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The Credibility Premium: Central Bank Independence and Local-Currency Sovereign Yields

Adrian Alter, Julia Bersch, Albert Touna Mama, Bright Quaye

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March 2026

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ABSTRACT: Central bank independence (CBI) is a key institutional feature for price stability, but its role in sovereign debt markets is less understood. This paper examines whether CBI lowers borrowing costs in local-currency sovereign debt markets in emerging and developing economies. Using data for up to 137 countries from 2000--2024, we first reaffirm that stronger CBI substantially reduces inflation and its volatility. We then show that, in normal times, a 0.1-point increase (on a 0–1 scale) in CBI is associated with lower five-year local-currency sovereign yields of 0.6–0.7 percentage points. A decomposition reveals two important mechanisms through which CBI reduces local-currency sovereign yields: lowering near-term risk compensation and compressing the term premium. In addition, we find evidence that this relationship is stronger under inflation-targeting regimes and larger in sub-Saharan Africa, but does not hold during systemic global crises. Finally, using dominance analysis, we show that domestic fundamentals explain more of the variation in yields than global factors. These findings demonstrate that debt markets directly price institutional credibility, offering clear guidance for the design of monetary frameworks.

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WORKING PAPERS

The Credibility Premium
Central Bank Independence and Local-Currency Sovereign Yields

Prepared by Adrian Alter, Albert Touna Mama, Julia Bersch, Bright Quaye[1]

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I. Introduction

The delegation of monetary policy to an independent central bank is a cornerstone of modern macroeconomic frameworks, designed to resolve the time-inconsistency problem inherent in discretionary policy. Without a commitment mechanism, policymakers face incentives to engineer surprise inflation for short-term gains—a strategy rational agents anticipate, leading to higher inflation without sustainable output benefits (Kydland and Prescott, 1977; Barro and Gordon, 1983). Central bank independence (CBI) serves as an institutional solution, insulating monetary policy from political cycles and providing a credible commitment to price stability (Rogoff, 1985). A robust empirical literature, focused largely on advanced economies, confirms that stronger *de jure* CBI is associated with lower and less volatile inflation (e.g., Grilli et al., 1991; Alesina and Summers, 1993). Recent refinements in measurement—from foundational legal indices (Cukierman et al., 1992) to frameworks incorporating financial independence and transparency (Romelli, 2024; Adrian et al., 2024)—continue to reaffirm that CBI anchors inflation expectations and enhances macroeconomic stability (Garriga and Rodriguez, 2023). Consistent with this measurement work, legal constraints supporting central bank autonomy have strengthened across both advanced and emerging economies over recent decades (Crowe and Meade, 2007; Romelli, 2024; Garriga and Rodriguez, 2023).

Yet inflation performance is only one dimension of credibility. The same institutional commitment that stabilizes prices may also shape governments' ability to finance themselves domestically, because investors price expected inflation and uncertainty about the policy regime into local-currency yields. This raises a pivotal yet underexplored question: does the credibility conferred by CBI also translate into lower sovereign borrowing costs in a government's *own currency*? This question is especially critical for emerging and developing economies (EMDEs), where developing deep local-currency bond markets (LCBMs) is essential for mitigating currency mismatch and sudden stop risks (GFSR, 2025), including in Sub-Saharan Africa where fiscal constraints and shallow markets raise the value of credible institutions. Although studies have examined how monetary regimes such as inflation targeting affect sovereign risk, the direct link between CBI—a core institutional feature—and local-currency sovereign yields remains inadequately studied. Recent work by Bolhuis et al. (2025) provides complementary evidence on the costs of undermining independence, showing that politically motivated central bank governor transitions lead to higher realized and expected inflation, as well as shifts in perceived policy rules. Our focus on the benefits of *de jure* independence complements this evidence on the consequences of *de facto* erosion of autonomy.

From a bondholder's perspective, a focus on *de jure* independence provides an important assessment of enforceable constraints on monetary and fiscal policy. Legal provisions—such as

explicit limits on direct lending to the government, secured tenure for the central bank governor, and a clear price-stability mandate—act as a fiscal firewall. This firewall reduces the two components most directly priced into long-maturity local-currency yields: near-term risk compensation (reflected in the short-run risk premium) and longer-horizon inflation uncertainty (embedded in the term premium). A higher legal CBI score therefore maps into lower required compensation in both the near-term risk premium and the longer-horizon term premium. This channel may be especially important in jurisdictions with weaker institutional track records.[1]

This paper investigates whether—and through which pricing channels—*de jure* central bank independence lowers local-currency sovereign borrowing costs in EMDEs. We treat local-currency sovereign yields as a market-based summary of institutional credibility: if legal constraints credibly limit fiscal dominance, investors should demand less compensation for inflation and policy-regime risk. We ground our empirical approach in term-structure theory, where long-term yields decompose into expected future short rates and time-varying risk premia (Campbell and Shiller, 1991; Fama and Bliss, 1987). This framework delivers two testable predictions: stronger CBI should compress yields by (i) shaping the expected path of policy rates—as markets anticipate a stability-oriented reaction function—and (ii) reducing both the near-term sovereign risk premium and the long-horizon term premium linked to inflation uncertainty. We examine these channels by estimating the relationship between CBI and overall yields, as well as between CBI and their risk-premium and term-premium components, recovering the implied path of expected policy rates from the decomposition using observable proxies given data constraints.

Using data for up to 137 EMDEs over 2000–2024, we present five key results. First, we confirm that stronger *de jure* CBI reduces inflation and its volatility. Second, in normal times (2010–2020), a 0.1-point increase (on a 0–1 scale) in the CBI index is associated with lower five-year local-currency sovereign yields[2] by 0.6–0.7 percentage points. Third, a decomposition reveals two important mechanisms: lower near-term risk compensation (by 1.4–1.7 percentage points) and a compressed term premium linked to long-run inflation risk (by 0.6–0.7 percentage points). Fourth, a dominance analysis shows that domestic fundamentals—including institutional factors such as central bank independence and fiscal rules, as well as macro-fiscal variables such as the debt-to-GDP ratio, the current-account balance, and the primary balance—explain more of the variation in yields than global factors. This pattern holds across yield components and is strongest in Sub-Saharan Africa. Fifth, we find that the yield reduction is heterogeneous: it is stronger under inflation-targeting

[1] A parallel literature examines the role of central bank governors' characteristics and appointment patterns, showing that professional background (Mishra and Reshef, 2019), personal inflation experiences (Malmendier et al., 2021), and political affiliation (Ennser-Jedenastik, 2014; Ioannidou et al., 2022) can influence policy preferences and outcomes. For evidence on how markets react to governor changes, see Moser and Dreher (2010).

[2] We use the 5-year local-currency government bond yield as our baseline borrowing-cost proxy. This maturity offers the most consistent coverage across EMDEs in our sample (2000–2024). Data on alternative maturities (e.g., 2-year or 10-year) are prohibitively sparse and would not support a systematic yield-curve analysis.

regimes (by an additional 1.9 percentage points per 0.1-point increase in CBI) and larger in Sub-Saharan Africa (an incremental 2.6 percentage points), but it weakens markedly and loses statistical significance during systemic global crises.[3]. In samples that include systemic global crises, the estimated relationship weakens markedly, consistent with periods in which common global shocks dominate cross-country variation in domestic fundamentals. [4] In such episodes, yields become less sensitive to institutional differences and more driven by synchronized global risk repricing.

Overall, our results show that central bank credibility is systematically priced in local-currency debt markets in normal times, but the size of this credibility premium depends on the economic and institutional context. The yield benefits of higher *de jure* CBI are strongest under inflation-targeting frameworks and are economically largest in Sub-Saharan Africa, where credibility signals appear most valuable when global conditions are tranquil.

This paper contributes to the literature in two distinct ways. First, while existing work on CBI and sovereign borrowing costs has often focused on external (foreign-currency) debt or on advanced economies—including recent studies examining CBI and borrowing costs in developing countries (Athanasopoulos et al., 2025; Chahine et al., 2025)—we focus specifically on *local-currency* sovereign yields, which are less explored but central to domestic financial stability and the development of local-currency bond markets in EMDEs. Second, we go beyond aggregate yields to decompose them into their risk premium and term premium components, identifying the specific channels through which institutional credibility affects borrowing costs. In doing so, we complement recent evidence on the political economy of monetary institutions (Afrouzi et al., 2024; Drechsel, 2024) and on the characteristics of central bank governors that shape policy outcomes (Romer and Romer, 2004; Malmendier et al., 2021; Mishra and Reshef, 2019). This decomposition, combined with our analysis of regional heterogeneity and crisis dynamics, provides a more granular understanding of how CBI shapes sovereign financing conditions. Our findings suggest that stronger legal monetary institutions can help catalyze a shift toward more resilient domestic financing—away from equilibria reliant on short-maturity bank funding or foreign-currency borrowing—and toward deeper, locally funded long-maturity bond markets.

The remainder of the paper is organized as follows. Section II. describes the data and empirical strategy. Section III. presents results on CBI, inflation, and inflation volatility. Section IV. introduces the yield-decomposition framework. Section V. estimates the relationship between CBI and local-currency sovereign yields and quantifies the pricing channels. Section VI. concludes.

