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The Macroeconomic Consequences of Undermining Central Bank Independence:

Evidence from Governor Transitions

Marijn A. Bolhuis, Rui C. Mano and Hedda Thorell

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Prepared by Marijn A. Bolhuis, Rui C. Mano and Hedda Thorell*

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ABSTRACT: This paper studies the macroeconomic consequences of undermining central bank independence through politically motivated transitions of central bank governors. Leveraging a new panel dataset covering 132 central bank governor transitions in 28 advanced and emerging market economies since 2000, we document the timing, frequency, and political drivers of these leadership changes. Tenures of governors with politically motivated appointments are associated with higher and more volatile inflation, realized and expected. Professional forecasters also tend to expect such governors to be more dovish when responding to shifts in inflation. Using local projections in a difference-in-difference setting, we find that following the announcement of a politically motivated governor transition nominal and real short rates decline and expected and realized inflation rise. At the same time, GDP growth increases in the aftermath of such transitions, consistent with an expansionary short-run macroeconomic impulse. These effects are more pronounced when the incoming governor professes unorthodox views on monetary policy, suggesting that political interference in central bank leadership induces a temporary growth–inflation trade-off. Long-term inflation expectations only rise in the case of unorthodox governors with politically motivated appointments, suggesting costs to central bank credibility are much more pronounced in those cases.

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Author's E-Mail Address:	mbolhuis@imf.org; rmano@imf.org; hedda.thorell@su.se

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1. Introduction

Central bank independence has emerged as one of the pillars of modern macroeconomic policy frameworks. In both advanced economies and emerging markets, the legal autonomy of monetary policymakers has increased markedly over the last decades [Crowe and Meade, 2007, Romelli, 2024, Garriga, 2025]. Proponents of central bank independence argue that insulation from short-term political pressures allows central banks to anchor inflation expectations more firmly, reduce the inflationary bias that arises from time-inconsistent policy, and thereby foster more stable growth and financial stability [Fischer, 1995, Blinder, 2000, Nakamura et al., 2025].[1] Yet in recent years, high-profile episodes of political pressure on central banks have reignited concerns that formal, *de jure* safeguards can be circumvented in practice. What are the macroeconomic consequences of undermining central bank independence?

While there exists a well-established theoretical literature on the channels through which compromised independence can impair macroeconomic outcomes, well-identified empirical evidence quantifying these costs remains scarce. Thus far, a key limitation lies in obtaining exogenous variation in threats to autonomy. A common empirical approach relies on cross-sectional comparisons or panel regressions using de jure indices of central bank independence [e.g., Grilli et al., 1991, Alesina and Summers, 1993, Eijffinger et al., 1998, Acemoglu et al., 2008, Klomp and De Haan, 2010]. But since de jure measures are largely time-invariant within countries, they offer limited within-country variation and force reliance on between-country variation that conflates institutional design with unobserved cultural, political, and economic factors that drive macroeconomic outcomes. And even when de jure independence indices change frequently within countries, revisions to legal instruments often mask more immediate, informal changes in operational autonomy. These limitations underscore the need for an identification strategy that captures exogenous shocks to operational autonomy. This paper seeks to fill that gap by exploiting a novel cross-country dataset of central bank governor transitions to assess the causal fallout from political pressures to central bank policy.

Our approach needs to overcome two main empirical challenges. The first is to identify threats to central bank independence in our dataset of governor transitions. We collect announcement dates of exits and appointments and consult biographies and newspaper articles reporting on the transitions to understand the reasons for the exit of a governor and appointment of a successor. This process forms the basis to classify transitions into politically motivated and non-politically motivated. Note that anticipation effects would

[1] Alesina and Stella [2010] and Fernández-Albertos [2015] provide surveys.

bias our estimates towards zero.

A second challenge lies in separating the impact of political pressure on central bank credibility from governments' preferences for less strict inflation targeting or even unorthodox monetary policies. We study the effects of politically motivated transitions and tenures on inflation expectations, which can be tied more directly to central bank credibility, as well as changes in economic forecasters' perceived Taylor rule coefficients on inflation, as a gauge of shifts in the determination to keep inflation close to target. We also classify central bank governors according to whether they are 'orthodox', i.e. deploying conventional monetary policy instruments and sticking to a tight separation between monetary and fiscal policy, or 'unorthodox', i.e. favoring unconventional tools and willingness to coordinate with fiscal authorities.

Our dataset spans 2000 to 2024 and covers 132 governor transitions in 28 countries, 11 advanced economies and 17 emerging markets, covering 70 percent of GDP and 47 percent of global population in 2024.[2]

Three new stylized facts emerge from the new dataset. First, politically motivated transitions tend to be concentrated in a handful of countries. Most advanced economies in our dataset do not experience politically motivated transitions. At the same time, there are four EMs with at least three quarters of transitions classified as politically motivated. Second, governors appointed in politically motivated transitions are more likely to be unorthodox and have credentials that can be seen as less technocratic than governors appointed in non-politically motivated transitions. This suggests that governments that apply political pressure are more likely to prefer unorthodox monetary policy. Third, long-term inflation expectations are less well anchored in countries with more frequent politically motivated transitions: they exceed targets by about 1 percent where such transitions are the majority, and by over 2 percent where they are the norm. Expectations remain close to target in countries without political transitions. No such relationship is found with *de jure* measures of central bank independence [Romelli, 2024].

Moving from stylized facts, we establish two types of associations between outcomes and the tenure of politically appointed governor. First, we establish that realized inflation, short and long-term inflation expectations are higher under governors appointed with political motivations, even when including country and time fixed effects and particularly so for unorthodox political appointees. Inflation volatility, both realized and expected, is also larger under politically appointed governors. Second, by estimating perceived Taylor rules, we find that professional forecasters expect politically appointed governors to have a lower sensitivity to inflation when setting the policy rate, particularly for the case of

[2]GDP and population are from IMF WEO. Note that Euro area includes all euro area countries.

unorthodox governors.

We assess the dynamic impact of politically motivated governor transitions on a range of macro outcomes. Our approach needs to address selection bias: governments that undermine central bank independence may do so in response to evolving macroeconomic risks that independently drive inflation and other outcomes [Romelli, 2024, Crowe and Meade, 2007, Dreher et al., 2008]. We use local projection based difference-in-differences (LP-DiD) that explicitly control for macroeconomic pre-trends and selection on observables. We find that following the announcement of a politically motivated governor transition nominal and real short rates decline and expected and realized inflation rise. At the same time, real GDP growth accelerates. These effects are again sharper and more statistically robust for politically motivated transitions in which the incoming governor is unorthodox, but are still broadly present for the case of an incoming orthodox governor.

Finally, we examine how long-term inflation and growth expectations change after different types of transitions. Given the limited availability of long-term expectations data which renders LP-DiD unfeasible, we use the synthetic control method (SCM) to create control observations for each governor transition. Following a politically motivated transition in which an unorthodox governor is appointed, long-term inflation expectations rise by [0.5 to 1] percentage points in the two years after the appointment. Inflation expectations remain unchanged following non-politically motivated transitions and politically motivated transitions in which an orthodox governor is appointed. We do not find any evidence that long-term growth expectations change following any of the transitions.

Taken together, these results suggest political interference alone leads to a short-term inflation-growth trade-off, with higher growth coming at the expense of higher inflation, even when the incoming governor has technocratic credentials and adheres to an orthodox monetary policy framework. This could be explained by political interference creating the perception that future interferences will be more likely. However, outcomes are markedly worse when the incoming governor is unorthodox. In these cases, we observe reduced credibility, in the form of higher long-term inflation expectations, and increased dovishness, in the sense of having policy rates become less reactive to inflation developments, with positive, albeit noisy, effects on output in the short run. In this regard, it seems incoming orthodox governors face better inflation-growth trade-offs. The appointment of unorthodox governors, on the other hand, seems to be perceived as a negative credibility shock that raises expected long-term inflation without improving expected long-term growth.

Related literature. The literature studying *de jure* measures of central bank inde-

pendence finds that that these measures are associated with lower, and often less volatile, inflation, a regularity documented in early cross-country studies [e.g., Grilli et al., 1991, Cukierman et al., 1992, Alesina and Summers, 1993]. However, estimated effects depend importantly on index construction, sample selection and aggregation rules [Eijffinger et al., 1998]. This paper exploits a novel cross-country dataset of central-bank governor transitions as sudden, exogenous shocks to operational autonomy to identify the causal effects of undermining central-bank independence.

An empirical literature has characterized central bank governors and their appointment patterns. Romer and Romer [2004] highlight the importance of the appointment of governors for policy success in the United States. Göhlmann and Vaubel [2007] and Ehrmann and Fratzscher [2011] document differences in preferences of politicians and central bankers for inflation and output stabilization. Vuletin and Zhu [2011] decompose the standard central bank governor turnover rate into two components — premature removals and replacement by government allies — and show that only these politically motivated forms of turnover raise inflation, while routine, end-of-term replacements, do not. Ennser-Jedenastik [2014] find that governors affiliated with the political party in power have longer tenures. Mishra and Reshef [2019] find that the professional experience of central bankers matters for their preferences for financial deregulation, while Malmendier et al. [2021] show that personal experiences of inflation influence the policy leanings of central bankers. Ioannidou et al. [2022] find that appointments of governors have become increasingly politically motivated. These studies primarily describe the nature and correlates of governor transitions rather than the causal macroeconomic impacts of politically driven removals. We instead estimate how such turnover influence market perceptions, monetary policy and macroeconomic outcomes, as well as the degree to which these effects are mediated by the type of governor appointed during the politically motivated transitions.

Recent empirical work has used quasi-exogenous variation to study the impact of political interference in the United States. Drechsel [2024] develops a narrative identification strategy based on President Nixon's pressure on Fed Chair Burns., while Bianchi et al. [2023] exploit high-frequency variation from President Trump's tweets that criticize the Federal Reserve to study the impact on financial markets. Yet these studies necessarily rely on proxies for political pressure that may mask the timing, intensity, and direct channels through which interference operates. Binder [2021] studies how an increase in reported political pressure in market intelligence reports is associated with higher and more persistent inflation. In parallel work, Qureshi and Ahmad [2026] analyze the impact of governor turnover on macroeconomic outcomes using a quarterly panel for a longer time period

and wider group of countries. Our analysis leverages a new panel of observable, politically motivated governor removals. These events permit precise estimation of the short- to long-term transmission of political shocks to policy and inflation, including by exploiting forecaster-level data to assess changes in central bank credibility.

The theoretical case for central bank independence rests on the insight that monetary policy is prone to higher inflation when conducted by governments with short time horizons. Barro and Gordon [1983a] formalized this in their time-inconsistency framework: because governments face electoral incentives to engineer output expansions, they will systematically promise low inflation but then renege ex post, exploiting the short-run Phillips curve trade-off. Rational private agents anticipate this, so inflation expectations and realized inflation end up inefficiently high in equilibrium, even without any real output gains. This is the canonical "inflation bias" result. Rogoff [1985] offered an institutional remedy: delegating monetary policy to a "conservative" central banker who places more weight on price stability relative to output than society does can credibly reduce the inflation bias. More recently, Afrouzi et al. [2024] highlight how political economy factors can impact long-run inflation. Clayton and Schaab [2025] show that delegating a time-varying inflation target to a central bank with private information about structural shocks can implement the full-information commitment allocation. Svec and Tortorice [2025] show that political pressure can impact inflation expectations even at formally independent central banks, as households infer capture when rates align too closely with government demands. Empirical tests of commitment and independence mechanisms remain scarce. In this paper, we fill that gap by directly assessing the predictions of these theoretical models using real-world examples.

The rest of this paper is structured as follows. In Section 2. we introduce our new dataset on central bank governor transitions and summarize new stylized facts on governor transitions. Section 3. presents associations between the nature of governor tenures and outcomes and perceived Taylor rule estimates, and causal evidence of the effects of announcements of politically motivated transitions using local projections based on differences-in-differences. Section 4. concludes.

2. Data and Stylized Facts

This section describes the new dataset of central bank governor transitions and profiles of governors, and presents stylized facts.

2.1. Description of dataset on central bank governor transitions

The data covers all governor transitions in the period from 2000 to 2024 for 28 central banks,[3] including 11 advanced economies (AEs) and 17 emerging markets (EMs). The new dataset consists of four main parts: (i) a classification of transitions into politically and non-politically motivated; (ii) the timing of each transition, (iii) governor profiles; and (iv) a classification of whether the incoming governor was orthodox or unorthodox. We describe each in turn in the next subsections.

2.1.1. Defining politically motivated governor transitions (PMTs)

Defining politically motivated transitions involves judgment. A clear case of a politically motivated transition is when there is pressure from the executive on what policy to conduct. Other cases are less clear-cut. For example, a removal may seem politically motivated when a scandal erupts around a governor's personal life, which leads to a removal that does not follow usual procedures.

