

Interest rates to keep heading up under

\$4.5T balance sheet reduction could start soon, Yellen says

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Federal Reserve Chair Janet Yellen told Congress on Wednesday the central bank will probably begin to shrink its \$4.5 trillion balance sheet "relatively soon," a

move that's expected to nudge long-term interest rates higher.

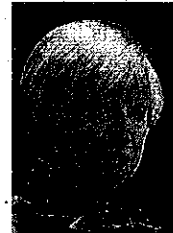
Her comments during her semiannual testimony to the House Financial Services Committee appeared to support many economists' belief that the Fed will start to unwind its massive asset portfolio in September.

Yellen also affirmed the Fed's plans to continue raising its key short-term interest rates gradually, downplaying a recent pullback in inflation as temporary.

On the balance sheet, the Fed bought more than \$3 trillion in

Treasury bonds and mortgage-backed securities during and after the financial crisis to drive down long-term rates for mortgages and other loans. With unemployment now at 4.4%, down from 10% in 2009, the Fed plans to stop reinvesting the assets as they mature by gradually increasing the caps on the amount of securities it allows to roll off its books.

The sprawling balance sheet can distort some markets and, by keeping rates low, create bubbles in other markets by driving investments to higher-yielding



SUSAN WALSH, AP

**Fed Chair
Janet Yellen**

assets.

Asked when the reduction of the portfolio will begin, Yellen said, "In my mind, relatively soon."

Yellen also said the Fed plans to keep raising its key short-term rate,

seemingly confirming plans to lift the rate by a quarter percentage point for a third and final time in

Fed plan

2017. Many economists predict that move will occur in December.

Yellen noted Wednesday that the Fed's preferred measure of inflation has been weak in recent months, falling to 1.4% annually after approaching the Fed's 2% target early this year.

But she said, "it appears that the recent lower readings on inflation are probably the result of a few unusual reductions in certain categories of prices," such as cell-phone service. Yet she added the Fed will monitor inflation closely.