



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



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