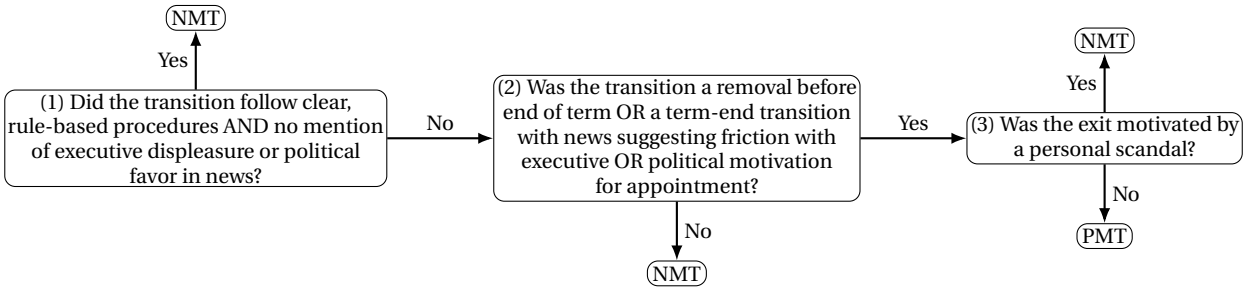
In this paper we define governor transitions as politically motivated by following two sets of criteria, with the second involving significant judgment. First, we exclude all transitions where exits follow clear, rule-based procedures and and there is no mention of displeasure with the incumbent or particular political favor with the incoming governor in contemporaneous news sources leading up to the removal and/or appointment.[4] Second, for the remaining transitions — those that were either removals before the end of the term, or those that were at the term-end but where some mention of frictions with the executive were mentioned in news or for cases in which news about the incoming governor suggest a politically-motivated appointment—, all three authors independently read the news for the transitions in question to ascertain the motive for the exit of the incumbent or the appointment of the incoming governor. Transitions in which all authors agreed

[3]Argentina, Australia, Brazil, Canada, Chile, Colombia, Czech Republic, the Euro area, Hungary, India, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Norway, Peru, Philippines, Poland, Russia, Switzerland, Thailand, Turkey, Ukraine, the United Kingdom, the United States and Venezuela.

[4]The primary source of news is https://www.centralbanking.com, which systematically reports on governor transitions for a wide group of countries and often profiles both the outgoing and incoming governors. These news were at times supplemented with news reported by Bloomberg and the Financial Times when limited information was available from centralbanking.com.

were motivated by personal scandals were removed, leaving those that were motivated by short-term political considerations, which we classified as politically-motivated transitions (PMTs). All other transitions were classified as non-politically motivated (NMTs). This process is summarized in Figure 1.

Figure 1: Decision tree for classifying governor transitions



A clear example of a politically motivated transition is when the predecessor is forced to resign due to political pressure. In Argentina (2015); "Macri [executive, BMT] has said Vanoli [predecessor, BMT] isn't qualified to hold the post and has nominated Federico Sturzenegger [incoming, BMT] to replace him."[5]. Another clear case is when the newly appointed governor is a political ally to the executive. In Argentina (2023), "Argentina's President-elect Javier Milei picked an ally of his future economy minister to lead the nation's central bank, with the mission to help find a solution for a pile of local-currency debt, lift currency controls and possibly introduce the dollar as an alternative to the peso in the future." [6].

In more nuanced cases the announcement itself does not necessarily contain evidence of political pressure on the predecessor's conducted policy or the newly appointed governor being an ally, but articles in the months prior to the transitions reveal political pressure. An example is India (2016); "Over the last two decades, all governors of the Reserve Bank of India have been granted two-year extensions, after they completed their initial three-year terms. But in recent weeks, Mr Rajan had been publicly attacked [...]. The attacks (...) were seen as reflecting strong opposition to Mr Rajan [...]."[7]

Cases of non-politically motivated transitions usually follow a clear rule-based procedures. In these cases it is common that the last day in office for the predecessor is announced well in advance, and that closer to the transition – but still in advance – the newly appointed governor is announced. As mentioned, there are instances of governors resigning, both by choice or pressure, following a scandal. In Switzerland (2012); "Jordan

[5]Bloomberg, December 9, 2015.
[6]Bloomberg, December 5, 2023.
[7]Financial Times, June 18, 2016.

[vice-governor at the time, BMT], 49, became interim SNB chief when Hildebrand stepped down under a cloud created by his wife's purchase of $504,000 in August, weeks before the cap was introduced."[8]. And in Turkey (2024); "Ms. Erkan's [...] had been stalked by rumors since a Turkish newspaper reported that her father, who has no official role at the bank, had intervened in its operations, an accusation that the bank denied."[9]. The two examples are not defined as a politically motivated transitions because the resignations are not related to a political motivation to change the policy of the central bank. [10]

Relatedly, Ioannidou et al. [2022] proposes using the definition of an appointment of central bank governor as when an executive appoints a candidate that is more likely to be loyal to the executive, rather than committed to the central bank's mandate. Moser and Dreher [2010] and Dreher et al. [2008] define irregular turnovers as when the government interferes with the replacement procedure. The definition used in this paper includes motivation for new appointment as well as motivation for end of predecessor. Considering motivations surrounding the incoming governor is important, because even in the presence of a removal, it may be that the newly appointed governor is well respected and there is no mention of political motivation. Vice versa, it may be that the outgoing governor exits at the end of her term through completely normal processes (e.g. due to a binding term limit), but the substitute is chosen based on political considerations.

2.1.2. Timing of transition

We hand-collected announcement dates on both outgoing and incoming governors. Announcement dates are the earliest date listed among international sources (Bloomberg, Financial Times and Centralbanking.com) and local newspapers.

In addition we have also hand-collected the exact dates for last and first day in office, where the primary source was the central banks own website, complemented when missing by information in the news from the same sources above.

2.1.3. Governor profiles

Data on the profiles of governors was hand-collected and includes name, date of birth, gender, citizenship(s), education (major and level of degree), if education is from a foreign country, main work background before appointment (academia, central banking, policy, politics, private sector), if the candidate was promoted from within central bank, if the candidate is connected to executive through family or political party, if candidate is a

[8]Bloomberg, July 5, 2012.
[9]New York Times, February 3, 2024.
[10]This is reaffirmed by the fact that in both cases, the governor was succeeded by the deputy governor.

part of a political party, if candidate was a minister prior to appointment and if candidate worked at other central bank or international financial institutions before appointment.

2.1.4. Unorthodox and Orthodox

To categorize governors as unorthodox or orthodox, we follow the following procedure. First, we create a taxonomy of what it means to be unorthodox or orthodox. Broadly, we consider a governor orthodox if she sticks to conventional instruments, prefers rule-like policy frameworks (e.g., inflation targeting), and maintains a tight separation between monetary and fiscal policy. Unorthodox governors are more likely to favor unconventional tools, display a looser adherence to traditional rules, and showcase a willingness to experiment or coordinate with fiscal authorities. Table 1 contains details on the taxonomy. We then use AI tools to collect newspaper articles that contain mentions of the governor's profile that fit the taxonomy. Based on these newspaper articles, we classify each governor according to the categories.

2.2. Stylized facts on governor transitions

Figure 2 shows the number of governor transitions from 2000 to 2024, splitting politically motivated transitions (red bars), and not politically motivated (blue bars). Transitions appear reasonably uniformly distributed across time.

Table 2 gives further details about the full sample of transition and shows that 38 percent of all transitions were politically motivated, and that almost 50 percent of all transitions in emerging markets were politically motivated, while this was only the case for less than 15 percent of transitions in advanced economies. The table also separates orthodox and unorthodox governors. The vast majority are classified as orthodox. In contrast, among unorthodox governors, more than 60 percent of transitions are politically motivated.

Stylized fact 1: politically motivated transitions are concentrated

Figure 3 shows the share of politically motivated transitions per country in descending order, showing emerging markets in green and advanced economies in purple. Politically motivated transitions are more prevalent in emerging markets, and highly concentrated in some countries. At the top left of the figure there are four countries where at least 75 percent of all transitions were politically motivated. That politically motivated transitions are concentrated is not surprising. A large variation in central bank governor turnover across countries is well documented [e.g., Dreher et al., 2008, 2010] emphasize that high

Table 1: Definitions of orthodox and unorthodox governors

	Orthodox	Unorthodox
Broad definition	An orthodox governor sticks to conventional instruments, rule-like policy frameworks (e.g., inflation targeting), and tight separation between monetary and fiscal policy.	An unorthodox central bank governor favours unconventional tools, looser adherence to traditional rules, and a willingness to experiment or coordinate with fiscal authorities
Mandate	Focuses narrowly on price stability (and sometimes employment) and follows a clear reaction function	Interprets the mandate more flexibly (e.g., broader macro-financial stability, growth, or employment priorities).
Toolkit	Conventional (short-term policy interest rate, reserve requirements, standard lender-of-last-resort operations)	More likely to prefer unconventional (Quantitative easing, negative rates, forward guidance beyond typical practice, yield-curve control, direct credit programs, temporary direct financing or quasi-fiscal operations)
Independence	Maintains institutional independence and avoids financing the government.	More willing to coordinate with or tolerate fiscal financing/credit-lines if needed to meet goals
Communication & rules	Emphasizes transparent, rule-like communication (e.g., inflation targets, Taylor-rule style signalling).	May use experimental rhetoric, conditional promises, or discretionary messaging aimed at changing expectations in novel ways
Risk attitude	Cautious about long-term balance-sheet and moral-hazard risks; prefers temporary, well-specified measures.	Willing to accept larger balance sheets, higher risk or temporary side-effects to achieve macro goals.

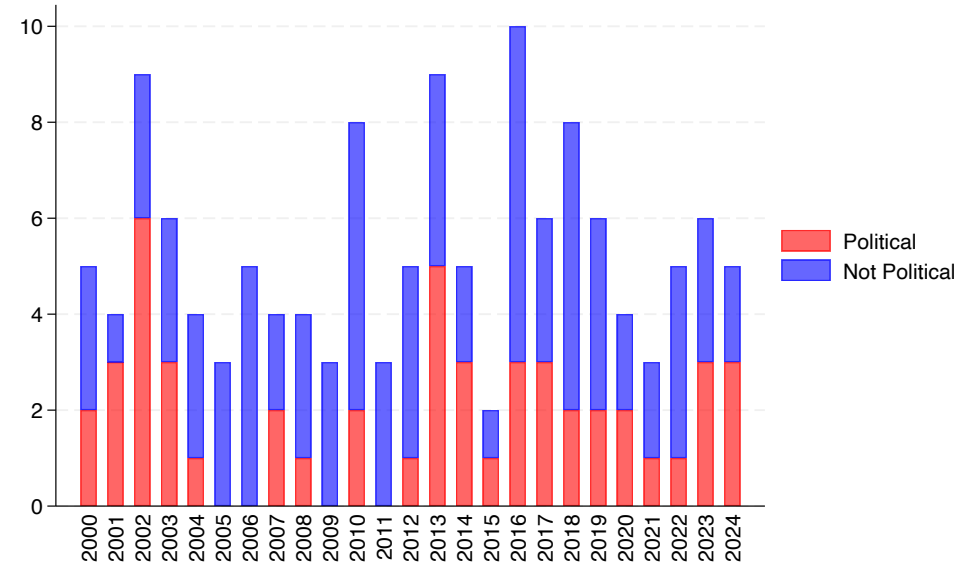
Notes: This table reports the definitions used to classify governors into orthodox and unorthodox types.

Table 2: Summary statistics of transitions

	Politically motivated	**Routine transition**	**All**	**Share politically motivated**
Full sample	50	82	132	38 %
EM or AE				
Emerging markets	45	48	93	48 %
Advanced economies	5	34	39	13 %
Orthodox or unorthodox				
Orthodox	32	72	104	31 %
Unorthodox	18	10	28	64 %

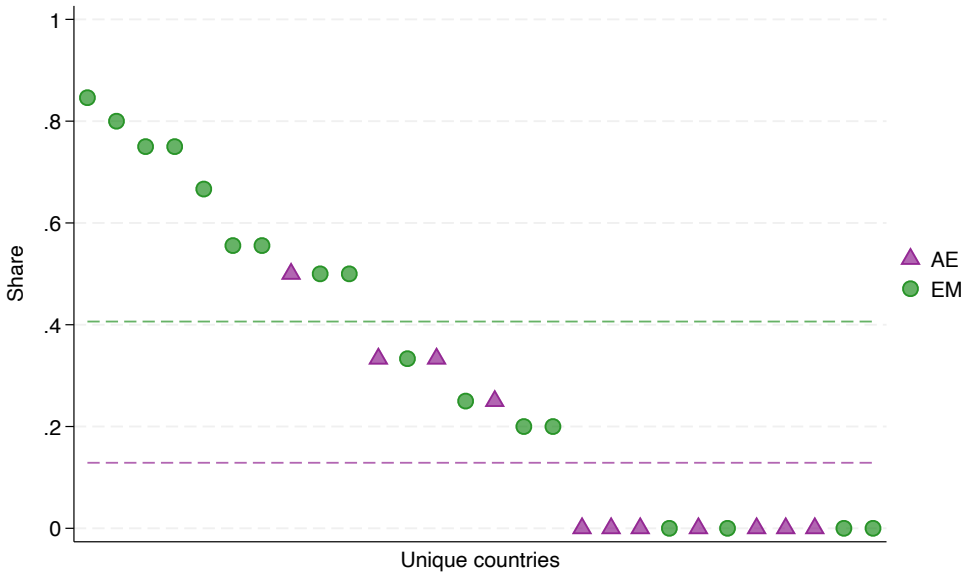
Note: Share of politically motivated shows share of **All**, for each row.

Figure 2: Number of governor transitions



governor turnover strongly correlates with political and regime instability, as well as high inflation. Moreover, Bodea and Garriga [2023] study the Latin American region and show show that irregular turnovers are more frequent than regular ones in the area.

Figure 3: Share of politically motivated transitions, by country



Note: Dashed lines show average for advanced economies and emerging markets, 2000 to 2024.

Figure 3 also shows that 17 (out of 28) countries experience at least one politically mo-

tivated transition during the period 2000 to 2024, with 13 (out of 17) in emerging markets and 4 (out of 11) in advanced economies. At the right bottom are eleven countries that only experience non-politically motivated transitions during 2000 to 2024, with 7 in advanced economies and 4 in emerging markets.

Stylized fact 2: politically motivated transitions are more likely to result in a governor with less technocratic credentials

Table 3 presents the profiles of incoming governors, split by whether transitions were politically motivated or not. The main background of incoming governors seems to depend on the nature of the transition. For the incoming governor during a politically motivated transition, the most common backgrounds are central banking and policy both at 32 percent, and then notably private sector, with politics and academic backgrounds being rare. In contrast, for incoming governors during non-politically motivated transitions, the main background was central banking (56 percent), followed by policy (30 percent), with politics, private sector and academia having small shares. So incoming governors in politically motivated transitions are much more likely to come from the private sector, slightly more likely to have a politics background, and much less likely to have a central banking background.

