Europe Raises Interest Rates; What Will the Fed Do?

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The European Central Bank lifted its key lending rate by 50 basis points Thursday, defying market forecasts that the region’s simmering banking crisis, triggered in part by the failure of Silicon Valley Bank and accelerated by solvency issues at Credit Suisse, would prompt a pause in its inflation fight.

In a nod to the crisis, which was placated in part by a $54 billion lifeline from the Swiss National Bank to Credit Suisse earlier Thursday, the ECB said it was “monitoring current market tensions closely and stands ready to respond as necessary to preserve price stability and financial stability in the euro area.”

The central bank also dropped previous references to where it sees future rate hikes, indicating decisions will now be more data-dependent.

Nonetheless, given that “inflation is projected to remain too high for too long”, the ECB lifted its benchmark refinancing rate by 50 basis points (0.5 percentage point), to 3.5%, while adding similar increases to its margin lending and deposit rates.

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