

US Unwinding of Quantitative Easing Prompts Risk Warnings in Leading Economies

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- The ending of exceptionally supportive monetary policy in the United States has raised questions about the impact of the normalization on the global economic recovery
- The lack of synchronization in the unwinding of monetary stimulus could lead to volatility in capital markets and currencies
- The theme of the 44th World Economic Forum [Annual Meeting](#) is The Reshaping of the World: Consequences for Society, Politics and Business
- For more information, visit <http://wef.ch/Davos>

Davos-Klosters, Switzerland, 24 January 2014 – As the US Federal Reserve begins its tapering of quantitative easing, and the sharp drop in UK unemployment suggests that the Bank of England may soon follow, leading finance officials and experts in a session on monetary policy at the 44th Annual Meeting of the World Economic Forum warned of risks that may be worsened by the unwinding of the post-crisis monetary stimulus.

“ The main external risk for the United Kingdom is still the very weak economies on the continent, ” George Osborne,

Chancellor of the Exchequer of the United Kingdom, said. “ The big challenge this year is what can we do to

alleviate pretty desperate situations in some of those Eurozone economies. The levels of unemployment and youth

unemployment in some of our neighbours are a tragedy. ”

Lawrence H. Summers, Charles W. Eliot University Professor at Harvard University, told participants: “ I worry about

macroprudential complacency – governments that have never successfully forecast a recession a year in advance.

I worry about how well macroprudential regulation can really work, though it is an attempt worth taking. A much

greater emphasis needs to be placed on making a system that is safe for ignorance and error and that means

emphasis on capital requirements, liquidity and on strengthening the robustness of the system. ”

Alexandre Tombini, Governor of the Central Bank of Brazil, expressed concerns about the lack of coordination in

the unwinding of exceptionally supportive monetary policy. “ This exit is unsynchronized, ” he said. “ You see the US

and the UK ahead, but in Japan and Europe you don ’ t see synchronicity. ”

Thomas J. Jordan, Chairman of the Governing Board of the Swiss National Bank, agreed: “ A key risk is financial

markets. If we suddenly have a loss of confidence again, it will put us in a very difficult situation. ”

During the session, Osborne responded to remarks made at the Annual Meeting yesterday by Bank of England

Governor Mark Carney that he saw no immediate need to increase UK interest rates, although unemployment had dropped to 7.1%, just above the threshold at which he had said he would consider a rate rise. Carney ' s comment has prompted questions in the markets about the Bank of England ' s use of " forward guidance " to influence market expectations of interest rate movements.

" I completely reject that forward guidance is a failure, " Osborne said. " What the Bank of England has done has provided clear communications and supportive monetary policy. We have had a rapid fall in unemployment. I cannot see how that is a failure of economic policy-making and it is sustainable precisely because we have both a credible monetary framework that sits alongside a credible fiscal framework. "

Speaking on the situation in Japan, Haruhiko Kuroda, Governor of the Bank of Japan, noted that his country only started its unconventional monetary policy approach nine months ago, with the aim of achieving 2% inflation in two years. " We are only halfway, " he said. " There is a long way to go. For Japan, it is premature to talk in concrete

terms about how to normalize monetary policy. The Fed has managed normalization very well. Tapering has not disrupted the market at all. We are careful and we will manage the normalization process without creating a balance sheet problem. ”

The Annual Meeting 2014 is taking place from 22 to 25 January under the theme, The Reshaping of the World: Consequences for Society, Politics and Business. Participating this year are over 2,500 leaders from nearly 100 countries, including 300 public figures, 1,500 business leaders and representatives from civil society, academia, the media and arts.

The Co-Chairs of the Annual Meeting 2014 are Aliko Dangote, President and Chief Executive Officer, Dangote Group, Nigeria; Kris Gopalakrishnan, President, Confederation of Indian Industry (CII); Vice-Chairman, Infosys, India; Jiang Jianqing, Chairman of the Board, Industrial and Commercial Bank of China, People ' s Republic of China; Joseph Jimenez, Chief Executive Officer, Novartis, Switzerland; Christophe de Margerie

, Chairman and Chief Executive Officer, Total, France; Marissa Mayer, Chief Executive Officer, Yahoo, USA

and Judith Rodin, President, Rockefeller Foundation, USA.

Notes to Editors

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