Moreover, 34 percent of all incoming governors in politically motivated transitions had a PhD, while 60 percent had it in the case of non-politically motivated transitions. The share of governors with an education from another country is lower for politically motivated transitions. For all transitions the most common degree is in economics.

Another trait for politically motivated transitions is that half of all incoming governors was a party member in the past, and 30 percent a party member when starting their term. Moreover the share of incoming governors being promoted within the central bank is lower for politically motivated transitions, 30 percent versus 52 percent, but the share of incoming governors that held a minister position before appointment is relativity similar across political and non-politically motivated transitions, 22 versus 18 percent. The orthodox and unorthodox classification shows that 36 percent of politically motivated transitions resulted in an unorthodox governor, compared to just 12 percent among non-politically motivated transitions.

Table 4 also shows the correlation between the binary categorization of politically motivated with several characteristics. The correlation is particularly positive (larger than 0.2) for being a former and current member of political party, for a main background in politics and the private sector, for having a degree in law and for being unorthodox. It is particularly negative for having a background in central banking, for having a PhD, for

having a degree in economics, and for being promoted inside the central bank.

Table 5 contains the average tenure of outgoing governors by type. Tenures of governors that leave during a politically motivated transition are substantially shorter (3.4 years on average) than the tenures of governors that step down during a non-politically motivated transition (6.1 years on average). Unorthodox governors have shorter tenures (4.3 years) than orthodox governors (5.3 years), although this difference is small. But after conditioning on the type of transition, this difference disappears, suggesting that political pressure, rather than the type of governor is more important. These patterns are in line with an earlier literature that used actual governor turnover rates (especially when more frequent than the "expected" one per term) as a proxy for political independence, arguing this measure is better than de jure measures on independence [Cukierman et al., 1992].

Highlighting the importance of governors and their characteristics is an emerging literature. Chappell Jr et al. [1995] use voting records from FOMC meetings, showing that experience from the Federal Reserve, and other government occupation, is associated with a stronger preference for monetary ease. This correlation is also supported by Malmendier et al. [2021], showing that FOMC board members personal experiences significantly affect the forecasts and voting behavior. Göhlmann and Vaubel [2007] also find that past occupation as well as education matters for a wide range of advanced economies, and find that governors with experience from the central bank have a stronger preference for lower interest rates, relative to governors who was a politician before becoming governor. Mishra and Reshef [2019] study characteristics in relation to financial regulation and find a strong correlation between prior financial sector experience and greater financial sector reforms.

Stylized fact 3: prevalence of politically motivated transitions correlates with poor macroeconomic performance but not with de jure independence

Figure 4 shows that long-term inflation expectations hover close to inflation targets in countries with more frequent politically motivated transitions, and on the contrary long-term inflation expectations exceed the target in countries with a majority of politically motivated transitions, particularly if the share of politically motivated transitions is above 50 percent. Interestingly, no relationship is found between de jure measures of central bank independence of Romelli [2024] and the share of politically motivated transitions or the extent to which inflation expectations exceed the target.

Existing indices of central bank independence focus almost exclusively on de jure measures [e.g., Romelli, 2024, Garriga, 2025], which rely on institutional design rather than actual practice. At the same time, revisions to legal instruments often mask more immediate

Table 3: Characteristics of incoming governors

	Politically motivated	Routine transition	% political	% routine
Main background before appointed				
Academia	0	6	0	7
Central banking	16	46	32	56
Policy	16	25	32	30
Politics	6	1	12	1
Private sector	12	4	24	4
Level of education				
PhD	17	50	34	60
Foreign education	27	60	54	73
Degree major				
Business	15	21	30	25
Economics	35	69	70	84
Law	6	1	12	1
Position before appointed				
Promoted	15	43	30	52
IFI	11	26	22	31
Minister	11	15	22	18
Political at start	15	4	30	4
Political before	25	15	50	18
Orthodox or unorthodox				
Unorthodox	18	10	36	12

Note: Main background before becoming governor are mutually exclusive and hence sum to 1. Additional columns are not.

Table 4: Correlation incoming governor after politically motivated transition

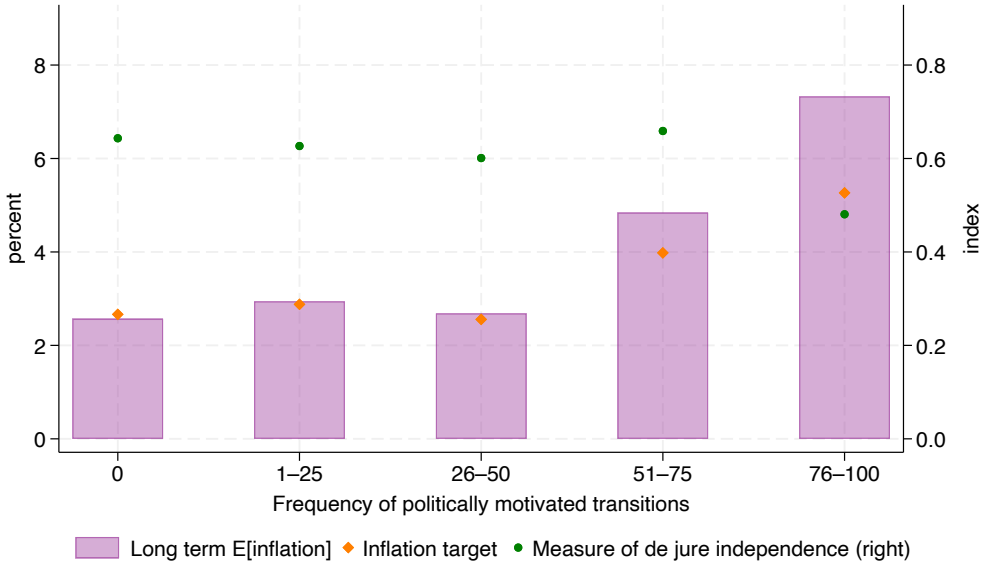
	Politically motivated transition
Academia	-0,18
Central banking	-0,24
Policy	0,07
Politics	0,23
Private sector	0,24
PhD	-0,23
Foreign Education	-0,19
Economics	-0,21
Business	0,01
Law	0,23
Promoted	-0,24
Minister	0,03
IFI	-0,13
Political party, before	0,33
Political party, now	0,35
Unorthodox	0,28

Note: correlation between politically motivated dummy and categorical dummy. The correlation between routine transition is same magnitude with opposite sign.

Table 5: Average tenure of outgoing governors (years)

	Average tenure (years)
All	5.1
Politically motivated (PMT)	3.4
Routine (NMT)	6.1
Unorthodox	4.3
Orthodox	5.3
PMT × Unorthodox	3.2
PMT × Orthodox	3.6
NMT × Unorthodox	6.6
NMT × Orthodox	6.1

Figure 4: Inflation targets, expectations, and de jure central bank independence

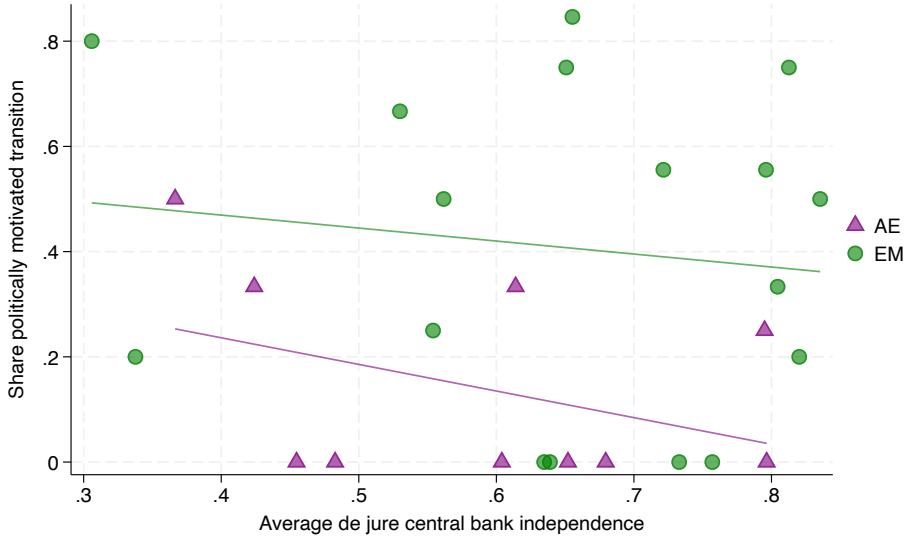


Note: bars show the mean of five-year-ahead inflation expectations, orange rectangles the mean inflation target, and green circle the mean de jure central bank independence from Romelli [2024]. Countries are grouped into bins based on their share of politically motivated transitions from 2000 to 2024.

informal changes in operational autonomy [Ioannidou et al., 2022]). Figure 5 shows the de jure central bank independence measure from Romelli [2024] against the share of politically motivated transitions. Interestingly, the correlation between the measures is very low, indicating that de facto and de jure independence differ.

The vague correlation between de facto and de jure independence is also documented by Ioannidou et al. [2022], who show that the prevalence of reforms enhancing operational independence is associated with an increase in politically motivated appointments of central bank governors. Moreover, they show that politically motivated appointments imply less *de facto* central bank independence.

Figure 5: Share of politically motivated transitions and CB independence de jure measure



Note: De jure central bank independence measure from Romelli [2024] and shows average, 2000 to 2024. Fitted line demonstrates correlation.

3. Macroeconomic Effects

This section studies how macroeconomic outcomes relate to governor transitions. it describes: (i) the monthly dataset used throughout the section; (ii) simple associations between outcomes and governor tenures; (iii) estimates of perceived Taylor rules across governor tenures; and (iv) outcomes following politically motivated transitions estimated using Difference-in-difference local projections (LP-DiD).

3.1. Monthly data

Using announcement dates, the governor transitions data described in the previous section is matched with monthly macroeconomic data. This includes realized inflation, short rates (3 month maturity), long rates (10 year maturity), GDP growth rates, and exchange rates vis-à-vis the dollar.

In addition we take forward-looking expectations from Consensus Economics, which are collected once a month.[11] Expectations cover: for short rates, 3 and 12 months ahead, for the exchange rate, 3, 12 and 24 months ahead, as well as current and next year expectations for inflation, and real GDP growth. Long-term inflation expectations for 5 and 10 years ahead are also included, however these are available at a lower frequency; biannually until 2014, and quarterly from 2014. This makes them unsuitable for the LP-DID analysis. See Appendix Table A2 for unit and sources.

Note that expectations for inflation and GDP growth are for the current calendar year and the next. These so called "fixed-event" forecasts are transformed into forecasts for the next 12 months using a geometric transformation of the current-year and next-year annualized forecasts. Specifically, we apply the current-year forecast for the $(12month + 1)$ months remaining in the calendar year and the next-year forecast for the $(month - 1)$ months thereafter, and map the resulting 12-month factor back into a percent rate to obtain the 12-month-ahead forecast:[12]

$$\pi_t^{12m} = 100 \times \left[\left(1 + \frac{\pi_t^{\text{current year}}}{1200}\right)^{12-month+1} \times \left(1 + \frac{\pi_t^{\text{next year}}}{1200}\right)^{month-1} - 1\right]$$

[11] Reports are published on the second or third Monday of the month.

[12] We use a geometric mean, rather than a weighted mean [e.g., Dao et al., 2024], because our sample contains observations with high inflation rates for which the weighted mean is a poor linear approximation.

3.2. Performance gaps: simple associations between outcomes and governor tenures

We start by presenting descriptive evidence on the associations between the types of governor transition, the governor profiles, and macroeconomic outcomes. These associations are presented in the form of *performance gaps*, i.e. the difference in macroeconomic outcomes between different types of governors.

Inflation performance. First, we test for performance gaps in terms of inflation performance. We present the average actual inflation rate and inflation expectations during the tenure of different types of governors. To account for persistent inflation differences across time periods and countries, we also present these including time and country fixed effects. Specifically, we estimate the panel specification:

$$Y_{igt} = \beta TenurePMT_{igt} + \alpha_t + \alpha_i + \epsilon_{igt} \tag{1}$$

where Y_{igt} is the outcome variable for country i, governor g during month t. $TenurePMT_{igt}$ is a dummy equal to one if the governor was appointed during a politically motivated transition, and α_t and α_i are time and country fixed effects. β captures the performance gap between politically motivated transitions (PMT) and non-politically motivated transtions (NMT) governors.

