

Lessons for modern central banking

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The early history of the BIS contains lessons that remain relevant for modern central banking and international financial institutions. The first lesson is the importance of cooperation in crises. The crisis of 1931 showed that central banks acting alone could not contain a financial crisis that crossed borders, and that cooperation, although insufficient in 1931, was necessary. The swap lines that the Federal Reserve and other central banks provided to each other in 2008 and 2020 were the realisation of a cooperation that the BIS had begun.

The second lesson is the danger of neutrality without principles. The BIS's neutrality during the war, which allowed it to accept looted gold and to execute the transfer of the Czech gold, was a neutrality that placed the continuity of business above the moral consequences of its operations. Modern international financial institutions are expected to apply standards of due diligence and to refuse transactions that support aggression or crime.

The third lesson is the capacity of institutions to adapt. The BIS was founded for a purpose that disappeared within two years, survived a recommendation of liquidation and found new functions in each period: central bank cooperation in the 1930s, the European Payments Union in the 1950s, the support of the Bretton Woods system in the 1960s, banking supervision from the 1970s, financial stability from the 1990s and innovation in payments and digital money in the twenty-first century. Part F examines these later functions.

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The fourth lesson concerns the host city. Basel provided the BIS with the security, the neutrality and the services it needed. In return, the BIS gave Basel a place in the history of international finance. The relationship between the host and the institution, which the Council of Basel inaugurated in 1431, was renewed in 1930 in a form that has lasted for almost a century.

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Online version: helveticaregister.com/basel-lessons-for-modern-central-banking