ECOINSIGHT

Issue 13
5 February 2026

> Kevin Warsh is set to succeed Jerome Powell as Federal Reserve Chair in May 2026, pending Senate confirmation. President Donald Trump has picked a figure whose public and private track record is likely to reassure the financial markets.

ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world

Kevin Warsh is set to succeed Jerome Powell as Federal Reserve Chair in May 2026, pending Senate confirmation. President Donald Trump has picked a figure whose public and private track record is likely to reassure the financial markets. While Warsh has advocated lower rates and a reduction in the central bank's balance sheet, he will probably be constrained in his plans. Therefore, we do not expect any material shift in monetary policy in the short term.

A NON-ECONOMIST TO LEAD THE CENTRAL BANK

US President Donald Trump has ended speculation by choosing Kevin Warsh (55, a Wall Street veteran) as the next Chair of the Federal Reserve (Fed) from May 2026, pending Senate confirmation (see below). Most of Warsh's career has been in the private financial sector, yet he has solid experience in economic affairs, as a member of the Fed's Board of Governors between 2006 and 2011, and through positions held under the George W. Bush administration. However, like Jerome Powell, the likely future Chair of the FOMC is not an economist by training. This distinguishes Jerome Powell and Kevin Warsh from their predecessors since the 1970s.

A HAWKISH FORMER GOVERNOR AND THE POTUS' PUSH FOR LOW RATES

During his previous term as governor, Warsh earned a reputation for his rigorous approach to fighting inflation, including during the Great Financial Crisis. His 2008-2009 speeches highlighted "inflation risks [which] are evident", warned against appearing "too accommodative for too long" and, in the context of a possible recovery, the refusal "to compromise [...] price stability [...] to help achieve other government policy objectives". In defence of the Fed's independence, Kevin Warsh also emphasised that this stemmed from institutional credibility, anchored by a commitment to price stability. He later expressed scepticism about the use of unconventional monetary policy tools (see below). This track record suggests that the FOMC will continue on the same path as under Jerome Powell, with no additional tolerance for inflation. This points to an interest rate policy driven by macroeconomic fundamentals. Therefore, market reactions to the presidential announcement (rising bond yields and USD, and weaker equities) do not signal expectations of more significant easing in the future.

However, a more dovish stance has emerged more recently, in line with President Trump's push for lower rates. Warsh has advocated rate cuts, arguing that the AI-linked productivity boom should be disinflationary. Furthermore, Warsh stands out based on his approach of moving away from dependence on macroeconomic data and considerations that he deems cyclical and "weather"-related (including "wars, pandemics and supply chains"). He argues for focusing on "the structural change in price levels over time based on long term structural factors".

However, even if the likely future Fed Chair was to adopt this logic to push the FOMC towards rate cuts, the latter will still be governed by majority rule and is therefore unlikely to move in this direction without supportive cyclical data.

A FUTURE FED CHAIR FAVOURING A NARROW MANDATE FOR THE CENTRAL BANK

Warsh's apparent commitment to Fed independence and to the "price stability" component of the dual mandate is combined with a narrow conception of the central bank's scope of competence and intervention. The former Fed governor deplores the "monetary dominance" rather than fiscal dominance that emerged with the Great Financial Crisis[1].

Warsh is an outspoken critic of the expansion of the Fed's balance sheet, which he describes as a "proxy for the Fed's growing imprimatur over the economy". In 2011, he resigned from his position as governor amid disagreement over the second round of quantitative easing (QE), despite initially voting in favour of it. He deems the successive rounds of QE responsible for a overheating of financial markets and widening inequalities[2]. By destroying some of the liquidity circulating in the markets, a drastic reduction in the Fed's balance sheet would, in his view, correct the distortions created by QE and dampen inflation expectations. It would therefore enable the Fed to reduce the target range for the federal funds rate so that households and small and medium-sized enterprises could benefit from lower interest rates.

Warsh's views echo Treasury Secretary Scott Bessent's warnings about the Fed's "gain-of-function" beyond its traditional mandate[3], and may have helped secure his appointment. He is in favour of revising the Treasury-Fed Accord (1951) to promote greater coordination between the two parties, but with a smaller and less powerful central bank. Warsh is also sceptical about the Fed's role as a banking regulator and supervisor[4], which he considers counterproductive for its independence. However, he supports the agenda of Michelle Bowman, the Fed's Vice Chair for Supervision[5], which calls for a less intrusive supervision that is more focused on financial risks, the easing of certain capital requirements, and more gradual implementation of rules. He also recommends breaking away from international banking regulatory bodies, which he believes have enacted rules that harm US interests.