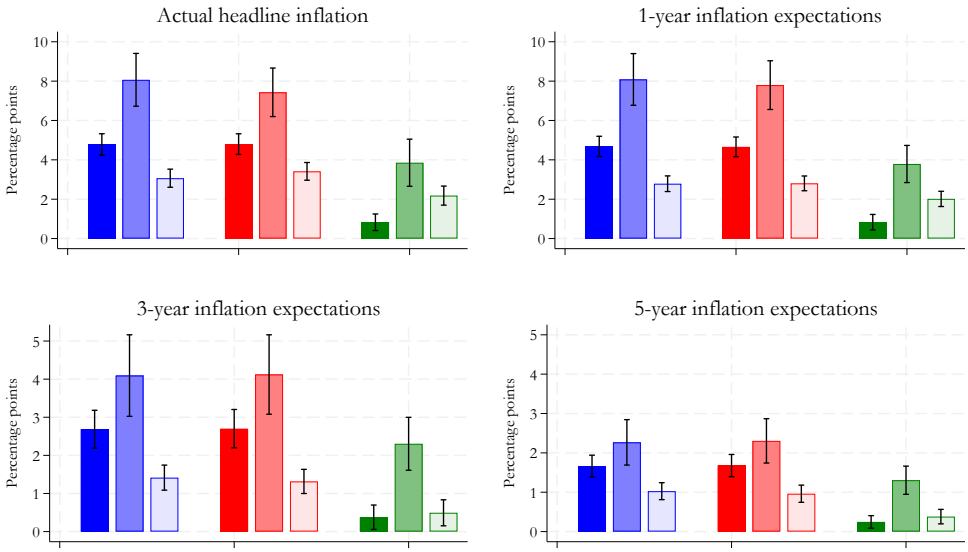
In addition, we explore what type of PMT governor, orthodox or unorthodox, drives the performance gaps. We estimate:

$$Y_{igt} = \beta_u TenurePMT^u_{igt} + \beta_o TenurePMT^o_{igt} + \alpha_t + \alpha_i + \epsilon_{igt} \tag{2}$$

where $TenurePMT^u_{ig,t}$ and $TenurePMT^o_{ig,t}$ are dummies equal to one if the PMT governor is considered unorthodox or orthodox (see definitions in Section 2.). β_u and β_o capture the performance gap between these types of PMT governors and NMT governors.

The results are presented in Figure 6. Under PMT governors, countries experience higher actual inflation, short- and long-term inflation expectations compared to tenures of NMT governors. This holds for the unconditional performance gaps in blue (no fixed effects), the performance gaps relative to the time average in red (using time fixed effects only), and relative to country and time averages in green (using both country and time effects). The differences are particularly stark for PMT governors that are considered unorthodox (middle bars within each color group).

Figure 6: Performance gap: inflation outcomes



Note: blue = unconditional gap; red = gap relative to time average; green = gap relative to time and country average. Solid fill = all PMT; medium fill = unorthodox; light fill = orthodox. Whiskers correspond to 90 percent confidence intervals using robust standard errors.

To study differences in terms of volatility of outcomes, we define:

$$Y_{igt}^{V} = (Y_{igt} - \bar{Y}_{ig})^2 \tag{3}$$

where $\bar{Y}_{ig}$ is the mean of the outcome variable for a governor. This ensures that the performance gap corresponds to differences in the variance of the outcome variable between governors. We rescale coefficients by taking the square root.

Figure 7 shows that inflation and inflation expectations are more volatile during tenures of governors that are appointed in politically motivated transitions compared to governors appointed in non-politically motivated transitions. Again, these performance gaps are particularly pronounced for PMT governors that are considered unorthodox.

Finally, we consider whether the performance of governors differ relative to their predecessor. We estimate:

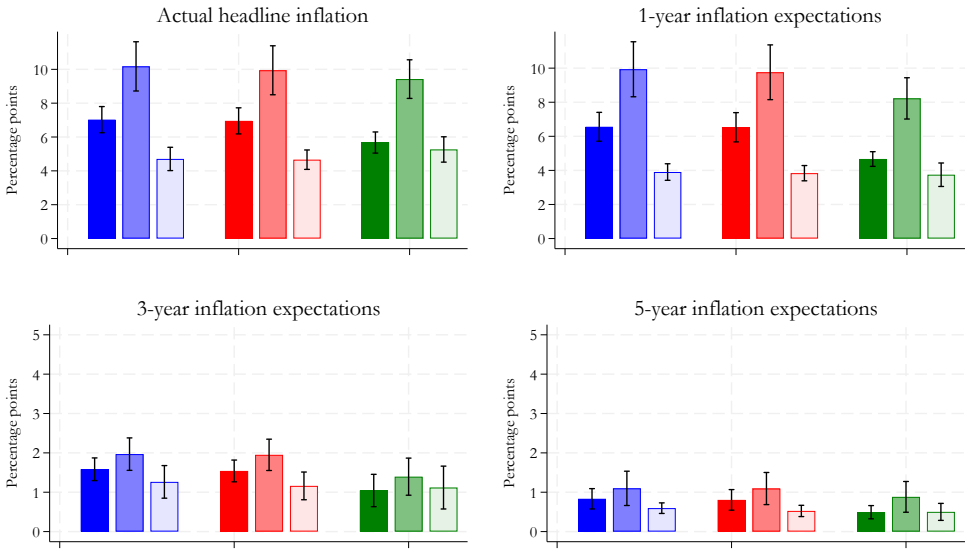
$$\Delta\bar{Y}_{ig} = \beta TenurePMT_{ig} + \epsilon_{ig} \tag{4}$$

and

$$\Delta\bar{Y}_{ig} = \beta_u TenurePMT_{ig}^{u} + \beta_o TenurePMT_{ig}^{o} + \epsilon_{ig} \tag{5}$$

where $\Delta\bar{Y}_{ig}$ is the difference between the average outcome variable for governor g in country i relative to the average for its predecessor.

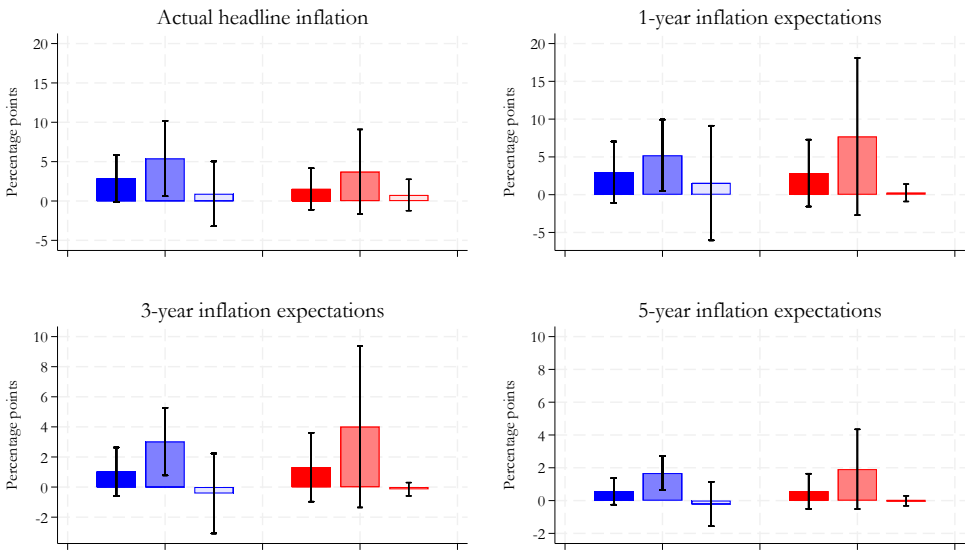
Figure 7: Performance gap: volatility of inflation outcomes



Note: blue = unconditional gap; red = gap relative to time average; green = gap relative to time and country average. Solid fill = all PMT; medium fill = unorthodox; light fill = orthodox. Whiskers correspond to 90 percent confidence intervals using robust standard errors.

Figure 8 shows that in general outcomes are worse during the tenure of a PMT governor relative to her predecessor, although some of the effects come from PMT governors following other PMT governors. Again unorthodox PMT governors drive the results.

Figure 8: Performance relative to previous governor



Note: blue = uses all transitions; red = restricted to previous governor being NMT. Solid fill = all PMT; medium fill = unorthodox; light fill = orthodox. Whiskers correspond to 90 percent confidence intervals using robust standard errors.

3.3. Perceived Taylor rules across governor tenures

We now estimate perceived monetary policy rules from survey data. We start from the following simple monetary policy rule:

$$\iota_{igt} = r^*_{ig} + \pi^*_{ig} + \phi(\pi_{igt} - \pi^*_{ig}) + u_{igt} \tag{6}$$

where ι_{igt} is the policy rate, r^*_{ig} is the natural rate of interest, π^*_{ig} is the (implicit) inflation target. This type of policy rule arises in the canonical New-Keynesian setup under discretion (see Appendix B). We are interested in the coefficient capturing the monetary policy response to the inflation gap, ϕ, and the extent to which these coefficients differ across governor type. $u_{ig,t}$ is an exogenous monetary policy shock.

Because we do not observe the natural rate of interest nor the inflation target, we estimate a perceived monetary policy rule derived from Equation 6 using forecasters' inflation and interest rate expectations:

$$E_{t-1}\iota_{igt} = \alpha_{ig} + \tilde{\phi} E_{t-1}\pi_{igt} + \tilde{\phi}^{PMT} E_{t-1}\pi_{igt} + u^e_{igt} \tag{7}$$

where we add an interaction term to study whether coefficients differ between PMT and NMT governors.[13] The fixed effects α_{ig} capture governor-specific differences in the implicit inflation target and natural rate. This means here we abstract from potential differences in inflation targets and rather examine whether PMT governors are less hawkish than NMT governors, in terms of keeping policy rates closer to the natural rate for the same movement of inflation around the target.

We report estimates of Equation 7 in Table 6. Forecasters expect PMT governors to have a lower sensitivity to inflation when setting the policy rate. For NMT governors, a one percentage point increase in inflation expectations is associated with [0.73] percentage point increase in the policy rate, whereas this sensitivity is [0.24] percentage points lower for PMT governors. This difference is larger ([0.24] percentage points) for unorthodox PMT governors than orthodox PMT governors ([0.14] percentage points). These results are robust to using the real interest rate rather than the nominal policy rate, controlling for inertia in the policy rate, expected GDP growth, and the expected rate of depreciation of the nominal and real exchange rate.

A potential concern regarding these estimates is that the correlation between the expected monetary policy shocks (u^e_{igt}) and expected inflation differs between PMT and NMT governors, generating a difference in the estimated inflation sensitivities and bias-

[13] Our approach is similar to that of Bauer et al. [2024].

Table 6: Estimates of perceived monetary policy reaction function

	(1)	(2)	(3)	(4)	(5)	(6)
	Expected policy rate	Expected real policy rate	Expected policy rate	Expected policy rate	Expected policy rate	Expected policy rate
Expected inflation	0.734***	-0.266***	0.328***	0.328***	0.339***	0.365***
	(0.0323)	(0.0323)	(0.0503)	(0.0515)	(0.0527)	(0.0556)
PMT x E(inflation)	-0.239***	-0.239***	-0.211***	-0.211***	-0.229***	-0.221***
	(0.0494)	(0.0494)	(0.0650)	(0.0656)	(0.0650)	(0.0655)
Governor FE	Yes	Yes	Yes	Yes	Yes	Yes
Initial interest rate control	No	No	Yes	Yes	Yes	Yes
E[GDP growth] control	No	No	No	Yes	Yes	Yes
E[Δner] control	No	No	No	No	Yes	No
E[Δrer] control	No	No	No	No	No	Yes
Observations	5357	5357	5357	5357	5357	5357
R^2	0.946	0.845	0.969	0.969	0.970	0.970
	(1)	(2)	(3)	(4)	(5)	(6)
	Expected policy rate	Expected real policy rate	Expected policy rate	Expected policy rate	Expected policy rate	Expected policy rate
Expected inflation	0.734***	-0.266***	0.328***	0.328***	0.338***	0.364***
	(0.0323)	(0.0323)	(0.0499)	(0.0512)	(0.0523)	(0.0550)
PMT-u x E(inflation)	-0.241***	-0.241***	-0.214***	-0.213***	-0.230***	-0.223***
	(0.0498)	(0.0498)	(0.0658)	(0.0664)	(0.0656)	(0.0662)
PMT-o x E(inflation)	-0.141**	-0.141**	-0.0976***	-0.0975***	-0.120***	-0.121***
	(0.0577)	(0.0577)	(0.0334)	(0.0335)	(0.0345)	(0.0328)
Governor FE	Yes	Yes	Yes	Yes	Yes	Yes
Initial interest rate control	No	No	Yes	Yes	No	No
E[GDP growth] control	No	No	No	Yes	No	No
E[Δner] control	No	No	No	No	Yes	No
E[Δrer] control	No	No	No	No	No	Yes
Observations	5357	5357	5357	5357	5357	5357
R^2	0.946	0.845	0.969	0.969	0.970	0.970

Notes: XXX ***, **,* denote statistical significance at 1, 5, and 10 percent levels. Robust standard errors in parentheses

ing our estimates. For example, there may be short-term movements in the natural rate (making r_{ig} time-varying within the tenure of a governor) that correlate with expected inflation. Another concern is that central banks with stronger inflation-fighting credentials may be able to look through bouts of inflation compared to less credible central banks [Nakamura et al., 2025]. To address this concern, we exploit a forecaster-level version of equation 7:

$$E_{t-1}\iota^{j}_{igt} = \alpha_{igt} + \alpha^{j}_{i} + \tilde{\phi}E_{t-1}\pi^{j}_{igt} + \tilde{\phi}^{PMT}E_{t-1}\pi^{j}_{igt} + u^{e,j}_{igt} \tag{8}$$

where we index forecasters using j. This allows us to introduce country-governor-time fixed effects $\alpha_{ig,t}$ that control for common beliefs about the time-varying nature of the neutral rate and the implicit inflation target, as well as the monetary policy shock. We add a forecaster-country fixed effect α^{j}_{i} to absorb disagreement among forecasters regarding the country's natural rate and inflation target. Equation 8 ask whether interest-rate forecasts become more compressed relative to the dispersion in inflation forecasts under PMT governors than under NMT governors. This is a very demanding specification as it controls for differences in forecaster-level expected inflation and rates and in average country-governor-time expectations. Thus, we also estimate a version of Equation 8 with only forecaster-country fixed effects.

