

## FAQs

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### What are the Federal Reserve's objectives in conducting monetary policy?

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The Congress established the statutory objectives for monetary policy--maximum employment, stable prices, and moderate long-term interest rates--in the Federal Reserve Act.

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling this statutory mandate. In pursuing these objectives, the FOMC seeks to explain its monetary policy decisions to the public as clearly as possible. Clarity in policy communications facilitates well-informed decisionmaking by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Following its meeting in January 2012, the FOMC issued a statement regarding its longer-run goals and monetary policy strategy. The FOMC noted in its statement that the Committee judges that inflation at the rate of 2 percent (as measured by the annual change in the price index for personal consumption expenditures, or PCE) is most consistent over the longer run with the Federal Reserve's statutory mandate. Communicating this inflation goal clearly helps keep longer-term inflation expectations firmly anchored, thereby fostering price stability and moderate long-term interest rates and enhancing the FOMC's ability to promote maximum employment.

The maximum level of employment is largely determined by nonmonetary factors that affect the structure and dynamics of the job market. These factors may change over time and may not be directly measurable. As a result, the FOMC does not specify a fixed goal for maximum employment; rather, the FOMC's policy decisions must be informed by its members' assessments of the maximum level of employment, though such assessments are necessarily uncertain and subject to revision. In the FOMC's September 2018 Summary of Economic Projections, Committee participants' estimates of the longer-run normal rate of unemployment ranged from 4.0 to 4.6 percent and had a median value of 4.5 percent.

In setting monetary policy, the Committee seeks to mitigate deviations of inflation from its longer-run goal and deviations of employment from the Committee's assessments of its maximum level. These objectives are generally complementary. However, under circumstances in which the

Committee judges that the objectives are not complementary, it follows a balanced approach in promoting them, taking into account the magnitude of the deviations and the potentially different time horizons over which employment and inflation are projected to return to levels judged consistent with its mandate.

## Related Information

September 26, 2018

[Federal Reserve issues FOMC statement](#)

September 26, 2018

[Federal Reserve Board and Federal Open Market Committee release economic projections from the September 25-26 FOMC meeting](#)

[FOMC Communications related to Policy Normalization](#)

## Related Questions

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[What does it mean that the Federal Reserve is "independent within the government"?](#)

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