CBO predicts 3.8% fed funds rate by 2019

By Editorial Staff *Wed, Sep 3, 2014*

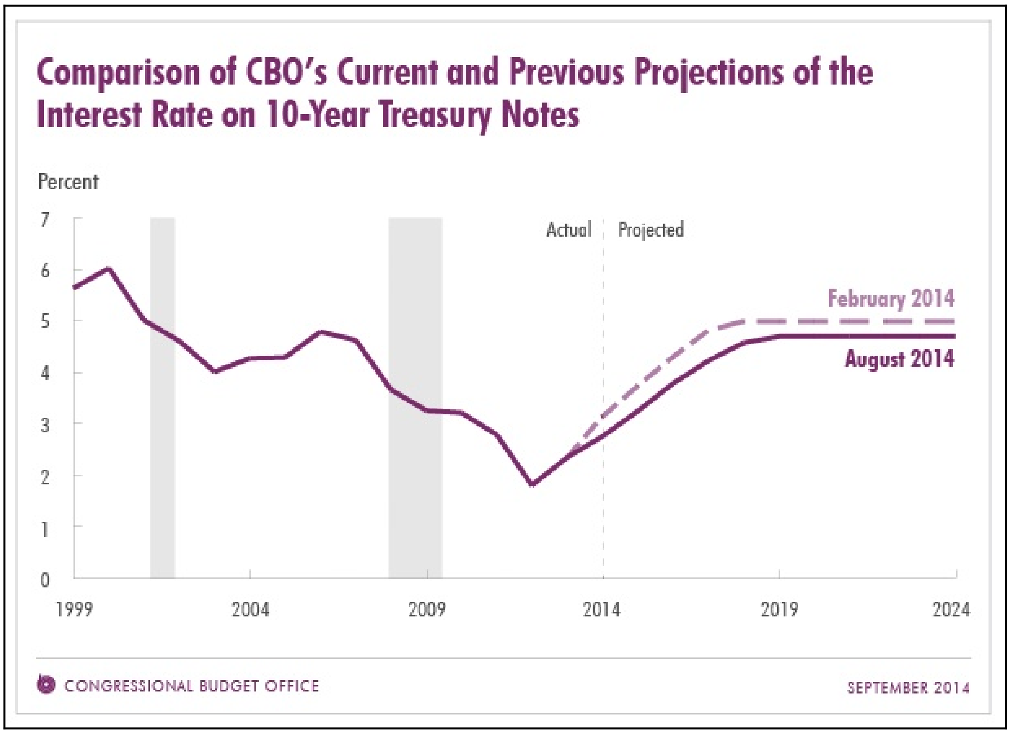
CBO projects that the federal funds rate will remain near zero until the second half of 2015 and then "rise considerably."

Higher interest rates are evidently on their way—but not soon.

In a **blog post** this week, the Congressional Budget Office predicts that over the next five years, the interest rate on three-month Treasury bills will rise to 3.5% from 0.1% and the rate on 10-year Treasury notes will rise from to 4.7% from 2.8%. The CBO projects both rates to remain at about those levels through 2024.

After 2014, the projected three-month Treasury rate is a bit below the projected federal funds rate—the interest rate on overnight lending among banks, which is adjusted by the central bank as one of its principal tools for conducting monetary policy—which rises to 3.8% by 2019 and remains there through 2024.

Continuing slack in the U.S. labor market leads the CBO to believe that monetary support for the economy will continue for the next few years and that inflation will stay below the Federal Reserve's goal.



CBO projects that the federal funds rate will remain near zero until the second half of 2015 and then “rise considerably.” The three-month Treasury bill rate is projected to increase in a similar fashion. Those projections are broadly consistent with expectations for short-term interest rates as indicated by prices in financial markets.

The 10-year Treasury rate began rising from very low levels in 2012 and is currently close to 2.4%, still low by historical standards. Investors’ expectations of an improving economy, the rise in short-term interest rates, and an end to the Fed’s purchases of long-term Treasuries and mortgage-backed securities will push that rate up over time, CBO anticipates.

The projected increase in market interest rates would affect the government’s borrowing costs. CBO projects that, under current law, the average interest rate on debt held by the public—calculated as net interest divided by debt held by the public—will more than double, to 3.9% in 2024 from 1.8% this year.