Economic Research Department

11 December 2025

Economic QuickView

FOMC Meeting: A divided Fed cut rates in December again, while injecting liquidity for technical reasons

- The Fed voted 9:3 to cut rates by 25 basis points to 3.50-3.75% in December.
- The Fed announced plans to purchase short-term Treasury securities to support liquidity in money markets.
- The Summary of Economic Projections maintained one 25-basis-point rate cut each for 2026 and 2027, while the real GDP growth forecasts for 2025 to 2028 were revised up.

The Fed cut rates for the third consecutive meeting amid rising dissents. During its December meeting, the Federal Open Market Committee (FOMC) voted to lower the federal funds rate by 25 basis points (bps) to a range of 3.50-3.75%. As in October, the committee remained divided with 9 voting for the decision, while 3 dissented. Fed Governor Stephen Miran once again preferred a 50-bps cut, as he did in October, while President of the Federal Reserve Bank of Chicago, Austan Goolsbee, joined Kansas City Fed President, Jeffrey Schmid, in voting for a hold. This divergence reflected the difficulty in assessing the economy due to a data vacuum led by the government shutdown. Besides, the FOMC post-meeting statement altered the monetary outlook discussion to "In considering the extent and timing of additional adjustments", language that was used in December 2024 to signal a pause in rate cuts. These changes suggest that future monetary adjustments are likely to progress at a slower and measured pace.

The Fed announced plans to purchase short-term Treasury securities to shore up liquidity conditions. Following the conclusion of quantitative tightening on 1st December, the Fed announced plans to purchase short-term Treasury securities. The policy move was mentioned as solely for the purpose of maintaining an ample supply of reserves, without any implication for the monetary policy stance. It will start at a monthly sum of USD 40 billion on 12th December for a few months until the end of the tax payment season and then continue at a modest pace, thereby maintaining ample reserve balances to support liquidity conditions in money markets.

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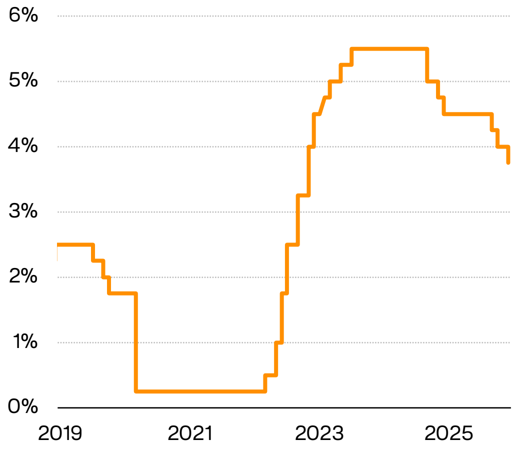
The Fed's December Dot Plot projected one rate cut each for 2026 and 2027. In December's Summary of Economic Projections (SEP), the median forecast of the federal funds rate at the end of 2026 remained at 3.375% (implying one rate cut), the same as in September's forecasts. Similarly, the median rate forecast for 2027 was unchanged at 3.125% (implying one rate cut). The Dot Plot also revealed diverging views on the monetary policy outlook for 2026, with the range of median rate forecasts stretching from 3.875% to 2.125%.

The FOMC revised up its growth projections. The FOMC's median real GDP growth projections for 2025, 2026, 2027 and 2028 were revised up to 1.7%, 2.3%, 2.0% and 1.9%, compared to 1.6%, 1.8%, 1.9% and 1.8% in September, respectively. Concurrently, median projections for core PCE inflation for 2025 and 2026 were revised down to 3.0% and 2.5% from 3.1% and 2.6% in September, respectively, while the unemployment rate projections were little changed. These projections revealed that the FOMC sees growth holding up better than expected, inflation easing slightly, and steady unemployment going into 2026.

FOMC Projections (December 2025)	2025	2026	2027	2028	Longer run
Real GDP growth (%)	**1.7**	**2.3**	**2.0**	**1.9**	**1.8**
[September 2025]	[1.6]	[1.8]	[1.9]	1.8	[1.8]
Unemployment rate (%)	**4.5**	**4.4**	**4.2**	**4.2**	**4.2**
[September 2025]	[4.5]	[4.4]	[4.3]	4.2	[4.2]
Core PCE inflation (%)	**3.0**	**2.5**	**2.1**	**2.0**	-
[September 2025]	[3.1]	[2.6]	[2.1]	2.0	
Fed Funds rate (%)	**3.6**	**3.4**	**3.1**	**3.1**	**3.0**
[September 2025]	[3.6]	[3.4]	[3.1]	3.1	[3.0]

Source: The Fed

US Fed Funds Rate (Upper)



Source: Bloomberg

Powell highlighted a challenging situation amid the tensions between inflation and employment. During the post-meeting press conference, Fed Chairman Powell mentioned that after the recent period of easing (175 bps since September 2024) the Fed is well positioned to wait and see how the economy evolves. He noted that the current rate level lies within a broad range of neutral values, underscoring a cautious approach in the near term. In addition, Powell cautioned that the labour market has been gradually cooling, with an overstatement in payroll job increases. Currently, data reflects an average of 40,000 job gains per month since April, while the reality could be a lot closer to 20,000 in job losses per month. On inflation, he thought that risks are tilted to the upside. Going forward, it will be noteworthy to see if incoming data confirms a softening trend in the labour market, which would strengthen the case for further rate cuts.

Our base case scenario anticipates 3 rate cuts in 2026. While the Fed is likely to take a cautious stance in upcoming monetary decisions (a gradual pace compared to back-to-back cuts in 2025), we expect that the Fed is likely to cut rates 3 times (total: 75 bps) in 2026, driven by a softening labour market, stable inflation expectations, and a still positive real rate environment.

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