[3]The sample varies across regressions due to data availability. The inflation analysis includes up to 137 countries, while the yield regressions use a panel of 40 countries with local-currency yield data, of which 15 are in Sub-Saharan Africa. All panels are unbalanced.

[4]This aligns with findings that, during periods of global stress, common factors like U.S. dollar strength and international rates become primary drivers of sovereign financing costs, overshadowing cross-country differences in domestic institutional quality (Alter et al., 2025).

II. Data, Measurement, and Empirical Strategy

To analyze the link between central bank independence (CBI) and government borrowing costs, we make use of a novel panel dataset that combines financial, macroeconomic, and institutional variables. Our empirical approach builds on the theoretical proposition that central bank credibility is priced by sovereign debt markets, particularly in emerging economies where institutional credibility is often fragile. This section details our measurement strategy and presents key stylized facts that motivate our formal empirical analysis.

II.1. Measuring Sovereign Borrowing Costs and Their Components

Our primary dependent variable is the 5-year local-currency sovereign bond yield, collected from Bloomberg and Haver Analytics.[5] Following term structure theory (Campbell and Shiller, 1991; Fama and Bliss, 1987), we decompose these yields into three fundamental components: (1) the expected policy path, (2) the risk premium (compensation for uncertainty about future inflation and default risk), and (3) the term premium (compensation for holding longer-duration bonds). This decomposition allows us to identify the specific channels through which CBI affects local-currency yields. Table 1 reports summary statistics for the main variables.

To gauge economic significance, we benchmark changes in the baseline CBI measure used in the yield regressions (Garriga, weighted) against its dispersion in the sample. The standard deviation of this index is 0.176 (Table 1), so a 0.1 increase corresponds to roughly 0.57 standard deviations. All yield and premium measures are expressed in percentage points. The average five-year local-currency sovereign yield is 8.89%, with substantial cross-country dispersion (SD = 4.91), ranging from 1.43% to 26.00%. Risk and term premia also display wide variation, consistent with heterogeneous macro-financial conditions and credibility across EMDEs. This dispersion provides the variation needed to identify meaningful associations between institutional measures—such as central bank independence—and borrowing costs.

II.2. Measuring CBI: Theoretical Foundations and Empirical Choices:

The measurement of *de jure* central bank independence has evolved substantially since the foundational work of Cukierman et al. (1992). Contemporary datasets have expanded both the conceptual

[5]We use the 5-year maturity because it offers the most consistent coverage across EMDEs in our sample (2000–2024). Data on alternative maturities (e.g., 2-year or 10-year) are prohibitively sparse and would not support a systematic yield-curve analysis. In particular, we cannot empirically assess the possibility of maturity-specific demand reallocation across the curve, given limited coverage beyond the 5-year point. More broadly, long-maturity local-currency yield data are available only for a subset of EMDEs with comparatively more developed local-currency bond markets and consistent market pricing. The yield results should therefore be interpreted as applying to this set of countries with observable local-currency yield curves, rather than as evidence for all EMDEs.

Table 1: Summary statistics

	Mean	SD	P1	P50	P99
Panel A: Dependent variables					
5-year sovereign yield (bps)	8.8907	4.9056	1.4300	7.7000	26.0000
Risk premium (bps)	-0.6127	2.8404	-12.3800	-0.0835	6.9633
Term premium (bps)	1.7204	3.0224	-7.9158	1.4230	11.5725
Inflation (CPI, %)	-0.1902	2.7130	-18.0203	0.0000	8.0269
Inflation volatility	0.9930	3.3214	0.0337	0.4499	9.2398
Panel B: Main explanatory variables					
CBI (baseline index)	0.4604	0.2622	0.0000	0.5010	0.9120
CBI (Garriga, weighted)	0.5592	0.1758	0.1400	0.5690	0.9120
CBI (Garriga, unweighted)	0.5589	0.1720	0.1450	0.5590	0.9040
CBI (Cukierman: lending limits)	0.5575	0.2378	0.0130	0.5510	1.0000
CBI (Cukierman: objectives)	0.6054	0.2027	0.0000	0.6000	1.0000
CBI (Cukierman: policy)	0.4989	0.3196	0.0000	0.5000	1.0000
CBI (Cukierman: CEO)	0.5746	0.2019	0.0000	0.5830	0.8750
CBIE index (updated)	0.6363	0.1447	0.2650	0.6390	0.8935
Panel C: Control and other variables					
Debt-to-GDP ratio (%)	53.6094	42.0809	2.2855	45.5605	202.6993
Real GDP growth (%)	3.8096	6.0985	-15.0540	4.0780	17.7460
ln(GDP per Capita)	7.9886	1.2486	5.4222	8.0754	10.7599
Primary balance (% of GDP)	-0.5248	6.5053	-17.3472	-0.9094	22.0244
CA balance (% of GDP)	-2.8037	15.4212	-34.6062	-3.3916	35.9467
Claims on central government (% of GDP)	7.2273	17.5363	-38.9034	5.0601	69.3384
Real exchange rate (RER)	101.6817	33.4670	60.8053	99.5889	163.4519
ICRG overall risk index	43.8397	5.8212	27.2778	44.0556	56.5000
ICRG: Economic risk index	33.6248	5.9702	16.0000	34.0000	47.5000
ICRG: Financial risk index	37.2209	5.9088	19.5000	37.6667	48.5000
ICRG: Political risk index	60.6736	10.0949	34.3333	60.8333	81.3333
Fiscal rule index	1.6240	0.8777	0.0000	2.0000	3.0000
Government effectiveness (WGI)	-0.4044	0.7141	-2.1310	-0.4512	1.2551
Control of corruption (WGI)	-0.4096	0.7192	-1.6796	-0.5038	1.4106
VIX (equity volatility index)	19.8962	7.5188	10.3101	18.0445	58.7406

Notes: All dependent variables are winsorized at the 1st and 99th percentiles, except the inflation volatility measure. Sample restricted to 2000–2024 where data are available. Series are converted to quarterly frequency by averaging within quarter for higher-frequency data; annual series are assigned to each quarter of the corresponding year. *Data sources:* Macroeconomic controls are from the World Bank's WDI (2024); institutional measures are from WGI (GE.EST, CC.EST); risk indices are from ICRG; fiscal rules are from the IMF Fiscal Rules Dataset; primary balance is from the IMF Fiscal Monitor; and global risk is proxied by the Cboe VIX.

dimensions and geographic coverage of CBI measurement. Among recent contributions, three

datasets provide comprehensive global coverage: the CBIE index by Romelli (2024), the indices from Garriga (2025), and the measure by Adrian et al. (2024). However, for our analysis, we employ both the Romelli (2024) and the indices from Garriga (2025), but give precedence to the Garriga (2025), index for two theoretical and empirical reasons. First, its construction aligns directly with our research question. The weighted index assigns 50% weight to restrictions on central bank lending to governments, directly capturing constraints on fiscal dominance—the mechanism through which CBI is hypothesized to affect sovereign borrowing costs. The economic intuition is straightforward: in the absence of such constraints, governments—particularly in emerging markets—may pressure central banks to monetize deficits, fueling inflation and increasing perceived sovereign risk. An independent central bank can resist this pressure, thereby promoting the fiscal and monetary discipline valued by bondholders. Second, the broader country coverage of the Garriga (2025) index is essential for our study's external validity. We aim to include as many Sub-Saharan African (SSA) countries as possible, and the Garriga dataset includes 44 SSA country-year observations compared to 36 in the Romelli (2024) index. Since our sample size is ultimately constrained by the availability of sovereign yield data, starting with the most comprehensive institutional dataset helps maximize our final estimation sample while maintaining theoretical coherence.

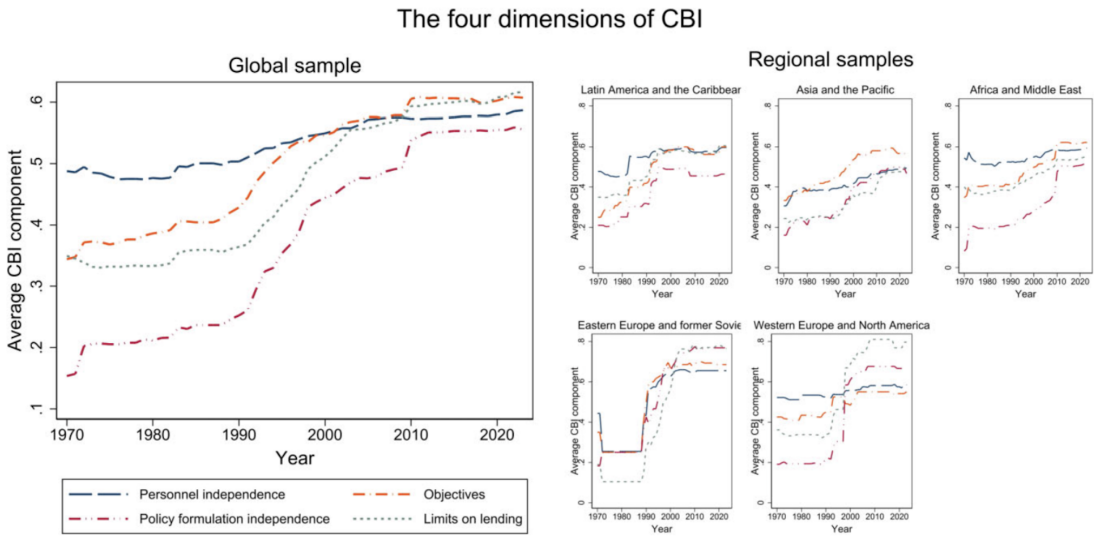
II.3. The Evolution of CBI: Global Trends and Regional Heterogeneity

In this section, we document the evolution of central bank independence, examining both global patterns and regional variations that provide essential context for our empirical analysis. We begin by charting the broad institutional transformation toward greater independence and then investigate heterogeneity in both the pace of reform and the measurement of independence across different frameworks.

