

## **Thomas Jordan: Government debt and the independence of monetary policy**

Summary of a speech by Mr Thomas Jordan, Vice-Chairman of the Governing Board of the Swiss National Bank, at the 21st Internationales Europa Forum Luzern, 8 November 2011.

*The complete speech can be found in German on the Swiss National Bank's website ([www.snb.ch](http://www.snb.ch)).*

\* \* \*

Monetary policymakers are not responsible for fiscal policy, yet they still have to take an active interest in government finances. The current financial and debt crisis reminds us that unsound government budgets can compromise independent monetary policy in the long term. Excessive debt carries the risk that fiscal policy can no longer be effectively implemented. It is therefore no surprise that this responsibility gets passed to the central bank, which is thought to be able to solve all manner of problems by simply printing more money. Faced with this situation, the central bank must – either under political pressure or by having to weigh up all the relevant factors – contribute to state financing or take quasi-fiscal policy measures. This can lead to a gradual loss of its effective independence and – in an extreme case – to it losing its statutory independence. Only an independent central bank, however, can pursue its goal of ensuring price stability in a credible way.

The debt situation in Switzerland is much better than that of other comparable countries. A major reason for this is the debt brake, which is extremely important for monetary policy and contributes to safeguarding an independent monetary policy. By pursuing a monetary and fiscal policy oriented towards stability, the negative impact of the crisis on the Swiss economy could be mitigated. As the events of the last two years have brought into focus, the monetary policy of a small open economy must also be able to rely on healthy fiscal policies in other countries. The debt crisis and the way the markets perceived it have considerably impaired the conduct of monetary policy in Switzerland. To fulfil its mandate, the Swiss National Bank has had to take far-reaching measures, such as setting a minimum exchange rate against the euro.