

Dreher, Axel; Haan, Jakob de; Sturm, Jan-Egbert

**Working Paper**

## When is a central bank governor fired? Evidence based on a new data set

KOF Working Papers, No. 143

**Provided in Cooperation with:**

KOF Swiss Economic Institute, ETH Zurich

*Suggested Citation:* Dreher, Axel; Haan, Jakob de; Sturm, Jan-Egbert (2006) : When is a central bank governor fired? Evidence based on a new data set, KOF Working Papers, No. 143, ETH Zurich, KOF Swiss Economic Institute, Zurich,  
<https://doi.org/10.3929/ethz-a-005277763>

This Version is available at:

<https://hdl.handle.net/10419/50853>

**Standard-Nutzungsbedingungen:**

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

**Terms of use:**

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

# Arbeitspapiere/ Working Papers

Axel Dreher, Jakob de Haan and Jan-Egbert Sturm

When Is a Central Bank Governor Fired?  
Evidence Based on a New Data Set



# WHEN IS A CENTRAL BANK GOVERNOR FIRED? EVIDENCE BASED ON A NEW DATA SET

Axel Dreher<sup>a</sup>, Jan-Egbert Sturm<sup>b</sup> and Jakob de Haan<sup>c</sup>

<sup>a</sup> ETH Zurich, KOF & Department of Management, Technology, and Economics, Weinbergstrasse 35, CH-8092 Zurich, Switzerland, E-mail: [mail@axel-dreher.de](mailto:mail@axel-dreher.de)

<sup>b</sup> ETH Zurich, KOF & Department of Management, Technology, and Economics, Weinbergstrasse 35, CH-8092 Zurich, Switzerland and CESifo, Germany, E-mail: [sturm@kof.ethz.ch](mailto:sturm@kof.ethz.ch)

<sup>c</sup> University of Groningen, The Netherlands and CESifo, Munich, Germany, E-mail: [jakob.de.haan@rug.nl](mailto:jakob.de.haan@rug.nl).

This version, 19 July 2006

Word count: 8583

## Abstract

This paper uses a new data set on the term in office of central bank governors in 137 countries covering the period 1970-2004 to estimate a model for the chance that a central bank governor is replaced. We formulate a number of hypotheses based on the literature on the determinants of central bank independence that are tested using conditional logit models and the Extreme Bounds Analysis. We conclude that, apart from the share of the current term in office elapsed, high levels of political and regime instability, the occurrence of elections, and high inflation increase the probability of a turnover.

**Keywords:** central bank governors, central bank independence

**JEL code:** E5

Corresponding author: Jakob de Haan, Department of Economics, University of Groningen, PO Box 800, 9700 AV Groningen, The Netherlands; email: [jakob.de.haan@rug.nl](mailto:jakob.de.haan@rug.nl); tel. 31-50-3633706; fax 31-50-3633720.

Acknowledgement: We thank seminar participants at the 81<sup>st</sup> Annual Conference of the Western Economic Association (San Diego 2006) for helpful comments on an earlier draft.

## ***1. Introduction***

Under what circumstances will a central bank governor be replaced? The experience of some countries suggests that the actual term in office of the Chief Executive Officer (CEO) of the central bank is not necessarily in line with central bank legislation. A well known example is Argentina where the actual average term in office of the governor of the central bank during the 1980s was about a year, which deviates substantially from the period as foreseen in the central bank law in place at that time. In fact, whenever a new government – or even a new minister of finance – was appointed, the governor was replaced. In other countries the governor has remained in office for many years. For example, the CEO of the central bank of Guyana kept his office between 1976 and 1989. Likewise, Jóhannes Nordal has been governor of the central bank of Iceland for almost 30 years.

In this paper we examine which factors affect the likelihood that a central bank governor loses his job. Our data set on central bank governors, which contains information on 137 countries covering the period 1970-2004, updates and substantially extends the database that has been used earlier by De Haan and Kooi (2000). We estimate panel models for the probability that a central bank governor is replaced in a particular year. Our explanatory variables are derived from the literature on the determinants of central bank independence (CBI), notably the work of Cukierman (1994) and Maxfield (1997).

Our paper also contributes to the literature on CBI. Various studies have used the so-called turnover rate (TOR) of central bank governors in order to test whether CBI matters for cross-country variation in economic performance, notably inflation (see Berger *et al.*, 2001 and Bernhard *et al.* 2002 for surveys of the literature). Cukierman (1992) argues that the actual average term in office of the central bank governor may be a better proxy for CBI than measures based on central bank laws, especially in developing countries. The TOR indicator is based on the presumption that, at least above some threshold, a higher turnover of central bank governors indicates a lower level of independence.<sup>1</sup> One objection that has been raised against the TOR as a proxy for CBI is that it may be endogenous to economic performance as causality may well run in the opposite direction. For instance, a central bank governor may be fired

---

<sup>1</sup> Still, this indicator is less than perfect, as it suffers from the limitation that central bank governors can hold office for quite some time simply by being subservient to political leaders (Brumm, 2000).

because of disappointing inflation rates. Our results yield insights on the relevance of this critique.

We estimate conditional logit models of the likelihood that the CEO of the central bank is being replaced. Our database contains sufficient observations to allow studying different determinants of governor turnover rates for OECD and non-OECD countries. We test for the robustness of our results employing the so-called Extreme Bounds Analysis (EBA), which is a fairly neutral means to check robustness and compare the validity of conflicting findings in empirical research. We conclude that, apart from the share of the current term in office elapsed, high levels of political and regime instability, the occurrence of elections, and high inflation in the recent past increase the probability of a turnover.

The remainder of the paper is structured as follows. Section 2 summarizes the literature on the determinants of CBI in some more detail and formulates our hypotheses. Section 3 describes our data set and discusses the methodology used. Section 4 presents our results for the full sample of countries, while section 5 shows the outcomes for some sub samples. The final section offers some concluding comments.

## ***2. Hypotheses***

In this section we discuss various views that have been put forward to explain differences in CBI across time and countries. Based on this literature we derive our hypotheses concerning the likelihood of a change of the CEO of the central bank. We also briefly discuss the scant empirical evidence available.

Essentially, there are two different approaches explaining CBI. In the first approach delegation of monetary authority by politicians is considered as a (partial) commitment device. By delegating monetary powers to an independent central bank that places a higher weight on inflation stabilization than the government, the inflationary bias may be reduced and the credibility of monetary policy increased. However, policy makers lose flexibility to employ monetary instruments for political or other purposes. So central bank independence entails both benefits (greater credibility) and costs (less flexibility) and in the first approach the balance between benefits and costs determines the optimal and the actual level of CBI (see Cukierman, 1994).

In the second approach, which is not necessarily in contrast to the first, CBI is determined by the preferences of a society and/or particular interest groups, in conjunction with the political decision process. For instance, Hayo (1998) argues that

societies differ, for whatever reason, with respect to their preference for inflation and that this is reflected in monetary institutions. Similarly, the preferences of particular interest groups may be pivotal. For instance, Posen (1995) argues that both inflation and CBI are affected by the degree of financial sector opposition to inflation, and the effectiveness of the financial sector to mobilize – through the political system – its opposition to inflation.

One of the potential benefits of CBI is that it signals increased creditworthiness to potential foreign investors. Maxfield (1997) argues that the more global financial markets become, the more politicians must concern themselves with this kind of signalling. According to Maxfield, the likelihood that governments will use CBI to try to signal creditworthiness is greater the larger the country's financial needs and the fewer restrictions the country concerned has on international financial transactions. This reasoning leads to the following hypotheses:

1. The higher the stock of external debt, the longer the term in office of the governor will be.
2. The higher the government budget deficit, the longer the term in office of the governor will be.
3. The fewer the restrictions on international financial transactions are, the longer the term in office of the governor will be.

The second hypothesis can also be motivated in a somewhat different way within the framework of Cukierman (1994). Countries with large government budget deficits suffer from an excessive inflationary bias, so that the benefits from commitment (i.e. a lower interest burden) will be larger. There is only scant empirical evidence on these hypotheses. Using the legal CBI index of Cukierman *et al.* (1992) for 55 countries over the period 1980-89, D'Amato *et al.* (2005) find that the budget deficit is not related to the independence of the central bank.

Maxfield (1997) points out that politicians' tenure security will also affect their policies to signal creditworthiness since "leaders insecure in their positions are likely to want to maintain policy flexibility because it provides greater potential for vote-buying and because the benefits of creditworthiness may accrue for the

succeeding leadership.” (p. 47).<sup>2</sup> Similarly, it may be argued that if inflation surprises are valuable in the short run, and if the chances for a politician to be thrown out of office are high, it will be attractive for politicians to be able to overrun the central bank or to appoint a new governor after they have come to power, be it after elections or otherwise. The short-run benefits of this flexibility may exceed the long-run costs of a higher inflation rate.

