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Fed's Dot Plot

Why in news?

The Federal Reserve announced that it will reduce its asset purchases by $15 billion a month in November and December 2021 which made commentators to look forward to the actual US Fed dot plot on interest rates.

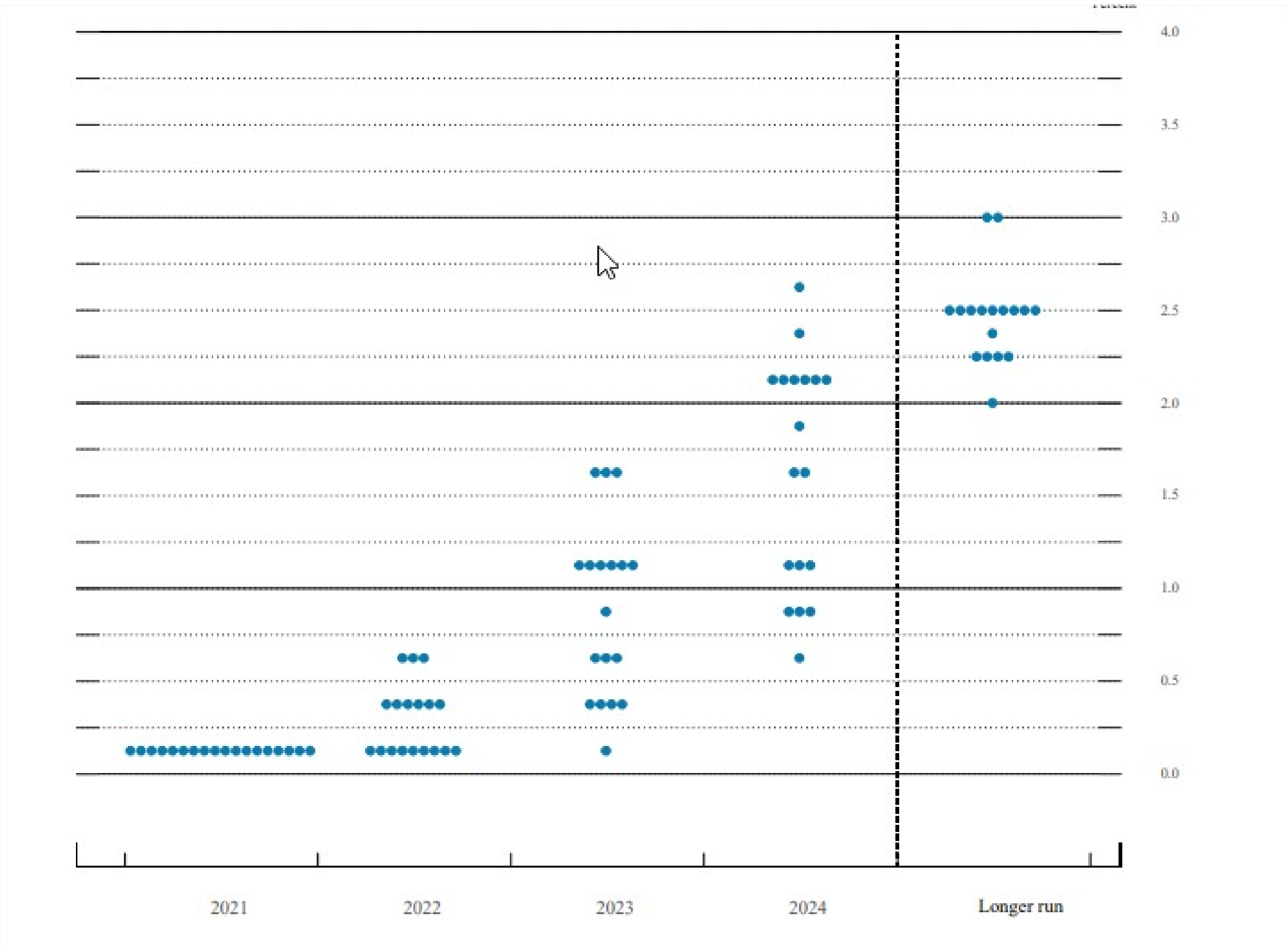
What is the concern associated with Fed Reserve's reduction of asset purchase?

- Tapering means gradual slowing down of purchases of securities and bonds.
- Once the tapering is complete, the Fed may go for reduction in the size of the balance sheet to slowly remove the monetary stimulus.
- In 2013 , a similar announcement led to a 'tantrum' across financial markets**.**

To know more about the Taper Tandrum, click here

What is US Fed dot plot?

- The dot plot is the expected trajectory of interest rate hikes proposed by US Fed members in graphical form.
- The US **Federal Reserve's Federal Open Market Committee (FOMC)** releases its dot plot along with its projections on other major economic indicators like GDP, inflation, etc.
- 18 members participate and every member of the committee offers their prediction on where the policy rate should be over the next three years.
- Each member's interest rate forecast is then plotted on a graph in the form of a dot plot.
- The dot plot was introduced by the Fed in **2012** and is published **four times a year** (once a quarter) in March, June, September and December.



Why is it important?

- The Fed’s dot plot tells the market in advance where interest rates could be heading in future.
- The dot plot is particularly important because the US central bank has been maintaining its interest rates near zero for a prolonged period.
- The dot plot will give a hint to the markets on when the rate hike cycle may begin and, more importantly, what could be the possible pace of increases in rates.

What does the dot plot say?

- The dot plot released in June 2021 had shown 12 members out of 18 predicting that rates would remain at the current levels of 0-0.25 per cent.
- But in September, this had come down to nine indicating that the first-rate hike is possible in 2022 itself.
- It also showed that there could be three rate hikes in 2023.

Reference

1. https://www.thehindubusinessline.com/opinion/columns/slate/all-you-wanted-to-know-about/article37383122.ece