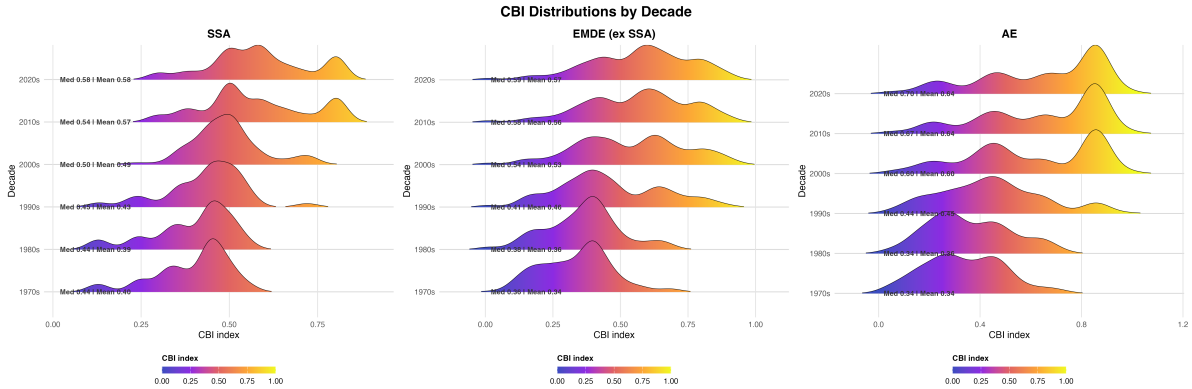
Figure 1 presents two perspectives on the evolution of CBI. Panel (a) tracks the average level of four key dimensions of central bank independence over time, using the Garriga (2024) index. The results reveal several important patterns. The "objectives" dimension—measuring the clarity and prioritization of price stability in the central bank's mandate—shows the most pronounced improvement since the 1970s. "Limits on lending" to government, crucial for preventing fiscal dominance, also displays substantial strengthening, particularly from the late 1980s onward. In contrast, gains in "policy independence" (operational autonomy in conducting monetary policy) and "board independence" (governor appointment and term security) have been more modest. These patterns suggest that reforms have prioritized establishing clear mandates and fiscal firewalls, with operational autonomy evolving more gradually.

Panel (b) examines how these aggregate trends manifest across different country groups. It plots the cross-country distribution of overall CBI scores by decade, from the 1970s through the 2020s, separately for three groups: advanced economies (AEs), EMDEs excluding Sub-Saharan

Figure 1: The Dimensions and Evolution of Central Bank Independence



(a) The four dimensions of central bank independence (Garriga, 2025) over time

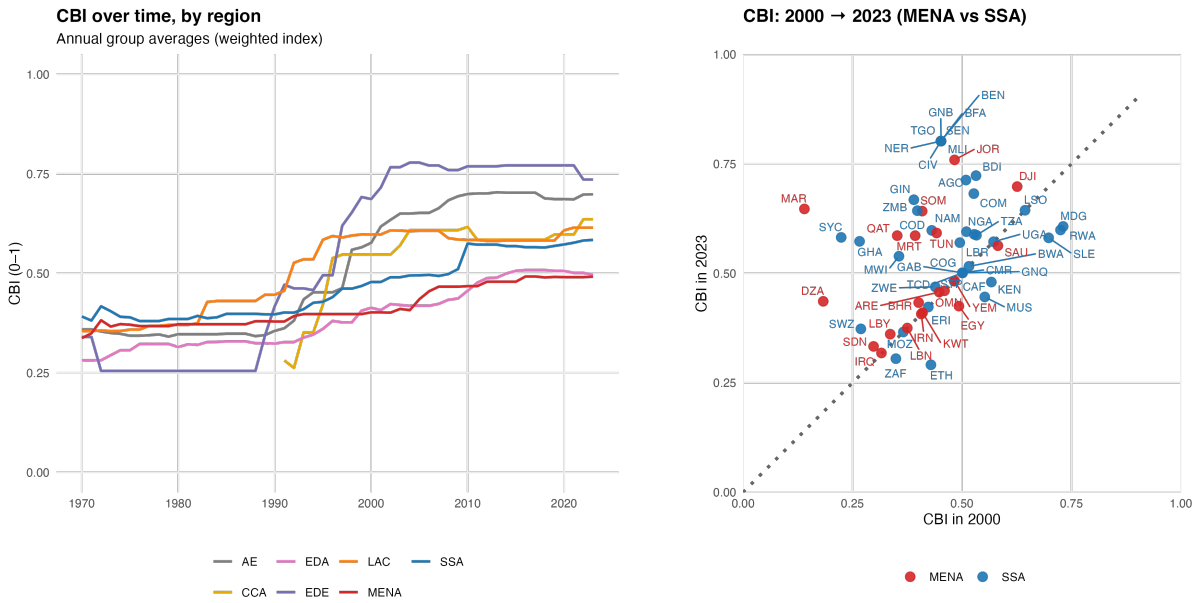


(b)
Source: Authors' calculations.

Africa (EMDEs excl. SSA), and Sub-Saharan Africa (SSA). Across decades, the distributions shift progressively rightward in all three groups, indicating broad-based strengthening of legal central bank frameworks. The rightward shift is most pronounced for EMDEs excl. SSA, consistent with substantial institutional convergence over time, though their distribution remains below that of AEs in the most recent decades. SSA also exhibits a clear rightward movement, but its distribution stays centered at lower levels and is more dispersed, pointing to persistent gaps in institutional depth and significant variation in reform progress within the region.

Figure 2 unpacks this heterogeneity by examining regional trajectories and country-level changes.

Figure 2: Regional Evolution of Central Bank Independence



Notes: The left panel shows the evolution of average CBI indices over time for major geographical groupings, illustrating divergent regional paths in both the pace and depth of reforms. The right panel provides a country-level perspective, comparing initial (2000) and final (2023) CBI scores for Sub-Saharan Africa (SSA) and Middle East and North Africa (MENA) countries. Points above the 45-degree line indicate improvements in CBI over the period; the wide dispersion reveals considerable cross-country variation in reform intensity.

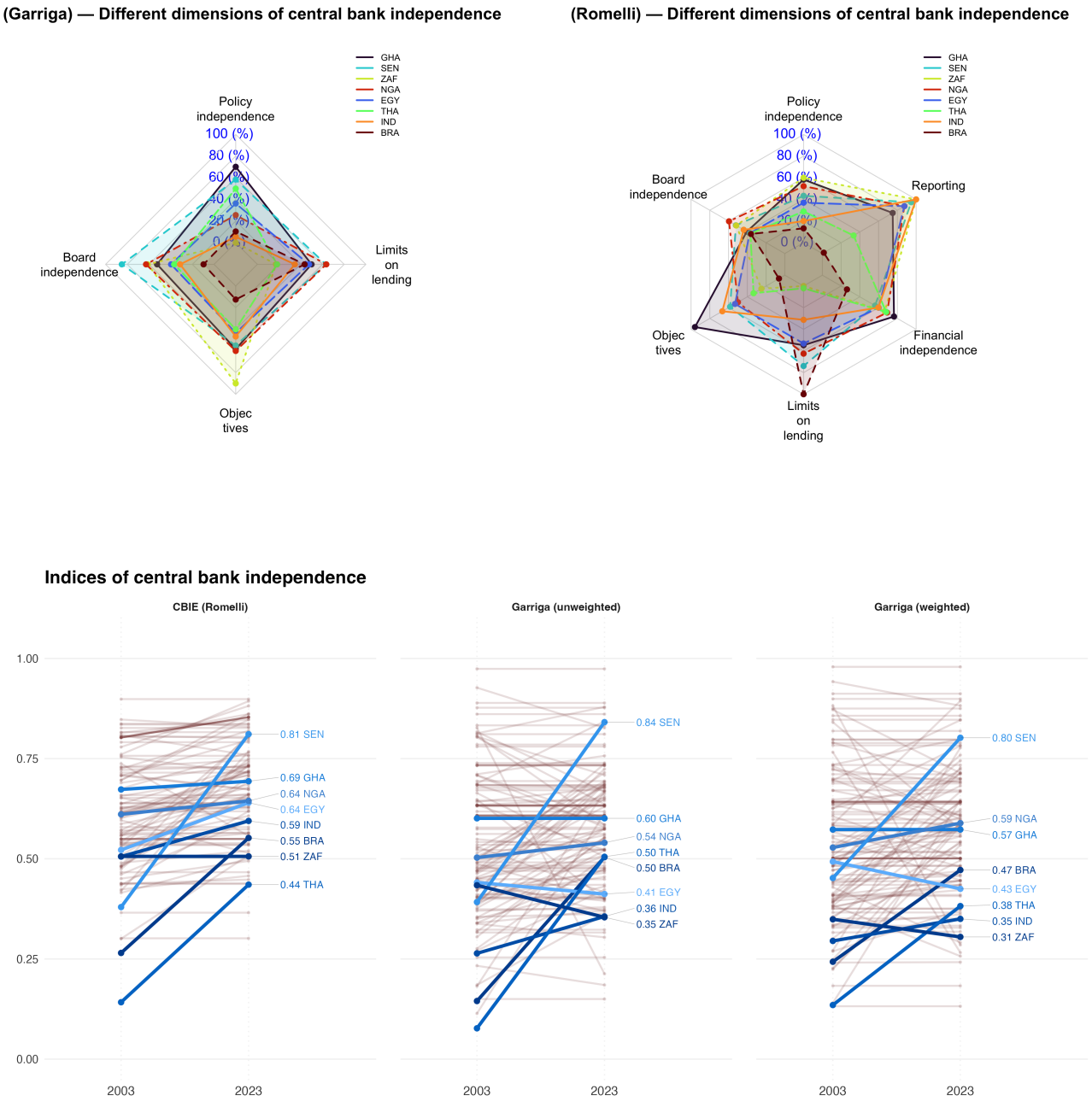
The left panel tracks average CBI indices over time for major geographical groupings.[6] All regions exhibit upward trends, but with different starting points and slopes—a pattern of divergence in both the pace and depth of reforms. Advanced economies began with higher initial levels, while regions like Sub-Saharan Africa and Latin America show steeper trajectories of improvement, suggesting a process of institutional convergence.