There is also an alternative line of reasoning based on using Cukierman’s (1994) framework. Suppose that different political parties strongly disagree about the structure of government expenditures. By granting independence to the central bank, the political party in power may restrict the ability of the opposition to spend on its favoured public goods when it comes in office. The benefits of granting independence to the CB are higher than the costs in terms of economic policy flexibility foregone. In this set-up, the political party in office prefers a more independent central bank the smaller its re-election prospects, since the larger are the benefits of CBI in terms of restricting the other party’s ability to spend like it prefers. This line of argument requires that there exists a minimum level of consensus in the society concerned. If this minimum level of consensus is lacking, the incumbent has an incentive to fortify its hold on power by reducing CBI (Cukierman, 1992). Frequent changes of political regime may indicate absence of this minimum level of consensus and will therefore lead to less CBI.

The foregoing analysis leads to the following hypotheses:

4. The higher the level of political instability (i.e. the lower the tenure security and/or the shorter the policy horizon), the shorter the term in office of the governor will be; alternatively:
5. The higher the level of political instability (i.e. the more often governments are being replaced), the longer the term in office of the governor will be.
6. A CB turnover is more likely after a national election and when the government has changed.
7. The higher the level of regime instability, the shorter the term in office of the governor will be.

---

<sup>2</sup> There is some evidence for this. Farvaque (2002) finds for a sample of 21 OECD countries that average government duration is positively related to CBI (proxied by Cukierman’s (1992) legal index). According to Farvaque, this reflects a country’s attachment to stability: countries with low government turnout tend to delegate monetary policy more easily.



The empirical evidence on the relationship between CBI and political instability is mixed. Regression analysis by Cukierman (1992) based on legal independence measures for fourteen middle-income countries over the 1970s and 1980s shows that the coefficients for the proxies of political instability and regime instability (measured as the number of changes from an authoritarian regime to a democratic one, and vice versa) have positive and negative signs, respectively. This result may be questioned, however, as legal measures of central bank independence may not be a very good proxy for actual central bank independence in developing countries.

Two other studies have employed non-legal measures of central bank independence. Cukierman and Webb (1995) use a measure of political vulnerability, i.e. the fraction of times that political transition is followed by a replacement of the central bank governor, as a dependent variable and four types of political instability as explanatory variables for a mixture of developed and developing countries during the period 1950-1989. Only high-level political instability (i.e. changes in regime) proved to be significant. De Haan and Siermann (1996) have estimated the relationship between central bank independence and political instability using data on the turnover rate of central bank governors for 43 developing countries over four periods (1950-59, 1960-71, 1972-79 and 1980-89) as provided by Cukierman *et al.* (1992). They find that only 'coups' exert a significantly negative effect on central bank independence.

Cukierman (1992) argues that high inflation encourages processes that make it easier for the executive to influence monetary policy. Sufficiently high and sustained inflation leads to the evolution of automatic or semi-automatic accommodative mechanisms, like indexation of contracts in the labour and capital markets, that may undermine CBI (i.e. lead to a high turnover rate of central bank governors). Alternatively, it may be argued that a high inflation rate may cause the replacement of the central bank governor due to dissatisfaction with this policy outcome. Both arguments, although fundamentally different in their reasoning, lead to the following hypothesis:

8. The higher the rate of inflation the shorter the term in office of the governor will be.<sup>3</sup>

Cukierman (1992) presents the outcomes of bivariate Granger causality tests in which the turnover rate of the central bank's governor is used as CBI indicator. His evidence supports the view that there is a two-way Granger causality between inflation and CBI. The lagged turnover rate affects current inflation, and a higher lagged inflation is associated with a current higher turnover of central bank governors.

There are also studies arguing that sectoral interests are crucial in explaining cross country variation in CBI. One particularly interesting hypothesis, put forward by Posen (1993, 1995) holds that central bank independence is largely determined by the degree of financial sector opposition to inflation, and the effectiveness of the financial sector to mobilize – through the political system – its opposition to inflation.<sup>4</sup> There are several reasons why commercial banks might fear inflation. As banks usually borrow short and lend long, they are vulnerable to changes in the spread of interest rates. Moreover, inflation sooner or later leads to anti-inflationary policy and banks may then come under pressure, as higher real interest rates can lead to problems in recovering loans.<sup>5</sup> A central bank that is shielded from politics may make it easier for the financial sector interest groups to influence the central bank without going through the usual checks and balances of the political system. Further, flows of staff members between the CB and private banks increase the ease with which the financial sector can make its interests heard by the monetary authorities, and vice versa. The complementarity of interests can result in the financial sector and central bankers forming a coalition to support each others demands, with the result that inflation is kept low.

---

<sup>3</sup> An alternative hypothesis has been suggested by De Haan and van't Hag (1995) and Hayo (1998) who argue that countries that experience high levels of inflation may be more aware of its harmful consequences and may therefore develop greater inflation aversion (see also Scheve, 2004). This idea is frequently used to explain the low inflation rates recorded in Germany after the Second World War and the independence of the Bundesbank. De Haan and van't Hag (1995) and D'Amato *et al.* (2005) find that past inflation has a positive impact on CBI. This hypothesis cannot be tested in our annual panel data framework.

<sup>4</sup> The empirical evidence that the financial sector is inherently inflation averse is not compelling. Although Posen (1995) presents supportive evidence, other studies find less or no support (De Haan and van't Hag 1995, Campillo and Miron 1997, and Temple 1998).

<sup>5</sup> Boyd *et al.* (2001) show that inflation has a negative impact on financial sector performance. Financial sectors in countries with an inflation rate higher than 15% experience significantly inferior performance compared to those in lower inflation countries.

Unfortunately, it is impossible to test this line of reasoning similarly to Posen as the required indicators are not available. However, Scheve (2004) argues that a large financial sector may affect average levels of inflation aversion (and thus CBI) at the margin, both directly through individuals employed in the sector and indirectly through the sector's influence on the media. He also reports evidence in support of this view. We therefore have the following hypothesis:

9. The more developed a financial sector is, the longer the term in office of the governor will be.

The effectiveness of interest groups in influencing the set-up of monetary institutions depends on the political system. Various characteristics of the political system may be relevant. As pointed out by Hallerberg (2002), an increase in the number of veto players generally makes it harder for the government to unite to overturn a decision of the central bank. On the basis of a model in which there are two decision-making legislative bodies that both have veto power and that differ with regard to their inflation-output preferences, Moser (1999) argues that countries with strong checks and balances have more independent CBs compared to those with weak or no checks and balances. The empirical evidence presented by Moser (1999) and Farvaque (2002) offers support for this hypothesis.<sup>6</sup> Keefer and Stasavage (2000, 2002) put forward a similar argument, showing that checks and balances are likely to reduce expected inflation and that delegation of monetary policy to a central bank will only have the desired effect if checks and balances are a characteristic of the country's political system. Moreover, checks and balances should matter most when there is a high level of polarization between veto players.<sup>7</sup>

Bernhard (1998) codes countries with "strong bicameralism" and indicates that such states are more likely to have independent central banks. However, Farvaque (2002) provides support for the view that countries with a bicameral system may not have much need to delegate monetary policy and may thus have less independent CBs. He also finds that countries with more federal systems exhibit a high degree of

---

<sup>6</sup> Moser (1999) uses dummies for different classes of the strength of checks and balances, while Farvaque (2002) only employs a dummy for the presence of strong checks and balances.

<sup>7</sup> If veto players do not share the same preferences, the central bank can successfully implement a policy that one veto player would prefer to override, as long as a second veto player would refuse to override. This leads to the prediction that CBI will be more effective in case of veto players with different preferences. Keefer and Stasavage (2002) provide support for this view.

CBI. This is in line with the hypothesis put forward by Hallerberg (2002) that under federalism, sub-national governments compose much of total government involvement in the economy, and such sub-national governments generally do not support a dependent central bank that gives more power to the federal government.<sup>8</sup>

The foregoing analysis leads to the following hypotheses:

10. The more checks and balances are present in the political system, the longer the term in office of the governor will be.
11. In case of a high degree of political polarization, the more checks and balances are present in the political system, the longer the term in office of the governor will be.
12. In countries with a bi-cameral political system the term in office of the governor will be longer than in countries without such a system.
13. In countries with a federal political system the term in office of the governor will be longer than in countries without such a system.

According to the ‘partisan theory’, left and right-wing parties have different preferences with respect to inflation and unemployment. As left-wing parties are assumed to care less about inflation, we also have tested the following hypothesis:

14. Under left-wing governments the term in office of the governor will be shorter than under right-wing governments.

In his analysis of currency crises, Frankel (2005) examines whether the finance minister or central bank (CB) governor – whoever held the office of the country’s governor of the IMF – lost his or her job after a currency crisis. He finds that in the year following a currency crash, the incumbent changed 58.3 percent of the time, while in other years during this period the rate of turnover was 35.8 percent. We therefore have the following hypotheses:

---

<sup>8</sup> In a federal system there are additional subnational checks on changes from the status quo that are lacking in unitary ones. Lijphart (1999) and Hallerberg (2002) report that federalism is associated with CBI. See also Lohmann (1998).

