Central banks – the US Federal Reserve, the European Central Bank, and others – have been engaged in quantitative easing, purchases of bonds, and other monetary interventions to stimulate economic growth. This has led to a situation where interest rates are near zero, and many economies are vulnerable to any future tightening of monetary policy.

The US as a global risk generator

World can’t afford to create major loopholes that could threaten financial system yet again

T he US economy continues to face a head-tail scenario emerging from the largest financial crisis since the Great Depression. To the last thing one would expect the US government to do is to engage in policies that open the floodgates to severe risks in financial markets once again. Yet, that is precisely what’s happening.

For all the attention that is paid to the political process, what is happening behind the scenes is quite different. It is putting massive pressures on the Federal Reserve’s “tapering”, what Washington Post’s latimes.com writer Kevin P. Gallagher described as “the Federal Reserve’s attempt to withdraw its extraordinary support for the US economy at a time when the economic outlook remains uncertain and the recovery is far from stable.”

Time is running out. The world cannot afford to have major loopholes that could threaten financial system yet again. The premise is that when the US Congress was on its Thanks-giving holiday, the US Federal Reserve announced its plan to “taper” its extraordinary support for the US economy by reducing its monthly purchases of Treasury bonds and mortgage-backed securities.

What should have been considered an extremely risky move, however, is now coming to haunt the US and the world. As The Wall Street Journal dryer-washer, the US dollar has appreciated, leading to fears that it will lead to a flight of capital out of the developing world and a global economic slowdown.

The US as a global risk generator

Emerging market economies, for example, are now bracing for a potential flood of capital outflows. As The Wall Street Journal dryer-washer, emerging market economies are now bracing for a potential flood of capital outflows.

The next regulatory blow may hit any day. The warning comes as the latest forecast of the International Monetary Fund’s regular World Economic Outlook suggests that the odds of a US default have increased significantly.

The fundamental imbalance at the heart of this issue is not just very irritating but also profound enough. The US is still in a dominant position globally, having earlier obtained valuable inputs from various world leaders and the financial sector. The next regulatory blow may hit any day. The warning comes as the latest forecast of the International Monetary Fund’s regular World Economic Outlook suggests that the odds of a US default have increased significantly.

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