The right panel provides a granular view of reform intensity between 2000 and 2023 for countries in Sub-Saharan Africa (SSA) and the Middle East and North Africa (MENA). The scatter plot compares each country's initial CBI score (on the x-axis) with its final score (on the y-axis). Most observations lie above the 45-degree line, confirming widespread improvement. However, the substantial dispersion in both starting positions and ending values reveals that while the direction of change has been consistent, the extent and timing of reforms have varied considerably across countries. Some nations implemented profound institutional changes, while others made more incremental adjustments.

Finally, Figure 3 explores two critical issues: the multidimensional structure of independence and the sensitivity of its measurement. The radar charts present the CBI profiles of selected

[6]The timing and regional distribution of these legal changes are documented in Figure 8A in the Appendix, which shows waves of reform activity concentrated in particular periods and regions.

Figure 3: The Structure and Evolution of Central Bank Independence



emerging economies according to two different indices: Garriga (2024) and Romelli (2024). These visualizations reveal that countries exhibit distinct institutional architectures. For instance, while both Senegal (SEN) and Ghana (GHA) have relatively balanced profiles across dimensions like policy independence and lending limits, other countries show more uneven strengths across different components of independence.

The slope chart at the bottom addresses a fundamental question of measurement and trend. It plots three different CBI indices for the same set of countries from 2003 to 2023: the Romelli CBIE index, and both weighted and unweighted versions of the Garriga index. The chart reveals two key descriptive patterns. First, within countries, different indices generally track similar directional movements over time, confirming a broad trend of institutional improvement. Second, across countries, while most show upward progression, the pace and level of improvement vary considerably. A critical exception is Egypt, where the measured trajectory differs sharply based on the index, highlighting how specific legal provisions can be captured differently across methodologies.

This divergence reflects fundamental differences in how each index conceptualizes, weights, and aggregates the legal criteria for "independence." The consistent upward trend across indices reinforces the narrative of broad-based reform, while cases like Egypt underscore the importance of our choice of primary index and motivate the robustness checks employed in our subsequent panel analysis.

These descriptive patterns provide the essential context for our econometric investigation. They establish that CBI has strengthened globally but remains a multidimensional concept, with heterogeneous measurement and uneven progress across countries. This context motivates our subsequent panel analysis, which seeks to formally assess how these evolving institutional characteristics influence sovereign borrowing costs while addressing potential endogeneity concerns.

II.4. Empirical Strategy:

Our empirical strategy unfolds in two steps, aligned with the theoretical channels through which CBI may affect sovereign borrowing costs. First, we establish the foundational link between CBI and price stability—the traditional credibility channel. Second, we examine how this credibility transmits to sovereign debt markets via risk and term premiums.

We begin by testing the core proposition that CBI anchors inflation expectations, employing a panel regression with country and time fixed effects:

$$Y_{i,t} = \beta \mathrm{CBI}_{i,t} + \boldsymbol{\gamma}' \mathbf{X}_{i,t} + \alpha_i + \tau_t + \varepsilon_{i,t}, \quad \text{where } Y_{i,t} \in \mathrm{CPI}_{i,t}, \mathrm{Vol}(\pi)_{i,t}. \tag{1}$$

The dependent variable captures either the inflation rate or its volatility, allowing us to assess how CBI influences both the level and stability of prices after controlling for domestic macroeconomic and institutional factors ($\mathbf{X}_{i,t}$).

We then examine our core hypothesis—whether CBI affects sovereign borrowing costs—by estimating the following specification:

$$Y_{i,t} = \beta \mathrm{CBI}_{i,t} + \beta^{\mathrm{SSA}}(\mathrm{CBI}_{i,t} \times \mathrm{SSA}_i) + \beta^{\mathrm{IT}}(\mathrm{CBI}_i \times \mathrm{IT}_i) + \boldsymbol{\gamma}' \mathbf{X}_{i,t} + \alpha_i + \tau_t + \varepsilon_{i,t}, \tag{2}$$

where $Y_{i,t}$ represents 5-year local-currency yields, risk premiums, or term premiums. This specification allows us to estimate both the average effect of CBI (β) and its differential effects for Sub-Saharan African countries (β^{SSA}) and inflation-targeting regimes (β^{IT}), thereby testing for key contextual moderators of CBI's effectiveness.

III. Empirical Results: CBI, Inflation, and Inflation Volatility

III.1. Stylized Facts

Before turning to formal estimation, we document the basic relationship between CBI and average inflation. Understanding this foundational relationship is crucial, as it establishes the traditional credibility channel through which CBI might subsequently affect sovereign borrowing costs.

Figure 4 presents important visual evidence of the credibility channel at work. Panel (4 (a)) reveals a clear negative association between CBI and inflation across emerging and developing economies. Countries with more independent central banks experience persistently lower average inflation from 2000–2023, consistent with the theoretical prediction that institutional independence helps anchor price expectations. This pattern is not driven by regional composition—panel (4 (b)) shows similar negative slopes within major EMDE regions.

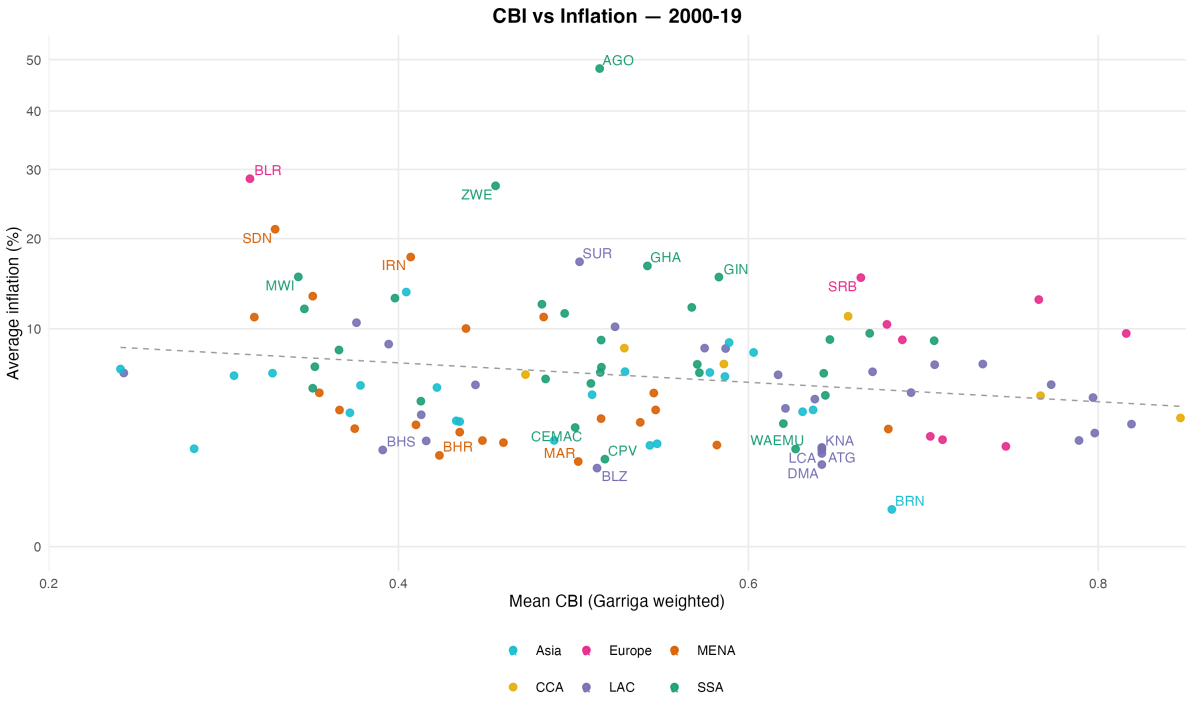
The stability of this relationship across time is further confirmed in Appendix Figure 8(b), which decomposes the CBI-inflation relationship by decade. While the specific time periods differ from our main 2000–2023 sample, the consistent negative association across multiple decades suggests a robust structural relationship between institutional design and price stability that transcends specific macroeconomic environments.

