

## Fed's Dot Plot

### Why in news?

The Federal Reserve announced that it will reduce its asset purchases by \$15 billion a month in November and December 2021 which made commentators to look forward to the actual US Fed dot plot on interest rates.

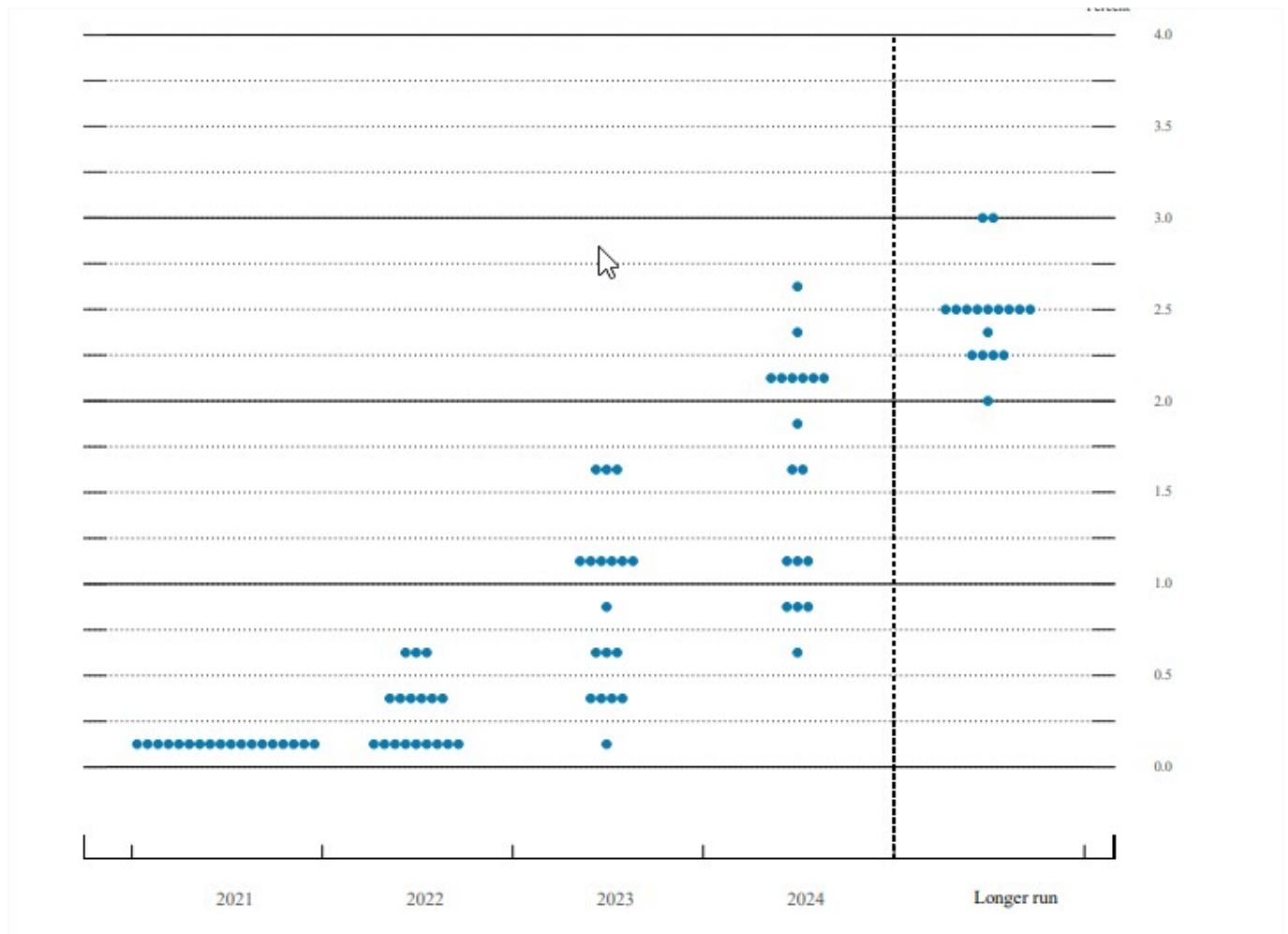
### What is the concern associated with Fed Reserve's reduction of asset purchase?

- [Tapering](#) means gradual slowing down of purchases of securities and bonds.
- Once the tapering is complete, the Fed may go for reduction in the size of the balance sheet to slowly remove the monetary stimulus.
- In 2013 , a similar announcement led to a 'tantrum' across financial markets.

To know more about the Taper Tandrums, click [here](#)

### What is US Fed dot plot?

- The dot plot is the expected trajectory of interest rate hikes proposed by US Fed members in graphical form.
- The US **Federal Reserve's Federal Open Market Committee (FOMC)** releases its dot plot along with its projections on other major economic indicators like GDP, inflation, etc.
- 18 members participate and every member of the committee offers their prediction on where the policy rate should be over the next three years.
- Each member's interest rate forecast is then plotted on a graph in the form of a dot plot.
- The dot plot was introduced by the Fed in **2012** and is published **four times a year** (once a quarter) in March, June, September and December.



## Why is it important?

- The Fed's dot plot tells the market in advance where interest rates could be heading in future.
- The dot plot is particularly important because the US central bank has been maintaining its interest rates near zero for a prolonged period.
- The dot plot will give a hint to the markets on when the rate hike cycle may begin and, more importantly, what could be the possible pace of increases in rates.

## What does the dot plot say?

- The dot plot released in June 2021 had shown 12 members out of 18 predicting that rates would remain at the current levels of 0-0.25 per cent.
- But in September, this had come down to nine indicating that the first-rate hike is possible in 2022 itself.
- It also showed that there could be three rate hikes in 2023.

## Reference

1. <https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about/article37383122.ece>

