

going to bring inflation back down to 2%, which means raising interest rates.

Bullard noted that the FOMC has raised the policy rate twice this year (by 25 basis points in March and by 50 basis points in May) and that further anticipated increases are already priced into financial markets.

“I think we have a good plan for now, and I think the base case is good,” he said, adding that Chair Powell has said it looks like the FOMC is on course for 50-basis-point increases at coming meetings.

Bullard also discussed the FOMC’s plan for reducing the size of the Fed’s balance sheet, saying that, all else equal, it should put upward pressure on the longer end of the yield curve. He said some of that has already occurred, with the 10-year Treasury yield and 30-year mortgage rate up substantially, and he expects to see more upward pressure on longer-term yields going forward.

- **May 6, 2022.** Presentation. "[Is the Fed 'Behind the Curve'? Two Interpretations](#)," How Monetary Policy Got Behind the Curve and How to Get Back, Hoover Institution at Stanford University. [Presentation \(pdf\) \(bullard-hoover-06-may-2022pdf\)](#) | [Press Release](#).

“Is the Fed ‘Behind the Curve’? Two Interpretations”

May 6, 2022

[Presentation (PDF)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2022/may/bullard-hoover-06-may-2022.pdf>)[Press Release](<https://www.stlouisfed.org/news-releases/2022/05/06/bullard-discusses-is-the-fed-behind-the-curve-two-interpretations>)

St. Louis Fed President Jim Bullard provided updated estimates of the degree to which the Federal Reserve is “behind the curve” on raising its policy rate in response to high inflation. He spoke at Stanford University’s Hoover Institution.

Bullard highlighted two interpretations of “behind the curve,” incorporating more recent data since his April 7 and April 21 presentations on this topic.

St. Louis Fed’s Bullard Discusses “Is the Fed ‘Behind the Curve’? Two Interpretations” at the Hoover Institution

STANFORD, Calif. –[updated estimates of the degree to which the Federal Reserve is “behind the curve” (PDF)](<https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/2022/may/bullard-hoover-06-may-2022.pdf>)

Bullard highlighted two interpretations of “behind the curve,” incorporating more recent data since his April 7 and April 21 presentations on this topic.

1. In the first interpretation, he used the latest Dallas Fed trimmed mean inflation rate—the most generous (lowest) interpretation of the persistent component of current inflation—along with other “generous assumptions” in a Taylor-type policy rule to get a minimal recommended value for the policy rate under current macroeconomic conditions. The recommended policy rate from the minimalist policy rule calculation is 3.63% (363 basis points), while the current value of the policy rate is 87.5 basis points. Thus, the current policy rate is below the minimalist recommendation by 275 basis points, Bullard said

2. In the second interpretation, Bullard suggested that the 2-year Treasury yield may provide a better representation of where Fed policy is likely to be in the near future, because of the forward guidance the Fed has given since the fourth quarter of 2021. The value of the 2-year Treasury yield on May 5 was 2.71%, about 90 basis points shy of the rate recommended in the first calculation, he said.

Generously defined Taylor-type monetary policy rules, even if based on a minimum interpretation of the persistent component of inflation, still recommend substantial increases in the policy rate, Bullard said. He added that the Fed is far “behind the curve” by this first interpretation.

However, he noted that the first interpretation does not take into account Fed credibility or its use of forward guidance. “Credible forward guidance

means market interest rates have increased substantially in advance of tangible Fed action. By this second definition of ‘behind the curve,’ the Fed is not as far behind, but it must now increase the policy rate to ratify the forward guidance previously given,” he said.

James Bullard

James Bullard served as president and CEO of the Federal Reserve Bank of St. Louis from April 1, 2008, to July 13, 2023. In this capacity, he oversaw the activities of the Eighth Federal Reserve District and was a participant on the FOMC.

For media inquiries

1. Office: (314) 444-6166 Cell: (314) 348-3639

Resources from Former President Jim Bullard

- **April 21, 2022.** Presentation. "[Is the Fed 'Behind the Curve'? Two Interpretations](#)," Princeton University, Bendheim Center for Finance. [Presentation \(pdf\) \(bullard-princeton-21-apr-2022pdf\)](#).

Is the Fed “Behind the Curve”? Two Interpretations

April 21, 2022

During a presentation at Princeton University, St. Louis Fed President Jim Bullard presented two interpretations of whether the Federal Reserve is “behind the curve” on raising its policy rate relative to high inflation.

Bullard said that U.S. inflation is exceptionally high and comparable to inflation in 1974 and 1983. Standard Taylor-type monetary policy rules, even if based on a minimum interpretation of the persistent component of inflation, still recommend substantial increases in the policy rate, he said. This provides one definition of “behind the curve,” and the Fed is far behind based on this definition, he noted.

“However, all is not lost. Modern central banks are more credible than their 1970s counterparts and use forward guidance,” he said. “Credible forward guidance means market interest rates have increased substantially in advance of tangible Fed action. This provides another definition of ‘behind the curve,’ and the Fed is not as far behind based on this definition.”

Having trouble with the video? [Watch it here.](<https://youtu.be/kdBzPRiNPIU>)

- **April 20, 2022.** President's Message. "[Importance of Studying Innovations in Payment Technologies](#)," Federal Reserve Bank of St. Louis *Annual Report 2021*. This article also appeared in the [St. Louis Fed On the Economy blog](#), May 16, 2022.

President's Message: The Importance of Studying Innovations in Payment Technologies

James Bullard is the president and CEO of the Federal Reserve Bank of St. Louis.

The Federal Reserve Bank of St. Louis has a long tradition of providing thought leadership in monetary economics. An important issue in this area today is the emergence of new payment technologies, given their potential to transform money and the payments system. Therefore, our 2021 annual report examines opportunities and concerns surrounding cryptocurrency, blockchain and decentralized finance. While these payment technologies are new to some, economists at the St. Louis Fed have been studying innovations such as those discussed in this annual report for several years now.

Cryptocurrencies and a Non-Uniform Currency System

Cryptocurrencies were introduced to the global economy more than a decade ago, and since then, they have inspired much research and commentary. As a research economist myself, in addition to my role as a monetary policymaker, I have studied “private money” and have given talks on currency competition. For example, I spoke about [“Non-Uniform Currencies and Exchange Rate Chaos” (PDF)](-