

ECB prepares rate rise as global tide turns

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The European Central Bank has surprised markets by signalling a rate rise as soon as next month, brushing aside warnings that this may compound damage from the oil shock and push EMU debtor states deeper into crisis.

By Ambrose Evans-Pritchard | The Telegraph

"We are in a posture of strong vigilance: an increase in interest rates at the next meeting is possible," said ECB president Jean-Claude Trichet, following a meeting of the governing council. The code word "vigilance" sent the euro rocketing to almost \$1.40 against the dollar.

The ECB is the first of the big central banks to signal a rate rise to curb inflation, marking a major turning point in the global policy cycle.

"This is a shock," said Silvio Peruzzo from RBS. "This raises risks for the eurozone periphery through all kinds of channels. Most mortgages in Spain are on floating rates."

Santiago Carbó from Granada University said the shift was "very worrying" for Spain. "It catches us at a bad time: we haven't finished cleaning up the financial system."

Mr Trichet said the ECB aims to stop inflation psychology gaining a foothold, though he played down fears of a "series" of rate rises. As a concession, the ECB once again extended its unlimited 3-month liquidity for "addicted" Irish, Greek, and Iberian banks.

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