A new role for central banks?

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Do central banks need to rethink their role after the shocks suffered in the global crisis? Certainly, central banks have been successful in their role as firefighters so far. They prevented the global economy from sliding into depression and saved the banking system from collapse. But there is a downside to this success. First, it could create the impression that it is not really necessary to treat the root of structural problems. Second, the extremely high expectations that arise as a result of such success are exceedingly dangerous. Central banks cannot simply move economic growth and employment to a desired level.

On the contrary. Their job is to fulfil their statutory mandate, whereby in most cases the focus is on price stability. That is also the case for the Swiss National Bank (SNB), whose mandate is sensible and credible, and can be fulfilled. The clear definition of price stability has also stood the test of time. Consequently, no change should be made in the SNB's role in monetary policy. The SNB will continue to pursue a path tailored to the needs of our country and will not simply go along with every monetary policy trend.

In the field of financial stability, central banks have been granted additional responsibilities and given new instruments. For the crisis has shown that the traditional approach based purely on the power of persuasion and the ability of central banks to extinguish fires with liquidity can become very costly. That is why new tools - the new macroprudential measures - are being developed internationally in accordance with the principle that prevention is better than cure. The role of the SNB has been extended accordingly, in some areas. The focus is on the countercyclical capital buffer as well as on the designation of systemically important banks and their functions. For financial stability, Switzerland has decided in favour of a lean framework overall, in which responsibilities are clearly allocated to the existing authorities, with consideration being given to the specific strengths of the individual authorities. This careful approach, which does not allow for any concentration of power, makes sense for our country.

Central banks should not be pushed into a role which awakes false expectations and hopes. In the long term, a central bank makes the biggest contribution towards a prosperous development of the economy if it is guided by a clear mandate and consistently discourages excessive expectations. By fulfilling its price and financial stability mandate reliably, it builds up confidence in the general public and on the markets - confidence which is so important for the economy.