Thomas Jordan: Central bank independence since the financial crisis - the Swiss perspective

Summary of a speech by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the CFS Presidential Lectures, Goethe University, Frankfurt am Main, 9 November 2017.

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The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

The financial crisis presented central banks with significant challenges. They resorted to unconventional monetary policy instruments and expanded their field of operations. As a result, central banks have faced growing criticism. In particular, the question has arisen as to whether their independence is still justified.

The experience of the Swiss National Bank (SNB) since the financial crisis has shown that independence continues to be sensible and necessary; central banks can best fulfil their mandate of ensuring price stability and contributing to the stability of the financial system if they are protected from political pressure.

Central bank independence will only endure as long as politicians and the public are convinced of its benefits. To this end, central banks must fulfil their mandate to the best of their knowledge and ability, while retaining a sense of proportion and a long-term perspective when implementing measures. Not every short-term deviation from an objective requires an activist response. Moreover, central banks must be conscious of their limits and avoid an accumulation of tasks.

For an independent central bank to be perceived as legitimate in a democracy, it must be granted a clear mandate against which its performance can be assessed. However, the environment in which central banks operate is highly complex, and conditions can change rapidly. For this reason, mandates usually only sketch out a framework for central banks' operations. This gives them much-needed flexibility in difficult situations.

As a counterweight to its independence, a central bank has a duty to report on its actions, and the results. Indeed, the SNB has regularly provided detailed reports on matters relating to both monetary policy and financial stability. For example, it has explained the rationale behind deciding to discontinue the minimum exchange rate or introduce the negative interest rate, and how these measures have helped it to fulfil its mandate.

As regards financial stability, the fact that macroprudential instruments often have powerful distribution effects speaks against handing over the entire responsibility for such instruments to the central bank. In contrast to monetary policy, these measures are sometimes targeted at specific sectors and groups, and thus also have fiscal implications. In Switzerland, macroprudential tasks have therefore been divided up between the government, the financial market supervisory authority and the SNB. The SNB is responsible for assessing the systemic importance of banks and financial market infrastructures, and plays a key role in the deployment of the countercyclical capital buffer.