The economic significance of this relationship is substantial. The interquartile range of CBI (0.42 to 0.68) corresponds to a difference of approximately 3–4 percentage points in average inflation, indicating that institutional quality has first-order importance for price stability in emerging economies. This magnitude is economically meaningful, particularly given that many EMDEs face persistent challenges in maintaining single-digit inflation. We now move beyond these reduced-form correlations to panel regressions that control for potential confounders and examine conditional associations.

III.2. Benchmark Results: CBI and Inflation:

This section presents the benchmark results for the relationship between central bank independence (CBI) and inflation. Table 2 presents the panel regression results for the period 2000–2024, progressing from parsimonious to more comprehensive specifications. The findings are strikingly consistent across all seven models: the coefficient on CBI remains negative and statistically

Figure 4: Central Bank Independence and Inflation: EMDE Relationship and Regional Patterns



(a) Average CBI vs. average inflation, EMDEs, 2000–2023

(b) The same relationship within EMDE regions

significant at the 1% level, robustly confirming the inverse relationship evident in the stylized facts.

Table 2: Central Bank Independence and Inflation, 2000–2024

	FE1	FE2	FE3	FE4	FE5	FE6	FE7
CBI	-5.371***	-7.154***	-7.265***	-6.568**	-7.674***	-4.556***	-7.616***
	(1.580)	(1.728)	(1.776)	(2.714)	(1.782)	(0.607)	(1.734)
ln(GDP/Capita)	-1.519**	-0.616	-0.402	-0.706	-0.532	-2.073*	-0.544
	(0.688)	(1.188)	(1.257)	(1.801)	(1.304)	(1.132)	(1.300)
CPI_{t-2}	0.867***	0.866***	0.862***	0.876***	0.859***	0.863***	0.859***
	(0.00810)	(0.00872)	(0.00925)	(0.0115)	(0.00951)	(0.00947)	(0.00952)
ln(Govt Cons)		-0.404	-0.708	0.746	-0.316	-1.117	-0.310
		(0.874)	(0.889)	(1.298)	(0.895)	(0.860)	(0.893)
Cont of Corruption			-0.986	-1.496*	-1.184	-0.663	-1.187
			(0.823)	(0.854)	(0.850)	(0.801)	(0.850)
$\ln(\text{RER})_{t-2}$				0.970			
				(2.357)			
Debt-to-GDP (%)					0.0109	0.00673	0.0108
					(0.0110)	(0.0109)	(0.0110)
VIX						0.0152	
						(0.0140)	
US dollar index						0.0417***	
						(0.0153)	
SSA dummy × CBI							-0.252
							(1.094)
Constant	40.91**	29.59	30.79	0.745	24.92	74.29***	25.08
	(16.42)	(20.45)	(21.82)	(33.04)	(22.12)	(14.24)	(22.13)
Countries	137	126	126	52	124	124	124
SSA Countries	42	38	38	15	38	38	38
Observations	12692	10494	10048	4132	9831	9831	9831
R-squared	0.908	0.911	0.907	0.917	0.906	0.898	0.906
Country FE	yes	yes	yes	yes	yes	no	yes
Time FE	yes	yes	yes	yes	yes	no	yes

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The economic magnitude is meaningful. Since the CBI index is scaled to lie in $[0, 1]$, a 0.1-point increase (on a 0–1 scale) in CBI (a 10% movement of the full index range) is associated with a 0.46 to 0.77 percentage-point reduction in inflation across the main specifications. Put differently,

moving from the 25th to the 75th percentile of CBI corresponds to a nontrivial decline in average inflation, consistent with the credibility channel emphasized in the literature.

In terms of magnitude, a 0.1-point increase (on a 0–1 scale) in CBI is associated with roughly a 0.06 to 0.11 reduction in the volatility measure in the specifications where the CBI coefficient is precisely estimated. The behavior of the main control variables is broadly consistent with priors. Inflation exhibits strong persistence, and higher income levels are generally associated with lower inflation, although this relationship is less precisely estimated in some specifications. By contrast, the coefficient on government consumption is not robust across specifications—its sign is sensitive and it is statistically indistinguishable from zero throughout Table 2. We therefore treat government consumption as a standard macro control rather than a focal mechanism in the inflation regressions. Finally, the CBI×SSA interaction term is imprecisely estimated in Table 2, so we do not interpret these regressions as providing differential inflation effects for SSA; the main takeaway is the negative average association between *de jure* CBI and inflation in the full EMDE sample.

III.3. CBI and Inflation Volatility:

We now turn to the relationship between central bank independence and inflation volatility.

We define inflation volatility at the quarterly frequency as the within-quarter standard deviation of month-on-month CPI inflation. Let $\pi_{i,m}$ denote monthly inflation for country i in month m. For each quarter t, inflation volatility is

$$\mathrm{Vol}(\pi)_{i,t} \equiv \sigma^{\pi}_{i,t} = \mathrm{sd}\left(\{\pi_{i,m} : m \in t\}\right),$$

computed over the three months in quarter t. A core benefit of central bank credibility is the stabilization of inflation expectations, and Table 3 examines the relationship between CBI and inflation volatility. The coefficient on CBI is negative and statistically significant in most specifications, indicating that stronger statutory independence is associated with more stable inflation outcomes. The estimate becomes smaller and statistically indistinguishable from zero in the specification that replaces time fixed effects with an expanded set of global controls, suggesting that common global shocks absorb part of the variation in volatility in that setup.

The estimated economic magnitudes are meaningful. A 0.1-point increase (on a 0–1 scale)increase in the CBI index reduces inflation volatility by approximately *0.5 to 1.1* points. This reduction is substantial given the considerable costs that inflation uncertainty imposes on investment and consumption smoothing in emerging economies. This stabilizing effect operates alongside the level effects documented previously, demonstrating that independent central banks deliver a dual benefit—achieving both lower average inflation and a more predictable price path. The behavior of the control variables aligns with theoretical priors. Higher income levels are consistently associated

with lower inflation volatility, likely reflecting more developed institutions and policy frameworks. Real exchange rate movements are also linked to volatility, though the relationship is not uniformly significant. Finally, global financial conditions, captured by the VIX index, show the expected positive association with domestic price instability in Model (6). The CBI×SSA interaction term in Table 3 is also imprecisely estimated, so we do not draw SSA-specific conclusions from the volatility regressions in the full 2000–2024 sample.

III.4. Robustness: Evidence from the Pre-2020 Period

A potential concern is that our baseline results may be driven by the exceptional macroeconomic volatility of the COVID-19 pandemic and the subsequent global inflation surge. To address this, we re-estimate all models for the pre-2020 period (2000–2019). The results, presented in Appendix Tables 9 and 10, confirm the robustness of our core findings.

For inflation levels, the negative relationship between CBI and inflation persists with nearly identical magnitude and statistical significance. This confirms that the CBI–inflation link is not an artifact of recent global shocks but reflects a stable, long-run association.

Regarding inflation volatility, Table 10 shows that the negative association between CBI and volatility remains present, but its precision depends on the specification. In the more parsimonious models (1)–(3), the CBI coefficient is imprecisely estimated, while in the richer specifications that control for inflation persistence and additional macro factors (4)–(6), the coefficient is negative and statistically significant. This pattern is consistent with lower signal-to-noise in the pre-2020 sample and the fact that *de jure* CBI changes infrequently, making volatility effects harder to pin down in parsimonious models. Column (7) suggests heterogeneity for SSA in the pre-2020 period, but we treat this interaction as suggestive and avoid over-interpreting it given sensitivity across specifications.

Taken together, these robustness checks solidify the evidence for the traditional credibility channel. Central bank independence is systematically associated with both lower inflation levels and reduced inflation volatility in emerging economies over the long run. This established credibility provides the theoretical foundation for examining whether these benefits transmit to sovereign borrowing costs, which we investigate in the next section.

