

The US Federal Reserve raised key interest rates by 25 basis points to between 0.50 per cent and 0.75 per cent

The Board of Governors of the Federal Reserve System decided to raise the target range for the federal funds rates between 0.50 per cent and 0.75 per cent on December 14, 2016. This was FED's second such rate hike since last December.

The Federal Open Market Committee (FOMC), which concluded its two-day meeting on December 14, 2016, said that the inflation expectations have increased "considerably" and forecast a steeper path for borrowing costs in 2017. The FOMC expects that with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market conditions will strengthen somewhat further.

The Federal Reserve has made the following decisions to implement the monetary policy stance announced by the Federal Open Market Committee in its statement on December 14, 2016:

The Board of Governors of the Federal Reserve System voted unanimously to raise the interest rate paid on required and excess reserve balances to 0.75 percent, effective December 15, 2016.

- Effective December 15, 2016, the Federal Open Market Committee directs the Desk to undertake open market operations as necessary to maintain the federal funds rate in a target range of 1/2 to 3/4 percent.
- These should include overnight reverse repurchase operations (and reverse repurchase operations with maturities of more than one day when necessary to accommodate weekend, holiday, or similar trading conventions) at an offering rate of 0.50 percent.
- The amounts for this are limited only by the value of Treasury securities held outright in the System Open Market Account that are available for such operations and by a per-counterparty limit of \$30 billion per day.
- The Committee further directed the Desk to continue rolling over maturing Treasury securities at auction and to continue reinvesting principal payments on all agency debt and agency mortgage-backed securities in agency mortgage-backed securities.
- The Committee also directs the Desk to engage in dollar roll and coupon swap transactions as necessary to facilitate settlement of the Federal Reserve's agency mortgage-backed securities transactions.

- The Board of Governors of the Federal Reserve System voted unanimously to approve a 1/4 percentage point increase in the discount rate (the primary credit rate) to 1.25 percent.

Please contact for any query related to this mail to Ms. Rashmi Singh, Associate Economist at rashmi.singh@phdcci.in with a cc to Dr. S P Sharma, Chief Economist, PHD Chamber of Commerce & Industry.

Warm regards,

Dr. S P Sharma
Chief Economist & Director-Research

PHD Chamber of Commerce and Industry
PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454 Ext (135)
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in

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PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016

Tel: +91-11-26863801-04, 49545454, Fax: 91-11-26855450, Email : resarch@phdcci.in, Website : www.phdcci.in