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Central banks to the rescue

Rabobank

Central banks from around the globe have recently become more active in supporting growth. These actions are very welcome and may offer some hope for battered Western economies.

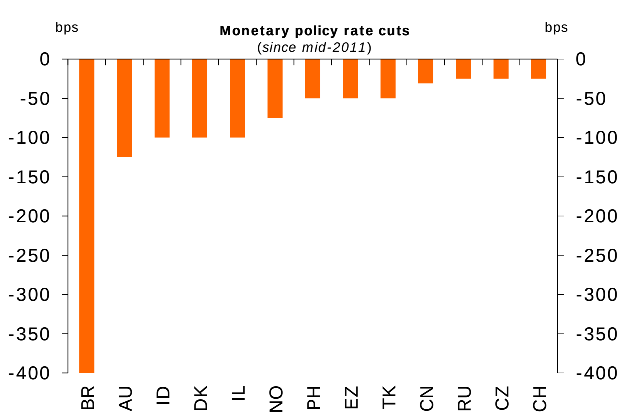
Global growth concerns have made central bankers nervous. Looking at 28 central banks in both advanced and emerging economies[1], we see that 13 of them now have a lower policy rate than in mid-2011 (figure 1). Brazil's monetary authorities have clearly been the most aggressive by cutting the benchmark interest rate by 450bps since the interim peak of 12.5% in July 2011. Central banks in four countries (Chile, India, Thailand, and Sweden) have loosened policy as well recently but are not captured in figure 1 because their policy rates are not below their June 2011 levels. Meanwhile, three countries (Korea, Poland and Hungary) now have a monetary stance that is tighter than June 2011.

This means eight central banks decided to leave the policy rate unchanged over the last 12 months. Of this group, three central banks (Federal Reserve, Bank of England and Bank of Japan) are already at/close to the zero-lower bound, so we could not have expected much loosening from them. Instead, the monetary authorities in these countries resorted to more unconventional policy measures to jump-start their ailing economies. At its June meeting, the Fed decided to extend Operation Twist, its programme of selling short-term securities and buying those with longer maturity. A month later, the Bank of England decided to relaunch its quantitative easing (QE) programme, announcing to buy a further GBP 50bn worth of government bonds on top of the GBP 325bn they have purchased since January 2009. And most recently, the Bank of Japan (BoJ) chose to add JPY 5tn (USD 63bn) to its long-standing QE programme. This will take the total size of the BoJ's QE to JPY 70tn.

Overall, the recent actions taken by central banks are highly welcome given that the global economic recovery is losing steam. The fact that real policy rates are in positive territory in most countries (figure 2) and inflation is on a downward trend, means there is still room for most central banks to adopt a looser policy stance to bolster growth, especially in the emerging economies. This may provide some relief to the battered Western economies that are going through a painful balance sheet adjustment.

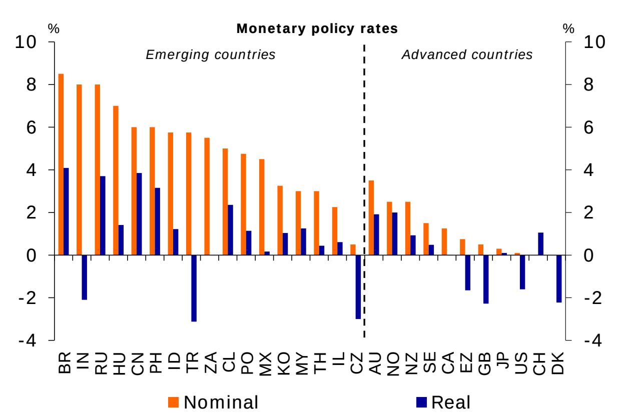
[1] Australia, Brazil, Canada, Chile, China, Czech Rep., Denmark, Eurozone, Hungary, India, Indonesia, Israel, Japan, Malaysia, Mexico, New Zealand, Norway, Philippines, Poland, Russia, South Africa, South Korea, Sweden, Switzerland, Thailand, Turkey, United Kingdom, United States.

Figure 1: Policy stance is turning accommodative…



Source: Reuters EcoWin, Rabobank, ISO country codes

Figure 2:…and some EMs have space to do more



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