# US Fed Rate Hike

## Why in news?

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The US central bank recently raised the benchmark interest rate for the third and final time this year.

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## What are the highlights?

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- The Fed’s policy-setting Federal Open Market Committee increased the key lending rate.
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- It made a quarter point increase on the cost of loans for everything from houses to cars.
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- The federal funds rate is now in a range of 1.25-1.50%.
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- Continued strong labour market and solid economy are cited as reasons for the hike.
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- The Federal Reserve has however left its rate outlook for the coming years unchanged, with a forecast of three rate increases in the following year.
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- This is despite the policymakers projecting a short-term acceleration in U.S. economic growth.
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- The central bank thus largely continues with its gradual tightening of monetary policy.
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- However, inflation is expected to remain below the Fed’s target of 2% for another year.
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- Logically this remains a considerable concern, as policymakers saw no reason to accelerate the expected pace of rate increases.
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## Why should India care?

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- There was a surprise depreciation of the US dollar and it weakened a little against the euro.
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- The impact of these decisions on India and other emerging markets will depend on several factors.
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- World assets are doing well as evident from stock markets in the US, eurozone, and Japan being at multi-year highs.
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- The rate hike could lead to money flowing back into hard-currency assets.
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- The actual announcement lifted gold prices quite unexpectedly.
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- Demand for the precious metal from important consumers, China and India, is likely to be subdued in the months ahead.
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- If global liquidity is cut by rate hikes, traders will sell Emerging Market assets first.
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- An emerging market fund is a fund that invests the majority of its assets in securities from countries classified as emerging.
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- These countries including India are in an emerging growth phase and offer high potential return with higher risks than developed market countries.
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**Source: Business Standard**

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