# Crystal clear

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Amid the growing uncertainty of the global economic scenario, stemming from the potential escalation of tariff increases initiated by the US, the main central banks have launched a crystal-clear message this week: monetary policies are entering a new phase.

The United States Federal Reserve (aka the Fed) is not only confirming the anticipated rise in interest rates to 2%, but, in the warm glow of the robustness shown by the US economy and with inflation finally having been aligned with the target, is contemplating a scenario of successive increases - two more this year and three more next year. Evidently these are only projections, but the Fed is sending out a very clear message: monetary policy in the United States is entering a new phase. Left behind us is the expansive stage, in which the Fed kept rates low in order to encourage growth. From now on, monetary policy will be neutral or even slightly restrictive if these projections are met. This message has poured cold water on those emerging markets which, after having benefited from an environment of abundant liquidity, low rates and appetite for risk, have already begun to feel significant pressure both on their exchange rates and on the perception of risk.

Equally clear has been the message from the ECB, which leaves little room for interpretation. The Council has made two important announcements. Firstly, the asset purchase programme - known as QE (for quantitative easing) - is ending. We are leaving behind the “emergency” stage in which the ECB, like other central banks, used the expansion of its balance sheet to meet its objective. And going forward, monetary policy management will return to the traditional method, through the use of interest rates. This decision is consistent with the cyclical situation of the European economy and shows its confidence that the recovery will continue. The second announcement, in this case unexpected and emphatic, is that it will keep interest rates unchanged until the summer of 2019. With this decision, it is clearly aiming to anchor the expectations regarding interest rates for a prolonged period of time, rather longer than analysts expected. It is another move by the ECB to prevent the withdrawal of the monetary stimulus from causing unwanted tightening in the market, but a total surprise, which explains the strong reaction to the decision on Thursday: a significant depreciation in the euro (especially against the dollar) and a fall in European interest rates.

So we are immersed in a new environment, with less abundance of liquidity and higher interest rates that is complicating the environment for emerging economies, especially if the US dollar continues to strengthen.