

## March FOMC minutes: Higher federal funds rate expected by the end of this year

Olga Kosma  
 Economic Analyst  
[okosma@eurobank.gr](mailto:okosma@eurobank.gr)

The minutes of the March 17-18 FOMC meeting did not yield major surprises.<sup>1</sup> There was a considerable disparity of views between FOMC members around the timing of the first rate hike. A number of them argued in favor of a rate hike in June, but the majority appeared to be considering the first fed funds rate hike to be delivered in the second half of the year. Although the committee downgraded its GDP growth projections for the years 2015, 2016 and 2017,<sup>2</sup> it did acknowledge that the US labor market has made enough progress to justify the removal of the “patient” language from the forward guidance of the accompanying statement. As regards the pace of Fed rate tightening after the first hike, the committee made it clear that it will be slow and steady.

Key points of the March FOMC minutes include the following:

- As far as the timing of the first rate hike is concerned, the minutes highlighted that “several” FOMC participants were in favor of the first rate hike to take place in June, while a “couple” were of the view that the Central Bank should wait until 2016, amid concerns about the negative impact of a stronger dollar and lower energy prices on inflation. However, the majority of the FOMC members appeared to prefer the normalization process to start between September and December, provided that the economic outlook does not surprise negatively.
- FOMC participants noted that a number of risks to the global economic outlook could also weigh on US growth prospects, including geopolitical tensions, the economic slowdown in China and renewed Grexit jitters. Furthermore, they acknowledged that labor market conditions are broadly improving, but “a few” highlighted that subdued wage growth could prompt further reductions in their estimates for the natural rate of unemployment. It should be noted that more than half of the FOMC participants lowered their projections of the longer run (beyond 2017) rate of unemployment to 5.0-5.2%, from 5.2-5.5% previously.

#### DISCLAIMER

This report has been issued by EFG Eurobank – Ergasias S.A and may not be reproduced or publicized in any manner. The information contained and the opinions expressed herein are for informative purposes only and they do not constitute a solicitation to buy or sell any securities or effect any other investment. EFG Eurobank – Ergasias S.A., as well as its directors, officers and employees may perform for their own account, for clients or third party persons, investments concurrent or opposed to the opinions expressed in the report. This report is based on information obtained from sources believed to be reliable and all due diligence has been taken for its process. However, the data have not been verified by EFG Eurobank – Ergasias S.A. and no warranty expressed or implicit is made as to their accuracy, completeness, or timeliness. All opinions and estimates are valid as of the date of the report and remain subject to change without notice. Investment decisions must be made upon investor's individual judgment and based on own information and evaluation of undertaken risk. The investments mentioned or suggested in the report may not be suitable for certain investors depending on their investment objectives and financial condition. The aforesaid brief statements do not describe comprehensively the risks and other significant aspects relating to an investment choice. EFG Eurobank – Ergasias S.A., as well as its directors, officers and employees accept no liability for any loss or damage, direct or indirect that may occur from the use of this report.

<sup>1</sup> <http://www.federalreserve.gov/monetarypolicy/fomcminutes20150318.htm>

<sup>2</sup> GDP growth projections were revised as follows: for 2015 to 2.3-2.7% from 2.6-3.0% previously, for 2016 to 2.3-2.7% from 2.5-3.0%, and for 2017 to 2.0-2.4% from 2.3-2.5%.

- As soon as the FOMC embarks on a rate tightening cycle, it will continue to target a 25-basis point wide range for the fed funds rate, as opposed to targeting a point estimate as it did until October 2008. The interest paid on excess reserves (IOER) and the overnight reverse repo (O/N RRP) facility rate will be the upper and the lower boundary of the said range, respectively. In addition, the aggregate capacity of the O/N RRP facility will be temporarily elevated to facilitate monetary policy implementation.

Given the weaker than expected March nonfarm payrolls report released last week<sup>3</sup> and the Fed's downwardly revised projection of the longer run rate of unemployment, our baseline scenario is for the Central Bank to start its monetary normalization process in September, at the earliest. Nevertheless, we do not rule out entirely the Fed to delay the first interest rate increase until Q4 2015, especially if inflation remains well below its medium-term 2% inflation target.

---

<sup>3</sup> <http://www.bls.gov/news.release/pdf/empisit.pdf>

## Eurobank Economic Analysis and Financial Markets Research

Dr. Platon Monokroussos: *Group Chief Economist*  
pmonokroussos@eurobank.gr, +30 210 37 18 903

### Research Team

**Anna Dimitriadou:** *Economic Analyst*  
andimitriadou@eurobank.gr, +30 210 37 18 793

**Ioannis Gkionis:** *Research Economist*  
igkionis@eurobank.gr +30 210 33 71 225

**Stelios Gogos:** *Economic Analyst*  
sgogos@eurobank.gr +30 210 33 71 226

**Olga Kosma:** *Economic Analyst*  
okosma@eurobank.gr +30 210 33 71 227

**Arkadia Konstantopoulou:** *Research Assistant*  
arkonstantopoulou@eurobank.gr +30 210 33 71 224

**Paraskevi Petropoulou:** *G10 Markets Analyst*  
ppetropoulou@eurobank.gr, +30 210 37 18 991

**Galatia Phoka:** *Research Economist*  
gphoka@eurobank.gr, +30 210 37 18 922

**Theodoros Stamatou:** *Senior Economist*  
tstamatou@eurobank.gr, +30 210 33 7 1228

### Global Markets Sales

**Nikos Laios:** *Head of Treasury Sales*  
nlaios@eurobank.gr, +30 210 37 18 910

**Alexandra Papathanasiou:** *Head of Institutional Sales*  
apapathanasiou@eurobank.gr, +30 210 37 18 996

**John Seimenis:** *Head of Corporate Sales*  
yseimenis@eurobank.gr, +30 210 37 18 909

**Achilleas Stogioglou:** *Head of Private Banking Sales*  
astogioglou@eurobank.gr, +30 210 37 18 904

**George Petrogiannis:** *Head of Shipping Sales*  
gpetrogiannis@eurobank.gr, +30 210 37 18 915

**Vassilis Gioulbaxiotis:** *Head Global Markets International*  
vgioulbaxiotis@eurobank.gr, +30 210 3 718 995

Eurobank Ergasias S.A, 8 Othonos Str, 105 57 Athens, tel: +30 210 33 37 000, fax: +30 210 33 37 190, email: [EurobankGlobalMarketsResearch@eurobank.gr](mailto:EurobankGlobalMarketsResearch@eurobank.gr)

## Eurobank Economic Analysis and Financial Markets Research

More research editions available at <http://www.eurobank.gr/research>

- **Daily Overview of Global markets & the SEE Region:** Daily overview of key macro & market developments in Greece, regional economies & global markets
- **Greece Macro Monitor:** Periodic publication on the latest economic & market developments in Greece
- **Regional Economics & Market Strategy Monthly:** Monthly edition on economic & market developments in the region
- **Global Economy & Markets Quarterly:** Quarterly review of the international economy and financial markets

Subscribe electronically at <http://www.eurobank.gr/research>

Follow us on twitter: <http://twitter.com/Eurobank>

