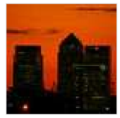

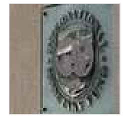

SEPTEMBER 30, 2009, 1:04 P.M. ET

Fed's Kohn: Exit From Rescue Programs To Depend On Forecasts

By Maya Jackson Randall
Of DOW JONES NEWSWIRES

WASHINGTON (Dow Jones)--The U.S. Federal Reserve will carefully evaluate economic forecasts to judge exactly when and how to exit out of its extraordinary rescue programs, and the withdrawal will happen "well before" inflation has a chance to rise out of control, the Fed's vice chairman said Wednesday.

"We must begin to withdraw accommodation well before aggregate spending threatens to press against potential supply, and well before inflation as well as inflation expectations rise above levels consistent with price stability," said Fed Vice Chairman Donald Kohn in a speech to the Cato Institute.

Kohn said there isn't necessarily a list of variables that will trigger an exit. Instead, he pointed out that the Fed will base its decisions on economic forecasts, not current conditions.

He added that he can't predict the pace of rate increases.

"That too, depends on how the economy seems to be recovering and the outlook for inflation," Kohn said.

Kohn went on to outline the various tools the Fed has on hand to withdraw from its extraordinary programs and tighten monetary policy.

-By Maya Jackson Randall, Dow Jones Newswires; 202-862-9255; maya.jackson-randall@dowjones.com

(Updates with quotes, more details)

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"We must begin to withdraw accommodation well before aggregate spending threatens to press against potential supply, and well before inflation as well as inflation expectations rise above levels consistent with price stability," said Fed Vice Chairman Donald Kohn in a speech to the Cato Institute.

Kohn was speaking before a panel of economists known as the Shadow Open Market Committee, a group that critiques the actions of the Fed's policy-setting committee.

He outlined the various tools the Fed has on hand to exit the unusual and costly rescue programs the central bank launched to stem the financial crisis.

But he said there isn't necessarily a list of variables that will trigger an exit from these programs. Instead, he pointed out that the Fed will base its decisions on economic forecasts, not current conditions.

"We will need to begin to remove the extraordinary degree of accommodation in its various dimensions when we judge that exiting from the current stance of policy will be necessary to preserve price stability as the economy returns to higher levels of resource utilization," Kohn said. He added that he can't predict the pace of rate increases.

"That too, depends on how the economy seems to be recovering and the outlook for inflation," Kohn said.

Draining reserves will be another aspect of exiting, Kohn said. He added that the Fed is developing new techniques for draining reserves such as reverse repurchase agreements against mortgage-backed securities and time deposits for banks at the Fed.

"The range of tools will permit us to drain large volumes of reserves if necessary to achieve the policy stance that fosters our macroeconomic objectives," Kohn said.

Meanwhile, Kohn said communication will be particularly important going forward, pointing out that the Fed's public guidance on interest rates will need to evolve along with its assessment that the exit is drawing closer.

Still, Kohn said inflation is currently subdued and restraints on credit are likely to restrict the pace of the economic recovery. Thus, he reiterated that the Fed sees rates staying exceptionally low "for an extended period."

-By Maya Jackson Randall, Dow Jones Newswires; 202-862-9255; maya.jackson-randall@dowjones.com

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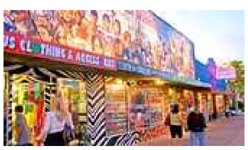

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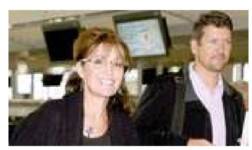

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