

Chairman of the Federal Reserve Ben Bernanke testifies Wednesday before the House Financial Services Committee on Capitol Hill in Washington. CHARLES DHARAPAK/AP

Bernanke vows to keep rates low

Says end to bond buying doesn't signal interest hikes

By Paul Davidson
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WASHINGTON — Federal Reserve Chairman Ben Bernanke told Congress on Wednesday that a reduction in its bond-buying stimulus program does not foreshadow a rise in short-term interest rates.

The Fed's benchmark short-term interest rates could remain near zero for "a considerable time" after its bond-buying ends, Bernanke said in testimony to the House Financial Services Committee.

Bernanke and other Fed policymakers have taken pains recently to assure jittery financial markets that they plan to keep the Fed's benchmark short-term interest rate near zero at least until the unemployment rate, currently at 7.6 percent, falls to 6.5 percent, and likely beyond that.

The Fed chairman said that the Fed would not consider a decline in unemployment to 6.5 percent "a sufficient reason" to raise its short-term rate if, for example, the drop was because of fewer people working or looking for work. That has been a prominent factor recently in the fall in unemployment.

The Fed is buying $85 billion a month in Treasury bonds and mortgage-backed securities. Although many economists expect the purchases to be pared back in September, Bernanke said the Fed could keep them going full tilt if the economy falters amid federal budget cuts.

"I emphasize that, because our asset purchases depend on economic and financial developments, they are by no means on a preset course," Bernanke said.

Economist Jim O'Sullivan of High Frequency Economics said Bernanke sent a clear message that tighter monetary policy "is not imminent." Still, Barclays Capital said in a research note that it expects the Fed at its September meeting to reduce the bond purchases to $70 billion a month from $85 billion.

Bernanke said the recovery recently "has continued at a moderate pace," noting the housing market's rebound and job growth of about 200,000 a month so far this year. He noted the high level of long-term unemployment and the many Americans working in part-time jobs who prefer full-time work as well as those who have given up looking for jobs.