Avoiding Economic Slowdown - Central Banks' Policy Shifts

What is the issue?

Central banks are reversing the direction of their monetary policies, a shift from recent increases in the interest rates.

What is going on in the U.S.?

- The U.S. Federal Reserve has been gradually and consistently increasing the interest rates in the recent period. Click here to know more.
- But a slowing economy and inflation staying well below its official target of 2% has been giving way for criticisms on increasing rates.
- It is, in fact, argued that the gradual raising of rates may be the reason behind the slowdown in U.S. growth and the dull inflation numbers.
- The American economy created a mere 20,000 jobs in February, 2019, which is the slowest growth in jobs in well over a year.
- Also, GDP growth in the coming quarters is expected to slow considerably from the rate of 3.4% in the third quarter last year.
- However, the U.S. Federal Reserve Chairman has now made statements to allay fears of further increase in interest rates.
- The assurance indicates a shift from the U.S.'s monetary policy stance in the last year.

How is it elsewhere?

- With deteriorating economic conditions in Europe and Asia, countries here too have begun to ease their monetary policy.
- Moreover, Fed's stance has allowed other central banks to lower their own policy rates, without the fear that disruptive capital flows could affect their economies. Click here to know more on the link between them.
- European Central Bank announced that rates in Europe will be kept low until next year and offered to lend cheaply to European banks.
- The People’s Bank of China has promised further monetary stimulus measures to address the fall in growth.
- The Reserve Bank of India too has started to cut interest rates as growth has slowed down each successive quarter this fiscal.
- Certainly, central banks around the world are reversing the direction of their policies.
- In all, it seems to be a coordinated effort to avoid a global growth slowdown.

- However, caution must be taken as there is a risk of extended periods of low interest rates leading to more destructive effects in economy.

Source: The Hindu