

Political Pressure on Central Banks

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- ▶ “Legal measures of Central Bank independence may not reflect the relationship between the Central Bank and the government that actually exists in practice” (Walsh 2005).
- ▶ “A central bank may be independent by statute, and it is nevertheless accepted— on all sides— that the government will have its wishes implemented... ” (Forder 1996).

Motivation

- ▶ *Politico*: “Now that the president has openly criticized the Fed, every action it takes might be viewed through the lens of a reaction to him.”
- ▶ *WSJ*: “The perception of the Fed’s decision-making will change immediately. To be sure, the substance of those decisions won’t be so easily swayed...In central banking, though, appearance matters as much as substance.”

Overview

- ▶ Construct quarterly panel dataset on political pressure on 118 central banks since 2010
- ▶ Narrative approach using country reports from Economist Intelligence Unit and Business Monitor International
- ▶ Search for discussions of political pressure on or government interference with the central bank
- ▶ Record details about the nature of the pressure and central bank's response

Narrative Approach

- ▶ Havrilesky (1993), Froyen et al. (1997) construct measure of political pressure on the Fed by coding WSJ articles about politicians arguing for more or less restrictive monetary policy.
- ▶ Maier et al. (2002) adopt similar approach for German Bundesbank; Ehrmann and Fratzscher (2011) for ECB.
- ▶ Newspaper coverage may not be comparable across countries. I want a consistent-coverage, real-time narrative source.

Coding the Country Reports

- ▶ EIU indexed in Nexis Uni 2010Q1-2018Q2 and BMI in Lexis Nexis 2008Q1-2018Q2
- ▶ Find all reports that include the phrase “central bank,” “monetary policy,” “reserve bank,” or “national bank” and at least one of the following: “political pressure,” “political interference,” “government interference,” “threat to independence,” “independence threatened,” “print money,” “money printing,” “monetize,” or “monetise”
- ▶ Read to determine relevance (over 500 relevant reports)
- ▶ Code as **resist** or **succumb**

Resist (Category 1)

Report notes that the central bank is resisting or possibly resisting actual, potential, or perceived pressure.

- ▶ EIU Japan, July 12, 2012: “Political pressure in favour of continued quantitative easing has been mounting for some time, but in July the central bank reiterated that the lack of strong signs of GDP growth mean that an extension of the quantitative easing programme is not being considered at this time.”
- ▶ EIU Angola, June 13, 2014: “...should growth rates slip, it is possible that the central bank would come under political pressure to adopt a substantially more accommodative monetary policy.”

Succumb (Category 2)

Report notes that political pressure or government interference affects or will affect central bank policy or that the government directly controls the central bank or the money supply.

- ▶ EIU Turkey, June 24, 2014: “On June 24th, the Central Bank of Turkey cut its key interest rate, the one-week repurchase (repo) lending rate, by 75 basis points to 8.75%, easing for the second consecutive month...The bank is under intense pressure from the government to lower rates rapidly.”
- ▶ EIU Venezuela, May 4, 2018: “The government’s financing needs will continue to force the Banco Central de Venezuela (the central bank) to print money.”

