

BBVA Research Flash

U.S.

Bernanke defends Fed monetary policy

- **Fed Chairman Ben Bernanke defended “Operation Twist” as a strategy targeted towards lowering unemployment and supporting mortgage markets**
- **Although no new monetary policies were discussed, Bernanke stressed that the Fed is prepared to act again if economic activity remains weak**

Federal Reserve Board Chairman Ben Bernanke spoke today before Congress to discuss the Fed's economic outlook and recent monetary policy actions. Bernanke reiterated his support of “Operation Twist”, stating that the strategy should kick-start the recovery by lowering unemployment and providing a much-needed boost to mortgage markets. Furthermore, Bernanke emphasized the importance of the deficit reduction super committee, suggesting that monetary policy alone is not sufficient to achieve fiscal sustainability. He cited the potential for spillover from problems in Europe and stressed that “fiscal issues still pose ongoing risks to growth.” In the US, he mentioned that sound fiscal policy should address short-term concerns in addition to long-term deficit reduction. Bernanke highlighted four key objectives for fiscal policymakers: achieve long-run fiscal sustainability, avoid actions that could impede the ongoing recovery, promote long-term growth and economic opportunity, and improve the process for making long-term budget decisions in order to prevent disruptions in the financial markets. Ultimately, Bernanke indicated that the Fed will continue to monitor economic data and is prepared to take additional steps if necessary. He did not mention any specific tools to strengthen monetary stimulus, however it is clear that the Fed will not give up trying until economic activity recovers.

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