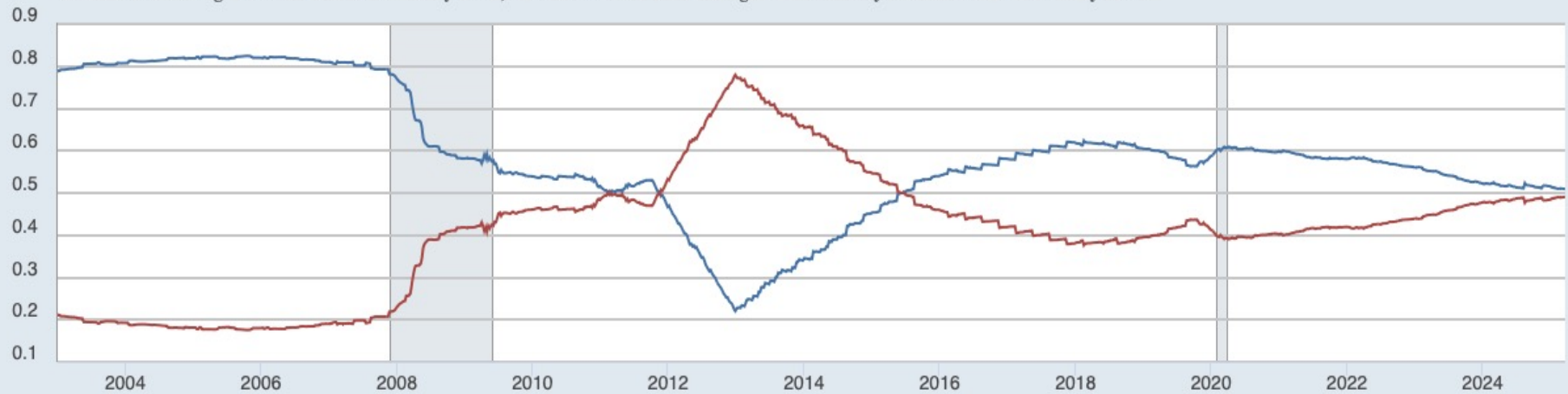
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— (Assets: Securities Held Outright: U.S. Treasury Securities: Maturing in over 5 Years to 10 Years: Wednesday Level+Assets: Securities Held Outright: U.S. Treasury Securities: Maturing in over 10 Years: Wednesday Level)/Assets: Securities Held Outright: U.S. Treasury Securities: All: Wednesday Level

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Source: Board of Governors of the Federal Reserve System (US) via FRED®  
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fred.stlouisfed.org

## U.S. Treasuries Held Outright by the Federal Reserve: Fraction of Maturities 5 Years or Less versus More than 5 Years



# Some Simple Language from the Fed\*

“The balance sheet is also a key tool for supporting the FOMC’s monetary policy goals and, on rare occasions, for supporting financial stability.”

“Over time, the Fed may accommodate growth in demand for these liabilities by adjusting the size of its balance sheet.”

“The FOMC has previously used asset purchases of Treasury securities and agency mortgage-backed securities (MBS) to help ease financial conditions overall, especially when the federal funds rate was around zero.”

“The FOMC has also at times directed a reduction in the size of the Fed’s balance sheet, to decrease the Fed’s securities holdings to a level consistent with implementing monetary policy efficiently and effectively in its ample reserves regime.”

“The Fed can also change the composition of its balance sheet in support of monetary policy objectives, while keeping its overall size unchanged.”

*\* The Role of the Federal Reserve’s Balance Sheet in Monetary Policy Implementation, Christian Cabanilla, Eric LeSueur, and Josh Younger. *The Teller Window*.*

## #5: Strategic and Intertemporal Interactions Between the Fed's Funds Rate and Balance Sheet Policies

- ✗ How will the path of the funds rate and the Fed's balance sheet be prioritized and sequenced to achieve the dual mandate?
- ✗ Will the Fed communicate its forward guidance for these major monetary policy tools, separately or together?