1 Kevin Warsh therefore turns the potential problem of "fiscal dominance" on its head by placing the responsibility on monetary policy, which would act as the "ultimate arbiter of fiscal policy".
2 In his view, the surge in financial-asset prices has created wealth effects that benefit only large corporations and the wealthiest households, a loss of independence for the Fed and increased inflation.
3 *The Fed's 'Gain of Function' Monetary Policy*, S. Bessent, Wall Street Journal - Opinion (2025) - Link
4 *Commanding Heights: Central Banks at a Crossroads*, K. Warsh, 2025 - Link
5 *The Federal Reserve's Broken Leadership*, K. Warsh, Wall Street Journal – Opinion (2025) - Link

WOULD A DRASTIC REDUCTION IN THE FED'S BALANCE SHEET ENABLE HOUSEHOLDS AND SMALL BUSINESSES TO BENEFIT FROM LOWER INTEREST RATES?

There are two reasons to doubt this:

• Unless private investors rush en masse to absorb the Treasury securities or mortgage-backed securities (MBS) that the Fed would be forced to sell, an abrupt reduction of the central bank's securities portfolio would, conversely, result in the cost of credit increasing, by pushing up long-term interest rates. This outcome would run counter to President Trump's ambition to see mortgage rates fall. Another requirement would be for the Treasury to reduce its debt (and its debt issuance programme), but this option is clearly not on the agenda.

• A sharp cut in the Fed's assets would also risk drying up the money markets and causing it to lose control of short-term market rates, particularly the effective federal funds rate (rendering the reduction in the target range completely ineffective). Reducing a central bank's balance sheet would automatically destroy the reserves that banks hold with it as a result. However, these reserves are essential for banks' day-to-day operations and, since the introduction of Basel III, for compliance with regulatory liquidity requirements. The Fed has already experienced this acutely, back in 2019 . At the time, it had greatly underestimated the effect of the new liquidity rules on banks' central bank money needs. It then halted its balance sheet reduction programme (quantitative tightening (QT)) far too late. This had depleted the reserves that banks held in excess of their needs, preventing them from meeting cash demands at a critical moment. Short-term market rates soared, forcing the Fed to expand its balance sheet again urgently in order to inject liquidity. With this in mind, Kevin Warsh's desire to return the Fed's balance sheet to its pre-2008 size seems unfeasible... unless there is a major overhaul of liquidity rules. His desire to strengthen the Fed's independence from the Treasury (by reducing its role as a creditor to the federal government) and to serve the interests of the least well-off households as a priority could, moreover, run counter to the process of rebalancing the Fed's balance sheet structure initiated under Jerome Powell (in favour of Treasuries and to the detriment of MBSs).

WILL THE UNITED STATES BREAK FREE FROM THE BASEL COMMITTEE'S RECOMMENDATIONS?

It is a risk. US regulators are already lagging far behind their European counterparts in implementing the latest Basel agreements. Abandoning them would ruin efforts to harmonise international prudential frameworks and reinforce distortions of competition between US and European banks. However, abandoning Basel III would not be in the interests of the major US banks (which would then fall outside international standards) or US regulators (who would potentially no longer be able to assert their vision within international bodies). It is therefore possible that they will continue the work that they have begun, leading to a late, incomplete implementation of Basel III for only a handful of banks.

THE PATH TO CONFIRMATION

The presidential choice must now be confirmed by the Senate. A favourable outcome is likely given the relatively consensual nature of the chosen candidate and the Republican majority in the upper house. The confirmation process will then be organised in two stages. The first will be a hearing before the Senate Committee on Banking, Housing and Urban Affairs[6], followed by a vote (by simple majority) one to two weeks later. A positive result is required for the nomination to be submitted to the Senate, which will also vote by simple majority. Once these conditions are met, Kevin Warsh's appointment as Chair of the Federal Reserve for a four-year term will be confirmed. The process should theoretically be completed by the end of Jerome Powell's term as chair on 15 May 2026. However, there is a risk of delay due to the proceedings brought against Jerome Powell by the Department of Justice (DoJ), which could lead to a blockage initiated by Republican Senator Thom Tillis in the Banking Committee.

Article completed on 4 February 2026

Anis Bensaidani and Céline Choulet

6 The timeline is not yet known. In 2017, the process began less than a month after Donald Trump announced his choice of Jerome Powell.