IV. Decomposition of Sovereign local-currency Yields

To isolate the distinct channels through which central bank independence (CBI) affects borrowing costs, we decompose local-currency sovereign yields into their fundamental components. The pure Expectations Hypothesis—which asserts that long-term yields reflect only expected future short-term rates—is empirically inadequate; long-term yields instead embed substantial time-varying

Table 3: Central Bank Independence and Inflation Volatility, 2000–2024

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CBI	-1.093**	-0.992**	-0.860**	-0.618***	-0.613**	-0.0874	-0.603**
	(0.414)	(0.376)	(0.387)	(0.220)	(0.235)	(0.110)	(0.236)
ln(GDP/Capita)	-1.203**	-1.091**	-1.356**	-0.443	-0.419	-0.0773	-0.407
	(0.530)	(0.488)	(0.603)	(0.383)	(0.407)	(0.396)	(0.399)
$\ln(\text{RER})_{t-2}$	1.710	1.644	1.954	0.493***	0.482***	0.254	0.478***
	(1.171)	(1.127)	(1.278)	(0.172)	(0.175)	(0.223)	(0.171)
Debt-to-GDP (%)	0.00354	0.00418	0.00479	0.00314*	0.00295	0.00306*	0.00307
	(0.00311)	(0.00287)	(0.00296)	(0.00183)	(0.00195)	(0.00171)	(0.00195)
CPI_{t-2}		0.0155***	0.0142***	0.0114**	0.0113**	0.0112***	0.0113**
		(0.00470)	(0.00476)	(0.00434)	(0.00440)	(0.00399)	(0.00440)
Cont of Corruption			0.320*	0.138	0.136	0.00796	0.135
			(0.184)	(0.125)	(0.127)	(0.128)	(0.126)
ln(Govt Cons)				-0.267	-0.300	-0.230	-0.307
				(0.382)	(0.410)	(0.417)	(0.401)
primary bal. (%GDP)					-0.00511	-0.00418	-0.00487
					(0.00669)	(0.00693)	(0.00675)
VIX						0.00925***	
						(0.00313)	
US dollar index						-0.000894	
						(0.00264)	
SSA dummy × CBI							0.137
							(0.248)
Constant	22.28***	19.69***	24.67***	15.47***	15.70***	6.316***	15.56***
	(8.036)	(7.017)	(9.090)	(3.834)	(3.980)	(2.177)	(3.975)
Country FE	yes	yes	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes	No	yes
Countries	59	59	59	51	50	50	50
SSA Countries	17	17	17	15	15	15	15
Observations	4381	4381	4061	3331	3271	3271	3271
R-squared	0.333	0.348	0.357	0.271	0.267	0.233	0.267

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

term premia, compensation for duration and inflation risk (see, e.g., Crump et al. (2023)). Our decomposition allows us to separate the contribution of expected policy rates, short-term risk premia, and term premia, thereby identifying the precise mechanisms by which CBI influences sovereign debt costs.

IV.1. Conceptual Framework:

We begin by expressing the yield on a long-maturity local-currency sovereign bond, $y_t^{(L)}$, as the sum of expected future short rates and a term premium:

$$y_t^{(L)} = \frac{1}{H}\,\mathbb{E}_t\left[\sum_{h=0}^{H-1} i_{t+h}^{(3m)}\right] + \mathrm{Tp}_t, \tag{3}$$

where $i_t^{(3m)}$ is the market three-month rate, H is the maturity in periods, and Tp_t is the term premium. The three-month rate can itself be split into the policy rate and a short-run risk wedge:

$$i_t^{(3m)} = i_t^{(\mathrm{pol})} + \mathrm{Rp}_t, \qquad \mathrm{Rp}_t \equiv i_t^{(3m)} - i_t^{(\mathrm{pol})}. \tag{4}$$

We use *risk premium* and *short-run (near-term) premium* interchangeably to refer to Rp_t in (4); the *term premium* refers to Tp_t in (3)–(5).

This wedge, Rp_t, captures the extra compensation investors demand for near-term sovereign or financial stress, including liquidity and implementation risk. Substituting (4) into (3) yields our operational decomposition:

$$y_t^{(L)} = \underbrace{\frac{1}{H}\,\mathbb{E}_t\left[\sum_{h=0}^{H-1} i_{t+h}^{(\mathrm{pol})}\right]}_{\text{Expected policy path}} + \underbrace{\frac{1}{H}\,\mathbb{E}_t\left[\sum_{h=0}^{H-1} \mathrm{Rp}_{t+h}\right]}_{\text{Short-run (near-term) risk premium}} + \underbrace{\mathrm{Tp}_t}_{\text{Term premium}}. \tag{5}$$

IV.2. Empirical Implementation

Implementing equation (5) directly would require data on market expectations of future policy rates and risk wedges—information that is not available for most EMDEs in our sample, and particularly scarce in Sub-Saharan Africa.[7] We therefore adopt an empirical strategy that approximates the three components using observable proxies. Because these components are approximated with current observables rather than survey-based expectations, the resulting measures are intended to isolate economically meaningful channels but are not constructed to mechanically sum to the

[7] The limited availability of survey-based expectations and the shallow financial markets in many SSA countries reinforce the relevance of our question: where forward-looking market data are sparse, institutional credibility may matter even more for borrowing conditions.

five-year yield at the regression-coefficient level.

We measure the contemporaneous policy stance directly with the policy rate $i_t^{(\text{pol})}$. For the expected short-run risk wedge, we use its current realized value $\text{Rp}_t = i_t^{(3m)} - i_t^{(\text{pol})}$ as a proxy.

We proxy the longer-horizon premium component using the gap between the long yield and the short market rate: $\text{Tp}_t \approx y_t^{(L)} - i_t^{(3m)}$. This residual captures the term premium as well as any wedge between the current short rate and the expected average short rate over the bond's life—a distinction that cannot be separately identified in our broad EMDE panel.

This approach has the key advantage of simplicity and transparency: it requires only readily available data on policy rates, short-term market rates, and long-term sovereign yields. While it does not capture expectations of future risk wedges separately from their current realizations, it allows us to examine the relationship between CBI and each yield component across the broadest possible set of countries—including those where high-frequency expectations data do not exist.

IV.3. Stylized Facts: Regional Heterogeneity in Borrowing Costs

In this section, we explore regional patterns in sovereign yields and term premia.

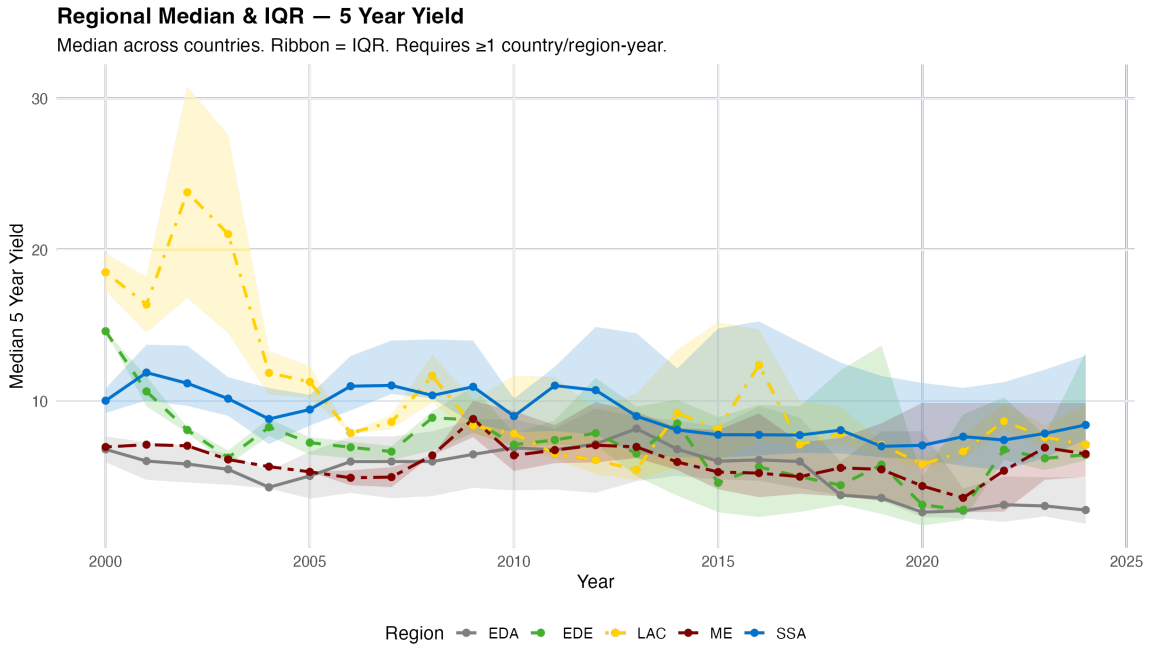
Figure 5 presents the regional medians and interquartile ranges (IQRs) of five-year local-currency sovereign yields and term premia. The results uncover three striking patterns. First, five-year yields exhibit persistent regional disparities: Sub-Saharan Africa (SSA) consistently occupies the top of the distribution, while Emerging Asia clusters at the lower end. Second, yield dispersion is greatest in SSA, where a wider IQR indicates substantial heterogeneity in funding conditions. Third, these regional differences are acutely visible in term premia: SSA exhibits positive and volatile premia, whereas several other regions show premia near zero.

Country-level averages (Appendix Figure A1) confirm that many SSA countries record higher yields than peers, while term premia vary widely.

