US Fed Reserve meeting

Why in news?

The US Federal Reserve's **Federal Open Market Committee (FOMC)** delivered its interest-rate decision after the June 2019 meeting.

What are the takeaways of the meeting?

- The FOMC voted 9-1 to keep the fed funds rate unchanged at **2.25% to 2.50%**
- The Fed removed "**Patient**" from its policy stance citing risks to economic growth to **"closely monitor the implications of incoming information"**
- The central bank also leaves the door open somewhat to future cuts.

What are the key things highlighted in the policy meeting?

- **Trump's trade policies a worry:** FOMC shows concern over the unpredictable outcome of President Donald Trump's trade dispute with China and other countries.
- **Interest-rate projections:** Interest-rate projections released showed,
  1. 8 of 17 officials expect rate cut by year end from current level.
  2. 7 of those officials see lowering the rate by a half percentage point by the close of 2019.
  3. 8 officials projected the Fed would hold rates steady.
- **Change of language:** It dropped the word **"patient"** in describing its approach to policy on borrowing costs which implied rates were on hold.
  1. Instead, it said uncertainties about the economic outlook have increased.
  2. The change in tone follows attacks on the Fed by the US President Trump for not doing more to bolster the economy.
- **Inflation to miss the target:** The Fed officials have lowered inflation projection from 1.8 per cent to 1.5 per cent for the year.
  1. They also expect to miss their 2 % target next year as well.
  2. Policymakers "**expressed concerns**" about the pace of inflation's return to 2%

- **Rate cuts in the offing:** Federal Reserve officials maintained the status quo on rates this time, but indicated readiness to slash rates in the coming months.

What are the impacts?

- Soon after the announcement, US stocks ended on the higher side.
- Other systemically important central banks are also in the dilemma as Bank of Japan, the European Central Bank and the People's Bank of China, whether resort to rate cuts if inflation failed to rise.
- This dovish stance of Fed indicates the growing threat of a global economic slowdown due to the increasing trade tensions between the U.S. and China.
- No change in interest rates in the present, seen as a positive for FPI flows to the emerging markets including India.
- This will help to boost India's capital account and counter the higher CAD due to higher oil prices.
- The shift to an easing cycle internationally will of course make it easier for the Reserve Bank of India to cut rates aggressively without worrying about the effect of such reductions on the rupee.
- The US dollar, which weakened amid rise in riskier assets, will be a positive for the Indian rupee.

What is the need for the global economy?

- With real interest rates in advanced economies currently not far above zero, central banks may have to look beyond rate cuts.
- To explore other unconventional policy measures to directly inject money into the economy.
- Boosting growth, however, may require a new round of structural reforms.

Quick Facts:

What is the FOMC?

It is a committee within the Federal Reserve System that is entrusted under US law with overseeing the nation's open market operations as well as making key decisions about interest rates and the management of the money supply in the US economy.

Source: The Hindu