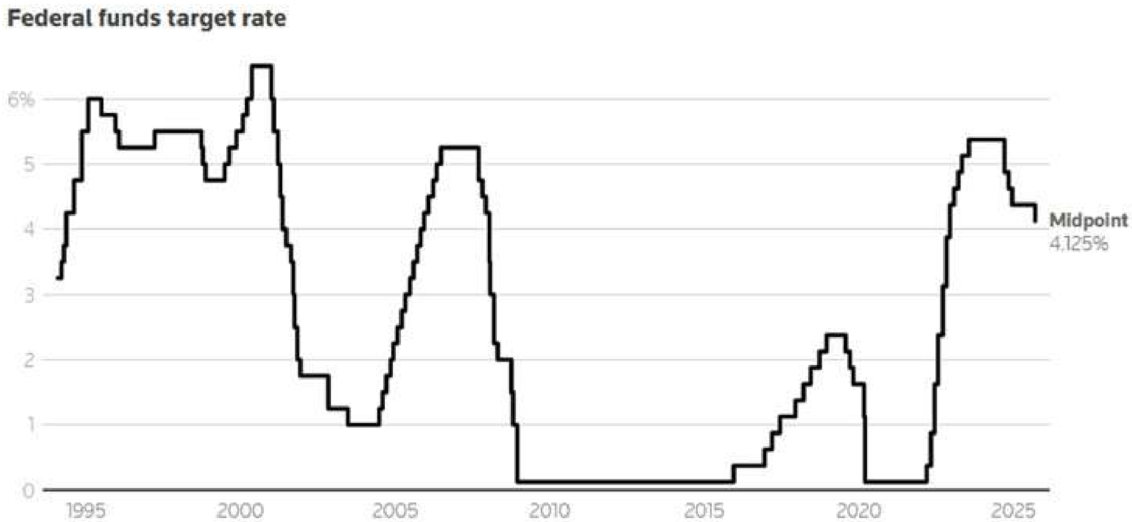
Fed delivers normal-sized rate cut, sees steady pace of further reductions; Miran dissents

By Howard Schneider and Ann Saphir, Reuters, September 17, 2025

The Federal Reserve cut interest rates by a quarter of a percentage point on Wednesday and indicated it will steadily lower borrowing costs for the rest of this year, as policymakers responded to concerns about weakness in the job market in a move that won support from most of President Donald Trump's central bank appointees. Only new Governor Stephen Miran, who joined the Fed on Tuesday and is on leave as the head of the White House's Council of Economic Advisers, dissented in favor of a half-percentage-point cut.



The rate cut, along with projections showing two more quarter-percentage-point reductions are anticipated at the remaining two policy meetings this year, indicate Fed officials have begun to downplay the risk that the administration's voluble trade policies will stoke persistent inflation, and are now more concerned about weakening growth and the likelihood of rising unemployment. The cut, the first move by the policy-setting Federal Open Market Committee since December, lowered the policy rate to the 4.00%-4.25% range. "The Committee is attentive to the risks to both sides of its dual mandate and judges that downside risks to employment have risen," the central bank's rate-setting Federal Open Market Committee said in its policy statement. "Job gains have slowed, and the unemployment rate has edged up." New economic projections showed policymakers at the median still see inflation ending this year at 3%, well above the central bank's 2% target, a projection unchanged from the last set of forecasts in June. The projection for unemployment was also unchanged at 4.5% and the one for economic growth slightly higher at 1.6% versus 1.4%. Stocks turned modestly higher after the decision, while the dollar fell against a basket of major trading partners' currencies. Treasury yields were little changed and rate futures markets saw more than a 90% probability of another rate cut at the Fed's next meeting in late October.

STAGFLATION RISK EASING

Compared to the stagflationary risks contained in the last set of projections, with the Fed slowing its rate cuts to head off inflation, the new projections show an emerging sense among officials that they can head off any rise in unemployment with a faster pace of rate reductions, while inflation eases slowly next year. Fed officials have gradually warmed to the idea that Trump's tariffs would have only a temporary impact on inflation, and the latest forecasts are consistent with that view. The move to a more consistent pace of cuts was backed by Fed Governor Christopher Waller and Vice Chair of Supervision Michelle Bowman, Trump appointees who dissented over the policy decision in late July to hold rates steady. Miran dissented over the latest cut and appears to have penciled in the steepest rate cuts in projections issued after he joined the Board of Governors on Tuesday. In the newest "dot plot," one rate projection of 2.875% for the end of 2025 stands out as being three-quarters of a percentage point below the next lowest one. Trump has demanded steep rate cuts. Among those voting in favor of the decision was Fed Governor Lisa Cook, who attended the meeting despite Trump's effort to fire her and after two courts supported her challenge of his attempted dismissal.