15. A large devaluation or currency crisis increases the likelihood that the CB governor will lose his job.

D'Amato *et al.* (2005) argue that if openness is relevant for understanding the inflationary bias as suggested by Romer (1993), it must be also relevant for the incentives for commitment. A larger degree of openness reduces the inflationary bias and therefore reduces the incentive to commitment for the government. However, Scheve (2004) argues that since inflation is more costly in open economies, individuals in more open economies will be more inflation-averse and therefore prefer a more independent central bank. The foregoing analysis leads to the following hypotheses:

16. The smaller the degree of a country's openness, the shorter the term in office of the governor will be.
17. The smaller the degree of a country's openness, the longer the term in office of the governor will be.

For a sample of 55 countries over the period 1980-89 D'Amato *et al.* (2005) find that openness increases the degree of central bank independence (measured on the basis of Cukierman's (1992) legal CBI index).<sup>9</sup>

### **3. Data and Method**

#### *Data*

We have updated and substantially extended the database on central bank governors used earlier by De Haan and Kooi (2000). Our main data source is information received directly from central banks. Some central banks provide data on previous governors on their homepage, while for many other central banks we got the information by writing emails and letters. A second source is Morgan Stanley Dean Witter's *Central Bank Directory*.

---

<sup>9</sup> D'Amato et al. also find that synchronization of business cycles and some measure of institutional transparency (average per capita newspapers) are related to CBI. These hypotheses are not tested in the present paper due to lack of sufficient observations.

Our database contains information on the moment at which a CEO of a central bank is replaced (month and year), as well as the official term in office according to the central bank law. We have data for 137 countries covering the period 1970-2004. We tried to get data going back as far as 1970, but did not always succeed either because data were not available for the entire period or because countries came into existence after 1970. According to our data, central bank governors remained in office for 3.6 years on average, while the legal term in office ranges between 3 and 8 years. On average, a turnover occurred in 22 percent of the country-years.<sup>10</sup>

Table 1 shows the data used to test the hypotheses formulated in the previous section and their sources, while Appendix B provides descriptive statistics.

[insert Table 1]

As follows from Table 1, most of our economic variables are from the World Bank's World Development Indicators (2005), while the political variables are mainly taken from Beck *et al.* (2001).

While most of the variables employed are straight forward, some may need some explanation. We use an election variable that measures the post-election period by the share of the year which is within twelve months after a national (legislative or executive) election to test hypothesis 6. We employ three indicators of political instability to test hypothesis 7. First, a dummy that is one if the POLITY IV score changes by more than three points (in either direction). Alternatively, we measure political instability by the first principal component of the number of assassinations, strikes, guerilla warfare, major crises, riots, and revolutions in a particular country and year, and the number of successful coups d'etat. Our third indicator of political instability is the number of (attempted) coups as various studies found this variable to be significant. This variable includes both successful and unsuccessful attempts to overthrow the government in place.

The inflation rate  $\pi$  is transformed by the formula  $(\pi/100)/(1+(\pi/100))$  to reduce the influence of extreme observations. Following Claessens and Laeven (2003), financial development is proxied by private credit as a percentage of GDP to test hypothesis 9. In order to test hypothesis 10, we proxy checks and balances by an

---

<sup>10</sup> Appendix A describes the set of countries and number of years for which we have information. All data are available on request.

index constructed in Beck *et al.* (2001) on a scale from 0-18. We also include this variable interacted with the country's degree of political polarization (hypothesis 11). To test hypotheses 12-14 we employ various dummies: a dummy for the presence of two chambers, a dummy for the existence of autonomous regions, and a dummy for left-wing chief government executives. The final hypotheses are tested using the depreciation of a country's nominal exchange rate with respect to the US\$ and an index of currency crises based on the rate of change of the nominal exchange rate and the level of international currency reserves (hypothesis 15) and the country's openness to trade (hypotheses 16/17).

The correlation matrix presented in Table 2 shows that the correlation between the CB governor turnover rate and all explanatory variables is low, never being above 0.09. Also the correlation of the explanatory variables is generally not high. The highest correlations are between the number of veto players that drop and new governments, new governments and changes in democracy, and inflation and capital controls/devaluation. The correlation between private credit and the interaction of polarization and checks is 0.63; the existence of two assemblies is highly correlated with checks.

[insert Table 2]

### *Method*

Our dependent variable is binary, and takes the value one if the central bank governor was replaced in a particular year and country. We estimate our model employing conditional fixed effects Logit. In 98 percent of our country/year observations there is at most one turnover in a particular year. To check to what extent our results are driven by inclusion of observations with more than one change, we also estimate the model excluding these observations as part of our sensitivity analysis.

In case of binary choice variables with panel data we observe:

$$\begin{aligned} y_{it} &= 1 & \text{if } y_{it}^* > 0 \\ y_{it} &= 0 & \text{if } y_{it}^* \leq 0 \end{aligned} \tag{1}$$

where:  $y_{it}^* = x'_{it} \beta + \alpha_i + v_{it}$ . This function can be interpreted as the inclination of the government to replace the CEO of the central bank, which is dependent on observed variables ( $x$ ), unobserved individual (country) characteristics ( $\alpha$ ) and a random error term ( $v$ ). The probability that we observe a replacement is:

$$P(y_{it} = 1) = P(y_{it}^* > 0) = P(v_{it} > -x'_{it} \beta - \alpha_i) = F(x'_{it} \beta + \alpha_i) \quad (2)$$

In a fixed effects context, the number of parameters increases with the number of countries. This is known as the incidental parameters problem. Chamberlain (1980) shows that it is impossible to estimate the parameters of this binary choice model consistently and he therefore proposes a method to circumvent this problem, i.e. conditional Logit estimation. The idea of this approach is to condition the likelihood function on a minimal sufficient statistic for the fixed effects. Chamberlain argues that  $\sum_{t=1}^T y_{it}$  is such a minimum sufficient statistic. The conditional likelihood function can now be written as:

$$L = \prod_{i=1}^N P(y_{i1}, \dots, y_{iT} \mid \sum_{t=1}^T y_{it}) \quad (3)$$

The probability of the observed replacement of the CEO of the central bank no longer depends on the fixed effects (by construction) and hence the coefficients of the variables of interest can be estimated consistently. In essence, the conditional fixed effects Logit estimator compares all observations within a given country when there is a replacement of the central bank governor with all the observations when there is no such change.

There is one obvious problem in employing the conditional fixed effects Logit model: we cannot include variables that do not vary over time. We therefore exclude those variables from the full model specification. However, given our interest in some of these variables, we also estimate Logit models without fixed effects but including the variables with no time series variation.

Since some of the data are not available for all countries or periods, the yearly panel data are unbalanced and the number of observations depends on the choice of



explanatory variables. All explanatory economic variables are lagged by one year to avoid simultaneity.

To control for the probability of regular turnovers, we include in all regressions the share of the governors' term in office that has elapsed, which is based on the term in office as stipulated by the central bank law. For instance, if the legal term in office is 8 years, say, and the governor has been in office for 4 years this variable is 0.5. However, in case of an indefinite or unknown term in office it is not obvious how to construct this variable. We consider three alternatives to deal with this problem. First, we assume the term in office for countries with indefinite or unknown term in office to be equal to the average time in office in our sample, i.e. 3.6 years. Second, we take the average of those countries that have specified the term in office of the CB governor in their central bank law (5 years). Finally, we take the maximum legal term in office of 8 years. In the analysis below we focus on the third alternative but the results are robust to this particular choice.<sup>11</sup>

The regressions take the form:

$$tor_{it} = \alpha + \beta_1 shelap_{it-1} + \beta_2' X_{it-1} + \eta_i + \varepsilon_{it} , \quad (4)$$

where *tor* is one when at least one change of governors occurred; *shelap* is the share of the governors' term in office elapsed, and *X* is a vector of variables testing our hypotheses.  $\eta_i$  are the country dummies and  $\varepsilon_{it}$  is an i.i.d. disturbance.

We start testing each hypothesis separately by adding the corresponding variables one at the time to a model that only contains the share of the term in office elapsed. As important covariates are thus missing, these models are likely to be misspecified and can just be a starting point.

To test the robustness of our models, we employ the so-called Extreme Bounds Analysis (EBA) to examine to what extent our variables are robust determinants of the number of turnovers. The EBA has been widely used in the economic growth literature.<sup>12</sup> The use of the EBA can be motivated as follows. In research an important difficulty is that several models may all seem reasonable given

---

<sup>11</sup> Results are available on request.

