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Preparatory Steps before Rate Hikes

Monetary policy affects consumers and corporations alike in every economy. Financial planners agree that firms and individuals ought to prepare before interests rates hike in the foreseeable future. Central banks globally monitor and implement monetary policy depending on the economic conditions. Interest rates are the cost of capital to investors or individuals (Frenkel and Harry 7). Interests rate are used to stimulate economic growth, reduce the effects of inflation and maintain equilibrium in the markets. The essay examines important steps individuals, and companies should consider the rates eventual hike.

REFINANCING

Higher interest rates regime results in higher interest payments on loans. Rate hikes by more than 0.25% in England will lead to higher interest repayments on loans and mortgages. The lull in interest rates in the United Kingdom increased mortgages buyers by more than 40% in the last three years (Khandani, Andrew and Robert 30). Financial analysts expect individuals and companies to seek repackaging of current loans to hedge against rate increment. Moreover, borrowers should consolidate existing loans into one package or transfer the loans to one lender at the best rates. Furthermore, financial planners are advising mortgage holders of Jumbo mortgages to change to fixed mortgages before the rates hike. Most companies are refinancing expensive debts through low yielding bonds to reduce costs. Therefore, refinancing of existing loans should be a priority for borrowers before rates hike.

LIQUIDITY

Investors expect rate hikes to increase yields on the certificate of deposits and money market funds, benefiting investors that are liquid. The higher rates regime yields higher investment returns to investors as the cost of capital is fairly high. Investors benefit from higher returns on short funds such as I bonds and TIPS. Investors are likely to invest in short-term funds while scouting for opportunities with better returns. Higher interest rates regime results in high cost of funds for companies, translating to higher prices of goods (Christensen, Jose and Glenn 140). Consequently, companies employ lower prices for bulk purchases while charging high prices for small quantities. Therefore, individuals and businesses should hold liquid investments to take opportunities after interest rates increase.

SAVINGS AND EXPENDITURE

Savings act as an important cushion during high-interest rates regime. Companies are increasing withholding significant reserves in anticipation of higher costs and cutthroat completion in most industries. Similarly, individuals anticipate higher expenses on account of price increments. Financial planners advise borrowers to retire current debts today and reduce expenditure on credit cards. Competition for deposits amongst banks will result in higher returns on savings, encouraging more individuals and companies to save (Ang and Allan 9). Prior to interest rate hike, borrowers should increase savings and reduce expenses to benefit from the expected boom in the economy. Consequently, a mix of lower costs and high savings will cushion borrowers from economic shocks and reap from the expected growth.

Conclusively, increase in interest rates will affect individuals and companies alike. Financial analysts expect borrowers to refinance loans, thus cushioning borrowers from higher interest expenses in future. Furthermore, investors are more likely to invest in liquid investments to take opportunities arising from the markets after rates hike. Moreover, borrowers are more likely to reduce expenses and increase savings, to hedge against risk and earn better returns from savings. Consequently, the preparatory steps are essential for both individuals and companies before interest rates are increased.

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