Presented at Heterogeneous Agents or Heterogeneous Information: Which Route for Monetary Policy?, Banque de France and CEPR, Paris, France.

October 24, 2019

Presented at the South African Reserve Bank Biennial Conference, Pretoria, South Africa.

July 8, 2019

Presented at Modelling the Macroeconomy in Risky Times, National Institute of Economic and Social Research, St. Louis, Mo. (This presentation is titled "Classic Policy Benchmarks for Heterogeneous-Agent Economies.")

June 22, 2019

Presented at Expectations in Dynamic Macroeconomic Models 2019, Barcelona GSE and MOVE (Markets, Organizations and Votes in Economics), Barcelona, Spain. (This presentation is titled "Classic Policy Benchmarks for Heterogeneous-Agent Economies.")

May 22, 2019

Presented at Monetary Policy and Heterogeneity Conference, Hong Kong Monetary Authority and Federal Reserve Bank of New York, Hong Kong, China. (This presentation is titled "Classic Policy Benchmarks for Heterogeneous Agent Economies.")

- **May 22, 2019**. Presentation. "A Successful Normalization of Monetary Policy in the U.S.," Foreign Correspondents' Club, Hong Kong, China. Presentation (pdf) (bullard_fcc_hong_kong_22_may_2019pdf) | Press Release.

A Successful Normalization of Monetary Policy in the U.S.

May 22, 2019

[Presentation (pdf)](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_fcc_hong_kong_22_may_2019.pdf)| [Press Release](https://www.stlouisfed.org/news-releases/2019/05/22/bullard-discusses-successful-normalization-of-us-monetary-policy)

St. Louis Fed President James Bullard discussed the end of U.S. monetary policy normalization in a presentation to the Foreign Correspondents' Club in Hong Kong. He noted that the Federal Open Market Committee's monetary policy normalization program has been successful in that U.S. real economic performance has been very good during the normalization.

The normalization of U.S. monetary policy has come to a close at an appropriate point, Bullard noted. "Going forward, the FOMC may adjust monetary policy, but any changes would be in response to incoming macroeconomic data and not part of an ongoing normalization strategy," he said.

The FOMC faces many macroeconomic challenges, Bullard explained, including unresolved trade disputes and below-target inflation. "These challenges suggest that the FOMC needs to tread carefully in order to help sustain the economic expansion," he said.

He noted that the FOMC may want to consider ways to re-center inflation and inflation expectations at the 2% target. "A downward policy rate adjustment even with relatively good real economic performance may help maintain the credibility of the FOMC's inflation target going forward," Bullard said. "A policy rate move of this sort may become a more attractive option if inflation data continue to disappoint."

St. Louis Fed's Bullard Discusses Successful Normalization of U.S. Monetary Policy

Hong Kong –Federal Reserve Bank of St. Louis President James Bullard discussed " [A Successful Normalization of Monetary Policy in the U.S.](https://www.stlouisfed.org/-

/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2019/bullard_fcc_hong_kong_22_may_2019.pdf)" on Wednesday in a presentation to the Foreign Correspondents' Club.

Bullard began by pointing out that the Federal Open Market Committee (FOMC) has ended its monetary policy normalization program in the U.S. "The program has been successful in that U.S. real economic performance has been very good during the normalization," he said.

The FOMC's normalization program has come to a close at an appropriate point, Bullard noted. "Going forward, the FOMC may adjust monetary policy, but any changes would be in response to incoming macroeconomic data and not part of an ongoing normalization strategy," he said.

Still, the FOMC faces many macroeconomic challenges going forward, Bullard explained, including unresolved trade disputes and below-target inflation. "These challenges suggest that the FOMC needs to tread carefully in order to help sustain the economic expansion," he said.

The Normalization Program Ends
The FOMC indicated recently that, if the economy evolves about as expected, the current level of the policy rate—the federal funds rate target range—will be appropriate through 2019, Bullard noted. The FOMC also announced the Fed's balance sheet reduction program will end this autumn.

"These events mark the end of monetary policy normalization in the U.S.," Bullard said. The normalization campaign has been largely successful, he continued, pointing out that the policy rate has been raised about 225 basis points, from near-zero levels to a target range of 225 to 250 basis points today. In addition, the size of the Fed's balance sheet has been reduced, with reserves in the banking system declining by about 45% since July 2014.

"As the normalization continued, the real side of the U.S. economy has surprised to the upside during 2017 and 2018, and so far in 2019 as well," Bullard added.

An Appropriate Stopping Point

The normalization program has ended with interest rates still low by U.S. postwar standards and the balance sheet still relatively large compared with pre-crisis levels, Bullard said. However, current rates in the U.S. are relatively high compared with those in Europe and Japan, where negative rates remain the norm, he explained.

Furthermore, the Fed's balance sheet cannot return to its pre-crisis level because of developments in currency demand, reserve demand driven by Dodd-Frank regulatory requirements and other factors, he said.

"Given these considerations, the FOMC's recent judgment to end the normalization program is likely appropriate," Bullard said.

An Analogy to 1995
Bullard noted that the FOMC successfully normalized U.S. monetary policy during the mid-1990s. The policy rate was increased 300 basis points between early 1994 and early 1995, he explained. The FOMC then ended the normalization program and later lowered rates somewhat.

"The economy did not enter a recession but instead boomed during the second half of the 1990s," Bullard said. "This example shows that policy rate normalization can be accomplished without damaging the prospects for an extended period of growth."

Challenges Ahead
Bullard mentioned two of many macroeconomic challenges facing the FOMC. "First, current trade disputes could become entrenched, altering global trading patterns over the medium term," he noted, adding that this could occur if no trade agreements are reached in the near term and substantial trade barriers are erected and maintained. "My baseline case is that agreements will be reached in the near term," Bullard said.

Second, he noted that the FOMC may miss its 2% inflation target on the low side in 2019 based on current readings of market-based inflation expectations, following seven years of inflation mostly below target. "My baseline case here is leaning toward another low-side miss," he said.

Both actual inflation and market-based inflation expectations are below target, Bullard pointed out. "This is occurring despite more than two years of upside surprise in the U.S. real economy," he said. "This is clearly concerning for the credibility of the inflation target."

A Potential Policy Response to Low Inflation
Bullard noted that the FOMC may want to consider ways to re-center inflation and inflation expectations at the 2% target.

"A downward policy rate adjustment even with relatively good real economic performance may help maintain the credibility of the FOMC's inflation target going forward," he said. "A policy rate move of this sort may become a more attractive option if inflation data continue to disappoint."

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- **May 16, 2019**. Presentation. "The Monetary Policy Implications of a Low R-Star: An Update," Joint DNB/ECB Workshop on the Natural Rate of Interest, De Nederlandsche Bank, Amsterdam, Netherlands.
  [Presentation (pdf) (bullard_dnb_ecb_workshop_amsterdam_16_may_2019pdf)](bullard_dnb_ecb_workshop_amsterdam_16_may_2019pdf).
- **May 3, 2019**. Policy Panel. ["Nominal GDP Targeting as 'Optimal Monetary Policy for the Masses',"](#) Strategies for Monetary Policy: A Policy Conference, Policy Panel on "Monetary Strategies in Practice," Hoover Institution, Stanford University, Stanford, Calif.
  [Presentation (pdf) (bullard_dicecio_masses_stanford_3_may_2019pdf)](bullard_dicecio_masses_stanford_3_may_2019pdf) | [Event Video](#).

Nominal GDP Targeting as "Optimal Monetary Policy for the Masses"

May 3, 2019

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