

WEEKLY ANALYSIS

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WHO OWNS THE CENTRAL BANKS WHOSE MONETARY POLICIES GUIDE OUR ECONOMIES?

Foundations of central bank creation. The concept of decision-making independence. Roles, missions and objectives. Appointments linked to political power. Who are the shareholders? Who benefits from financial results? Real independence?

Key points



- Who owns the central banks whose monetary policies guide our economies?
- Reminder of the foundations of central bank creation and the concept of independence
- Who appoints central bankers?
- How independent are they from their shareholders?
- What are the main roles and objectives of central banks?
- Who benefits from their financial results?
- Independence remains fragile in times of acute crisis

Who owns the central banks whose monetary policies guide our economies?

There was a time when central banks acted in a particularly discreet manner, and did not openly communicate the basis of their analyses and expectations to the public in any detail. Their monetary policy decisions were communicated without specific precaution, the doctrine being that observers had to be surprised if the policy was to have the greatest impact. Today, the situation is very different, and central bankers have changed their approach in favor of steering market expectations. They communicate their analyses much more regularly, particularly since the recent financial crises, which have forced them to act more actively and decisively, developing new approaches such as quantitative easing, introduced after the 2008 crisis. As a result, they are obliged to be more transparent, in order to reassure the public of their ability to implement appropriate policies that will enable them to achieve the objectives set out in their mandates. As a result, central bankers are increasingly heard to express their views on the policies to be pursued, and their influence on investor sentiment is growing. The influence of central

banks has become crucial in managing financial crises, as we saw again in March 2023 in the USA, with the crisis of confidence caused by several bank failures necessitating the injection of \$500 billion from the US central bank to stabilize the financial system, or in Switzerland, with the decisive action that had to be taken by the SNB in organizing the takeover of CS by UBS. Since 2008, central banks' balance sheets have increased tenfold on average, underlining their growing role in steering economic cycles and financial crises. It is now clear to all that their role has become fundamental in ensuring financial stability. But the question of their independence from political power, often mentioned as a core value of their effectiveness, does not seem clearly established in all cases.

Reminder of the foundations of central bank creation and the concept of independence

The independence of central banks is rooted in American philosophy, which regards independence as one of the fundamental conditions for the functioning of democracy. History shows that the executive branch can sometimes be tempted by demagogic manipulations with severe social and political consequences. If left unchecked, the executive branch can provoke damaging instability and crises that are difficult to overcome. The U.S. and Swiss Constitutions echoed these concerns at the outset, by providing for control of the executive by the legislature. Where monetary policy is concerned, the fear of instability can therefore arise from the unleashing of passions and the particular interests of political groups who may seek a specific interest to the detriment of the general interest of the country and its population. The organization of institutions responsible for monetary policy must therefore take into account the future risks of demagogic impulses, in order to avoid and regulate conflicting interests.

Although the USA and Switzerland set up their central banks at roughly the same time, the two countries will decide to ensure the independence of their central banks from political power in very different ways.