HIGHLIGHTS-Yellen's remarks after Fed policy meeting

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WASHINGTON, June 18 (Reuters) - The following are highlights of Federal Reserve Chair Janet Yellen's press conference on Wednesday following the end of the U.S. central bank's June 17-18 monetary policy meeting.

ON GROWTH PROJECTIONS

The FOMC's 2014 GDP projection is "down notably from the March projections largely because of the unexpected contraction in the first quarter. Over the next two years, the projections for real GDP growth remain somewhat above the estimates of longer-run normal growth."

ON REMOVING POLICY ACCOMMODATION

"Further, once we begin to remove policy accommodation, it's the Committee's current assessment that even after employment and inflation are near mandate-consistent levels, economic conditions may, for some time, warrant keeping the target federal funds rate below levels the Committee views as normal in the long run.

This guidance is consistent with the paths for appropriate policy as reported in the participants' projections, which show the federal funds rate for most participants remaining well below longer-run normal values at the end of 2016."

YELLEN ON FED HOLDINGS KEEPING RATES LOW

"These sizeable and still increasing (debt and securities) holdings will continue to put downward pressure on longer-term interest rates, support mortgage markets, and make financial conditions more accommodative, helping to support job creation and a return of inflation to the Committee's objective."

ON CONTINUED TAPER

"If incoming information broadly supports the Committee's expectation of ongoing improvement in labor markets, and inflation moving back over time to its longer-run objective, the Committee will likely continue to reduce the pace of asset purchases in measured steps in future meetings."

ON TIMING OF RATE HIKES

"The Committee's expectation for the path of the federal funds rate target is contingent on the economic outlook. If the economy proves to be stronger than anticipated by the Committee, resulting in a more rapid convergence of employment and inflation to the FOMC's objectives, then increases in the federal funds rate target are likely to occur sooner and to be more rapid than currently envisaged. Conversely, if economic performance disappoints, resulting in larger and more persistent deviations from the Committee's objectives, then increases in the federal funds rate target are likely to take place later and to be more gradual."

"So what I want to say, the guidance that I want to give you is that there is no mechanical formula whatsoever for what a 'considerable time' means. The answer as to what it means is: it depends. It depends on how the economy progresses ... There is no mechanical formula."

ON POLICY TOOLS

"The Committee is confident that it has the tools it needs to raise short-term interest rates when it becomes appropriate to do so and to control the level of short-term interest rates thereafter, even though the Federal Reserve will continue to have a very large balance sheet for some time."

ON LOWER NEUTRAL FED FUNDS RATE, FOMC PROJECTIONS

"You do see a very slight decline this time in the Committee's longer-term normal rate of interest projections. I would caution you, however, we've had turnover in the Committee - two new participants who joined and are submitting projections and two who departed - and that can create changes in the projections, small changes that are difficult to interpret.

But I think it's fair to say there has been a slight decline. The most likely reason for that is there has been some slight decline ... of projections pertaining to longer-term growth."

ON MARKETS, INTEREST RATES PATH

"I don't know whether a number of reasons have been cited for what we are seeing in the marketplace. I don't know if over-confidence or complacency is one of those reasons. But I guess I would say it is important, as I emphasized in my opening statement, for market participants to recognize that there is uncertainty about what the path of interest rates, short-term rates, will be, and that's necessary because there's uncertainty about what the path of the economy will be."

ON INFLATION

"So I think recent readings on, for example, the CPI index, have been a bit on the high side, but I think it's - the data we are seeing is noisy. I think it's important to remember that, broadly speaking, inflation is evolving in line with the Committee's expectations. The Committee has expected a gradual return in inflation towards its 2 percent objective, and I think the recent evidence we have seen ... suggests that we are moving back gradually over time to our 2 percent objective, and I see things roughly in line with where we expected inflation to be."

ON MARKET VOLATILITY

"Well, I mean, I'd start by saying that volatility, both actual and expected, in markets is at low levels. The FOMC has no target for what the right level of volatility should be. But to the extent that low levels of volatility may induce risk-taking behavior that, for example, entails excessive buildup in leverage or maturity extension, things that can pose risks to financial stability later on, that is a concern to me and to the Committee."

ON CREDIT

"My own assessment is that credit is broadly available in the economy. But there are some exceptions ... I think banks at this point are reluctant to lend to borrowers with lower FICO scores."

ON WHETHER CONFIDENT ABOUT ABOVE-TREND GROWTH

"I suppose the answer is no because there is uncertainty. But I think there are many good reasons why we should see a period of sustained growth in excess of the economy's potential.

We have a highly accommodative monetary policy, we have diminishing fiscal drag, we have easing credit conditions, we have households who are becoming more comfortable with their debt levels and more able to service that debt, an improving job market. We have rising home prices and rising equity prices and an improving global economy, at least in my estimation."

ON EXIT PACKAGE

"We've not yet reached - we've made quite a lot of progress in our discussion, but we've not yet reached - conclusions about that or other aspects of our package. There are a couple of things Chairman Bernanke indicated in contrast to our 2011 principles - that we would be very unlikely to sell mortgage-backed securities - and that remains the case."

ON TOLERANCE FOR HIGH INFLATION

"The Committee has emphasized that we have a 2 percent objective, as a longer-term matter, for PCE inflation and we would not willingly see a prolonged period in which inflation persistently runs below our objective or above our objective, and that remains true. So that hasn't changed at all in terms of the Committee's tolerance for permanent deviations from our objective."

ON EXIT TOOLS

"We have a number of tools that we can deploy as we move to normalize policy, interest on excess reserves, our overnight RRP facility, term repurchase agreements with the markets, our term deposit facility, and exactly how to deploy that set of tools to meet our objective of raising the general level of short-term rates when the time becomes appropriate and how best to communicate to the public and to markets how we're conducting policy and what our objectives are, those are things we're discussing and hopefully we will be able to come back with a full description, or let's think of it as a revised set of exit principles, later this year."

ON OVERSHOOTING INFLATION TARGET, DUAL MANDATE

"Inflation continues to run well below our objective, and we're still some ways away from maximum employment. And for the moment, I don't see any trade-off whatsoever in achieving our two objectives. They both call for the same policy, namely, a highly accommodative monetary policy.

So, at best, overshooting of inflation, or the thought that we will reach our inflation objective before we've attained maximum employment, I suppose I would see is at most a risk we could face somewhere down the road."

ON HIGH-YIELD BONDS

"High-yield bonds have certainly caught our attention. There is some evidence of reach-for-yield behavior. That's one of the reasons I mentioned that this environment of low volatility is very much on my radar screen and would be a concern to me if it prompted an increase in leverage or other kinds of risk-taking behavior that could unwind in a sharp way and provoke a sharp, for example, jump in interest rates."

ON WAGE GROWTH

"As the labor market begins to tighten, we will see wage growth pick up some to the point where real wage growth - where compensation or nominal wages - are rising more rapidly than inflation, so households are getting a real increase in their take-home pay ... while that might be signs of a tighter labor market, within limits it's not a threat to inflation because consistent with the level of inflation we have for our 2 percent inflation objective, we could see wages growing at a ... somewhat more rapid rate and, indeed, that would be part of my forecast of what we would see as the labor market picks up."

If we were to fail to see that, frankly, I would worry about downside risk to consumer spending."

ON EXIT FEE FOR BOND MUTUAL FUNDS

"I am not aware of any discussion of that topic inside the Federal Reserve, and my understanding is that that is a matter that is under the purview of the SEC."

(Compiled by Jonathan Spicer, Lucia Mutikani, Anna Yukhananov, Lisa Lambert and Moriah Costa; Editing by Paul Simao)