US Federal Rate Hike in 2026

Prelims: *Current events of national and international importance*

Why in News?

The US Federal Reserve raised its benchmark interest rate for the first time since 2023 to tackle persistently high inflation, despite demands from President Trump for rate cuts.

- **Persistent inflation** – Inflation remained above the Fed's desired level.
- **Higher energy prices** – Rising gas prices amid renewed US–Iran tensions added inflationary pressure.
- **Global monetary tightening** – Other central banks are also considering or implementing rate hikes.

Impact of Rate Hike

- Higher interest rates can:
  - Increase borrowing costs for mortgages, auto loans and credit cards.
  - Reduce consumer spending and private investment.
  - Lower aggregate demand and help control inflation.
  - Potentially slow economic growth.

Quantitative Easing (QE)

- Quantitative Easing is an unconventional monetary policy used mainly when conventional interest-rate policy has limited scope.
- The central bank creates money electronically to purchase long-term securities.
- Major assets include:
  - Government bonds
  - Mortgage-backed securities
  - Purchases are generally made from financial institutions.
- It aims to:
  - Increase liquidity/money supply.
  - Lower long-term interest rates.
  - Encourage borrowing and investment.
  - Support economic activity.

Reference

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