<sup>12</sup> For instance, Durham (2004) employs the EBA to examine the relationship between institutions and economic growth, while Baxter and Kouparitsas (2005) use it to analyse which variables affect business cycle synchronization.

the data, but yield different conclusions about the parameters of interest. The EBA aims to examine how sensitive the estimation results are for the inclusion of additional variables. We estimate equations of the following general form:

$$tor_{i,t} = \alpha M_{i,t} + \beta F_{i,t} + \gamma Z_{i,t} + u_{i,t} \quad (5)$$

where  $M$  is a vector of ‘standard’ explanatory variables;  $F$  is the variable of interest;  $Z$  is a vector of up to three (here we follow Levine and Renelt 1992) possible additional explanatory variables, which according to the literature may be related to the dependent variable; and  $u$  is an error term. The extreme bounds test as suggested by Leamer (1983) for variable  $F$  states that if the lower extreme bound for  $\beta$  – i.e. the lowest value for  $\beta$  minus two standard deviations – is negative, while the upper extreme bound for  $\beta$  – i.e. the highest value for  $\beta$  plus two standard deviations – is positive, the variable  $F$  is not robustly related to  $Y$ . In our case, the  $F$  variables follow from the hypotheses formulated in section 2. The variables in the  $Z$  vector follow from the other hypotheses formulated. There is a trade-off with regard to the choice of variables to be included in the  $M$  vector: the more variables are included in this vector, the smaller the likelihood that the models are misspecified. However, given the unbalanced nature of our sample, including more variables substantially reduces the number of observations on which the results are based. We therefore chose two specifications. In the first one the  $M$  vector only includes the remaining time in office, while in the second specification the  $M$  vector consists of variables selected on the basis of the general-to-specific approach as suggested by Temple (2000). Specifically, we test down from a general specification including all variables, and consecutively eliminating those with the smallest t-statistic until the model only contains variables that are significant at the ten percent level at least. The first approach guarantees that the results are based on the maximum number of observations available, but is likely to include many misspecified regressions, while the second approach is based on a properly specified model, but contains fewer observations.

It is rare in empirical research that we can say with certainty that some model dominates all others in all possible dimensions. In these circumstances, it makes sense to check how sensitive the findings are to alternative modelling choices. The EBA provides a relatively simple means of doing exactly this. Still, the EBA has been

criticized. Sala-i-Martin (1997) rightly argues that the test applied is too strict. If the distribution of  $\beta$  has some positive and some negative support, then one is bound to find at least one regression for which the estimated coefficient changes sign if enough regressions are run. Sala-i-Martin therefore suggests to analyse the entire distribution of the estimated  $\beta$  coefficients. We report the percentage of the regressions in which the coefficient of the variable  $F$  is significantly different from zero at the 5 percent level as well as the outcomes of the cumulative distribution function (CDF) test. The CDF test as proposed by Sala-i-Martin (1997) is based on the fraction of the cumulative distribution function lying on each side of zero. CDF(0) indicates the larger of the areas under the density function either above or below zero; in other words, regardless of whether this is CDF(0) or 1-CDF(0). So CDF(0) will always be a number between 0.5 and 1.0. Following Sala-i-Martin, a variable is considered to be robust if the CDF(0) test statistic  $> 0.90$ .<sup>13</sup>

#### *4. Empirical results: full sample*

Tables 3 presents the results when each variable is included one at the time in addition to the share of the current term in office already elapsed. In all regressions, the share of the current term in office already elapsed is significant at the one percent level, with the expected positive coefficient. Furthermore, the signs of the coefficients that are significant at the ten percent level or more are in line with the hypotheses as outlined in section 2.

[insert Table 3]

The results in Table 3 lend support to hypotheses 4, 6, 7, 8 and 14. The likelihood that a central bank governor will be changed is higher if a greater number of

---

<sup>13</sup> Recently, Sala-i-Martin *et al.* (2004) proposed a so-called Bayesian Averaging of Classical Estimates (BACE) approach to check the robustness of different explanatory variables in growth regressions. This approach builds upon the approach as suggested by Sala-i-Martin (1997) in the sense that different specifications are estimated (by OLS) to check the sensitivity of the coefficient estimate of the variable of interest. The major innovation of BACE as compared to Sala-i-Martin's approach is that there is no set of fixed variables included and the number of explanatory variables in the specifications is flexible. The biggest disadvantages of the BACE approach are the need of having a balanced data set, i.e. an equal number of observations for all regressions (due to the chosen weighting scheme), the restriction of limiting the list of potential variables to be less than the number of observations and the computational burden.

veto players drop from the government. This is in line with hypothesis 4. Also hypothesis 6 on the impact of elections and new governments is supported: a new government in power and elections increase the likelihood that the CB governor will be replaced. There is evidence in favour of hypothesis 8 according to which political regime instability increases the probability of turnovers. The coefficients of all three indicators of regime instability are significantly different from zero. High inflation increases the likelihood that the CEO of the central bank will be replaced (hypothesis 8). Finally, when there is a left wing government in office the probability that a new governor will be appointed increases (hypothesis 14).

The results clearly show that most of our hypotheses are not supported by the data. Specifically, the variables debt and budget deficits, checks and balances, the index for currency crises, and openness to trade are not related to turnover rates.<sup>14</sup> Hypotheses 10-13 are also not supported by these simple regressions.

Table 4 shows the outcomes for the EBA in which the  $M$  vector only consists of the share of the current term in office elapsed. The results lend support to four hypotheses. First, the appointment of a new central bank governor is more likely with a greater percentage of veto players dropping. Second, turnovers are significantly more likely after an election. Third, the probability that the CEO of the central bank will be replaced increases with political regime instability (measured by the frequency of coups and by changes to and from democracy; the other indicator of regime instability is not robustly related to the likelihood that the central bank governor will be replaced). Finally, inflation appears robustly related to central bank governor changes. Whereas Table 3 suggests support for hypothesis 14, the EBA analysis as reported in Table 4 does not.

[insert Table 4]

As pointed out in section 3, we have two versions of the EBA. In Table 4 the only variable in the  $M$  vector is the share of the current term in office elapsed. Consequently, the estimated models may be misspecified. As an alternative, we have therefore followed the suggestion of Temple (2000) to identify the variables in the  $M$  vector by the general-to-specific approach. The results are presented in Table 5, using

---

<sup>14</sup> The latter result contradicts the findings by D'Amato *et al.* (2005). However, these authors use legal indicators of CBI.

different estimation methods. Column (1) shows the conditional Logit model using all observations, while in Column 2 we omit country/years with more than one turnover to check whether the results are sensitive to the inclusion of county-years with more than one turnover. It turns out that the outcomes of both models are virtually the same. In columns (3) and (4) we exclude (conditional) fixed effects. While the results in column (3) are estimated by conditional Logit, column (4) shows Probit estimations for comparison. The coefficients in the regressions are of course different because different mathematical functions are being fitted. Still, the qualitative results are similar, increasing our confidence in their reliability.

[insert Table 5]

The estimation results as reported in Table 5 suggest that five variables should be included in the  $M$  vector: the share of the current term elapsed, the share of veto players who drop, the election dummy, coups, and inflation. Table 6 shows the outcomes of the EBA when these variables are taken up in the  $M$  vector. The results show that the CDF(0) for all variables in the  $M$  vector exceeds 0.90. These results therefore confirm most of our previous findings. In addition, two variables also seem to be robustly related to the likelihood that a central bank governor will be replaced, i.e. the government budget deficit and private credit. Note, however, that the share of regressions in which the coefficients of these variables are significantly different from zero is very low.

[insert Table 6]

### 5. *Further analysis*

Our results suggest that apart from the share of the current term in office elapsed, high levels of political and regime instability, the occurrence of elections, and high inflation increase the probability that the CEO of the central bank will be replaced. The corresponding marginal effects are far from being negligible. Using the results as shown in column 1 of Table 5, one additional year in office increases the probability of a turnover by 17 percent. The corresponding percentages for the other variables are 7 (drop of veto players), 14 (elections), 22 (coups), and 21 (inflation).

How well does our model predict the probability that the central bank governor will be replaced in a particular country? To answer this question, we use the quadratic probability score (*QPS*) proposed by Diebold and Rudebusch (1989), which gives an indication of the average closeness of the predicted probabilities and the observed realizations, as measured by a dummy variable that is one when the central bank governor is replaced and zero otherwise.<sup>15</sup> Suppose we have a time series for each country of length  $T$  of probability forecasts  $P_t$ , where  $P_t$  is the predicted probability that the central bank governor will be replaced in period  $t$ . Similarly, let  $Z_t$  be the corresponding time series of realisations;  $Z_t$  equals one if the governor is replaced in period  $t$  and equals zero otherwise. The *QPS* is then given by:

$$QPS = \frac{1}{T} \sum_{t=1}^T 2(P_t - Z_t)^2 \quad (6)$$

The *QPS* ranges from 0 to 2, with a score of 0 corresponding to perfect accuracy if the estimated probability is 1 and a turnover does occur for all  $t$ . A score of 2 shows that the model indicates a perfectly false signal in which the estimated probability is 1 and a change does not occur for all  $t$ . Table 7 reports the accuracy of the model, both for the full sample as well as for various subsamples. For comparison, a naïve model that always predicts no turnover has a *QPS* of 0.205 for our sample data. A model always predicting a turnover to occur has a score of 0.8.

