As recession concerns mount, dozens of central banks are cutting rates

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More than 30 central banks around the world have cut interest rates this year, as countries move to shore up their economies amid rising concerns over global growth, trade conflicts and the threat of a messy Brexit.

Last week alone, India, Thailand and New Zealand unexpectedly lowered rates or cut by more than expected. And as President Donald Trump admonishes the Federal Reserve to continue dropping its benchmark interest rate, many of the world's largest economies have also begun reducing borrowing costs or are considering doing so.

The moves collectively end an era when major central banks hoped, and in some cases tried, to return low rates and large balance sheets – hallmarks of recovery efforts after the Great Recession – back to normal levels.

Now policy-makers are reorienting their efforts toward steeling their economies against recession risks. The last time so many of the world's major economies cut rates or considered stimulus in unison was during the financial crisis, according to data from Refinitiv.

Many analysts say the moves could help to stave off a painful downturn. But there is a danger: This could also tip off a monetary policy race to the bottom.

Traditionally, central bankers have cut rates or bought bonds to stoke spending and borrowing at home. But in many places inflation and interest rates are stuck at historically low levels, so policy-makers have less room to encourage lending and spending with cheap money. As a result, rate cuts could increasingly focus on keeping currencies cheap.

A cheaper currency allows a country to export more goods and services while making imports more expensive, in effect helping to prop up domestic prices.

"Increasingly, we may be looking at a world where the exchange rate becomes the objective of monetary policy, of interest rates," said David Woo, head of global interest rates and foreign exchange research at Bank of America Merrill Lynch. "There's no growth, there's no inflation, so you can justify it – we're weakening the currency to import inflation."

Central banks have always watched currency levels, and their interest rate moves affect them. But most have avoided explicitly tying monetary decisions to foreign exchange out of fear of being called manipulators, which could bring geopolitical risks.

The lines are blurry, but that designation is usually reserved for political authorities that directly buy and sell currencies to change their prices and gain a competitive edge. The United States labelled China a manipulator last week.

But as ways to stimulate domestic activity with monetary policy look increasingly tapped out, less explicit attempts to guide currency prices – by changing rates and buying bonds – might become a more important part of central bankers' playbooks. Jeremy Stein, a former Fed governor, warned that if central banks increasingly competed on foreign exchange, the risk fell short of a full-blown currency war but could touch off a "sort of competitive easing" – a rush to cut rates first to reap the currency benefits.

The Bank of Japan took the rare step of tying currency to a potential monetary policy move in February when its leader told lawmakers that

it could be forced to enact additional stimulus if the yen kept strengthening. Otherwise, he argued, the nation's dangerously low inflation might turn even lower.

When Australia's central bank cut rates in June, according to meeting minutes, officials there recognized that "the main channels through which lower interest rates would support the economy were a lower value of the exchange rate" and lower household borrowing expenses.

In a world with already low interest rates, "the international environment becomes more important, because depreciation of the currency is the one remaining option," said Joseph Gagnon, an economist at the Peterson Institute for International Economics and formerly the Fed. "And surely that has problems, because currency depreciation is a zero-sum game: Anything you get, the other guy loses."

Using rates to control currency levels could prove costly. Any stimulus that a central bank can eke out of devaluation comes at a direct expense to its trading partners, and is likely to be short-lived before other countries cut rates or buy bonds to compete.

Temporary benefits, like an increase in exports or inflation stabilization, might take the pressure off policy-makers to enact longer-term economic changes, like industrial reorganization and work force training.

And central bank moves could draw the attention, and even action, of politicians who can directly intervene in currency markets.

Trump, for one, is convinced that other central banks set easy policy in order to devalue their currencies. He often suggests that the Fed should try to catch up.

"The Fed's high interest rate level, in comparison to other countries, is keeping the dollar high, making it more difficult for our great manufacturers" to compete, Trump wrote on Twitter last Thursday. He previously tweeted about the European Central Bank's reorienting its policy to lower the value of the euro, saying, "They have been getting away with this for years, along with China and others."

The European Central Bank is expected to cut rates further into negative territory next month. Woo of Bank of America said he saw such moves as targeting currency, given that the demand-stoking benefits of negative rates are widely disputed.

Most major central banks – including the eurozone's – are free of politics and have not engaged in outright manipulation, economists say. They focus on domestic inflation goals, which currency levels can, but do not always, drive.

China, where the central bank answers to the government, does have a history of intervening for competitive reasons, most economists agree, though the International Monetary Fund says the price of the renminbi is reasonable under current economic conditions. That makes the White House's move to label China a manipulator mostly symbolic, because the I.M.F. would play a key role in making China realign its currency.

The Trump administration has been waging a trade war with Beijing and announced early this month that it would extend tariffs to essentially all Chinese imports, though the timeline for part of that escalation has been delayed to December. Further tariffs could weigh down China's already slowing growth and increase the risks of a global recession as manufacturing takes a turn for the worse and uncertainty causes businesses to hold off on investment and expansion.

Data released Wednesday indicated that the German economy, which relies heavily on manufacturing, was hurtling toward recession and that Chinese factory production is expanding at the slowest pace in nearly two decades.

Those mounting concerns might prompt the Fed to make rate cuts beyond its quarter-point move in July, but it is unlikely to bow to Trump's pressure to cut them swiftly to lower the value of the dollar, which has been strong but relatively stable for years.

In fact, delaying the tariffs might have taken pressure off the Fed, at the margin, by increasing the chances that China and the United States could reach a deal before the full set takes effect.

That has left many analysts speculating that the Trump administration could try to intervene directly in exchange markets. The White House adviser Larry Kudlow has said such a move is off the table, but Trump has declined to rule it out.

Trump would have limited room to intervene unless the Fed helped or Congress approved a package. But Sen. Elizabeth Warren, a Democratic candidate for president, has also taken a swing at the greenback, proposing "more actively managing our currency value." The political attention is notable, because if more active management of the world's most important currency gained traction, it could shake the foundations of the global monetary system and set off a wave of devaluations.

Even if governments stop short of an all-out currency war, currency-focused monetary policy could remain a reality for as long as the trade war persists, Woo argued.

"International coordination is breaking down," he said. "Before, exchange rates were an afterthought of monetary policy. Now, foreign exchange has moved to the centre stage."