Additional Coded Variables

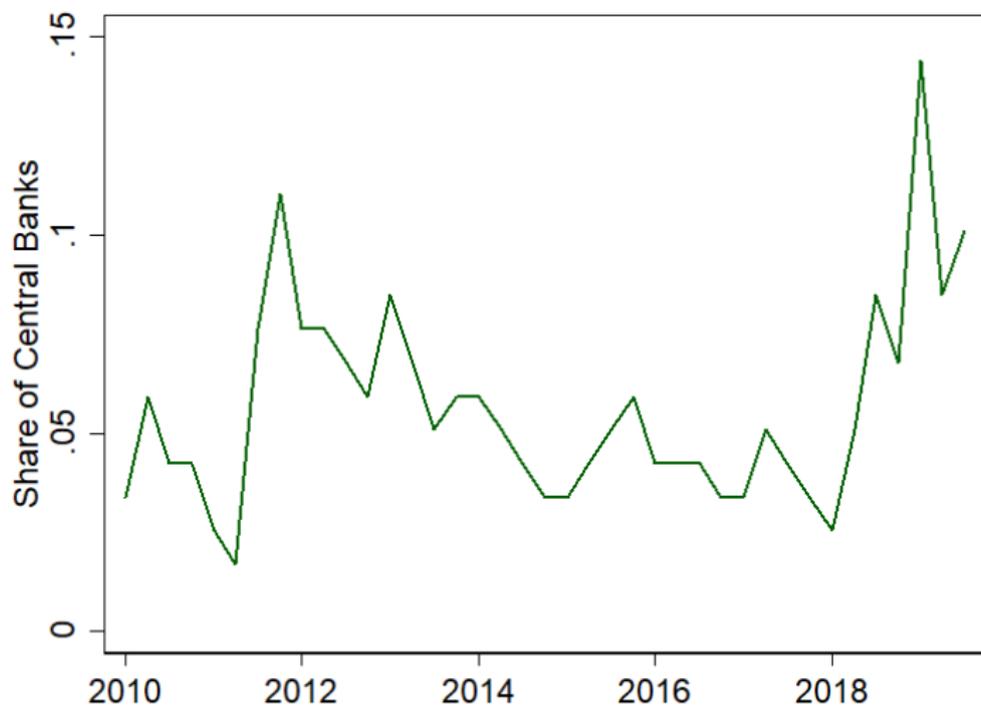
- ▶ Pressure to ease (91%) or to tighten (3%)
 - ▶ Or neither, e.g. Venezuela 2013-14 pressure to alter or delay release of inflation statistics
 - ▶ i.e. most CBs are “conservative” in the Barro sense
 - ▶ Fed is one of only 6 to have faced pressure to tighten (in 2011-12)
- ▶ Discussion of recent, upcoming, potential, or threatened replacement of central banker (15%)
- ▶ Discussion of elections (26%)
- ▶ Discussion of actual or potential changes to central bank legislation (4%)

Constructing the Panel Dataset

Unit of observation: central bank (i)-quarter (t)

	EIU	BMI
Countries covered	195	153
Members of monetary unions	39	38
BCEAO	8	8
BEAC	6	6
ECB	19	16
ECCB	6	8
Total central banks covered	160	119
Dates covered	2010Q1-19Q3	2008Q1-19Q3
Total central banks covered by both:	118	
Total quarters covered by both:	39	
Total country-quarter observations in main analysis:	4602	

Pressure over Time



Relationship to other measures

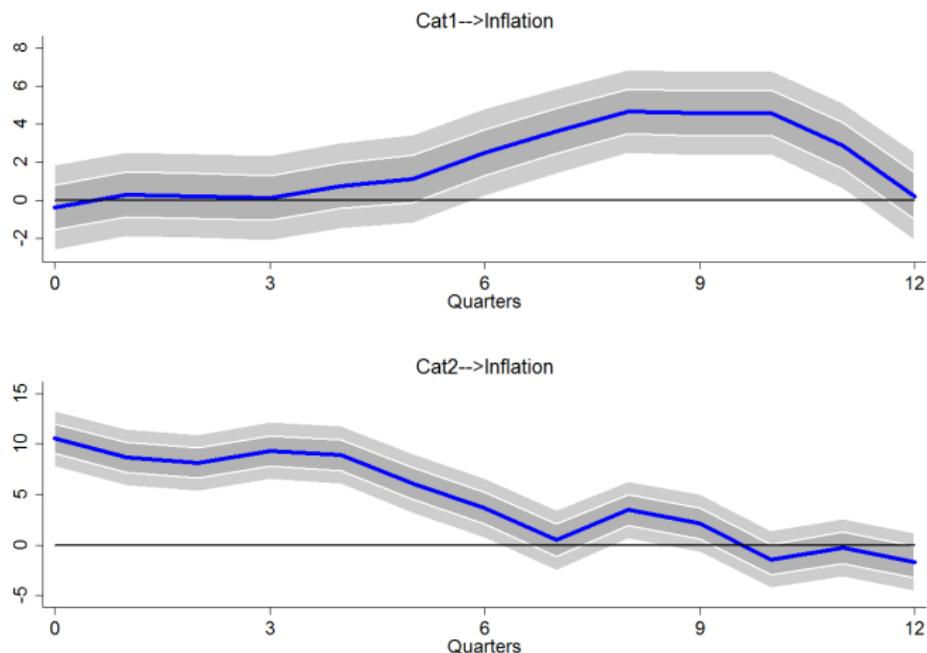
- ▶ Nearly orthogonal to legal CBI (Garriga 2016).
- ▶ Correlated with de facto CBI proxies like irregular turnover (Cukierman et al. 1992, Cukierman 1993, Dreher et al. 2008, Ennser-Jedenastik 2014); updated data through 2015 from KOF Swiss Economic Institute
- ▶ Benefits: Larger sample, panel rather than cross-sectional.