[insert Table 7]

Table 7 shows that our model always outperforms the naïve predictions. However, the table also shows that there is substantial variation among our subsamples. *QPS* is lowest for OECD countries and non-democracies (0.16), and highest for non-OECD countries and democratic ones (0.20). In the overall sample, the *QPS* is 0.19.

---

<sup>15</sup> Jacobs *et al.* (2005) use this method to examine their model on the likelihood of currency crisis in Asia.

As Table 7 suggests that the accuracy of the model is much better for some groups of countries than for others, we have redone our analysis for various sub samples distinguishing between:

- OECD vs. non-OECD countries, and
- democratic vs. non-democratic countries.

The literature on CBI suggests that the relationship between CBI and inflation is different in industrial vs. non-industrial countries. For instance, legal indicators for CBI turn out to be related to inflation in OECD countries, but this relationship is not apparent for developing countries. We have therefore redone the EBA for the OECD countries and for the non-OECD countries. Table 8 shows that there are indeed some remarkable differences between these two groups of countries. The only variable in the base model that is robust for the OECD countries is the share of the current term in office elapsed. In addition, the presence of capital controls has a  $CDF(0) > 0.90$ , which lends some support to the views put forward by Maxfield (1997). For the non-OECD countries most of our previous results are confirmed except for the indicator of political instability (number of veto players who drop) which appears non-robust.

Finally, we distinguish between democratic and non-democratic countries as the incentives and possibilities for policy makers to replace the central bank governor are likely to be different across the regimes. As a cut-off point to differentiate between country/years we have taken the average value of the Polity IV democracy score among our sample of countries ( $=3.8$ ). As the final columns in Table 8 show, there are indeed some differences between the results for both groups of countries. Inflation is no longer robust in the non-democratic countries. Not surprisingly, elections are no longer robust for these countries also. Interestingly, the presence of autonomous regions appears now robust in both sub samples.

[insert Table 8]

## 6. *Summary and conclusions*

We use a new data set on the term in office of central bank governors in 137 countries covering the period 1970-2004 to estimate a model for the chance that a central bank

governor is replaced. Most hypotheses that we derive from the literature on the determinants of central bank independence and that have been tested using conditional logit models and the Extreme Bounds Analysis are rejected. We find that the share of the current term in office elapsed, high levels of political and regime instability, the occurrence of elections in democracies, and high inflation increase the probability of a turnover, although the latter result does not hold for non-democratic countries.

Our findings on the robust impact of inflation on the likelihood that a central bank governor will be replaced, is also relevant for the literature on central bank independence as the use of the turnover rate of central bank governors as a proxy for independence has been criticized for being endogenous. Our evidence that the likelihood that a central bank governor will be fired increases with higher inflation rates lends support to this critique.



## *References*

- Banks, A.S. (1999), Cross National Time-Series Data Archive, Banner Software, Inc.: Binghamton, NY.
- Baxter, M. and M. Kouparitsas (2005), Determinants of Business Cycle Comovement: A Robust Analysis, *Journal of Monetary Economics*, 52, 113-157.
- Beck, T., A. Demirgüç-Kunt and R. Levine (1999), A New Database on Financial Development and Structure, Policy Research Working Paper No. 2146, Washington DC: World Bank, updated 2005.
- Beck, T., A. Demirgüç-Kunt and R. Levine (2001), New tools in comparative political economy: the database of political institutions, *World Bank Economic Review*, 15(1), 165-176.
- Berger, H., J. de Haan and S.C.W. Eijffinger (2001), Central Bank Independence: An Update of Theory and Evidence, *Journal of Economic Surveys* 15, 3-40.
- Bernhard, W. (1998), A Political Explanation of Variations in Central Bank Independence, *American Political Science Review*, 92(2), 311-327.
- Bernhard, W.B., J.L. Broz and W.R. Clark (2002), The political economy of monetary institutions, *International Organization*, 56(4), 693-723.
- Boyd, J.H., R. Levine und B.D. Smith (2001), The impact of inflation on financial sector performance, *Journal of Monetary Economics*, 47(2), 221-48.
- Brumm, H.J. (2000), Inflation and Central Bank Independence: Conventional Wisdom Redux, *Journal of Money, Credit, and Banking*, 32(4), 807-819.
- Campillo, M. and J.A. Miron (1997), Why does inflation differ across countries?, in: C.D. Romer and D.H. Romer (eds.), *Reducing Inflation: Motivation and Strategy*, Chicago: University of Chicago Press.
- Chamberlain, G. (1980), Analysis of covariance with qualitative data, *Review of Economic Studies*, 47, 225-238.
- Claessens, S. and L. Laeven (2003), Financial development, property rights and growth, *Journal of Finance*, 58, 2401-2436.
- Cukierman, A. (1992), *Central Bank Strategy, Credibility, and Independence*, Cambridge: MIT Press.
- Cukierman, A. (1994), Commitment through Delegation, Political Influence and Central Bank Independence, in: J.A.H. de Beaufort Wijnholds, S.C.W. Eijffinger and L.H. Hoogduin (eds.), *A Framework for Monetary Stability*, Dordrecht/Boston/London: Kluwer Academic Publishers, 55-74.

- Cukierman, A., S.B. Webb and B. Neyapti (1992), Measuring the independence of central banks and its effects on policy outcomes, *The World Bank Economic Review*, 6, 353-398.
- Cukierman, A., and S.B. Webb (1995), Political Influence on the Central Bank: International Evidence, *The World Bank Economic Review*, 9, 397-423.
- D'Amato, M., B. Pistoreshi and F. Salsano (2005), On the Determinants of Central Bank Independence in Open Economies, mimeo.
- De Haan, J. and C.L.J. Siemann (1996), Central Bank Independence, Inflation and Political Instability, *Journal of Policy Reform*, 1, 135-147.
- De Haan, J. and G.J. van 't Hag (1995), Variation in Central Bank Independence across Countries: Some Provisional Empirical Evidence, *Public Choice*, 85, 335-351.
- De Haan, J. and W. Kooi (2000), Does central bank independence really matter? New evidence for developing countries using a new indicator, *Journal of Banking and Finance*, 24, 643-664.
- Dreher, A., B. Herz and V. Karb (2006), Is There a Causal Link between Currency and Debt Crises? *International Journal of Finance and Economics*, forthcoming.
- Dreher, A. and Lars-H.R. Siemers (2005), The Intriguing Nexus Between Corruption and Capital Account Restrictions, KOF Working Paper 113, Swiss Federal Institute of Technology (ETH Zurich).
- Dreher, A. and R. Vaubel (2005), Foreign Exchange Intervention and the Political Business Cycle: A Panel Data Analysis, ETH Zurich and Mannheim University, mimeo.
- Diebold, F. and G. Rudebusch (1989), Scoring the leading indicators, *Journal of Business*, 62(3), 369-391.
- Durham, J.B. (2004), Economic growth and institutions: Some sensitivity analyses, 1961-2000, *International Organization*, 58, 485-529.
- Farvaque, E. (2002), Political determinants of central bank independence, *Economics Letters*, 77, 131-135.
- Frankel, J.A. (2005), Mundell-Fleming Lecture: Contractionary Currency Crashes in Developing Countries, *IMF Staff Papers* 52, 2: 149-192.
- Grilli, V. and G.M. Milesi-Ferretti (1995), Economic Effects and Structural Determinants of Capital Controls, *IMF Staff Papers*, 42(3), 517-551.

- Hallerberg, M. (2002), Veto players and the choice of monetary institutions, *International Organization*, 56(4), 775-802.
- Hayo, B. (1998), Inflation culture, central bank independence and price stability, *European Journal of Political Economy*, 14, 241-263.
- Jacobs, J.P.A.M., G.H. Kuper and Lestano (2005), Currency crises in Asia: A multivariate logit approach, CCSO Working Papers No. 2005/06.
- Keefer, P. and D. Stasavage (2000), Bureaucratic delegation and political institutions: When are independent central banks irrelevant? World Bank Policy Research working paper 2356.
- Keefer, P. and D. Stasavage (2002), Checks and Balances, Asymmetric Information, and the Credibility of Monetary Commitments, *International Organization*, 56(4), 751-774.
- Lijphart, A. (1999), *Patterns of Democracy: Government Forms and Performance in Thirty-Six Countries*, New Haven, Conn.: Yale University Press.
- Leamer, E.E. (1983), Let's take the con out of econometrics, *American Economic Review*, 73, 31-43.
- Levine, R. and D. Renelt (1992), A sensitivity analysis of cross-country growth regressions, *American Economic Review*, 82, 942-963.
- Lohmann, S. (1998), Federalism and Central Bank Independence: The Politics of German Monetary Policy, 1957-92, *World Politics*, 50(3), 401-446.
- Marshall, M.G. and K. Jaggers (2000), Polity IV project: political regime characteristics and transitions, 1800-2000, <http://www.cidcm.umd.edu/inscr/polity/>.
- Maxfield, S. (1997), *Gatekeepers of Growth, The International political economy of central banking in developing countries*, Princeton: Princeton University Press.
- Moser, P. (1999), Checks and balances, and the supply of central bank independence. *European Economic Review*, 43, 1569-1593.
- Posen, A. (1993), Why Central Bank Independence Does Not Cause Low Inflation: There Is No Institutional Fix for Politics, in: R. O'Brien (ed.), *Finance and the International Economy*: 7, Oxford: Oxford University Press.
- Posen, A.S. (1995), Declarations Are Not Enough: Financial Sector Sources of Central Bank Independence, in: *NBER Macroeconomics Annual 1995*.
- Romer, D. (1993), Openness and inflation: Theory and evidence, *Quarterly Journal of Economics*, 108, 869-904.

