Gamma Explains – Episode 2 – Central banks

Financial education is about knowledge and behaviour. If you have more knowledge about the basic elements of financial education, you are likely to make better choices.

What Gamma hopes to do with this series is conveying a few basic elements of financial education in a very simple and entertaining way.

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Anchor:

Claudia Pensotti – Class CNBC

Guests:

Andrea Beltratti – Full Professor at Bocconi University and Chairman EFG Gamma Foundation

GianLuigi Mandruzzato – Senior Economist at EFG

Corine Chung – EFG Graduate 2024 – 2026

Samira Rahman – EFG Graduate 2024 – 2026

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Claudia Pensotti – Senior Anchor Class CNBC
Welcome to the second episode of Gamma Explains by EFG Gamma Foundation. Today, we're going to talk about central banks, and we're going to do it with our guest that I would like to introduce, Andrea Beltratti, who is professor at Bocconi and Chairman of EFG Gamma Foundation.

Andrea Beltratti – Full Professor at Bocconi University and Chairman EFG Gamma Foundation
Thank you

Claudia Pensotti
Welcome. And GianLuigi Mandruzzato, who is senior economist at EFG Bank. Thank you for being with us.

So let's start first of all by going to hear what the graduates from the EFG program had to say about central banks.

Corine Chung – EFG Graduate 2024 – 2026
Central banks are institutions that are responsible for regulating and overseeing a country or group of countries financial systems.

One way they can accomplish this is by setting monetary policies. For example, the Federal Reserve of the United States manages US monetary policy to achieve three main goals: One, maximum employment; two, stable prices, and three, moderate long term interest rates.

Samira Rahman – EFG Graduate 2024 – 2026
Central banks are the backbone of the country's economy. They control interest rates, issue currency, and keep inflation stable. When inflation rises, they raise rates, and when growth slows, they cut rates. Their decisions impacts jobs, mortgages, and markets worldwide.

Claudia Pensotti
So, Beltratti, we heard what the graduates had to say. What are central banks, what do they do, and what is their mission?

Andrea Beltratti
Well, they're institutions that manage the money supply and the interest rates of a given country or group of countries.

It's very important they are independent from the central government in order to be able to take independent actions about the money supply and interest rates also affecting the external value of the currency.

The two most famous examples are the Federal Reserve, the Fed, it was established back in 1913 in the US managing the dollar, and in Europe we have the ECB that was set up in 1998, a couple of years before the introduction of the Euro. Of course we have other well known central banks around the world, the Swiss National Bank, the Bank of England, the Bank of Japan.

Claudia Pensotti
So Mandruzzato, how do central banks actually do what they do? How do they work and how do they make their policy decisions?

GianLuigi Mandruzzato – Senior Economist at EFG
Well, first of all, central banks take decision in a committee form, so it's not one person that takes the decision, but rather the consensus within a group of experts.

Furthermore, they look in a forward-looking manner at the economic data because of course monetary policy will affect the economy and the markets in the future, so they will of course take stock of current information, but they will try and get what is the signal from the noise that data can give about the future course of the variables that they are targeting.

And as has been said, the Federal Reserve has a different target from many other central banks in Europe. They look at both employment and price stability as opposed to European central banks that mainly prioritize price stability.

Claudia Pensotti
Now, how does this affect economies and lives in terms of mortgage rates, loans to businesses? You know, how is it? How is the world or how are people lives affected by what the monetary policy decisions are?

GianLuigi Mandruzzato
Well, the level of interest rates set by the central bank will affect all the term structures, so the different maturities of interest rates that will affect the economy, including corporates and households because of the cost of financing.

So, when you have a mortgage and say that it is at a variable rate, that will be directly affected by the changes in the monetary policy rate. If you have a long term rate, but maybe you are changing house, you will have to renegotiate your mortgage and depending on the maturity of your mortgage, your cost of financing will change.

The same applies to corporates: When they have to finance a long term investment which will last for years, they will be of course affected by how much that would cost and impact their finances.

Claudia Pensotti
Thank you. Thank you to Andrea Beltratti and thank you also to Gianluigi Mandruzzato.

The main takeaways from the second episode of Gamma Explains dedicated to central banks are:

One, central banks are institutions that manage money supply and interest rates. The main central banks are the US Federal Reserve, the Swiss National Bank, the European Central Bank and the Bank of England.

Two, the decisions made by central banks are forward-looking in nature and taken by a consensus within a committee.

Three, the mandates of central banks differ. The US Fed has a mandate to guarantee full employment and price stability, while in Europe price stability is the priority.

Thank you for having been with us in the second episode of Gamma Explains.

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