

The US Federal Reserve's Interest Rate Hike

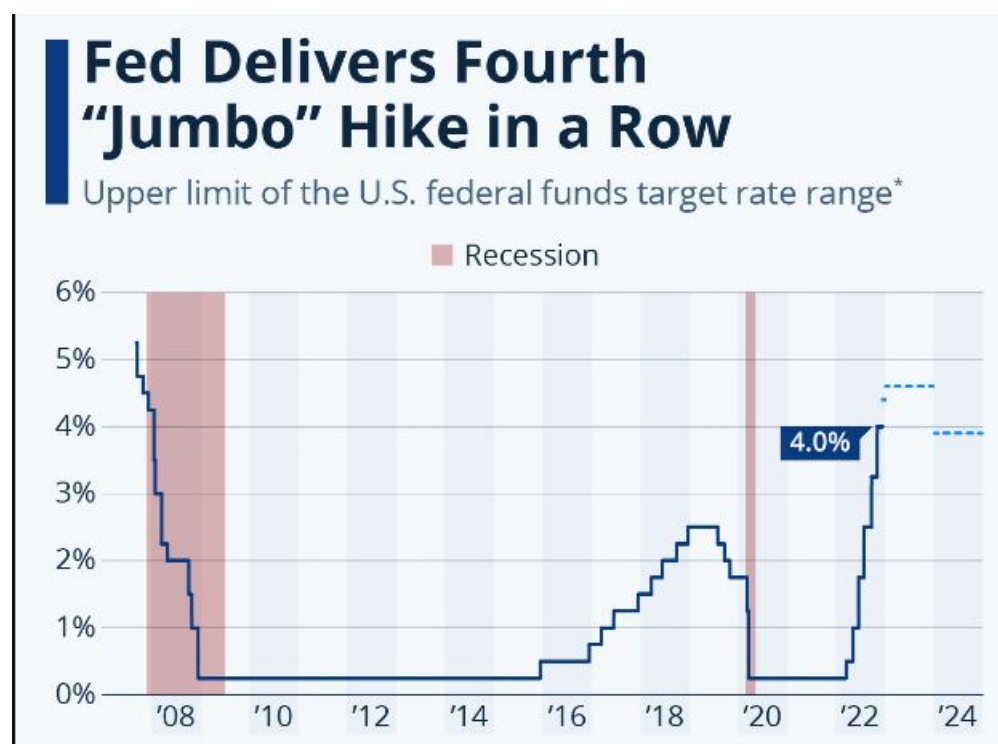
Why in news?

The US Federal Reserve announced its fourth consecutive 75 basis point interest rate hike and signaled a potential change in how it will approach monetary policy to bring down inflation.

What are the key features of the Fed's move?

- The Federal Reserve raised its short-term borrowing rate by 0.75 percentage point to a target range of **3.75%-4%**, the highest level since January 2008.
- The move continued the most aggressive pace of monetary policy tightening since the early 1980s.
- The new statement hinted at that policy change that the Fed will take into account the cumulative tightening of monetary policy in determining future hikes.
- The US central bank has said supply-demand imbalances are causing inflation.
- However, it only has the tools to control the demand side — which it is using **to bring inflation** in line with its mandate of 2%.

To know more about the US Fed's earliest interest rate hike, click [here](#)



What does the higher rate mean for borrowers and savers?

For borrowers

- **Higher mortgage rates** - Along with the central bank's vow to stay tough on inflation, the average interest rate on the 30-year fixed-rate mortgage is hitting higher.
- **Rise in credit card rates** - Anyone who carries a balance on their credit card will have to shell out more to cover the interest charges.
- **Expensive auto loans** - The payments are getting bigger because the price for all cars is rising along with the interest rates on new loans.

For savers

- **Savings account rates** - The interest rates on savings accounts are finally higher after several consecutive rate hikes.

What effect will the Fed hike have on India?

The retail inflation in India stands at 7.41% in September 2022.

- **Impact on RBI** - The RBI had highlighted that the Fed was the third shock after covid-19 and the war in Ukraine.
- Though RBI considers domestic factors, especially retail inflation, while reviewing the interest rates, Fed is an important part of its policy formulations.
- High imported inflation has added to the retail inflation in India, and [RBI has already raised the repo rate](#) by 190 bps over the last 6 months.
- **Impact on Indian markets** - Fed's continuous rate hikes does not augur well for emerging markets including India.
- An increase in US interest rates results in an outflow of funds to US markets, putting their stock markets and currencies under pressure.
- Equity markets are likely to see increased volatility in the next few months.
- The Indian rupee dipped against the US dollar after the Fed's outcome.

References

1. [The Indian Express | Federal Reserve hikes rates again](#)
2. [Live Mint | How will Fed's fourth 75 bps rate hike impact Indian stocks](#)
3. [CNBC | What the Federal Reserve's fourth interest rate hike means](#)