Table 7: Estimates of perceived monetary policy reaction function (forecaster-level)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	Expected policy rate	Expected policy rate	Expected real policy rate	Expected policy rate	Expected policy rate	Expected real policy rate	Expected policy rate	Expected policy rate
Expected inflation	0.361***	0.219***	-0.781***	0.181***	0.387***	0.222***	-0.778***	0.183***
	(0.0424)	(0.0523)	(0.0523)	(0.0595)	(0.0396)	(0.0530)	(0.0530)	(0.0598)
PMT x E(inflation)	-0.168***	-0.209***	-0.209***	-0.212***				
	(0.0207)	(0.0568)	(0.0568)	(0.0669)				
PMT-u x E(inflation)					-0.199***	-0.213***	-0.213***	-0.216***
					(0.0276)	(0.0575)	(0.0575)	(0.0673)
PMT-o x E(inflation)					-0.0649**	-0.0251	-0.0251	-0.0779
					(0.0284)	(0.132)	(0.132)	(0.141)
Forecaster-country FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Country-time FE	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Initial interest rate control	No	No	No	Yes	No	No	No	Yes
E[GDP growth] control	No	No	No	Yes	No	No	No	Yes
Observations	68447	68182	68182	68182	68447	68182	68182	68182
R^2	0.803	0.965	0.989	0.968	0.807	0.966	0.989	0.968

Standard errors in parentheses

* $p < 0.1$, ** $p < 0.05$, *** $p < 0.01$

Notes: XXX ***, **,* denote statistical significance at 1, 5, and 10 percent levels. Robust standard errors in parentheses

Table 7 confirms that PMT governors are expected to be more dovish, driven by unorthodox PMT governors. The first and fifth columns show results when using forecaster-country fixed effects only. Then, country-time fixed effects are included in columns 2-4 and 6-8.

3.4. Outcomes following governor transitions using LP-DiD

Thus far, we have established an association of PMT governor tenures with worse inflation outcomes and that professional forecasters perceive these governors to be more dovish over their tenure. These associations are particularly stark for PMT governors that are considered unorthodox.

To sharpen identification and establish causality, we turn to measuring outcomes following governor transitions themselves and applying the local projection difference-in-difference (LP-DID) methods of Dube et al. [2025].

In what follows, we describe the treatment structure and assumptions behind the LP-DID, we then estimate the effects on macro outcomes of politically motivated transitions, and the effects splitting politically motivated transitions into orthodox and unorthodox governors.

3.4.1. Treatment structure and LP-DiD assumptions

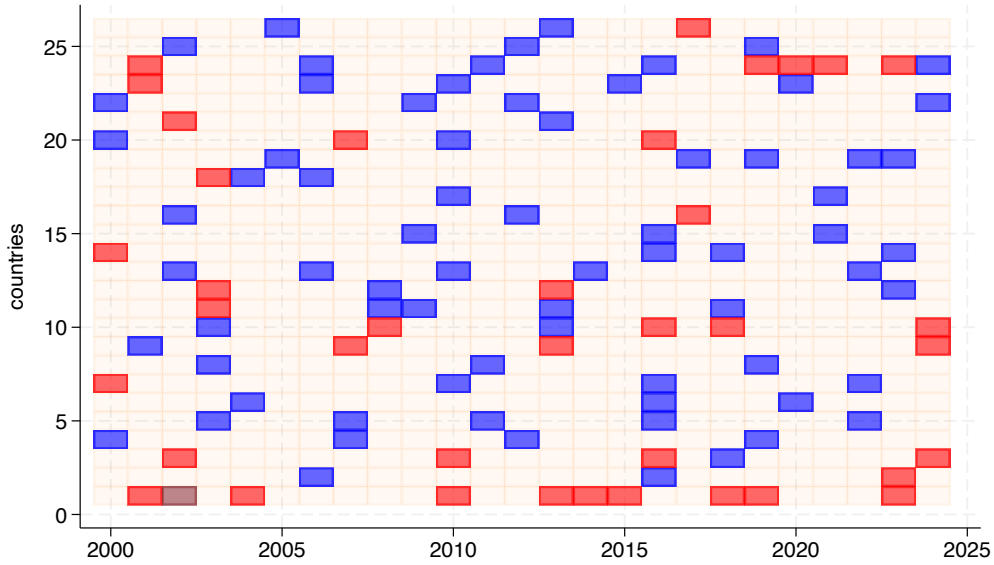
The dataset used here covers 26 countries[14] from 2000 to 2024, with two treatment indicators: a binary measure of a politically motivated transition, and a binary measure of a non-politically motivated transition. The treatment indicator of interest is the binary measure of a politically motivated transition.

Figure 9 displays a heatmap with the treatment structure. For visibility this shows country and year, however we use monthly data. A red cell indicates that a politically motivated transition occurred in that year (vertical) and country (horizontal), while a dark red cell indicates multiple such transitions. A blue cell denotes a non–politically motivated transition, and a beige cell indicates that no transition occurred that year.

In order to estimate the effect of politically motivated transitions we need to consider some features of this environment. First, the treatment is non-absorbing. Countries experience a politically motivated transition in one time period – binary indicator takes on one – however, the following period the binary indicator takes on zero. Although treatment happens in one specific period the effect is dynamic and persists over time. Since countries slide in and out from treatment, as displayed in Figure 9, and likely experienced treatment before the sample starts, there are no strictly untreated units. In order to estimate the effect using a difference-in-differences setting we follow the approach of clean controls introduced by Dube et al. [2025] – intuitively, this restricts the control to countries

[14]Venezuela and Ukraine excluded from this sample, plus we exclude politically motivated transitions that occur when a country has a pegged currency, are participating in a war as well as periods when getting short-term financial assistance (SBA and EFF programs) from the IMF. See Appendix Table A1 for countries and periods.

Figure 9: Treatment structure



Note: the heatmap shows countries (y-axis) per year (x-axis). A red cell indicates that a politically motivated transition occurred in that year, while a dark red cell indicates multiple such transitions. A blue cell denotes a non–politically motivated transition, and a beige cell indicates that no transition occurred that year.

in which the dynamic effects of prior treatment have stabilized. Second, the treatment is staggered, i.e. countries are treated at different points in time, meaning that there is a potential risk for negative weighting problem – using previously treated countries as controls for newly treated countries [see e.g., De Chaisemartin and d'Haultfoeuille, 2020, Callaway and Sant'Anna, 2021]. This will also be addressed by the clean control approach of Dube et al. [2025]. Third, there is a concern about selection into treatment, i.e. a politically motivated transition might be a response to evolving macroeconomic risks that independently drive inflation and other outcomes. Thus, controlling for pre-treatment outcome dynamics is crucial.

Beyond the no parallel trends and no anticipation assumptions that form the basis of the difference-in-difference approach, we also assume that effects stabilize after L periods applying equation (14) in Dube et al. [2025].

Intuitively, assuming stabilization of effects means that the treatment group consists of countries c that experience a one-off treatment at time t, and that there are no other treatments in the surrounding window from a certain number of months before and the horizon months after. The control group consists of countries c that experience no treatment in the same certain number of months before and the same horizon after. The prior window makes sure that the effect of any past shock has stabilized, i.e. ensure that earlier treatments are not affecting the outcome. The rationale for the window ahead is to avoid

contamination by later shocks.

3.4.2. The effect of politically motivated transitions

We consider the following LP-DiD specification for estimating the effect of politically motivated transitions as well as non-politically motivated transitions compared to months without transitions:

$$\Delta_h y_{c,t+h} = \beta_h^P PMT_{c,t} + \beta_h^N NMT_{c,t} + \alpha_c^h + \alpha_t^h + \sum_{l=1}^{3} \gamma_l^h X_{c,t-l} + v_{c,t}^h \tag{9}$$

for $h = 1, ..., 24$. $PMT_{c,t}$ is a dummy variable equal to one if country i experiences a politically motivated transition at time t. $NMT_{i,t}$ is a dummy for non-politically motivated transitions. α_i^h and α_t^h are country- and year-month fixed effects and $v_{i,t}^h$ is the error term. $X_{i,t-l}$ is a vector of controls up to 3 lags, including lagged first differences of outcome variable as well as inflation, GDP growth, log of exchange rate, and short rate.

As noted we study the effect for up to 24 months after the transition. But excluding all countries that experience another transition between t and $t+h$ restricts the sample size to a large degree. Considering this trade-off between having clean treated and clean controls versus statistical power, we include all treated units that experience another transition between t and $t + h$ and control for the lagged outcome dynamics to handle anticipation. For the control group we still restrict to cases with no other transition between t and $t + h$.We assume that the effect stabilizes after 12 months.[15]

We present the results for each horizon assuming heteroskedasticity-robust standard errors. We also present the average effect over the first year (0-12 months), average effect over the second year (13-24 months) and average effect over the two years (0-24 months). Because the estimated coefficients are correlated across horizons, inference on the average effects is based on joint wild bootstrap resampling clustered at the country level confidence intervals.[16,17] We also discuss the existence and significance of pre-trends.

Figure 10 shows that both the short rate and the real rate[18] decline after a politically motivated transition, while for non-politically motivated transitions there is no notable

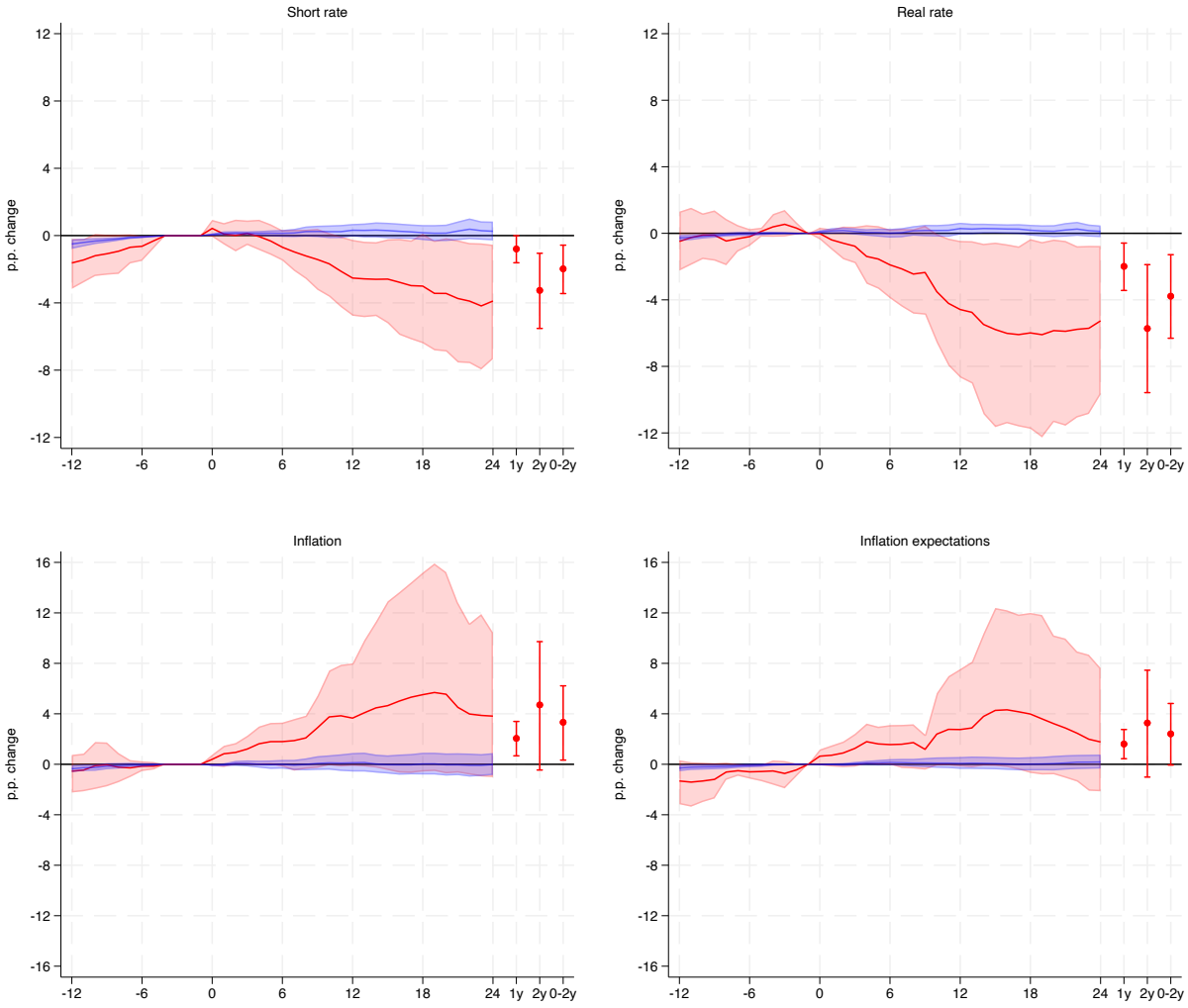
[15]However the results are not particularly sensitive to this assumption.

[16]See Jordà [2023] for an in-depth discussion of joint inference and significance bands in local projections.

[17]Specifically, we implement a country-clustered wild bootstrap with Rademacher weights: after estimating the baseline local projection and storing fitted values $\widehat{y}_{i,t+h}$ and residuals $\widehat{\epsilon}_{i,t+h}$, we draw one weight $w_i \in \{-1, +1\}$ per country, held fixed over time, and construct pseudo outcomes $y^*_{c,t+h} = \widehat{y}_{c,t+h} + w_i \widehat{\epsilon}_{c,t+h}$. We then re-estimate the LP on y^* and compute horizon-specific and average effects in each replication. Confidence intervals are given by the 5th and 95th percentiles of the resulting bootstrap distribution.