- Sala-i-Martin, X. (1997), I just ran two millions regressions, *American Economic Review*, 87(2), 178-183.
- Sala-i-Martin, X., G. Doppelhofer and R.I. Miller (2004), Determinants of Long-term Growth: A Bayesian Averaging of Classical estimates (BACE) Approach, *American Economic Review*, 94(4), 813-835.
- Scheve, K. (2004), Public inflation aversion and the political economy of macroeconomic policymaking, *International Organization*, 58, 1-34.
- Temple, J. (1998), Central bank independence and inflation: good news and bad news, *Economics Letters*, 61, 215-219.
- Temple, J. (2000), Growth regressions and what the textbooks don't tell you, *Bulletin of Economic Research*, 52 (3), 181-205.
- World Bank (2005), *World Development Indicators*, CD-Rom, Washington, DC.

Table 1. Variables used to test the hypotheses

Hypothesis:	Variable used:	Source:
1. The higher the stock of external debt the longer the term in office of the governor will be	External debt of central government as % of GDP	World Bank, WDI (2005)
2. The higher the government budget deficit, the longer the term in office of the governor will be	Government budget balance as % of GDP	World Bank, WDI (2005)
3. The lower the restrictions on international financial transactions are, the longer the term in office of the governor will be	Average of 4 indicators (surrender of export proceeds, multiple exchange rate, capital account restrictions, current account restrictions)	Grilli and Milesi-Ferretti (1995)
4/5. The higher the level of political instability, the shorter/longer the term in office of the governor will be	Percentage of veto players who drop	Beck <i>et al.</i> (2001)
6. A CB turnover is more likely after a national election and when the government has changed	Part of a year which is within 12 months after an executive or legislative election; Dummy for new chief executive party	Dreher and Vaubel (2005), Beck <i>et al.</i> (2001)
7. The higher the level of regime instability, the shorter the term in office of the governor will be	Dummy variable that is 1 if the change in the Polity democracy variable > 3; First principal component of various instability indicators; coups	Marshall and Jaggers (2000), Banks (1999)
8. The higher the rate of inflation, the shorter the term in office of the governor will be	Transformed inflation	World Bank, WDI (2005)
9. The more developed a financial sector is, the longer the term in office of the governor will be	Private credit by deposit money banks and other financial institutions scaled to GDP	Beck <i>et al.</i> (1999)

Table 1 (continued).

Hypothesis:	Variable used:	Source:
10. The more checks and balances are present in the political system, the longer the term in office of the governor will be	Checks and balances	Beck <i>et al.</i> (2001)
11. In case of a high degree of political polarization, the more checks and balances are present in the political system, the longer the term in office of the governor will be	polarization*checks and balances	Beck <i>et al.</i> (2001)
12. In countries with a bi-cameral political system the term in office of the governor will be longer than in countries without such a system	Dummy that is one if there are two chambers	Beck <i>et al.</i> (2001)
13. In countries with a federal political system the term in office of the governor will be longer than in countries without such a system	Dummy indicating whether there are autonomous regions	Beck <i>et al.</i> (2001)
14. Under left-wing governments the term in office of the governor will be shorter than under right-wing governments	Party of chief executive is left-wing	Beck <i>et al.</i> (2001)
15. A large devaluation or currency crisis increases the likelihood that the CB governor will lose his job	Depreciation of the nominal exchange rate with respect to the US\$; A country is defined as experiencing a currency crisis when index covering the rate of change of the exchange rate and international currency reserves is one standard deviation greater than the index mean	World Bank, WDI (2005), Dreher et al. (2006)
16/17. The smaller the degree of a country's openness, the shorter/longer the term in office of the governor will be	Sum of exports and imports of goods and services measured as a share of gross domestic product	World Bank, WDI (2005)

Table 2. Correlations and number of observations

	Turnover	Share elapsed	External debt	Budget deficit	Controls	Veto players drop	Elections	New government	Change in democracy	Instability	Coups	Inflation	Private credit	Checks	Polarization *checks	Two assemblies	Autonomous regions	Left	Depreciation	Currency crisis	Openness
Turnover, dummy	1.00 (4226)																				
Share of term elapsed	0.02 (4070)	1.00 (4153)																			
External debt (share of GDP), t-1	-0.02 (2438)	0.03 (2420)	1.00 (3568)																		
Budget deficit (share of GDP), t-1	0.02 (737)	-0.03 (751)	-0.22 (657)	1.00 (907)																	
Capital controls, t-1	0.06 (2921)	0.01 (2929)	0.08 (2373)	-0.03 (633)	1.00 (3618)																
Percentage of veto players who drop	0.07 (3003)	-0.06 (3044)	0.04 (2673)	-0.05 (672)	0.01 (2852)	1.00 (4887)															
Elections	0.08 (3649)	0.02 (3653)	0.01 (3171)	-0.02 (711)	-0.01 (3497)	0.25 (4887)	1.00 (4226)														
New government, dummy	0.05 (4226)	-0.06 (4153)	0.01 (3568)	-0.05 (907)	0.01 (3618)	0.63 (4887)	0.02 (4070)	1.00 (4153)													
Change in democracy, dummy	0.09 (4226)	-0.04 (4153)	0.02 (3568)	0.00 (907)	0.06 (3618)	0.05 (4887)	0.01 (4070)	0.89 (4153)	1.00 (4153)												
Instability	0.09 (3609)	-0.08 (3537)	0.03 (3130)	-0.02 (706)	0.10 (3392)	0.11 (4279)	-0.02 (2438)	0.03 (2420)	0.03 (2420)	1.00 (3568)											
Coups	0.09 (3348)	-0.01 (3270)	-0.01 (2880)	-0.01 (540)	0.04 (3133)	0.04 (3902)	0.02 (737)	-0.03 (751)	-0.03 (751)	-0.22 (657)	1.00 (907)										
Inflation, t-1	0.13 (3434)	-0.12 (3461)	0.21 (2969)	-0.07 (877)	0.31 (3208)	0.05 (3330)	0.06 (2921)	0.01 (2929)	0.06 (2929)	0.08 (2373)	-0.03 (633)	1.00 (3618)									
Private credit (percent of GDP), t-1	-0.07 (2872)	0.08 (2882)	-0.10 (2443)	0.20 (672)	-0.47 (2967)	0.00 (2984)	0.07 (3003)	-0.06 (3044)	-0.04 (3044)	0.04 (2673)	-0.05 (672)	0.01 (2852)	1.00 (4887)								
Checks and balances	0.02 (3077)	-0.01 (3111)	-0.10 (2697)	0.08 (665)	-0.17 (2921)	0.20 (4771)	0.08 (3649)	0.02 (3653)	0.01 (3653)	0.01 (3171)	-0.02 (711)	-0.01 (3497)	0.25 (4887)	1.00 (4991)							
Polarization*checks and balances	0.02 (2935)	0.02 (2969)	-0.06 (2556)	0.06 (597)	-0.21 (2798)	0.10 (4593)	0.05 (4226)	-0.06 (4153)	-0.04 (4153)	0.01 (3568)	-0.05 (907)	0.01 (3618)	0.63 (4887)	0.69 (4805)	1.00 (4805)						
Two assemblies, dummy	-0.01 (3013)	0.04 (3020)	-0.14 (2605)	0.05 (616)	-0.19 (2933)	0.04 (3725)	0.09 (4226)	-0.04 (4153)	-0.01 (4153)	0.02 (3568)	0.00 (907)	0.06 (3618)	0.05 (4887)	0.43 (3834)	0.32 (3660)	1.00 (4439)					
Autonomous regions, dummy	-0.01 (3031)	-0.02 (3063)	-0.02 (2672)	0.01 (654)	-0.03 (2908)	0.04 (4681)	0.09 (3609)	-0.08 (3537)	-0.06 (3537)	0.03 (3130)	-0.02 (706)	0.10 (3392)	0.11 (4279)	0.05 (4775)	0.00 (4600)	0.03 (3796)	1.00 (4955)				
Left governments, dummy	0.03 (3860)	-0.07 (3778)	0.11 (3303)	-0.02 (787)	0.08 (3617)	0.04 (4887)	0.09 (3348)	-0.01 (3270)	0.01 (3270)	-0.01 (2880)	-0.01 (540)	0.04 (3133)	0.13 (3902)	0.04 (4991)	0.04 (4805)	0.01 (4439)	0.08 (4955)	1.00 (6863)			
Currency Depreciation, t-1	0.04 (3726)	-0.04 (3750)	0.17 (3430)	-0.06 (898)	0.09 (3442)	0.03 (4300)	0.13 (3434)	-0.12 (3461)	-0.06 (3461)	0.21 (2969)	-0.07 (877)	0.31 (3208)	0.05 (3330)	0.02 (4379)	0.01 (4197)	-0.01 (3882)	-0.01 (4342)	0.03 (5313)	1.00 (5688)		
Currency crisis, dummy, t-1	0.01 (3484)	-0.03 (3497)	0.06 (3214)	-0.01 (857)	0.03 (3250)	0.03 (3617)	-0.07 (2872)	0.08 (2882)	0.06 (2882)	-0.10 (2443)	0.20 (672)	-0.47 (2967)	0.00 (2984)	0.08 (3682)	0.06 (3506)	0.04 (3484)	0.04 (3624)	0.05 (4357)	0.19 (4694)	1.00 (4694)	
Openness, t-1	-0.06 (3485)	0.03 (3505)	0.14 (3406)	0.00 (862)	-0.26 (3413)	-0.09 (3756)	0.02 (3077)	-0.01 (3111)	-0.01 (3111)	-0.10 (2697)	0.08 (665)	-0.17 (2921)	0.20 (4771)	-0.09 (3830)	-0.04 (3644)	-0.08 (3570)	-0.06 (3812)	-0.08 (4662)	-0.03 (4659)	0.00 (4273)	1.00 (4965)

