Fed to keep rates very low through mid-2013

By Editor Test *Tue, Aug 9, 2011*

In an apparent bid to calm equity investors, the Federal Reserve announced that it won't raise its benchmark interest rate until the middle of 2013, at the earliest.

The Federal Reserve said yesterday that it would hold short-term interest rates near zero through mid-2013 to support the faltering economy, but it announced no new measures to further reduce long-term interest rates or otherwise stimulate renewed growth, the *New York Times* reported.

The Fed's policy-making board said in a statement that growth "has been considerably slower" than it had expected, and that it saw little prospect for rapid improvement, prompting the change in policy. It had previously said that it would maintain rates near zero "for an extended period."

"The committee now expects a somewhat slower pace of recovery over the coming quarters," the Fed's statement said. "The unemployment rate will decline only gradually."

Many economists and outside analysts argue that the Fed should act more aggressively in response to rising unemployment and faltering growth. But internal divisions are limiting the central bank's ability to pursue additional steps.

Even the modest commitment announced Tuesday was passed only by a vote of 7 to 3. The central bank prefers to act unanimously whenever possible.

The dissenters included Richard W. Fisher, president of the Federal Reserve Bank of Dallas; Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis; and Charles Plosser, president of the Federal Reserve Bank of Philadelphia.

The three men regard inflation as a more serious threat to the economy than unemployment.