Prospects

No. 26/039 – 12 February 2026

The point of view

Central banks must be neither under control nor out of control

With the Federal Reserve in the throes of an institutional crisis under pressure from Donald Trump, who has repeatedly attacked Fed Chair Jerome Powell with the aim of influencing monetary policy for political ends, **it is essential to reiterate the importance of the principle of central bank independence**.

After the Second World War, the gold standard and fixed exchange rates limited room for manoeuvre when it came to monetary policy. With the priority on reconstruction, the volume of credit was managed and credit was allocated to finance governments and priority sectors. This meant central banks were not independent, since monetary policy was subordinate to fiscal policy; in particular, interest rates were kept low to ensure that debt remained sustainable. **The oil shocks put inflation back in the spotlight.** In the stagflationary environment of the 1980s, the failure of Keynesian stimulus policy paved the way for monetarist theory, according to which the money supply should be managed to rein in inflationary pressures. **The priority shifted to combating inflation**; interest rates climbed significantly, at the cost of severe recession.

It was at this time that central bank independence became the consensus institutional arrangement to shield a country's currency from political pressure and prevent the monetary financing of public deficits. Independence lent central banks greater credibility and was conducive to nominal stability, with inflation expectations having converged on low and stable inflation targets. Today, most central banks have **operational independence but not complete political independence**. In the United States and the United Kingdom, inflation targets are still set by the legislature. The ECB's primary mandate of medium-term price stability is written into treaties ratified by eurozone Member States' parliaments[1]. The ECB has quantified this price stability objective by setting a 2% inflation target. Central bank independence is further protected by institutional safeguards such as generally long, non-renewable terms of office not tied to the electoral cycle.

In other words, while their objectives are generally determined by elected bodies so as to ensure their political legitimacy, central banks enjoy a great deal of discretion as to how they make use of the instruments of monetary policy. **What matters most, then, is central banks' operational independence.**

Moreover, the 2008 financial crisis changed the role of central banks. Until that time, **markets were considered efficient and financial stability was seen as a byproduct of monetary stability**. Monitoring and regulating financial institutions was a microprudential endeavour. When the crisis hit, it became clear that the modern financial system could be vulnerable to systemic risks that microprudential policies had been unable to detect. Central banks were forced to intervene massively outside their mandate to prevent the collapse of the financial system. They ventured into **unknown territory by using unconventional instruments.** While these exceptional measures were justified at the time of the crisis, they gradually became the norm and are now an integral part of the monetary policy toolbox. However, the **political neutrality of unconventional policies** – involving changes in the size and composition of central bank balance sheets – is

[1] Article 127 of the Treaty on the Functioning of the European Union (TFEU) stipulates that the primary objective of the European System of Central Banks (ESCB) is to maintain price stability.

questionable. For example, the combination of low interest rates and quantitative easing (QE) – through asset purchases – benefited borrowers and asset-holders by boosting the valuations of risky assets, at the expense of small savers. This is the criticism levelled, in particular, by US Treasury Secretary Scott Bessent and future Fed chair Kevin Warsh, who argue that the impact of these policies on the allocation and redistribution of income and wealth raises questions of political legitimacy and credibility that go to the heart of central bank independence.

The extension of central banks' mandates beyond controlling inflation – to encompass financial stability, **with responsibility for macroprudential policy**, as well as the use of monetary instruments with redistributive effects – has not been matched by greater transparency or accountability.

While monetary policy implementation must remain free of political interference, responsibility for collective choices falls to democratic institutions. Central bank independence thus does not imply a lack of democratic oversight: such oversight must be consolidated via two complementary mechanisms. Before policies are set, institutional frameworks must be reviewed to clarify the role of monetary and macroprudential policies and the tools for achieving their objectives; and afterwards, elected bodies must undertake a rigorous and structured assessment of policies pursued.

Isabelle Job-Bazille
Isabelle.job@credit-agricole-sa.fr

Consult our last publications:

Date	Title	Theme
03/02/2026	USA – What would Chair Kevin Warsh mean for the Fed?	USA
30/01/2026	United Kingdom – Inflation rebounded at the end of 2025, a lull is expected for 2026	United Kingdom
29/01/2026	China – Will the Fire Horse balk at the jump or run at full gallop? How will it affect China's five-year plan?	China
27/01/2026	Europe –2026-2027 Scenario: fiscal policy as a resistance tool	Europe
23/01/2026	Artificial intelligence: promise, speculation and financial fragility	AI, finance
15/01/2026	Geoeconomics – Has geopolitics tamed markets?	Geoeconomics
19/12/2025	World – Scenario 2026-2027: counting on fiscal policy support to counterbalance adversity	World
18/12/2025	South Korea: a year after the political crisis, markets are buying the promise of stability	Asia
04/12/2025	Fog over New Delhi	India
01/12/2025	United Kingdom – Autumn Budget 2025, grasshopper or ant?	United Kingdom
13/11/2025	Tech – Open source: a driver of technological independence?	Tech
06/11/2025	Trump's Asian Tour: The Art of the Deal Returns	Asia, USA
04/11/2025	Europe – 2025-2026 Scenario: headwinds are easing, but new ones are emerging	Europe

Crédit Agricole S.A. — Group Economic Research

12 place des Etats-Unis – 92127 Montrouge Cedex

Publication Manager and chief Editor: Isabelle Job-Bazille
Information centre: Elisabeth Serreau - **Statistics:** Datalab ECO
Editor: Sophie Gaubert
Contact: *publication.eco@credit-agricole-sa.fr*

Access and subscribe to our free online publications:
Internal Website: https://portaileco.ca-sa.adsi.credit-agricole.fr/en
Website: http://etudes-economiques.credit-agricole.com
iPad: Etudes ECO application available in App store platform
Android: Etudes ECO application available in Google Play