

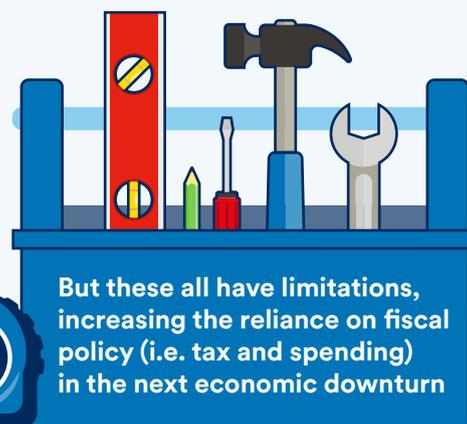
What is left in the toolkit for central banks in developed markets?

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Interest rates remain low with little room to make cuts but there are other tools that can be used if needed

- Forward guidance**
Signalling policy intent helps lower interest rate expectations
- Quantitative Easing (QE)**
Buying government bonds drives yields down
- Expanding scope of QE**
Buying credit and equities creates a wealth effect

- Tiered interest rates and "yield curve control"**
Makes negative rates and QE more sustainable
- Helicopter money**
Central banks print money and distribute it directly



But these all have limitations, increasing the reliance on fiscal policy (i.e. tax and spending) in the next economic downturn

*i.e. control of both short-term and long-term interest rates

Why central banks' arsenal gives emerging markets (EM) an advantage

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In emerging markets today...

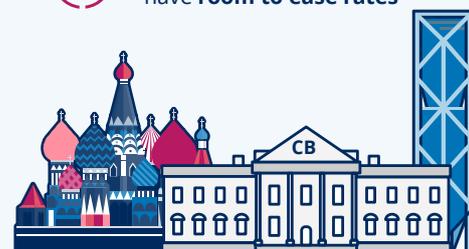
- Interest rates** look to be too high in many cases
- Even after adjusting for **inflation interest rates are positive**, a result of a tight stance on monetary policy
- This means EM central banks can **cut without worrying about inflation**

Because...

- When the US Federal Reserve (Fed) hiked interest rates in 2018, and then looked set to continue in 2019...
- ...policy was kept tight in EM, with precautionary hikes in some cases
- So, EM are left with maximum monetary munitions

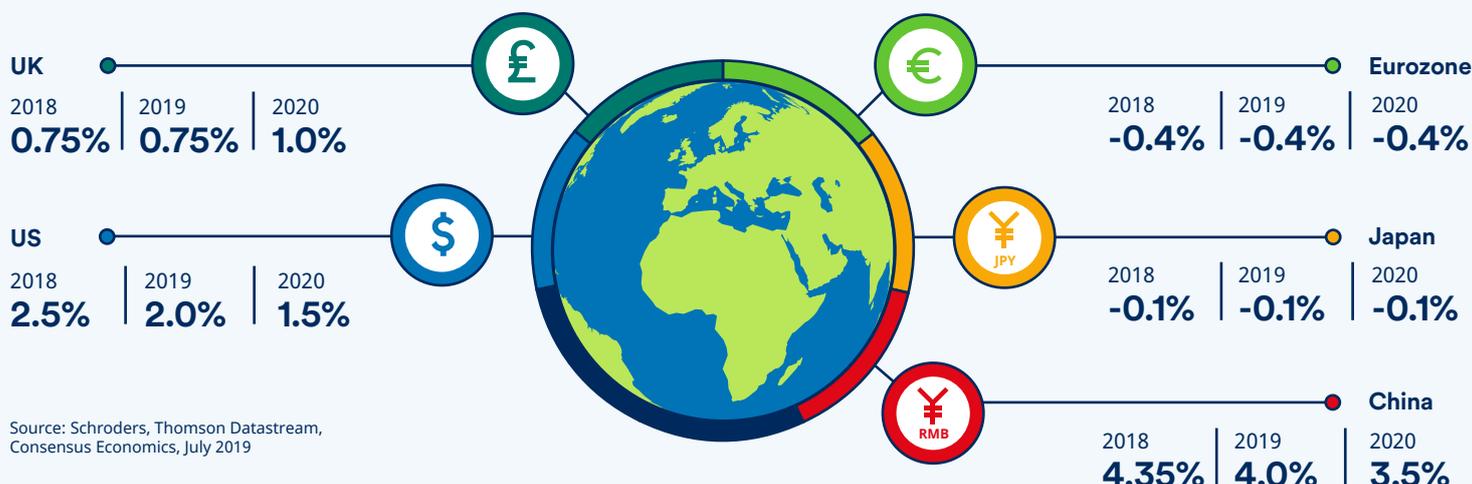
Now...

- The Fed has indicated interest rate cuts ahead and global inflation remains low
- So, the region's central banks have room to ease rates



Views at a glance: Schroders' interest rate forecast

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Source: Schroders, Thomson Datastream, Consensus Economics, July 2019

Source: Schroders as at July 2019.

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