Table 3. Central Bank Governor Turnovers, conditional Logit

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)
Share of term elapsed	0.519 (5.64***)	2.544 (7.04***)	0.686 (7.84***)	0.751 (8.42***)	0.638 (8.3***)	0.544 (7.94***)	0.541 (7.89***)	0.717 (8.93***)	0.787 (9.25***)	0.696 (8.63***)	0.683 (7.82***)	0.390 (4.89***)	0.770 (8.31***)	0.352 (4.55***)	0.410 (4.96***)	0.624 (8.36***)	0.652 (8.58***)	0.677 (8.59***)	0.669 (8.56***)
External debt (share of GDP), t-1	0.001 (0.49)																		
Budget deficit (share of GDP), t-1		0.009 (0.22)																	
Capital controls, t-1			0.262 (1.21)																
Percentage of veto players who drop				0.597 (3.91***)															
Elections					0.652 (4.88***)														
New government, dummy						0.490 (3.42***)													
Change in democracy, dummy							1.060 (3.94***)												
Instability								0.224 (2.89***)											
Coups									0.954 (3.73***)										
Inflation, t-1										1.270 (3.62***)									
Private credit (percent of GDP), t-1											0.276 (0.86)								
Checks and balances												0.037 (1.21)							
Polarization*checks and balances													0.022 (1.21)						
Two assemblies, dummy														-0.068 (0.49)					
Autonomous regions, dummy															-0.111 (0.47)				
Left governments, dummy																0.264 (2.07**)			
Currency Depreciation, t-1																	1.679 (1.19)		
Currency crisis, dummy, t-1																		0.218 (1.55)	
Openness, t-1																			0.002 (0.75)
Prob > Chi2	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Fixed effects	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	yes	no	yes	no	no	yes	yes	yes	yes
Number of countries	93	59	102	128	130	132	132	129	128	123	115	133	128	129	127	130	130	127	125
Number of observations	2392	554	2869	2956	3563	4050	4050	3460	3194	3362	2814	3049	2882	2974	3003	3681	3655	3426	3403
Number of countries	93	59	102	128	130	132	132	129	128	123	115	133	128	129	127	130	130	127	125
Number of observations	2391	554	2869	2956	3563	4050	4050	3460	3194	3362	2815	3049	2882	2974	3003	3681	3655	3426	3403

Notes: \* denotes significant at 10% level; \*\* significant at 5% level; \*\*\* significant at 1% level.



Table 4. Extreme Bounds Analysis, only share of term elapsed in *M* vector model

	beta (min)	beta (max)	beta (average)	beta (std)	percent significant	cdf
Base model						
Share of term elapsed	0.29	4.40	1.04	0.15	100.00	1.00
Variables with time series variation						
External debt (share of GDP), t-1	-0.02	0.01	0.00	0.00	0.00	0.70
Budget deficit (share of GDP), t-1	-0.12	0.23	0.03	0.05	0.00	0.73
Capital controls, t-1	-3.01	2.50	0.05	0.36	0.00	0.68
Percentage of veto players who drop	-1.32	2.11	0.60	0.23	89.46	0.98
Elections	-0.01	2.50	0.74	0.20	99.88	1.00
New government, dummy	-1.02	2.10	0.31	0.22	34.93	0.89
Change in democracy, dummy	-4.53	2.15	0.66	0.43	75.12	0.92
Instability	-0.24	0.95	0.17	0.12	19.49	0.89
Coups	-2.35	5.91	1.03	0.50	77.21	0.98
Inflation, t-1	-3.20	5.15	1.18	0.55	78.80	0.96
Private credit (percent of GDP), t-1	-9.67	9.95	0.94	0.66	20.96	0.86
Polarization*checks and balances	-0.15	0.19	0.02	0.03	7.84	0.82
Left governments, dummy	-1.78	2.14	0.16	0.24	1.96	0.79
Currency Depreciation, t-1	-18.77	18.01	0.88	1.95	0.00	0.73
Currency crisis, dummy, t-1	-1.08	1.86	0.24	0.21	4.53	0.86
Openness, t-1	-0.06	0.05	0.00	0.01	0.00	0.74
Variables with no time series variation						
Checks and balances	-0.13	0.23	0.04	0.03	8.82	0.86
Autonomous regions, dummy	-0.37	1.58	0.12	0.14	15.81	0.71
Two assemblies, dummy	-2.68	2.10	-0.11	0.26	0.00	0.75

Notes: the share of time in office elapsed is included in all regressions. Estimation with conditional fixed effects Logit and, when variables do not vary over time, Logit.

Table 5. Selection of the variables to be included in the *M* vector using the general-to-specific approach

	(1)	(2) <sup>a</sup>	(3)	(4)
Share of term elapsed	0.825 (7.97***)	0.817 (7.87***)	0.378 (4.24***)	0.217 (4.28***)
Percentage of veto players who drop	0.340 (1.92*)	0.370 (2.05**)	0.340 (1.98**)	0.190 (1.94*)
Election	0.650 (3.93***)	0.610 (3.59***)	0.730 (4.56***)	0.420 (4.45***)
Coups	1.040 (3.05***)	1.020 (2.93***)	1.160 (3.59***)	0.690 (3.55***)
Inflation, t-1	1.020 (2.32**)	0.740 (1.56)	1.630 (4.92***)	0.970 (4.91***)
Method	Logit	Logit	Logit	Probit
Fixed effects	yes	yes	no	no
Prob > Chi2	0.00	0.00	0.00	0.00
Sample	all	all	all	all
Number of countries	119	119	124	124
Number of observations	2339	2300	2362	2362

Notes:

<sup>a</sup>: country/years with more than one turnover excluded

\* denotes significant at 10% level; \*\* significant at 5% level; \*\*\* significant at 1% level.

Table 6. Extreme Bounds Analysis using an extended set of variables in the *M* vector

	beta (min)	beta (max)	beta (average)	beta (std)	percent significant	cdf
Base model						
Share of term elapsed	0.41	4.31	1.21	0.23	100.00	1.00
Percentage of veto players who drop	-2.41	1.62	0.35	0.31	32.73	0.90
Elections	-0.08	3.07	0.83	0.27	98.64	1.00
Coups	-1.75	5.76	1.28	0.61	76.82	0.98
Inflation, t-1	-3.04	5.67	1.05	0.72	57.27	0.91
Variables with time series variation						
External debt (share of GDP), t-1	-0.01	0.01	0.00	0.00	0.00	0.68
Budget deficit (share of GDP), t-1	-0.08	0.25	0.09	0.06	0.00	0.90
Capital controls, t-1	-2.99	2.79	-0.02	0.53	0.00	0.58
New government, dummy	-1.31	2.83	-0.03	0.38	1.82	0.85
Change in democracy, dummy	-5.25	1.73	0.16	0.58	5.45	0.92
Instability	-0.31	0.91	0.10	0.15	0.00	0.68
Private credit (percent of GDP), t-1	-13.95	10.02	1.71	1.11	36.97	0.92
Polarization*checks and balances	-0.12	0.19	0.03	0.04	6.06	0.83
Left governments, dummy	-2.07	2.01	0.11	0.34	0.00	0.77
Currency Depreciation, t-1	-33.29	19.59	-0.69	3.11	0.00	0.74
Currency crisis, dummy, t-1	-1.12	1.90	0.29	0.29	0.00	0.81
Openness, t-1	-0.07	0.05	0.00	0.01	0.00	0.64
Variables with no time series variation						
Checks and balances	-0.11	0.27	0.04	0.04	0.00	0.82
Autonomous regions, dummy	-2.79	3.13	-0.19	0.37	0.00	0.77
Two assemblies, dummy	-0.40	1.39	0.13	0.17	15.91	0.75

Notes: variables included in the *M* vector: the share of the current term elapsed, the share of veto players who drop, the election dummy, coups, and inflation. Estimation with conditional fixed effects Logit and, when variables do not vary over time, Logit.

