There is a pronounced divergence in monetary policy between the U.S. and other countries as the U.S. experiences stronger growth than the rest of the world and as the Federal Open Market Committee considers when to raise policy rates. On March 9, the euro area began to buy euro-denominated public sector securities while continuing to buy asset-backed securities and covered bonds. The moves are part of a substantial quantitative easing program that will last until September 2016 or until the European Central Bank sees a sustained rise in inflation close to its target of 2 percent. Japan is continuing its massive asset-purchase program, which will expand its balance sheet at a rate of 16 percent of GDP per year. In contrast, mirroring the U.S., the Bank of England is likely to raise rates soon.

As a result of these policy measures, the U.S. dollar has substantially appreciated against the euro and Japanese yen, while appreciation against the British pound has leveled off (Chart 1). The strength of the U.S. dollar and slower global demand have contributed to a decline in U.S. exports, which are growing at their slowest pace since 2009 (Chart 2).

Several emerging markets have also cut policy rates since the start of 2015. The Chinese central bank cut rates by 25 basis points in March to buoy slowing GDP growth and encourage higher inflation. Similarly, the Russian central bank has loosened rates by a total of 300 basis points since the start of the year to counteract its tightening last year in response to a precipitous decline in the ruble. India, Korea, Indonesia, Thailand, Turkey, Poland, Romania, Peru and Egypt have also cut policy rates since the start of 2015, which will likely allow more individuals and businesses to borrow money to buy new products, stimulating their economies.

Extension for Greek Debt Payments

On Feb. 20, Greece and its creditors agreed to a four-month extension of its bailout under the original terms. In May 2012, when neither political party was able to form a governing coalition after the Greek elections and there was widespread fear of a Greek exit from the euro area, Greece and the other euro-area periphery countries experienced significant deposit outflows, skyrocketing bond yields and very low stock market yields, among other negative consequences. In contrast, after the January 2015 election of the left-wing party and renewed alarm that Greece might leave the euro area, negative consequences were confined to Greece. This was a result of severed financial linkages between Greece and other countries as well as improved growth in other periphery countries.

In 2012, foreign banks were highly exposed to Greek nonfinancial private sector debt. But after the 2012 scare, they divested these positions (Chart 3). Similarly, in 2012, Greek 10-year government yields (a measure of borrowing rates) spiked by 7 percent and yields in periphery countries rose. This time, the 10-year rates jumped for Greece but fell for the rest of the periphery (Table 1). In recent months, there has been notable depreciation in stock market yields and deposit outflows from Greece, but contagion to other countries has been negligible.

In fourth quarter 2014, capital flowed out of China at a rate of 4 percent of GDP as international investors, anxious about China's growth prospects, retracted investments. Forecasts of China's growth are subdued because of a natural process of slowing potential growth as China catches up with advanced economies, among other concerns. China's fourth-quarter negative capital and financial account is only the fourth occurrence of a negative reading since the nation joined the World Trade Organization in 2001. In the three previous episodes, the current account surplus (mostly composed of exports minus imports) was greater than net capital outflows, so China's foreign reserves (current account plus capital account) were positive.

In stark contrast, the Chinese central bank in the fourth quarter saw declining reserves for the first time since 2001 as the current account surplus failed to compensate for capital outflows (Chart 4). In addition, the Chinese yuan/U.S. dollar exchange rate has reflected an appreciating yuan for the past decade, but in 2014, the exchange rate slightly depreciated against the dollar as foreign reserves fell (Chart 5).

2015 Outlook

The global outlook for growth in 2015 is more pessimistic than it was both in February 2014 and at the start of 2015.[1] Major risks to the global outlook are negative effects from monetary policies, including shifts in capital flows from emerging markets, when the Federal Reserve raises