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Fed's Rate Decision Not Shaped by Congressional Logjam, Yellen Says

By John Heltman
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WASHINGTON - The possibility that Congress may fail to pass a spending bill by the end of this month or not raise the debt ceiling had no bearing on the Federal Reserve Board's decision to maintain its accommodative monetary policy, Fed Chair Janet Yellen said Thursday.

Instead, Yellen said the Federal Open Market Committee's decision to keep interest rates near zero was spurred by concerns over slack in the labor market, low levels of inflation and uncertainty about overseas economies.

While she urged lawmakers to settle their budgetary differences, Yellen indicated that the threat of a government shutdown did not influence the central bank's move. Congress has a Sept. 30 deadline to pass a spending bill.

"It played absolutely no role in our decision," Yellen said. "I believe it's the responsibility of Congress to pass a budget to fund the government, to deal with the debt ceiling, so America pays its bills."

The Fed's decision appeared particularly affected by developments in China, where the stock market has been the source of global market volatility since August.

"We reviewed developments in all important areas of the world, but we focused particularly on China and emerging markets," Yellen said. "The question is where or not there might be a risk of a there being a more abrupt slowdown than most analysts expect."

Yellen said the FOMC will look to raise rates whenever it sees "improvement in the labor market" and can be "reasonably confident that inflation will move back to its 2% objective over the medium term." Yellen said the committee may even maintain the near-zero rate even after economic conditions return to normal.

The increased focus on whether the Fed would increase rates was unprecedented leading up to the decision. The attention also likely played a role in preventing the Fed from a strategy it would clearly prefer: raising rates quietly and gradually. Analysts say the intense spotlight on monetary policy has also further moved a number of key bank regulatory decisions still pending from the Fed into the background.

"The view of the Fed is shifting from the Fed as global regulator of the financial system to the Fed as global regulator of the economy," said Peter Conti-Brown, an economist at the Wharton School at the University of Pennsylvania. "It's both, but what we saw toward the end of [former Fed Chairman Ben] Bernanke's tenure and for almost all of Yellen's tenure is a move toward" the latter.

One notable development signaled in the FOMC's release was the indication that one of the Fed governors actually favored a negative interest rate target for 2015 and 2016. Central banks in Europe have been entertaining negative interest rates to encourage lending but also to penalize banks for holding on to capital. Fifteen of the remaining 16 governors favored a year-end interest rate target of between 0.125% and 0.625%, while one governor favored a 0.875% interest rate target.