#BankingDemystified

FrankBanker

Tapering
&
Quantitative Easing

FrankBanker

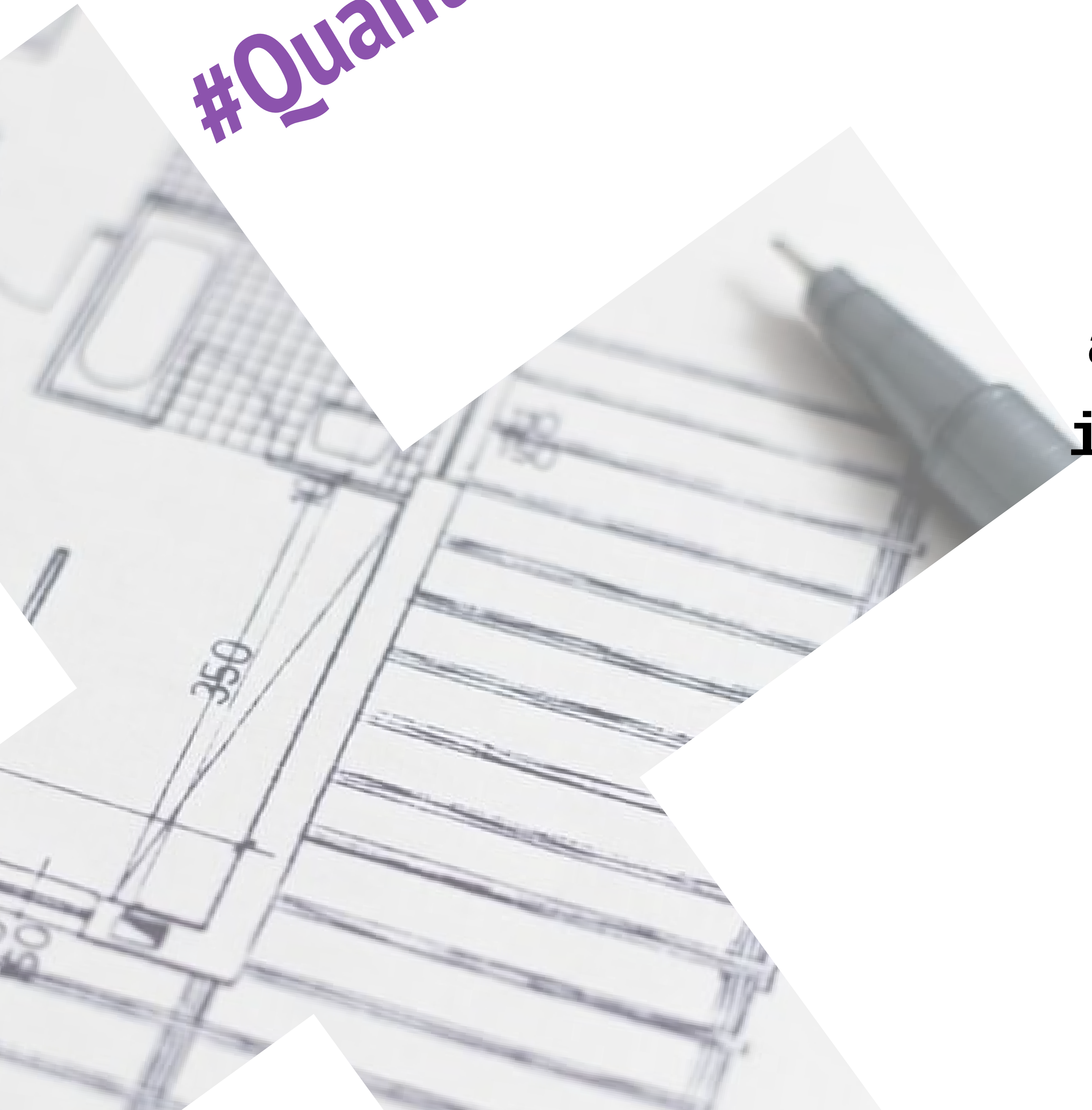
US Fed Reserve has recently indicated the need for Tapering owning to inflationary pressure. What does it mean?

Before we answer this, it is better to understand what Fed has been upto till now. It has adopted the strategy of Quantitative Easing (QE)

Not surprisingly, Central Banks the world over adopt similar strategies to balance growth and inflation

FrankBanker

#QuantitativeEasing



QE simply means Fed has been buying T-Bills from the market.

More it buys, higher is the amount of cash available in the market and better liquidity for banks to give loans.

It also means, there are lesser no. of T bills available and hence their price rises. Do note that if T-Bills rates rise, their yield reduces, creating a lower benchmark even for Corporate Bonds.
Higher liquidity and Cheaper debt leads to higher spending.

Hence too much of QE improves credit but creates inflationary pressures.

FrankBanker

#Tapering

Now on to 'Tapering'

Its the reverse of QE where Fed slows down the purchases of T-Bills instead of aggressively buying them.

As you can understand, this leads to reducing the rate of liquidity release, thereby increasing T-Bills rates.

This brings the demand down, possibly encourages some saving and overall reduce the inflation.

Spread the knowledge.

We encourage you to download and share the full storyboard.

Download from www.frankbanker.com/storyboards

FrankBanker

Idea Exchange for Bankers

Like it?

Encourage us by subscribing/following

Linkedin @FrankBanker

Twitter @TheFrankBanker