GROUP ECONOMIC RESEARCH

Isabelle Mateos y Lago Group Chief Economist	+33 1 87 74 01 97	isabelle.mateosylago@bnpparibas.com
Hélène Baudchon Deputy Chief Economist, Head of Global Macroeconomic Research	+33 1 58 16 03 63	helene.baudchon@bnpparibas.com

Stéphane Alby Maghreb, Middle East	+33 1 42 98 02 04	stephane.alby@bnpparibas.com
Lucie Barette Europe, Southern Europe	+33 1 87 74 02 08	lucie.barette@bnpparibas.com
Anis Bensaidani United States, Japan	+33 1 87 74 01 51	anis.bensaidani@bnpparibas.com
Céline Choulet Banking Economics	+33 1 43 16 95 54	celine.choulet@bnpparibas.com
Stéphane Colliac Head of Advanced economies – France	+33 1 42 98 26 77	stephane.colliac@bnpparibas.com
Guillaume Derrien Europe, Eurozone, United Kingdom – World Trade	+33 1 55 77 71 89	guillaume.a.derrien@bnpparibas.com
Pascal Devaux Middle East, Western Balkans – Energy	+33 1 43 16 95 51	pascal.devaux@bnpparibas.com
Hélène Drouot Latin America	+33 1 42 98 33 00	helene.drouot@bnpparibas.com
François Faure Head of Country Risk – Türkiye – Argentina	+33 1 42 98 79 82	francois.faure@bnpparibas.com
Salim Hammad Head of Data & Analytics – Brazil	+33 1 42 98 74 26	salim.hammad@bnpparibas.com
Thomas Humblot Banking Economics	+33 1 40 14 30 77	thomas.humblot@bnpparibas.com
Cynthia Kalasopatan Antoine Central Europe, Ukraine	+33 1 53 31 59 32	cynthia.kalasopatanantoine@bnpparibas.com
Johanna Melka Asia	+33 1 58 16 05 84	johanna.melka@bnpparibas.com
Marianne Mueller Europe, Germany, Netherlands	+33 1 40 14 48 11	marianne.mueller@bnpparibas.com
Christine Peltier Head of Emerging economies – Asia	+33 1 42 98 56 27	christine.peltier@bnpparibas.com
Lucas Plé Sub-saharan Africa, Colombia, Central America	+33 1 40 14 50 18	lucas.ple@bnpparibas.com
Jean-Luc Proutat Head of Economic Projections	+33 1 58 16 73 32	jean-luc.proutat@bnpparibas.com
Laurent Quignon Head of Banking Economics	+33 1 42 98 56 54	laurent.quignon@bnpparibas.com
Tarik Rharrab Data scientist	+33 1 43 16 95 56	tarik.rharrab@bnpparibas.com

Mickaëlle Fils Marie-Luce Media contact	+33 1 42 98 48 59	mickaelle.filsmarie-luce@bnpparibas.com

GROUP ECONOMIC RESEARCH

ECOINSIGHT
Structural or thematic topics

ECOPERSPECTIVES
Analyses and forecasts with a focus on developed and emerging economies.

ECOFLASH
Data releases, major economic events

ECOWEEK
Recent economic and policy developments, data comments, economic calendar, forecasts

ECOPULSE
Monthly barometer of key economic indicators of the main OECD countries

ECOCHARTS
Easy-to-read monthly overview of inflation dynamics

ECOATLAS
The key economic figures for France and major European economies

CHART OF THE WEEK
A weekly chart highlighting points of interest in the world economy

ECOTV
What is the key event of the month?
You will find the answer in our economy broadcast.

MACROWAVES
Our economic podcast

HOW TO RECEIVE OUR PUBLICATIONS

SUBSCRIBE ON OUR WEBSITE
see the Economic Research website

&

FOLLOW US ON LINKEDIN
see the Economic Research linkedin page

OR TWITTER
see the Economic Research Twitter page

Published by BNP PARIBAS Economic Research
Head office: 16 boulevard des Italiens – 75009 Paris France / Phone : +33 (0) 1.42.98.12.34
Internet: www.group.bnpparibas - www.economic-research.bnpparibas.com
Head of publication : Jean Lemierre / Chief editor: Isabelle Mateos y Lago
Copyright image: Matej Kastelic

Subscribe to our publications:
ECONOMIC RESEARCH

BNP PARIBAS

The bank
for a changing
world