

Important Vocab For the Editorial

1. **Federal Reserve (US)** (noun) – the central banking system of the United States (The Reserve Bank of India (RBI) is India's central banking institution).
2. **rate cut** (noun) – a decision by a central bank (like RBI in India) to reduce its main interest rate to the banks (like SBI, ICICI & etc in India) when these commercial banks get money from the central bank. Once this rate goes down, the banks are in a position to give loans at lower interest rates to individuals and the industry.
3. **insure** (verb) – protect, secure, assure.
4. **outlook** (noun) – prospects/expectations; forecast, projection.
5. **rationale** (noun) – reason/basis; principle.
6. **emphatic** (adjective) – definite, strong, conclusive/decisive (of a result).
7. **intact** (adjective) – undamaged, unimpaired, unflawed.
8. **uncertainty** (noun) – instability, unpredictability, indecision.
9. **pivot** (verb) – turn, revolve, rotate.
10. **on hold** (phrase) – postpone, put off, delay.
11. **slowdown** (noun) – economic decline, recession, slump/depression.
12. **exacerbate** (verb) – make worse, worsen, aggravate, compound.
13. **trade war/tensions** (noun) – a condition in which a country increase tariffs on foreign goods and impose quota restrictions to restrict other countries' trade.
14. **unleash** (verb) – let loose, release, set free.
15. **insular** (adjective) – isolated, separate, segregated.
16. **pare** (verb) – reduce, diminish, decrease.
17. **dent** (verb) – undermine, reduce, lessen.
18. **offset** (verb) – balance, equalize, neutralize.
19. **unenviable** (adjective) – difficult, undesirable, unpleasant.
20. **fret** (verb) – trouble, bother, disturb.
21. **protracted** (adjective) – sustained, prolonged, extensive.
22. **muddle** (verb) – confuse, bewilder, perplex.
23. **accommodative** (adjective) – accommodating, cooperative, helpful.
24. **inflation** (noun) – simply meaning “cost of living”; increase of price level of goods & services and vice versa decrease of currency value.
25. **persistent** (adjective) – constant, continuous, never-ending/repeated.
26. **disinflationary** (adjective) – relating to the reduction in the rate of inflation.

27. undermine (verb) – weaken, spoil, damage.
28. spur (verb) – stimulate, prompt, propel.
29. arbitrage (noun) – buying an asset in one market and selling the same/similar asset in another market to make a profit.
30. head home (phrase) – return/go back to a condition where one has been before.

Fed's insurance policy: On Federal Reserve's rate cut

The rate cut is aimed at insuring against global risks to favourable U.S. economic outlook

The U.S. Federal Reserve on Wednesday announced its first reduction in the funds rate since 2008, a move that was widely expected. Elaborating on the Federal Open Market Committee's rationale in deciding policy action, Chairman Jerome Powell was emphatic that the aim was to provide a measure of insurance, especially given that the outlook for the U.S. economy remains favourable. The quarter percentage point interest rate cut, he said, was designed to support economic growth by ensuring that confidence was kept intact and "intended to insure against downside risks from weak global growth and trade policy uncertainty." In the space of less than three quarters, the Fed has pivoted from talking of further rate increases, to being on hold, to finally cutting interest rates as a global economic slowdown is exacerbated by trade tensions unleashed by U.S. President Donald Trump's aggressively insular approach to trade ties. The U.S. economy, which expanded by 2.9% in 2018 and posted a 3.1% expansion in the first quarter, slowed to a 2.1% pace in the second quarter, with the ongoing trade war with China blamed for a manufacturing slowdown as well as a decline in business investment. Just last week, the IMF pared its forecast for global growth in 2019 by 0.1 percentage point to 3.2%, warning that "risks to the forecast are mainly to the downside". The IMF cautioned that further trade tensions could dent sentiment and slow investment, a theme that Mr. Powell too referred to, when he said the rate cut was intended "to help offset the effects these factors are currently having on the economy."

The Fed Chairman, however, finds himself in an unenviable situation with the rate reduction satisfying neither the sharply critical President who appointed him in 2018, nor

the markets where investors fretted that Mr. Powell had failed to signal the start of a protracted easing cycle. A fair part of the problem appears to be of his own making as the central bank chief muddled his messaging, speaking at one point during the post policy press conference of a “somewhat more accommodative stance”, and at another emphasising that the move was not the start of a long series of rate cuts. Central bankers at the best of times have a delicate balancing act to perform to ensure that policies to support growth do not lead to a dilution of focus on price stability. In the Fed’s case, Chairman Powell is clearly concerned that with inflation in the U.S. stubbornly refusing to move toward the central bank’s 2% objective, there is a risk that persistent global disinflationary pressures could at some point feed into the domestic economy, undermining its efforts to spur wage and price gains. For the RBI, the Fed’s move signals that, for now at least, it can stay on its accommodative path in the confidence that U.S. investors seeking rate arbitrage may hit the pause button on plans to head home.