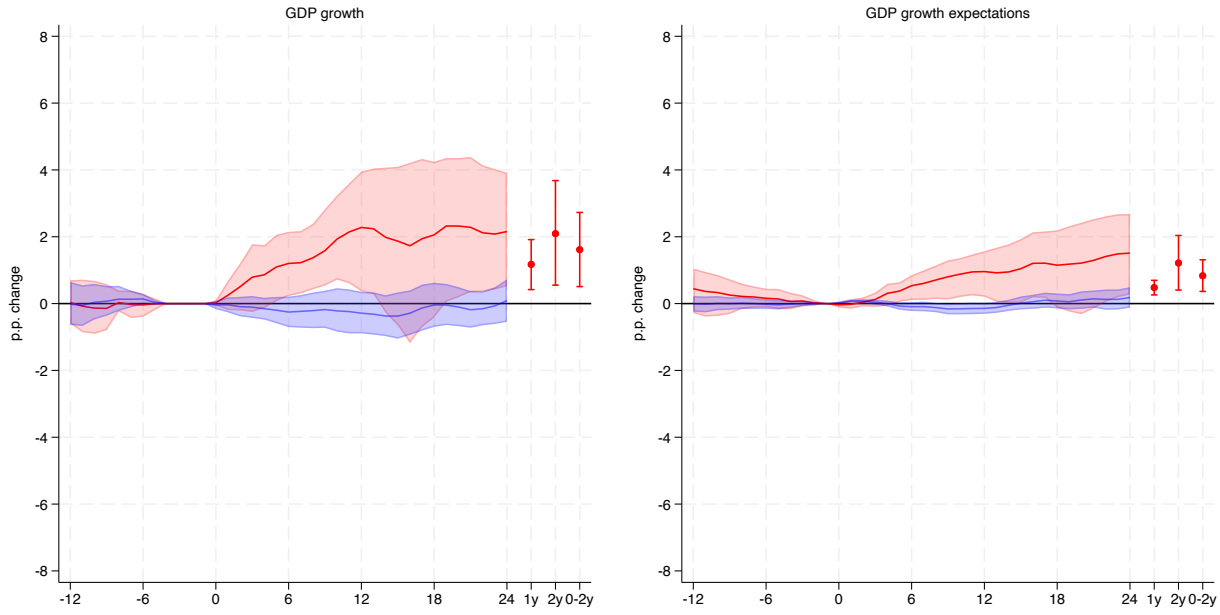
[18]expressed as the difference between the short rate and inflation expectations.

Figure 10: Dynamic impact on interest rates and inflation



Note: shaded area in red and blue shows country-clustered wild bootstrap 90-percent confidence intervals. Blue solid line shows β_h^N and red shows β_h^P from equation (9). Horizontal axis shows months after transition announcement. Whiskers for average effect show country-clustered wild bootstrap for average effect.

Figure 11: Dynamic impact on GDP



Note: shaded area in red and blue shows country-clustered wild bootstrap 90-percent confidence intervals. Blue solid line shows β_h^N and red shows β_h^P from equation (9). Horizontal axis shows months after transition announcement. Whiskers for average effect show country-clustered wild bootstrap for average effect. The dip in the confidence interval for GDP growth in horizon 16 reflects a drop in 2020 for India due to COVID-19.

change. Both realized inflation and inflation expectations also increase following a politically motivated transition, with the average effect becoming significantly positive during the first year after the transition, although the estimates are subject to substantial uncertainty. We find no evidence in the four charts of differential pre-trends across non-politically motivated and politically-motivated transitions.

Figure 11 shows that real GDP growth accelerates in the short run after a politically motivated transition, suggesting that politicians not only achieve to influence policy rates but also activity. Again, pre-trends are not found to be statistically significant across PMT and NMT cases. We cannot reject that the responses of exchange rates, both realized and expected, are the same across the two types of transitions (Appendix Figure C1). The presence of pre-trends in the exchange rate responses suggests that these results may suffer from endogeneity biases.

3.4.3. Estimating the effect: unorthodox and orthodox governors

The previous subsection estimated average treatment effects of politically motivated transitions. The descriptive evidence in subsection 3.2. points to substantial differences de-

pending on whether the new governor whose transition was politically motivated is classified as orthodox or unorthodox. Hence, treatment effects may vary systematically across governor type.

To examine this possibility, we allow treatment effects to differ between orthodox and unorthodox politically motivated transitions by replacing $PMT_{c,t}$ with $PMT_{c,t}^{orthodox}$ and $PMT_{c,t}^{unorthodox}$ in equation 9, estimating following:

$$\Delta_h y_{c,t+h} = \beta_h^{PO} PMT_{c,t}^{orthodox} + \beta_h^{PU} PMT_{c,t}^{unorthodox} + \beta_h^N NMT_{c,t} + \alpha_c^h + \alpha_t^h + \sum_{l=1}^{3} \gamma_l^h X_{c,t-l} + v_{c,t}^h \tag{10}$$

This approach allows us to assess whether the average PMT effect hides meaningful heterogeneity across orthodox and unorthodox PMT governors.

The results are presented in subsequent figures with PMTs that result in an incoming unorthodox governor shown in the left panels and PMTs that result in an incoming orthodox governor in the right panels. For the short rate (Figure 12), we observe a decline in rates beginning around six months after the transition for both subsamples. However, the magnitude of the response is substantially larger for unorthodox governors, with the average effect being significantly negative for the whole 2 years after the transition. In contrast, for orthodox governors the effect is insignificant in the first year, but turning negative in the second year. There is a slight pre-trend of increasing short-term nominal rates for unorthodox governors (although not significantly different from non-politically motivated transitions), while no such pre-trends are observed in the case of orthodox governor PMTs.

The difference across subsamples is more pronounced for the real interest rate (Figure 12), particularly at horizons beyond twelve months. This pattern is consistent with a weaker perceived commitment to price stability following unorthodox appointments and appears to operate through changes in inflation expectations. That said, for orthodox governors there are small declines in short-term real rates after the first year and the average effect is actually significantly negative over the two year that follow the transition.

Indeed, both realized and expected inflation respond more strongly to politically motivated appointments of unorthodox governors (Figure 13, top and bottom respectively). Increases in inflation tend to emerge after approximately nine months, while the response for orthodox governors is much smaller and statistically indistinguishable from zero as are pre-trends in all these charts.

GDP growth, actual and expected, rises following politically motivated transitions, with these rises being slightly more robust statistically in the case of orthodox appoint-

ments (see Figure 14). That GDP growth does not seem to rise statistically as reliably for unorthodox appointments could reflect that, in those cases, agents perceive a lower level of commitment to, and much higher uncertainty about, the inflation target, similar to Friedman's discussion of a lack of medium-term trade-off between inflation and output because of changes to inflation expectations [Friedman, 1977] or the lack of commitment in Barro and Gordon [1983b]. Pre-trends are once again insignificant. As in the unconditional case, responses of realized and expected exchange rates are imprecisely estimated and exhibit pre-trends (Appendix Figure C2).

3.5. Effects on long-term expectations

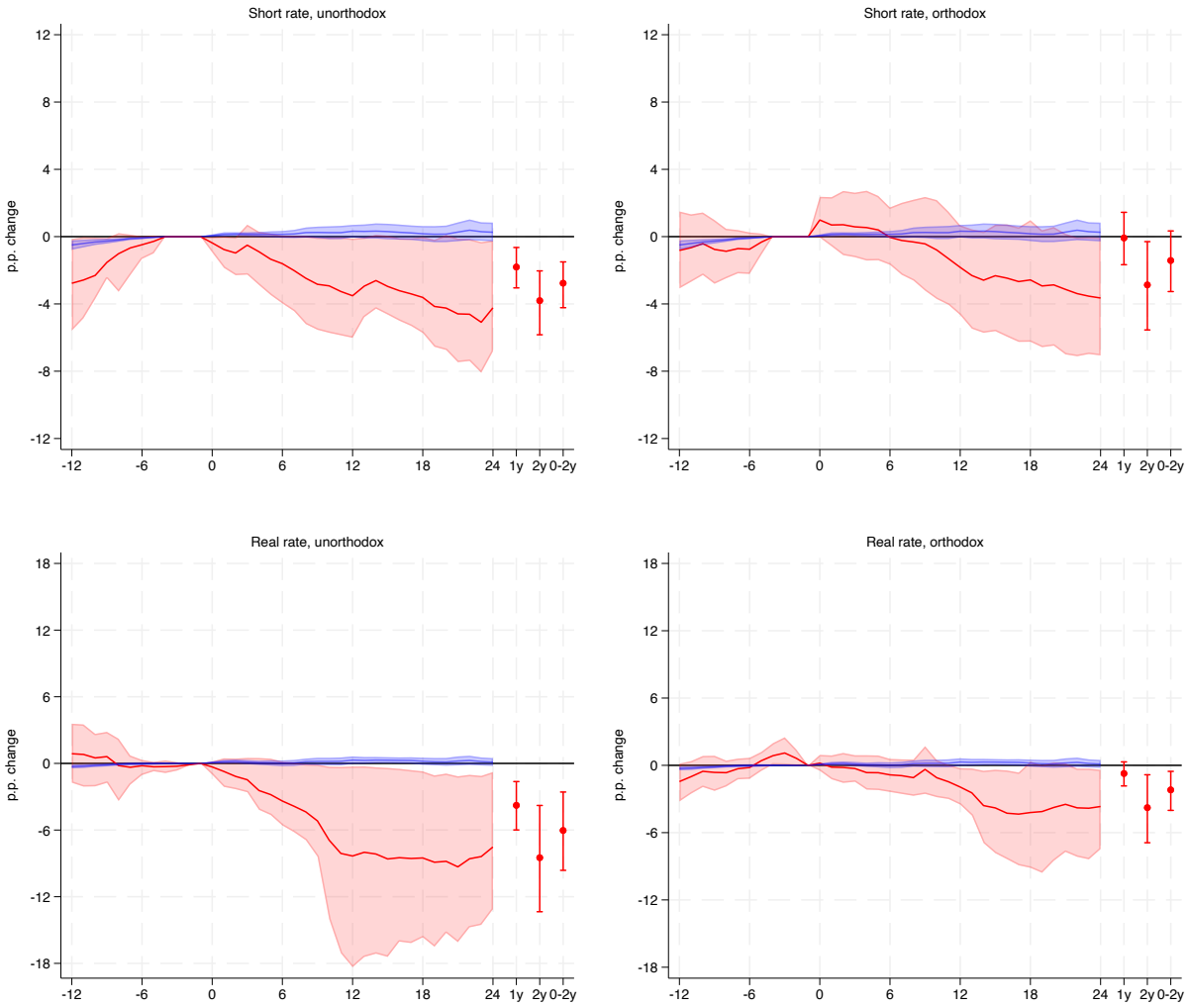
Applying LP-DiD to long-term expectations data is unfeasible, given the reduced frequency of such data (available bi-annually rather than monthly as is the case for all the other variables we used in the previous section). Instead, we apply a synthetic control method (SCM) to create control observations for each governor transition.

3.5.1. Synthetic Control Method

To examine how long-term inflation and growth expectations evolve following different types of central bank governor transitions, we employ the synthetic control method (SCM) of Abadie et al. [2010]. For each treated episode, we construct a synthetic control as a weighted combination of untreated countries drawn from a donor pool comprising all countries not undergoing a governor transition during the same period. Donor weights are selected to minimize the average absolute deviation between the treated unit and its synthetic counterpart in the change in inflation during the two-year pre-treatment window, ensuring that the synthetic control closely replicates the pre-transition trajectory of each treated episode.

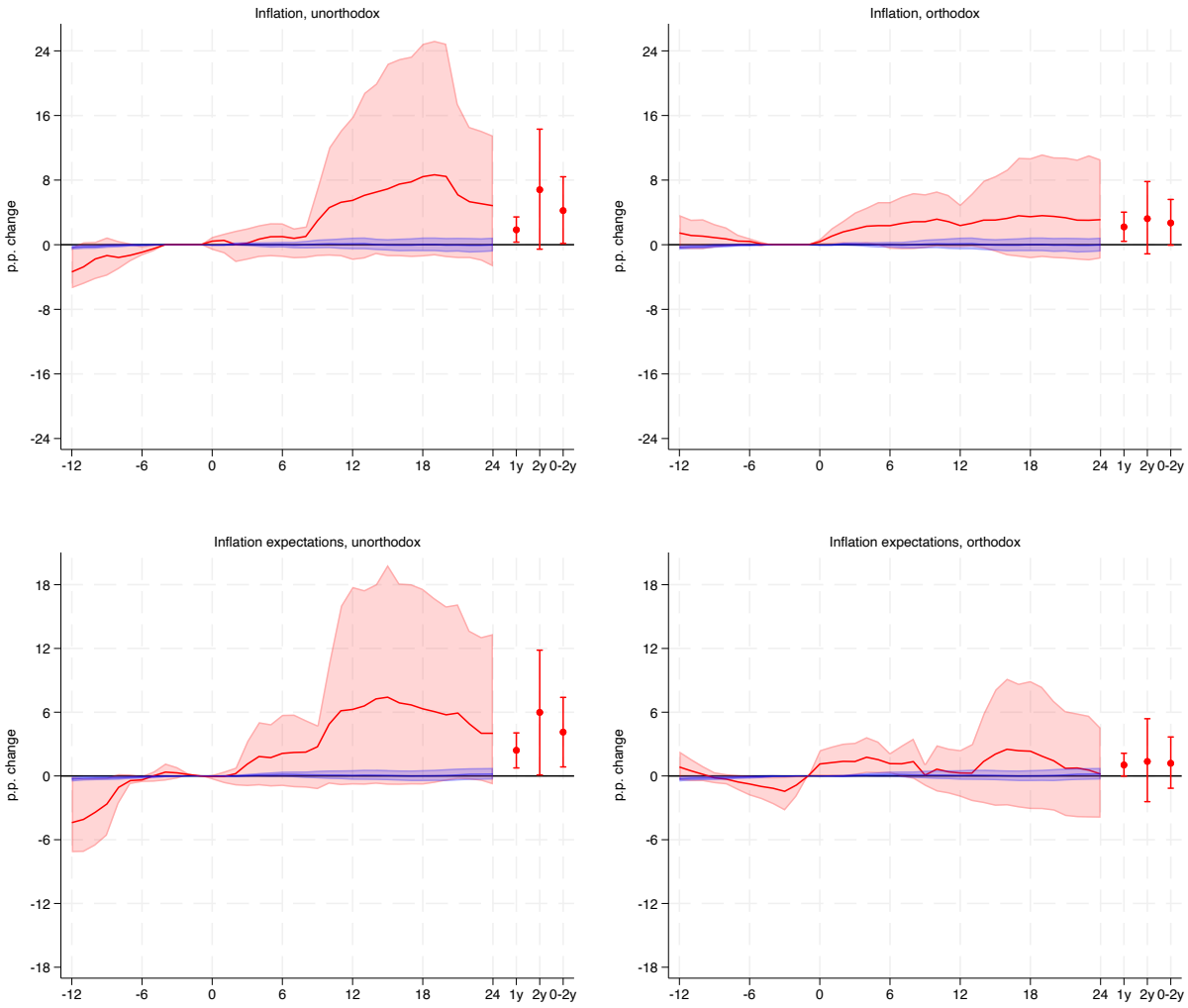
Figure 15 plots the outcomes for long-term (5 year) inflation expectations. To summarize results across transition types, we plot the average outcome for treated units and their corresponding synthetic controls for PMT and NMT (top row), and then separately for politically motivated transitions resulting in the appointment of an unorthodox governor and politically motivated transitions resulting in an orthodox appointment (bottom row). PMTs and NMTs largely have the post-treatment outcomes and importantly do not appear different from the control group. These null results hide heterogeneity when separating PMTs into unorthodox and orthodox. Following a politically motivated transition in which an unorthodox governor is appointed, long-term inflation expectations rise by [0.5 to 1] percentage points over the two years post-appointment, while expectations re-