Cross-Section Regression: Political Pressure and Inflation

	(1)	(2)	(3)	(4)
CBI	0.08 (0.11)	-0.07 (0.10)	-0.05 (0.10)	
\hat{P}	0.49*** (0.18)	0.39*** (0.13)		0.45** (0.20)
Lagged inflation tax		0.82*** (0.10)	0.81*** (0.11)	
Turnover		0.04 (0.13)	0.06 (0.14)	0.19 (0.19)
$P^{max} = 1$			0.04 (0.05)	
$P^{max} = 2$			0.09** (0.04)	
Economic independence				-0.19 (0.13)
Political independence				0.01 (0.09)
N	108	101	101	104
R ²	0.04	0.50	0.50	0.07

Notes: Robust, standard errors in parentheses. Dependent variable is the inflation tax averaged over 2010-2017. *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. CBI is legal central bank independence (2010-12 average) from Garriga (2016); lagged CBI is 2000-2009 average. Turnover is rate of irregular turnover of central bank governor from 2010 to 2015. Lagged inflation tax is average inflation tax from 2000 to 2009.

Panel Analysis of Political Pressure and Inflation



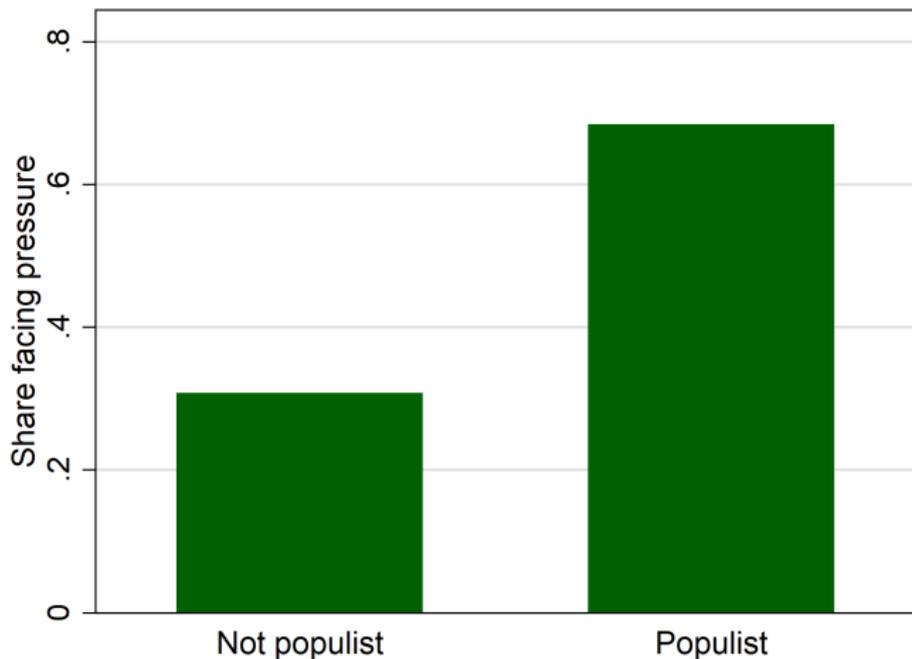
Jorda (2005) local projection method. Panel regression with country fixed effects of CPI inflation on unemployment, IP growth, and category 1 and 2 pressure dummies.

Inflation Persistence

- ▶ High inflation persistence increases the output costs of disinflation and may reflect imperfect credibility or poorly-anchored expectations (Mishkin 2007, Fuhrer 2010).
- ▶ Using Dickey Fuller tests for each country, or panel autoregressions, I show that inflation is more persistent in countries where the central bank faces pressure, especially if the bank succumbs to pressure.

Pressure is more prevalent in...

- ▶ Less democratic countries and when there is low electoral competitiveness.
 - ▶ Openness and political transparency allow interest groups or political opposition to observe “informal transgressions” of CBI (Broz 2002).
- ▶ Countries with weaker checks and balances.
 - ▶ Legal CBI is more credible with interference less feasible (Moser 1999).
- ▶ Countries with nationalist or populist leaders.



Populism data is from the Global Populism Database (Hawkins et al. 2019). Figure includes 32 central banks, of which 19 are in countries with a somewhat populist, populist, or very populist leader based on codings of leaders' speeches.

Data Access

- ▶ <https://osf.io/kjcfh/>
- ▶ <https://www.nber.org/data/international-finance/>
- ▶ Or email cbinder1@haverford.edu.