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European Central Bank raises interest rates to quell energy-fueled inflation

The European Central Bank raised interest rates Thursday to cool inflation that is being fed by high oil prices from the Iran war.

The decision was supported by a stronger-than-expected economy that suggests businesses can weather the higher borrowing costs.

The central bank for the 21 EU member countries that use the euro currency raised its benchmark rate by a quarter percentage point to 2.50% at a meeting held in Berlin, away from the bank's Frankfurt headquarters.

Bank President Christine Lagarde said at her news conference that "the conflict in the Middle East continues to generate inflation pressures, and inflation is set to remain well above target for an extended period."

"The outlook remains highly uncertain, with risks to the upside for inflation and to the downside for economic growth," she said, adding that the bank would make future rate decisions meeting by meeting based on incoming data.

She said the central bank would not commit to any particular path for rates before seeing the data.

The bank last raised rates at its June 11 meeting, then hit pause at its July 23 session.

Higher rates cool inflation

Inflation concerns are also weighing on the U.S. Federal Reserve, whose rate-setters next meet Sept. 15-16. Fed Chair Kevin Warsh has said the bank may have "more work to do" to contain U.S. inflation of 3.7%.

High energy prices are one reason eurozone inflation came in at 3.3% in August, above the bank's target of 2%.

Oil prices have risen above $100 per barrel due to threats against traffic that typically moves through the Strait of Hormuz.

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Higher rates cool inflation by making it more expensive to borrow and buy things, from houses to new factories.

That reduces demand for goods and eases pressure on prices. The ECB benchmarks affect banks first, and through them lending rates throughout the economy.

The ECB's move was "a hike to stay ahead of the curve, demonstrating the ECB's high level of vigilance, and an attempt to prevent higher energy prices from feeding through to the broader economy," Carsten Brzeski, global head of macro at ING bank, wrote in an email.