

## The US Federal Reserve's Interest Rate Hike

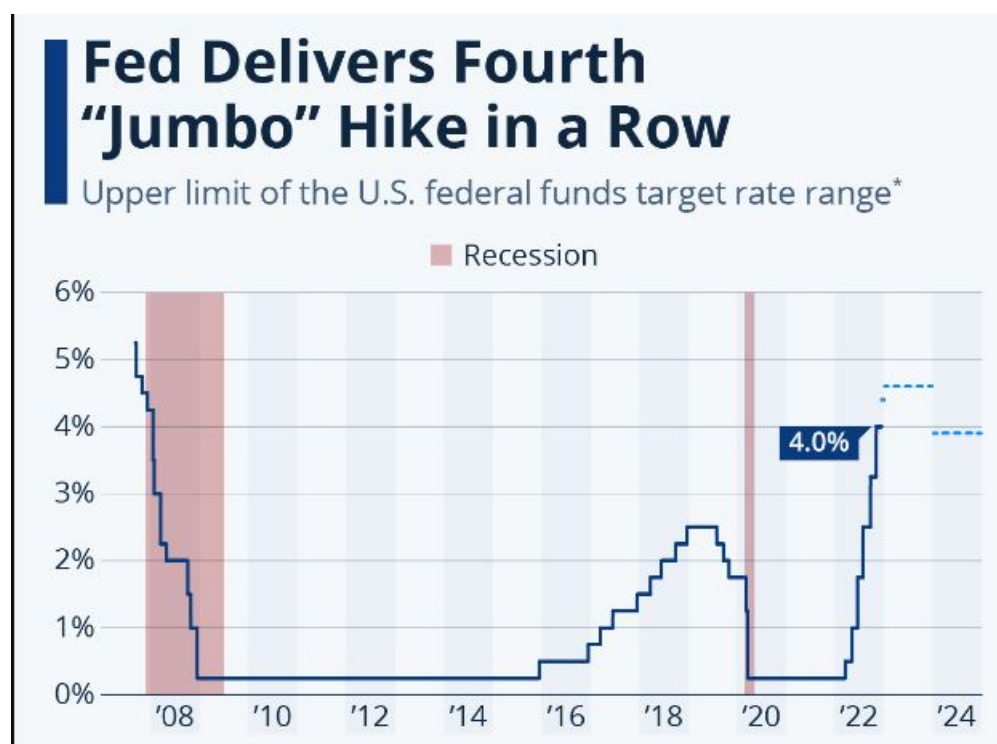
### Why in news?

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](#)