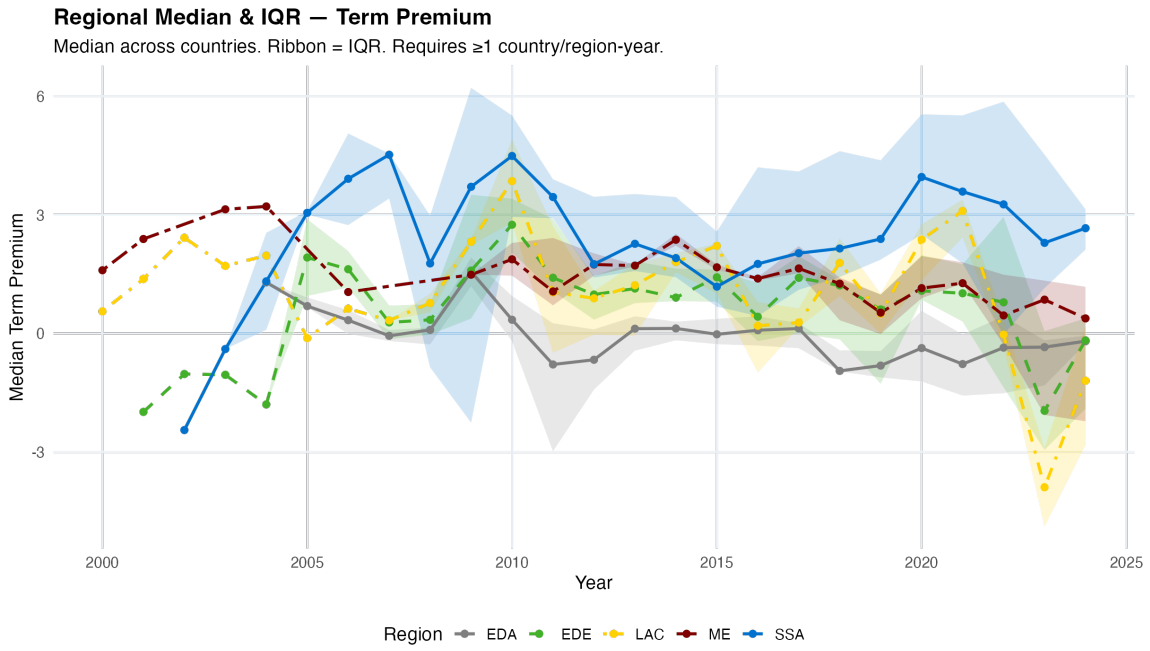
These patterns lead to our central empirical question: What relative roles do global conditions and domestic fundamentals play in explaining variation in local-currency sovereign yields and their components? To answer this, we employ a dominance analysis—a regression-based decomposition method that partitions the explained variance (R^2) of a model and allocates it to distinct groups of predictors. Figure 6 presents the results for the overall 5-year yield, comparing the contributions of two blocks: a global block (comprising risk appetite, external interest rates, and commodity prices) and a domestic block (containing macro-fiscal and institutional fundamentals, including public debt, inflation dynamics, and central bank independence).

The results are unequivocal: domestic fundamentals consistently explain a larger share of variation than global factors. This primacy of domestic drivers holds across all yield components and samples. The pattern is evident in the full EMDE sample and is even more pronounced for Sub-Saharan Africa (see Appendix Figure A2 for the analogous decompositions of the risk

Figure 5: Regional distributions for five-year yields (top) and term premia (bottom).



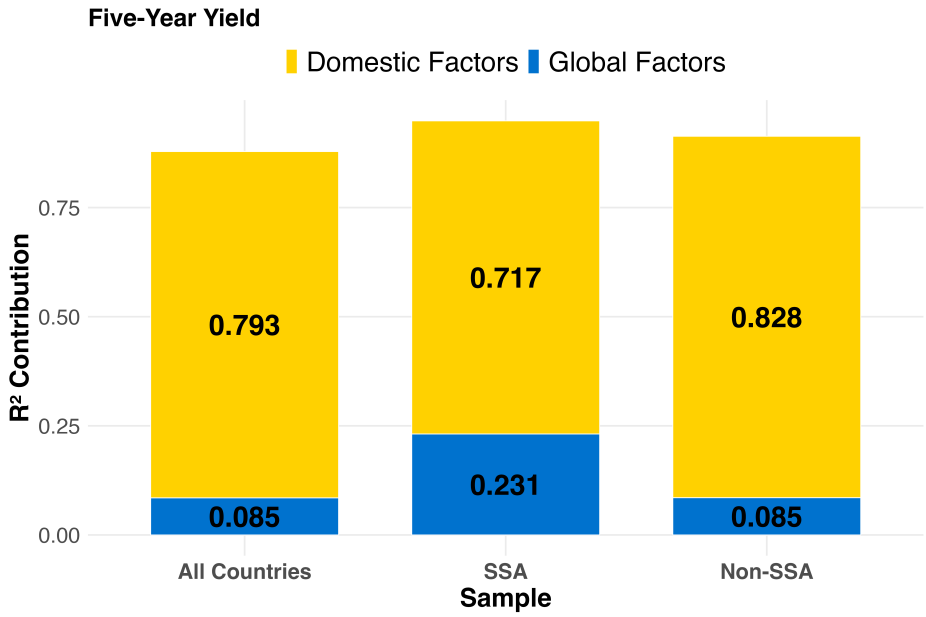
Panel A Regional medians and IQRs of five-year local-currency sovereign yields.



Panel B Regional medians and IQRs of term premia.

premium and term premium). Our finding that country-specific institutional and macro-fiscal fundamentals are the dominant force in pricing local-currency debt complements broader evidence on the dual importance of global and domestic factors for sovereign financing (Alter et al., 2025),

Figure 6: Dominance analysis for the 5-year local-currency sovereign yield



Notes: The bars show the proportion of explained variance (R^2) attributed to the global block (orange) and the domestic block (blue). The domestic block includes: Central Bank Independence (GW), Control of Corruption (WGI), Debt-to-GDP Ratio, GDP (Current USD), GDP Growth, Government Effectiveness (WGI), Government Final Consumption Expenditure (USD), Inflation (CPI), Inflation Variance, Lagged Primary Balance, Lagged Real Interest Rate (log), Log GDP per Capita, Primary Balance (% of GDP), and Real Exchange Rate (RX).

while quantifying the relative explanatory power of each during non-crisis periods.

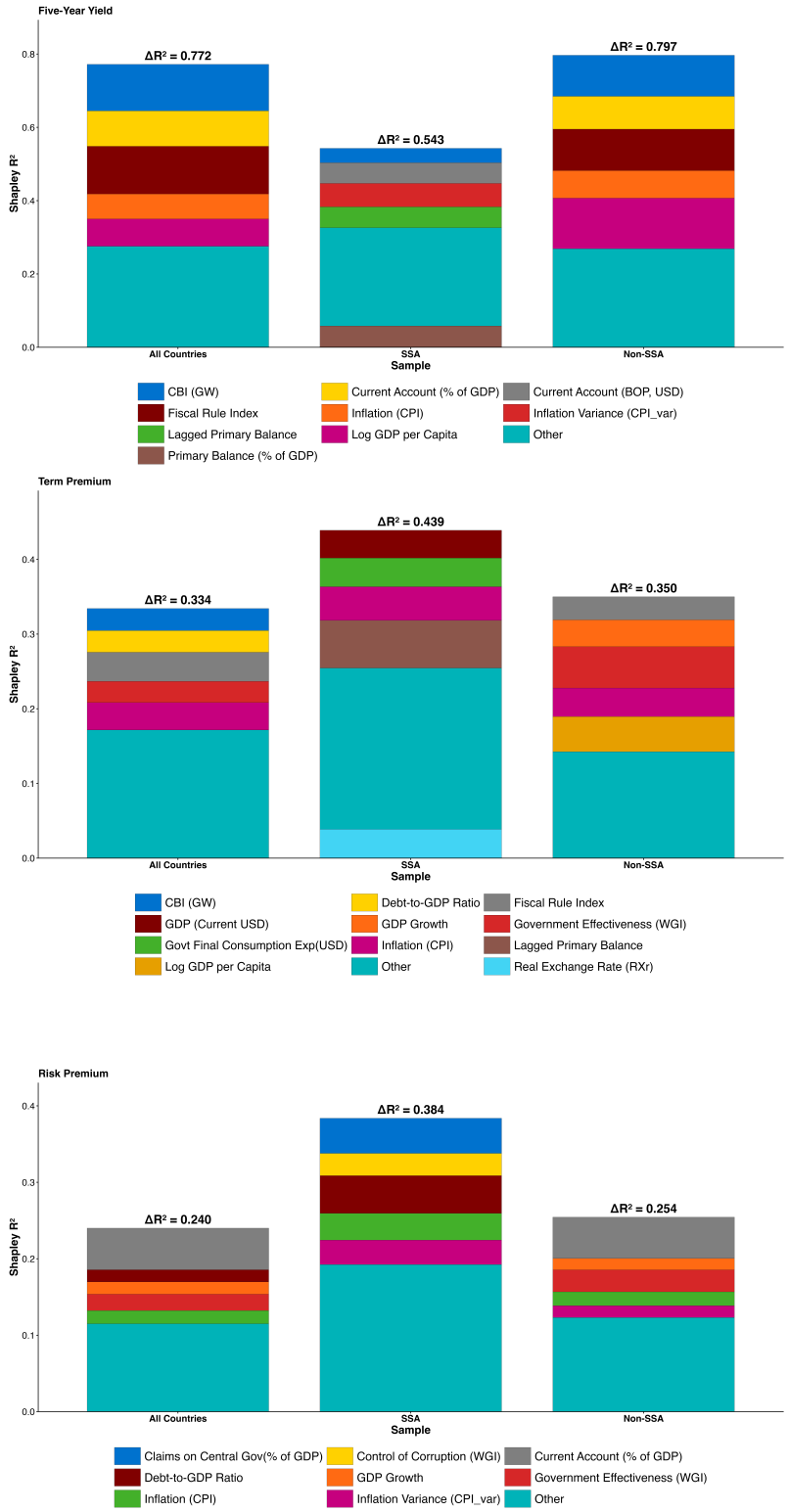
IV.4. The Composition of Domestic Drivers