Figure 12: Dynamic impact on interest rates, orthodox and unorthodox



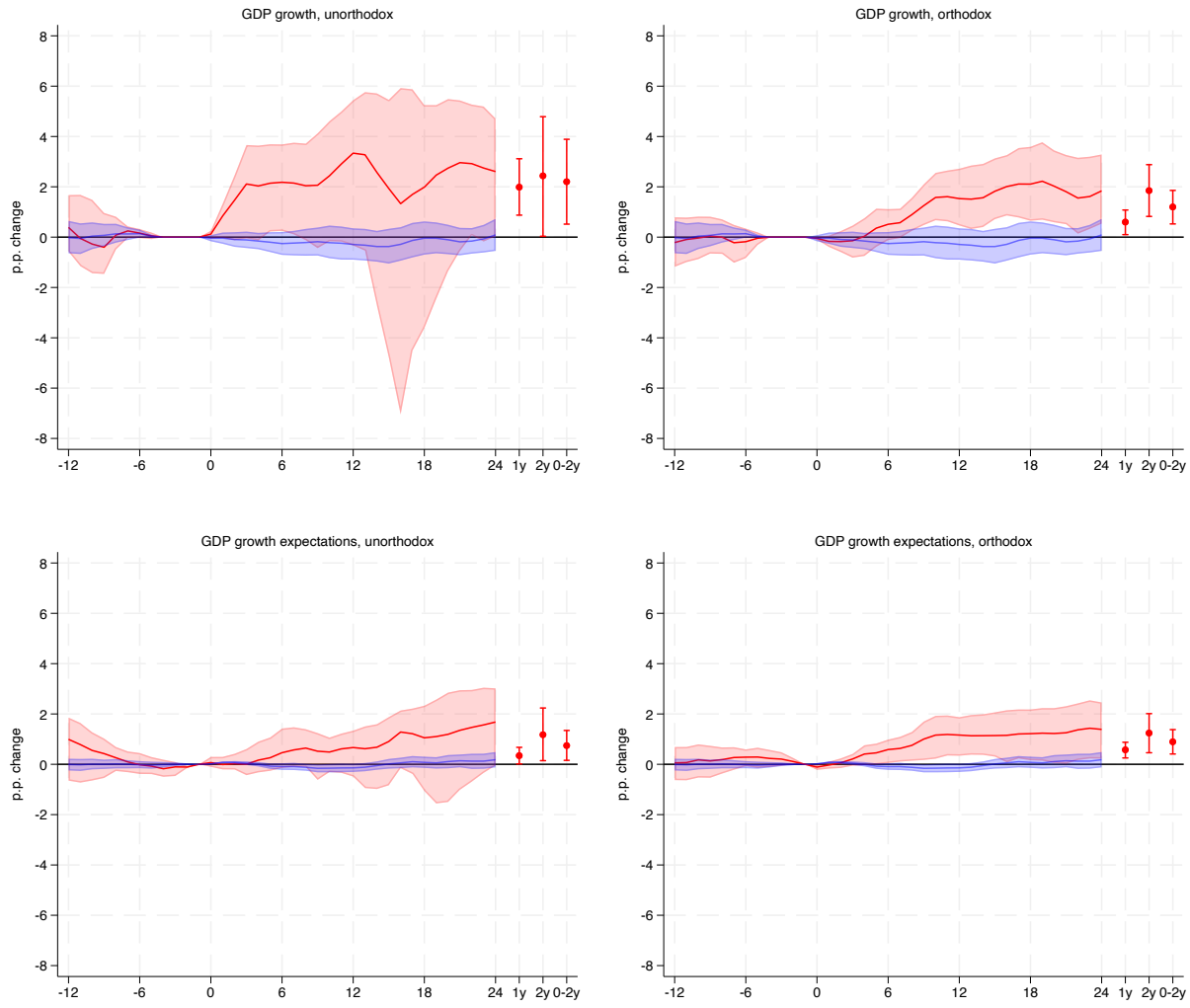
Note: shaded area in red and blue shows country-clustered wild bootstrap 90-percent confidence intervals. Blue solid line shows β_h^N and red show β_h^{PU} (left) and β_h^{PO} (right) from equation (10), respectively. Horizontal axis shows months after transition announcement. Whiskers for average effect show country-clustered wild bootstrap for average effect.

Figure 13: Dynamic impact on inflation, orthodox and unorthodox



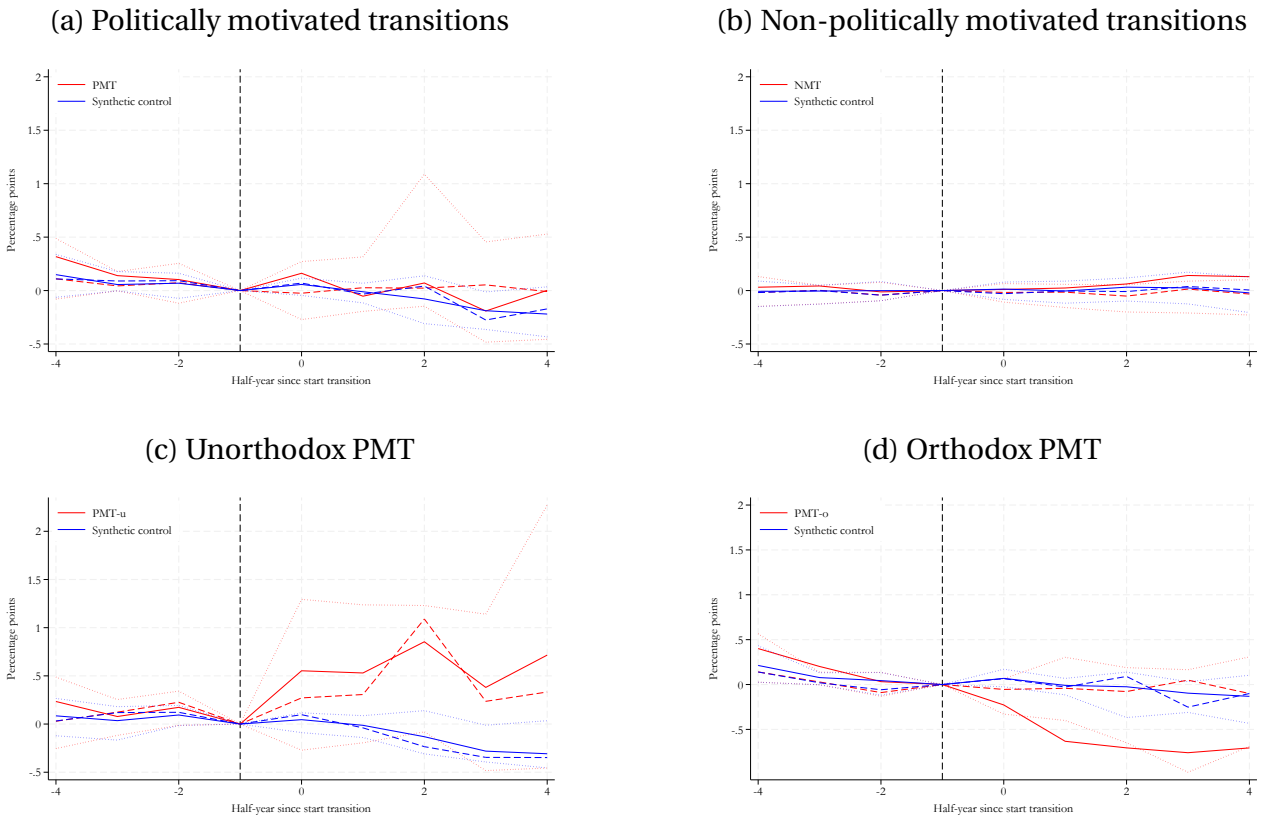
Note: shaded area in red and blue shows country-clustered wild bootstrap 90-percent confidence intervals. Blue solid line shows β_h^N and red show β_h^{PU} (left) and β_h^{PO} (right) from equation (10), respectively. Horizontal axis shows months after transition announcement. Whiskers for average effect show country-clustered wild bootstrap for average effect.

Figure 14: Dynamic impact on GDP, orthodox and unorthodox



Note: shaded area in red and blue shows country-clustered wild bootstrap 90-percent confidence intervals. Blue solid line shows β_h^N and red show β_h^{PU} (left) and β_h^{PO} (right) from equation (10), respectively. Horizontal axis shows months after transition announcement. Whiskers for average effect show country-clustered wild bootstrap for average effect. The large dip in the confidence interval for GDP growth in horizon 16 reflects a drop in 2020 for India due to COVID-19.

Figure 15: Change in long-term inflation expectations following transitions



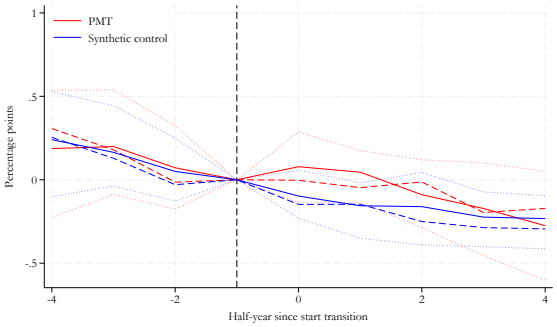
Note: Red lines show summary statistics for the countries undergoing a governor transition at time 0, and the blue lines show the same summary statistics for the corresponding synthetic controls. Solid lines are means, dashed lines are medians, and the dotted lines are the 25th and 75th percentiles. The horizontal axis shows half-year (six months) periods before and after transition announcement.

main broadly unchanged following politically motivated transitions in which an orthodox governor is installed.

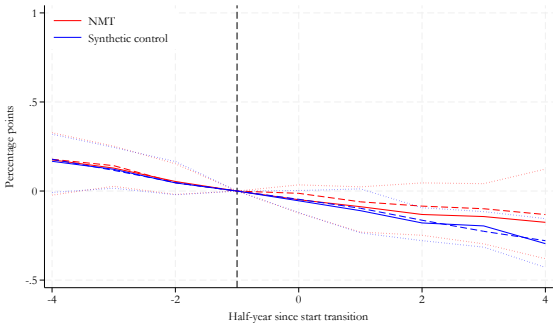
We find no evidence that long-term growth expectations change materially following any transition type (Figure 16). The observed response of long-run inflation expectations following the politically motivated appointment of unorthodox governors, unaccompanied by no revisions to long-run growth expectations, provides evidence consistent with a vertical long-run Phillips curve and a negative impact on central bank credibility. The absence of a meaningful revision to growth expectations suggests that private agents do not perceive monetary accommodation to impact potential output. Instead, the only permanent effect appears to be an upward de-anchoring of inflation expectations after politically motivated appointments of unorthodox governors, consistent with forecasters updating their model of the central bank's reaction function.

Figure 16: Change in long-term growth expectations following transitions

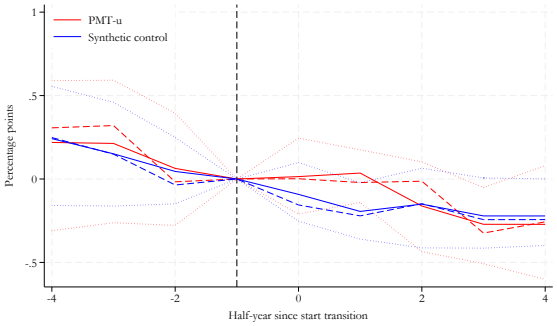
(a) Politically motivated transitions



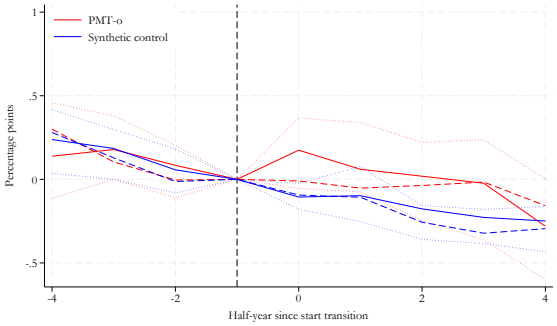
(b) Non-politically motivated transitions



(c) Unorthodox PMT



(d) Orthodox PMT



Note: Red lines show summary statistics for the countries undergoing a governor transition at time 0, and the blue lines show the same summary statistics for the corresponding synthetic controls. Solid lines are means, dashed lines are medians, and the dotted lines are the 25th and 75th percentiles. The horizontal axis shows half-year (six months) periods before and after transition announcement.

