Avoiding a slowdown

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Central banks are reversing the direction of their policies in a seemingly coordinated bid

- Over the last few days, U.S. Federal Reserve Chairman Jerome Powell has been trying to allay fears that it will continue to raise interest rates notwithstanding conditions in the economy.
- In fact, many have argued that the gradual but persistent raising of rates may be the reason behind the slowdown in U.S. growth and the lacklustre inflation numbers.
- But right now it is not just the Fed that has put the brakes on the normalisation of monetary policy through a gradual tightening of short-term interest rates.
- As economic conditions in Europe and Asia begin to deteriorate, central banks have been quick to turn more dovish.
- The People's Bank of China has promised further monetary stimulus measures to stem the fall in growth, and the Reserve Bank of India has started to cut interest rates as growth has slowed down each successive quarter this fiscal ahead of the general election.
- It should thus be obvious by now that central banks around the world are reversing the direction of their policies in what seems to be a coordinated effort to avoid a global growth slowdown.
- The brakes applied to the raising of interest rates by the Fed allows other central banks to lower their own policy rates and boost growth without the fear that disruptive capital flows could wreak havoc on their economies.
- While such coordinated monetary policy can certainly prevent slowdowns, it also raises the risk of extended periods of low interest rates leading to more destructive bubbles.

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