

Europe, US Interest Rate Increases Not Expected Before 2011 - BIS

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GENEVA (AFP)-- European and U.S. interest rates are unlikely to rise before next year so as not to hurt a global economic recovery that is being weakened by Europe's debt crisis, the world's top central bank body said Sunday.

"In the United States, federal funds futures and options suggested that the first rate hike was not expected to occur until late in the first quarter of 2011," said the Bank for International Settlements.

The probability of a rate increase in September and December this year is "declining," it said in its quarterly report on banking and financial market developments.

"Forward rates in Europe signalled a similar postponing of the expected first rate hike by the European Central Bank beyond 2011," said the bank for central bankers.

The BIS said this reflected indications put out by central banks that they were not expecting to raise rates, but also "investors' concerns that volatile market conditions could derail the nascent economic recovery."

It added that the market was expecting fiscal belt-tightening in several countries which in turn could lead to contraction in the economy.

Central banks had slashed lending rates to record lows during the financial and economic crises to get lending flowing and to give a boost to the economy.

As the world exited from the recession, some central banks had begun raising rates.

However, the debt crisis in Europe led to a halt in these moves, with Australia's central bank citing turmoil in the markets over the debt crisis for holding its rates steady in early June.

Both the Bank of England and the ECB held their lending rates at record lows this month.

Seeing continued fragility in the U.S. recovery, the U.S. Federal Reserve kept ultra-low borrowing costs at its April meeting, despite improvements in the labor and housing markets.

The 10-member panel had vowed to keep rates of zero to 0.25% for an "extended period," in an effort to boost growth.

Source: Thomson Reuters

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