

Political Pressure on Central Banks

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Motivation

- ▶ “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).
- ▶ Financial crises, and the political upheavals that tend to follow, may broaden the gap between de jure and de facto CBI and erode public support for CBI (Blinder et al. 2012, Goodhardt and Lastra 2018)

Motivation

- ▶ Blinder et al. (2017): 72% of academics and 31% of central bank governors thought that central banks received a lot or moderate amount of criticism for “acting politically or crossing the line into the political realm.”
“Crossing the line in one direction invites reciprocal crossings in the opposite direction, to wit, political interference with monetary policy.”

Motivation

- ▶ Blinder et al. (2017): 72% of academics and 31% of central bank governors thought that central banks received a lot or moderate amount of criticism for “acting politically or crossing the line into the political realm.”
“Crossing the line in one direction invites reciprocal crossings in the opposite direction, to wit, political interference with monetary policy.”
- ▶ *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 (as in Romer and Romer 2017).

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)

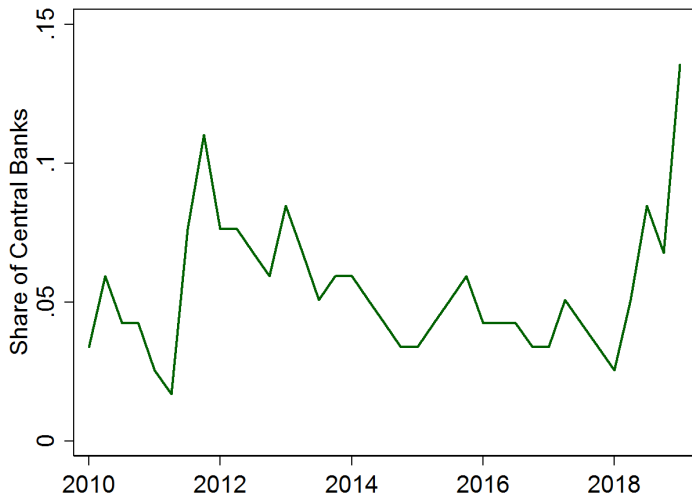
	EIU	BMI
Countries covered	195	153
Members of monetary unions	39	38
BCEAO	8	8
BEAC	6	6
ECB	19	16
ECCB	6	8
Total central banks covered	160	119
Dates covered	2010Q1-19Q1	2008Q1-19Q1
Total central banks covered by both:	118	
Total quarters covered by both:	37	
Total country-quarter observations in main analysis:	4366	

Constructing the Panel Dataset

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

$P_{it} = 2$ if any category 2 reports for CB i in quarter t ,
else $P_{it} = 1$ if any category 1 reports,
else $P_{it} = 0$

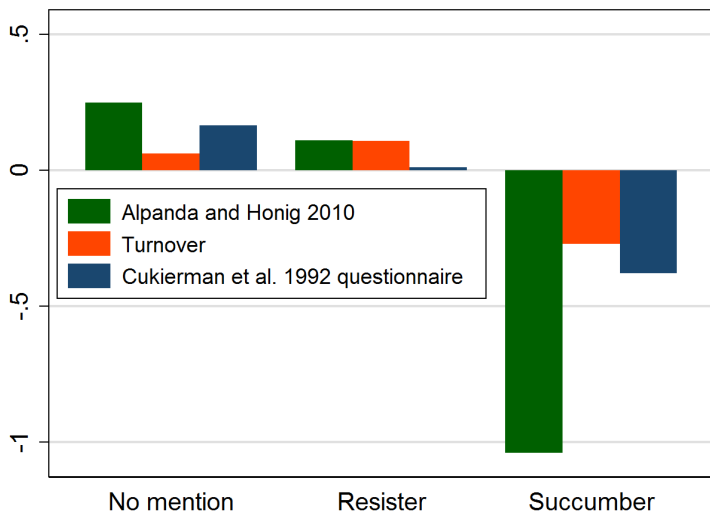
Pressure over Time



Comparison with De Facto CBI Proxies

- ▶ Irregular turnover (Cukierman et al. 1992, Cukierman 1993, Dreher et al. 2008, Ennser-Jedenastik 2014); updated data through 2015 from KOF Swiss Economic Institute
- ▶ Survey of experts from 23 countries in 1980s (Cukierman et al. 1992)
- ▶ Estimates of CB reaction function (Alpanda and Honig 2010)

Comparison with De Facto CBI Proxies



Notes: Each measure has been normalized and signed so that higher values correspond to higher de facto CBI.

Working Paper and Data Access

- ▶ Working paper: “Political Pressure on Central Banks”
 - ▶ Political pressure and legal CBI
 - ▶ Political pressure and inflation dynamics
 - ▶ Political pressure and government characteristics
- ▶ Data is publicly available at <https://osf.io/kjcfh/>
- ▶ Data will also be posted at <https://www.nber.org/data/international-finance/>
- ▶ Or email cbinder1@haverford.edu