

Thomas Jordan: Monetary policy in times of crisis. Why central banks talk to one another

Summary of a speech by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the Energie-APÉRO Etavis, Zurich, 14 May 2012.

The complete speech can be found in German on the Swiss National Bank's website

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Mandates differ from one central bank to another. So, too, do the economic structures and business cycles of different central bank territories. These factors speak in favour of an autonomous monetary policy for each currency area. This monetary policy autonomy has proved its value for Switzerland – also in the latest crisis. Nevertheless, central banks do work with one another in a number of different ways. They exchange knowledge on a continual basis, thereby helping to improve the foundations upon which their own monetary policy decisions are made. Central banks are also able to access foreign currencies by concluding swap agreements, allowing them to better counteract liquidity shortages on the international money market in times of crisis. Finally, joint measures can have a strong psychological impact since they signal to financial markets and economic agents that the central banks are speaking with a single voice.

Autonomy and cooperation are not mutually exclusive. On the contrary. In a crisis, good cooperation supports and reinforces the effects of autonomous monetary policy measures. For a small, open economy like Switzerland, in particular, the effectiveness of monetary policy measures can be largely dependent upon acceptance by the international environment. An important example for our country is the minimum exchange rate – an exceptional measure taken in an extreme situation. With this measure, the Swiss National Bank is countering distortions in the foreign exchange market which can be traced back to international events. The minimum exchange rate is accepted internationally because markets, international organisations and foreign central banks have understood the objective and motivation behind it, which they see as justified.