Canada Central Bank Cuts Key Lending Rate Citing Trump Tariffs

By Ben Simon, IBTimes, 09/17/25

Canada's central bank cut its key lending rate on Wednesday, offering a boost to borrowers in an economy squeezed by US President Donald Trump's trade war. The Bank of Canada reduced the rate to 2.5 percent, after holding it at 2.75 percent since March as it weighed the impact of Trump's fluctuating tariffs on Canadian businesses heavily dependent on exports to the United States. But the bank said there was now clear evidence Trump's protectionism was inflicting damage on key, targeted sectors -- notably autos, steel and aluminum, which have all suffered job losses. "Tariffs are weakening the Canadian economy. You can see that very clearly in the directly affected sectors," central bank Governor Tiff Macklem told reporters after the announcement.

The bank noted Canada's GDP declined roughly 1.5 percent in the second quarter of 2025. In the first quarter, exporters benefitted from a rush of orders from the United States as businesses tried to stock up before Trump's tariffs fully took hold, the bank said. But Canadian exports fell by 27 percent in the second quarter as rush orders eased. There "is less US demand for our exports because there's tariffs," Macklem said. Trump has so far maintained tariff exemptions on goods compliant with an existing North American free trade agreement, partly muting the damage to Canada's economy. Macklem stressed the tariff rate for most Canadian exports to the United States remains low, as the vast majority of products fall under the trade pact, known as the United States-Mexico-Canada Agreement (USMCA). But that deal, agreed during Trump's first term, is up for review in 2026. The prospect that Trump may seek major revisions has created further risk for Canada. "With some stability in US tariffs in recent weeks, near-term uncertainty may have come down a little, but the focus is shifting to the upcoming (USMCA) review," Macklem said.

Canada was the first G7 country to begin cutting rates last year, following several hikes to tame pandemic-fueled inflation. While Wednesday's cut was largely expected by analysts, the bank warned it would proceed cautiously, given the risk that US protectionism could drive up inflation. Macklem told reporters that businesses are facing new costs as they try to adjust "to a different relationship with (Canada's) biggest trading partner." People are looking for new suppliers and new customers, he said, adding that the eventual consequences of those shifts remain uncertain, including on inflation. Given the broad uncertainty about the path ahead, Macklem said the central bank would be more cautious than normal about issuing any future guidance, as it closely watches export figures over the coming weeks. Desjardins economist Royce Mendes predicted an additional cut at the bank's next meeting in October, but said it was clear the bank was worried about further tariff damage. "The Bank of Canada still seems wary of assuming that all of the impacts of US trade policy are in the rearview mirror," he said.

Russia Cuts Interest Rate As Economy Slows

By AFP News, 09/12/25

Russia's central bank on Friday cut its key interest rate, but warned inflation was still too high, amid growing fears of an economic slowdown after bloated spending on the Ukraine offensive. Russia's economy is rapidly cooling, prompting warnings it could be headed for recession or stagnation, following two years of robust growth as Moscow ramped up military spending to fund its campaign. "We do have a cooling off, that is, a slowdown in economic growth. This is natural after overheating," Governor Elvira Nabiullina said, announcing a cut in borrowing costs from 18 to 17 percent. The bank said Friday it expected the economy to expand by just one percent in 2025, down from above four percent last year. Russian government spending has jumped more than two-thirds since the start of the Ukraine offensive, with military expenditure accounting for almost nine percent of GDP, according to President Vladimir Putin. That has helped Moscow avoid predictions Western sanctions would collapse its economy, but led to a spike in inflation.

The bank is now gradually trimming interest rates from a two-decade high of 21 percent. But inflation is still running above eight percent, more than twice the government's official target and the bank has warned price rises may remain stubborn in the coming months. It singled out higher petrol prices, which have risen as a result of Ukrainian attacks on Russian refineries, as a particular concern. Businesses have for months been clamouring for the central bank to cut borrowing rates, which it says are hobbling the economy and thwarting investment. The bank had been expected to cut rates further, but BKS analyst Ilya Fedorov said a recent "weakening of the ruble" -- at its lowest against the US dollar since April -- forced it to hold back. Russia's public finances have also been strained by weak oil prices, which are crucial to the national economy. The government posted a deficit of around $50 billion -- equivalent to two percent of GDP -- in the first eight months of the year, three times more than at the same stage of 2024. Nabiullina warned that if the budget expands further, the bank will be forced to push interest rates up once again. Moscow has so far been able to use a rainy day fund, built up from oil and gas proceeds in the years before it launched its Ukraine offensive, to plug the gap. That too, however, has come under pressure, with the value of its liquid assets -- those that can be immediately called upon -- having halved from more than $100 billion before the conflict to $48 billion. Kyiv and its allies are trying to cut off Russia's earnings from energy exports to exacerbate that shortfall. US President Donald Trump has hiked tariffs on India over its purchases of Russian oil and has threatened to hit China with a similar move.