

Shake-up of monetary policy personnel

New central bankers to handle Trump strains

by David Marsh

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A new bevy of international monetary policy-makers will have to cope with the upheavals of Donald Trump's move into the White House, amid expectations of rising inflation, a stronger dollar, and a switch to higher interest rates after eight years of easy money.

By a quirk of economic fate, the world's six top central bank governors all leave office in the next three years – bequeathing to as yet unknown successors the twin tasks of coping with credit strains and defending central banks' independence from increased political encroachment.

Much attention has focused on Janet Yellen, Federal Reserve chair, whose four-year term ends in February 2018. Trump, now president-elect, disparaged her record during the US election campaign as being unduly supportive of President Barack Obama. He is widely expected to replace her with a more pliable candidate of uncertain provenance.

Although Yellen's 14-year board term runs until January 2024, no Fed board member has stayed on after stepping down from the top post – with the exception of Marriner Eccles, who resigned as chairman in 1948 but stayed on the board until 1951. Yellen would almost certainly leave the central bank at the same time as quitting the chairmanship.

Trump has the chance of nominating, and securing congressional approval for, new additional appointees to fill two vacant posts on the seven-person Fed board, as well as replacing Vice Chair Stanley Fischer, whose four-year term ends in June 2018. The new president can speedily engineer sweeping changes across the world's top central banking decision-making body.

An impending shake-up goes much wider than this. Zhou Xiaochuan, governor of the People's Bank of China, who has stayed at the bank well beyond the normal retirement age of 65, is expected to leave in March 2018, when he will be 70. The Chinese authorities are likely to choose as Zhou's successor a more political, less western- and less market-orientated candidate. Among the front-runners are Guo Shuqing and Jiang Chaoliang, respectively governors of the provinces of Shandong and Jilin, member and alternate member of the Communist party's central committee.

Haruhiko Kuroda, governor of the Bank of Japan, at the centre of controversial and so far unsuccessful monetary easing through massive monthly bond purchases, will step down at the same time. Three further top central bankers – Jens Weidmann at the Bundesbank, Mark Carney at the Bank of England and Mario Draghi at the European Central Bank – reach the end of their tenures in 2019, with Carney's term expiry brought forward from 2021 in a compromise with the UK government.

Up to Trump's 8 November victory, neither Kuroda nor Draghi, both exponents of high-volume quantitative easing designed to raise inflation towards 2%, had been thought likely to raise interest rates before the end of their mandates. But these expectations have been modified as a result of probable higher US inflation after the Trump win.

Weidmann vehemently opposes the ECB's QE, but has been constantly outvoted on this issue on the bank's 26-member council. He is still leading a rearguard action to ward off further QE extension beyond March 2017 when the ECB deliberates the issue on 8 December. In a further twist, Weidmann has been tipped as a possible replacement for Draghi when the latter steps down in November 2019, although much will depend on whether Angela Merkel, for whom Weidmann worked in the chancellor's office until 2011, remains German leader after next autumn's general elections.

In another personnel change, Jaime Caruana, general manager of the Bank for International Settlements, the central bankers' bank in Basel, presently chaired by Weidmann, steps down in summer 2017. One possible replacement is Benoit Coeuré, a French member of the six-person ECB board, who is believed to be open to some of Weidmann's arguments over QE. In future monetary deliberations, there is plenty of room for intricate bargaining.

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