Table 7. Quadratic Probability Scores

	QPS
All countries	0.19
Non OECD	0.20
OECD	0.16
Democratic	0.20
Non-democratic	0.16

Table 8: EBA (extended base model) for different sub samples

	Non OECD		OECD		Democratic		Non-democratic	
	% significant	cdf	% significant	cdf	% significant	cdf	% significant	cdf
Base model								
Share of term elapsed	100.00	1.00	80.45	0.99	100.00	1.00	82.27	0.95
Percentage of veto players who drop	31.82	0.88	8.64	0.69	0.45	0.82	7.88	0.88
Elections	99.55	1.00	41.82	0.87	100.00	1.00	0.00	0.78
Coups	76.82	0.98	n.a.	n.a.	24.55	0.91	62.27	0.97
Inflation, t-1	38.64	0.92	0.91	0.79	75.00	0.95	0.00	0.66
Variables with time series variation								
External debt (share of GDP), t-1	0.00	0.67	42.42	0.88	0.00	0.57	0.83	0.84
Budget deficit (share of GDP), t-1	1.21	0.93	0.00	0.78	0.00	0.92	n.a.	n.a.
Capital controls, t-1	0.00	0.66	32.12	0.91	0.00	0.57	0.00	0.68
New government, dummy	6.67	0.91	0.00	0.64	0.00	0.78	0.00	0.87
Change in democracy, dummy	0.00	0.91	0.00	0.69	37.58	0.91	0.00	0.69
Instability	27.27	0.78	0.00	0.72	0.00	0.63	0.00	0.60
Private credit (percent of GDP), t-1	72.73	0.97	0.00	0.77	20.00	0.83	59.17	0.97
Polarization*checks and balances	0.00	0.76	13.33	0.78	0.00	0.77	0.00	0.64
Left governments, dummy	0.00	0.79	0.00	0.62	0.00	0.74	0.00	0.65
Currency Depreciation, t-1	0.00	0.72	0.00	0.65	0.00	0.57	0.00	0.71
Currency crisis, dummy, t-1	0.00	0.70	0.00	0.80	3.03	0.84	0.00	0.63
Openness, t-1	0.00	0.72	6.06	0.79	0.00	0.77	0.00	0.66
Variables with no time series variation								
Checks and balances	5.00	0.87	0.45	0.71	0.00	0.61	0.00	0.79
Autonomous regions, dummy	23.64	0.89	9.55	0.86	53.94	0.92	29.70	0.97
Two assemblies, dummy	0.91	0.69	n.a.	n.a.	0.00	0.69	0.00	0.83

## Appendix A. Countries and periods included in most extensive sample

country	number of years	country	number of years	country	number of years	country	number of years	country	number of years
Albania	13	Croatia	15	India	35	Namibia	15	Sri Lanka	35
Algeria	30	Cyprus	35	Indonesia	32	Nepal	35	Sudan	35
Argentina	35	Czech Republic	35	Iran, Islamic Rep.	35	Netherlands	35	Suriname	30
Australia	35	Denmark	35	Ireland	35	Netherlands Antilles	35	Swaziland	31
Austria	35	Djibouti	21	Israel	35	New Zealand	35	Sweden	35
Bahamas, The	31	Dominican Republic	35	Italy	35	Nicaragua	18	Switzerland	35
Bahrain	35	Ecuador	35	Jamaica	35	Nigeria	35	Syrian Arab Republic	24
Bangladesh	33	Egypt, Arab Rep.	35	Japan	35	Norway	35	Tanzania	35
Barbados	33	El Salvador	35	Jordan	35	Pakistan	35	Thailand	35
Belgium	35	Equatorial Guinea	33	Kazakhstan	35	Panama	18	Trinidad and Tobago	35
Belize	21	Estonia	15	Kenya	35	Paraguay	35	Tunisia	28
Bermuda	35	Ethiopia	35	Korea, Dem. Rep.	35	Peru	23	Turkey	35
Bhutan	23	Fiji	31	Kuwait	35	Philippines	35	Uganda	35
Bolivia	30	Finland	35	Latvia	14	Poland	35	United Kingdom	35
Bosnia and Herzegovina	8	France	35	Lebanon	35	Portugal	35	United States	35
Botswana	30	Gabon	33	Lesotho	27	Qatar	10	Uruguay	35
Brazil	35	Gambia, The	26	Libya	15	Romania	35	Vanuatu	25
Bulgaria	35	Georgia	28	Lithuania	15	Russian Federation	15	Venezuela, RB	35
Burundi	28	Germany	35	Luxembourg	7	Samoa	21	Zambia	35
Canada	35	Ghana	35	Madagascar	30	Saudi Arabia	35	Zimbabwe	23
Cape Verde	22	Greece	35	Malawi	35	Serbia and Montenegro, Fed. Rep.	35		
Central African Republic	35	Guatemala	35	Malaysia	35	Seychelles	27		
Chad	33	Guinea	23	Malta	35	Singapore	35		
Chile	35	Guyana	35	Mauritius	35	Slovak Republic	12		
China	35	Haiti	31	Mexico	35	Slovenia	14		
Colombia	35	Honduras	30	Mongolia	35	Solomon Islands	22		
Congo, Dem. Rep.	33	Hungary	35	Morocco	35	South Africa	35		
Costa Rica	35	Iceland	35	Mozambique	30	Spain	35		

## Appendix B. Descriptive Statistics

Variable	Source	Obs.	Mean	Std.Dev.	Min	Max
Turnover dummy	various	4226	0.20	0.40	0.00	1.00
Share of term elapsed	various	4278	0.64	0.74	0.00	5.67
External debt of central government scaled to GDP (%)	World Bank, WDI (2005)	3568	68.09	87.96	0.00	1598.22
Government budget balance as % of GDP	World Bank, WDI (2005)	907	2.23	8.70	-21.25	203.72
Average of 4 indicators (surrender of export proceeds, multiple exchange rate, capital account restrictions, current account restrictions)	Grilli and Milesi-Ferretti (1995), Dreher and Siemers (2005)	3618	0.54	0.33	0.00	1.00
Percentage of veto players who drop	Beck <i>et al.</i> (2001)	4887	0.10	0.27	0.00	1.00
Part of a year which is within 12 months after an executive or legislative election	Dreher and Vaubel (2005)	6448	0.14	0.28	0.00	1.00
Dummy for new chief executive party	Beck <i>et al.</i> (2001)	7488	0.05	0.22	0.00	1.00
Dummy variable that is 1 if the change in the Polity democracy variable > 3	Marshall and Jaggers (2000)	7488	0.01	0.11	0.00	1.00
First principal component of various instability indicators	Banks (1999)	5296	0.00	0.67	-0.52	17.84
coups	Banks (1999)	4916	0.03	0.17	0.00	2.00
Transformed inflation	World Bank, WDI (2005)	4436	0.11	0.15	-0.28	1.00
Private credit by deposit money banks and other financial institutions scaled to GDP	Beck <i>et al.</i> (1999)	3614	0.37	0.32	0.00	1.79
Checks and balances	Beck <i>et al.</i> (2001)	4991	1.92	1.80	0.00	18.00
polarization*checks and balances	Beck <i>et al.</i> (2001)	4805	1.21	3.14	0.00	32.00
Dummy that is one if there are two chambers	Beck <i>et al.</i> (2001)	4439	0.25	0.43	0.00	1.00
Dummy indicating whether there are autonomous regions	Beck <i>et al.</i> (2001)	4955	0.06	0.25	0.00	1.00
Party of chief executive is left-wing	Beck <i>et al.</i> (2001)	6863	0.21	0.41	0.00	1.00
Depreciation of the nominal exchange rate with respect to the US\$	World Bank, WDI (2005)	5688	0.00	0.03	-0.01	0.96
A country is defined as experiencing a currency crisis when index covering the rate of change of the exchange rate and international currency reserves is one standard deviation greater than the index mean	Dreher <i>et al.</i> (2006)	4694.00	0.10	0.30	0.00	1.00
Sum of exports and imports of goods and services measured as a share of gross domestic product	World Bank, WDI (2005)	4965.00	76.01	44.23	1.53	330.60