4. Conclusion

This paper examines how politically motivated changes in central bank leadership affect macroeconomic outcomes, using a new dataset on 132 governor transitions across 28 advanced and emerging economies since 2000. It shows that such transitions are associated with higher and more volatile inflation, more dovish expected policy responses, and declines in nominal and real short-term interest rates following their announcement. At the same time, GDP growth rises in the short run, indicating an expansionary macroeconomic impulse. These effects are strongest when incoming governors hold unorthodox monetary policy views. At the same time, long-term inflation expectations rise only in the case of politically motivated appointments of unorthodox governors while long-term growth expectations fo not move. These put together suggest that political interference on its own generates a temporary trade-off between higher growth and higher inflation, but that the political appointment of unorthodox governors is what weakens the medium-to-long-term credibility of the central bank.

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A Details on Data

Table A1: Country × periods excluded

War	
Russia	February 2014 to February 2015
Russia	February 2022 to December 2024
Exchange rate peg	
Argentina	January 2000 to February 2002
Malaysia	January 2000 to July 2005
Hungary	January 2000 to February 2008
SBA & EFF program	
Argentina	March 2000 to January 2006
Argentina	June 2018 to March 2022
Brazil	September 2001 to December 2005
Colombia	January 2003 to May 2005
Hungary	November 2008 to April 2010
Korea	January 2000 to June 20010
Mexico	January 2000 to November 2000
Peru	January 2007 to March 2009
Philippines	January 2000 to December 2000
Russia	January 2000 to December 2000
Thailand	January 2000 to June 2000
Turkey	May 2005 to May 2008
Argentina	March 2022 to September 2024
Indonesia	January 2000 to December 2003
Peru	January 2000 to December 2001

Table A2: Data sources

Frequency	Variable	Unit	Source
Daily	Government bond yields, 3m–10y	%	Haver, GFD
	Exchange rate against dollar	USD/LCU	Haver
	Stock market index	Index	Haver
	Policy rate	%	Haver
	Interest swap rates	%	Haver, Bloomberg, Refinitiv
	VIX index	Index	Haver
	Inflation expectations	%	Bloomberg
	GDP expectations	%	Bloomberg
	Policy rate expectations	%	Bloomberg
	Unemployment expectations	%	Bloomberg
	Exchange rate against dollar/euro expectations	USD/LCU, EUR/USD****	BLoomberg
	Inflation release data	%	Bloomberg
	GDP release data	%	Bloomberg
	Policy rate release data	%	Bloomberg
	Unemployment release data	%	Bloomberg
	Exchange rate against dollar/euro release data	USD/LCU, EUR/USD****	BLoomberg
Monthly	Inflation	Index	World bank, WEO, ECB*
	Short rate (3m)	%	Haver, FRED, OECD**
	Long rate (10y)	%	Haver
	GDP	%	Haver, FRED
	Exchange rate per USD/EUR****	LCU	Consensus, FRED***
	Inflation expectations current year	%	Consensus
	Inflation expectations next year	%	Consensus
	Inflation expectations 5y ahead	%	Consensus
	Inflation expectations 10y ahead	%	Consensus
	Short rate expectations 3m ahead	%	Consensus
	Long rate expectations 12m ahead	%	Consensus
	Exchange rate expectations 3m ahead	LCU	Consensus
	Exchange rate expectations 12m ahead	LCU	Consensus
	Exchange rate expectations 24m ahead	LCU	Consensus
	GDP expectations current year	%	Consensus
	GDP expectations next year	%	Consensus
	Industrial production expectations current year	%	Consensus
	Industrial production expectations current year	%	Consensus
	Unemployment expectations current year	%	Consensus
	Unemployment expectations current year	%	Consensus

Note: *World bank main source, ECB data portal used for Euro area, for Australia and New Zealand only quarterly data exist. When World Bank inflation not available, quarterly data from WEO has been used. This is for Malaysia before January 2001, before January 2005 for Ukraine, before January 2010 for Peru, Philippines, Thailand and Venezuela, and before December 2016 for Argentina. All quarterly series have been interpolated.

** OECD used for Poland and Russia before February 2022.

*** FRED used for Poland before January 2007.

**** For non-euro European countries expectations is formulated against EUR. For comparison this has been converted to LCU/USD with realized series of USD/EUR.

B Simple Model

We use a simple model to motivate our empirical strategy with regards to perceived policy rules. We embed the standard Barro–Gordon time-inconsistency framework in a New Keynesian Phillips curve (NKPC).

We start from the NKPC:

$$\pi_t = \beta\, \mathbb{E}_t[\pi_{t+1}] + \kappa\, x_t + u_t, \tag{11}$$

where π_t is inflation at time t, $x_t = y_t - y^n$ is the output gap, $\beta \in (0,1)$ is the discount factor, $\kappa > 0$ is the slope of the Phillips curve, and u_t is a mean-zero cost–push shock.

We add a simple IS curve:

$$x_t = \mathbb{E}_t[x_{t+1}] - \sigma(i_t - \mathbb{E}_t[\pi_{t+1}] - r^n) + \eta_t \tag{12}$$

where i_t is the policy rate, r_t^n is the natural interest rate, and η_t is a mean-zero demand shock.

Central Bank loss function. Under discretion, the central bank in each period chooses (π_t, x_t) to minimize

$$\mathcal{L}_t \;=\; \frac{1}{2}\Big(\pi_t^2 + \alpha\,(x_t - \theta)^2\Big), \quad \alpha > 0,\ \theta > 0, \tag{13}$$

where θ captures preference for a positive output gap (which could reflect political pressure), and α reflects 'dovishness' of the central bank and captures the central bank's preference for a stable output gap relative to a stable inflation rate.

Optimal policy. After observing u_t and η_t, the central bank sets the policy rate such that

$$x_t = \theta - \frac{\kappa}{\alpha}\pi_t, \tag{14}$$

$$i_t = r^n + \mathbb{E}_t[\pi_{t+1}] + (\kappa/\alpha\sigma)(\pi_t - \mathbb{E}_t[\pi_{t+1}]) - (1/\sigma)\eta_t \tag{15}$$

.

Implications for long-term expectations. Under rational expectations and stationarity, $\pi_t = \mathbb{E}_t[\pi_{t+1}] = \pi^*$. Hence there is inflation bias such that steady-state inflation is strictly positive for $\theta > 0$

$$\pi^* = \frac{\kappa\theta}{1-\beta+\frac{\kappa^2}{\alpha}}, \tag{16}$$

which implies that an increase in θ pushes up long-term inflation expectations. Other implications are that the steady-state output gap is strictly positive

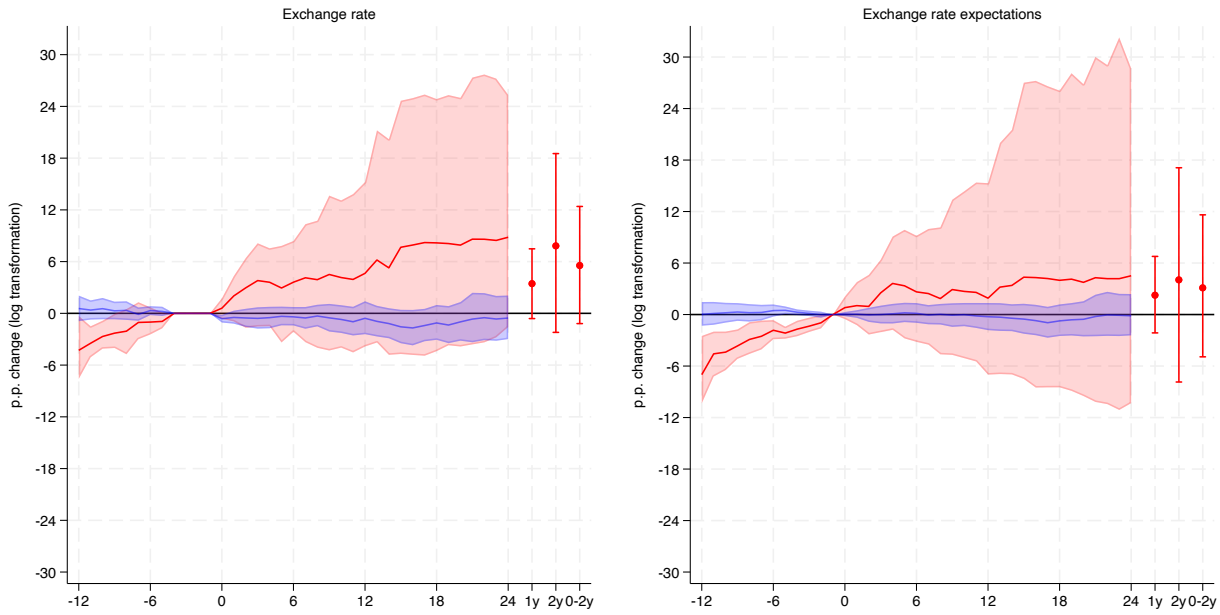
$$x^* = \frac{\theta}{1+\frac{\kappa^2}{\alpha(1-\beta)}}, \tag{17}$$

and the real interest rate gap is negative

$$r^* - r^n = -\frac{\theta/\sigma}{1+\frac{\kappa^2}{\alpha(1-\beta)}}. \tag{18}$$

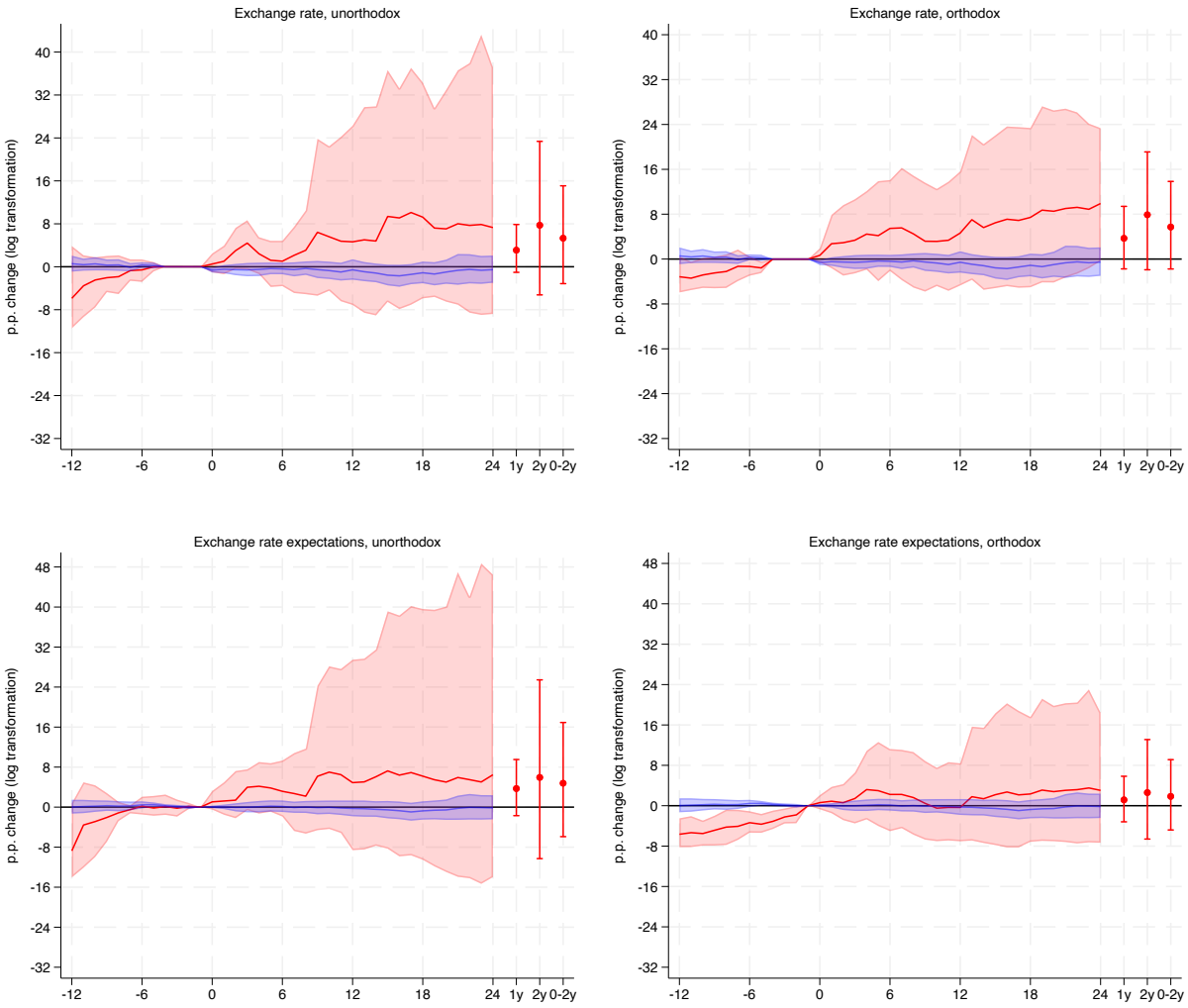
C Exchange rate response

Figure C1: Dynamic impact on exchange rates



Note: shaded area in red and blue shows country-clustered wild bootstrap 90-percent confidence intervals. Blue solid line shows β_h^N and red shows β_h^P from equation (9). Horizontal axis shows months after transition announcement. Whiskers for average effect show country-clustered wild bootstrap for average effect.

Figure C2: Dynamic impact on the exchange rate, orthodox and unorthodox



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PUBLICATIONS

The Macroeconomic Consequences of Undermining Central Bank Independence: Evidence from Governor Transitions

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