中央大學財務金融系碩士在職進修專班
九十年度入學考試　　財務管理實務

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Fed holds rate cut to half a point

Central bank retains option of further action if necessary

By Gerard Baker in Washington

The Federal Reserve yesterday moved to halt the slide in US economic confidence with its third half-point cut in interest rates in three months.

The central bank's policy-making open market committee (FOMC) lowered its key interest rate – the target for the Fed funds rate at which banks lend to each other overnight – by 0.5 of a percentage point to 5 per cent. The Fed also cut its largely symbolic discount rate to 4.5 per cent.

Financial markets initially reacted negatively to the move, which confounded hopes after last week's hefty losses on Wall Street that the Fed might cut short-term rates by 0.75 of a percentage point.

But in its statement accompanying the decision, the central bank hinted that it was prepared to cut interest rates again – perhaps even before the next regularly scheduled FOMC meeting on May 15.

Policymakers saw "substantial risks that demand and production could remain soft" and added: "In these circumstances, when the economic situation could be evolving rapidly, the Federal Reserve will need to monitor developments closely."

The central bank maintained its so-called policy "tilt" – that it saw the balance of risks in the immediate future as weighted more towards economic weakness than inflationary pressures.

"The committee also continues to believe that against the background of its long-run goals of price stability and sustainable economic growth and of the information currently available, the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future," it said.

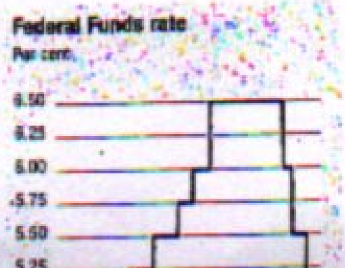
Yesterday's move brought the cumulative reduction in the cost of borrowing to 150 basis points, marking the most forceful three-month easing of monetary policy the US central bank has undertaken since Alan Greenspan became chairman in 1987.

Policymakers confronted a straight but difficult choice between cutting short-term rates by half a point, and moving even more aggressively and reducing them by three quarters of a percentage point. Reinforcing the case for the more aggressive move was six months of decline in industrial production, weakness in investment spending – driver of much economic growth in the last five years – and the fall in equity markets.

In addition, developing weakness in the global economy and fears of possible financial casualties, most noticeably in Japan, pressed the case for a 0.75 percentage point reduction. But against all this, employment, retail sales and the housing market have all held up reasonably well.

Separately, the Commerce Department reported that the nation's monthly trade gap widened slightly in January, from $33.2bn in December to $33.26bn.

Additional reporting by Peronet Despeignes.



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