In this section, we examine which specific domestic fundamentals are most influential in explaining variation in five-year sovereign yields and their components. Figure 7 presents the relative contribution of domestic fundamentals to five-year yields, the short-run risk wedge, and term premia.

The results uncover distinct patterns for each component. For the overall five-year yield, the most important variables are central bank independence, the current-account balance (in percentage of GDP), the fiscal-rule index, inflation and its variance, the lagged primary balance, GDP per capita, and the primary balance (percentage of GDP). This indicates that markets price a composite of institutional quality, external stability, fiscal rules, and inflation dynamics.

Turning to the components, the short-run risk premium is overwhelmingly shaped by sovereign-risk fundamentals. The dominant correlates are claims on the central government, control of corruption, the debt-to-GDP ratio, GDP growth, government effectiveness, and inflation (both its level and variance). This pattern is consistent with the pricing of near-term money-market stress and rollover

Figure 7: Relative contribution of domestic fundamentals to five-year yields, the short-run risk wedge and term premia



risk.

Conversely, the term premium reflects long-horizon uncertainty and is shaped by a distinct set of fundamentals. The most influential factors are institutional credibility—notably central bank independence—alongside fiscal sustainability (the debt-to-GDP ratio and fiscal-rule index), economic scale and growth (GDP, GDP growth, and GDP per capita), and external stability (the real exchange rate). Together, these variables indicate that the term premium compensates investors for the combined risks related to long-run policy credibility, fiscal trajectory, and macroeconomic prospects.

These relationships are especially strong in Sub-Saharan Africa. Here, the drivers of the risk premium account for an even larger share of the funding-cost wedge, and shortcomings in inflation anchoring or exchange-rate stability translate more directly into heightened near-term risk compensation. For term premia, the outsized role of institutional credibility and fiscal capacity corresponds directly with the region's characteristically wide interquartile range, helping explain SSA's distinct yield dispersion. These patterns underscore why central bank independence merits particular attention as a key institutional determinant of sovereign borrowing costs.

V. CBI and Sovereign local-currency Bond Yields

This section examines the relationship between central bank independence (CBI) and five-year local-currency sovereign bond yields. Table 4 presents the core fixed-effects estimates, organized to highlight a key temporal dichotomy. Columns 1–4 cover the period 2010–2020 and include both country and year fixed effects. Columns 5–8 extend the sample through 2024 and employ country fixed effects with explicit global controls but omit year effects to accommodate the extended time series. All specifications control for debt-to-GDP, institutional quality, current account dynamics, and global financial conditions (VIX, oil prices, the US dollar index, and the US 10-year yield).

A clear empirical pattern emerges from the estimates. In the stable 2010–2020 subsample (columns 1–4), a 0.1-point increase in the Garriga CBI index (on its 0–1 scale) is associated with a reduction in five-year local-currency yields of 0.60 to 0.73 percentage points, with the coefficient statistically significant across specifications. Economically, a 0.1 increase in the baseline CBI index is sizable (0.57 SD) and lowers five-year yields by 0.60–0.73 percentage points—about 7–8% of the mean yield (8.9%) and roughly 0.12–0.15 SD of cross-country yield dispersion (SD = 4.9).

Interaction terms reveal meaningful heterogeneity along two dimensions: inflation-targeting regimes and Sub-Saharan African countries. Turning first to inflation targeting (column 2), a key feature of our sample period is that most IT adopters entered these frameworks before 2010. As shown in Table 21, with the exception of Kenya (2013) and Costa Rica (2018), the IT indicator is

Table 4: Central Bank Independence and Five-Year Local-Currency Sovereign Yields

	2010–2020				2005–2024			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
CBI	-7.320***	-6.097***	-6.043***	-7.118***	4.957	5.875	-5.660**	5.795
	(2.185)	(1.887)	(1.935)	(2.454)	(8.287)	(9.740)	(2.502)	(7.911)
Overall ICRG	-0.380***	-0.376***	-0.380***		-0.292***	-0.293***	-0.308***	
	(0.091)	(0.092)	(0.091)		(0.089)	(0.089)	(0.086)	
Debt-to-GDP (%)	0.066***	0.065**	0.065**	0.024	0.040*	0.039*	0.031	0.023
	(0.024)	(0.024)	(0.024)	(0.036)	(0.022)	(0.022)	(0.020)	(0.022)
CAB (% GDP)	0.010	0.009	0.008		0.027	0.026	0.029	
	(0.048)	(0.048)	(0.048)		(0.048)	(0.048)	(0.042)	
VIX	0.049**	0.049**	0.050**	0.049**	0.005	0.005	0.003	-0.002
	(0.021)	(0.021)	(0.021)	(0.023)	(0.017)	(0.017)	(0.017)	(0.015)
Δln(Brent)	0.006*	0.006*	0.006*	0.005	-0.001	-0.001	-0.001	-0.001
	(0.003)	(0.003)	(0.003)	(0.003)	(0.004)	(0.004)	(0.004)	(0.004)
US dollar index	0.029	0.030	0.029	0.030	-0.040	-0.040	-0.032	-0.030
	(0.027)	(0.027)	(0.027)	(0.026)	(0.025)	(0.025)	(0.025)	(0.025)
US 10Y rate	0.309**	0.305**	0.306**	0.266	0.531***	0.529***	0.479**	0.371**
	(0.145)	(0.146)	(0.145)	(0.163)	(0.179)	(0.179)	(0.187)	(0.177)
IT × CBI		-18.714*				-7.052		
		(9.433)				(11.151)		
SSA × CBI			-26.347*				35.313*	
			(13.108)				(19.662)	
Financial risk				-0.170***				-0.208***
				(0.044)				(0.051)
Economic risk				-0.117*				-0.063
				(0.064)				(0.048)
Country FE	yes	yes	yes	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	no	no	no	no
Countries	40	40	40	40	40	40	40	40
SSA Countries	15	15	15	15	15	15	15	15
Observations	1,377	1,377	1,377	1,389	2,122	2,122	2,122	2,146
Adj. R-squared	0.855	0.855	0.856	0.839	0.779	0.779	0.792	0.778

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

effectively time-invariant during our 2010–2020 baseline window.[8] Accordingly, the coefficient on IT×CBI captures a difference in the marginal association between CBI and yields for IT versus non-IT countries—rather than an effect of IT adoption within the sample. The negative and significant interaction estimate is consistent with markets pricing CBI improvements more strongly under an established IT framework.

The heterogeneity is larger in magnitude for Sub-Saharan Africa (column 3). Two clarifications are important for interpreting this SSA interaction. First, with country fixed effects, the interaction is identified from within-country changes in CBI over time, not from SSA's share of the cross section. Second, as with the overall yield sample, SSA observations come from countries with relatively more developed local-currency bond markets; within this set, the larger 2010–2020 estimate is consistent with market pricing being more responsive to changes in statutory monetary institutions.

By contrast, in the full 2005–2024 sample (columns 5–8)—which incorporates the Global Financial Crisis and the COVID-19 shock—the estimated relationship between CBI and yields becomes economically smaller and statistically fragile. During such episodes of global systemic stress, sovereign yields are predominantly driven by common risk factors and synchronized international policy responses. Under these conditions, cross-country differences in domestic institutional design, including statutory central bank independence, are overwhelmed by global financial spillovers, weakening their marginal power to explain yield differentials. This crisis-state pricing also helps interpret why the CBI×SSA interaction can turn positive in the longer 2005–2024 sample. During global stress, investors shift toward safer and more liquid assets (flight-to-safety) and demand higher compensation to hold riskier and less liquid local-currency sovereign bonds. In such quarters, global risk repricing can raise SSA yields disproportionately, overwhelming cross-country differences in *de jure* institutions and making the interaction coefficient sensitive to crisis observations.

The robustness of our core 2010–2020 result is confirmed by a series of alternative specifications, as reported in Table 5. The estimated negative relationship between CBI and yields remains stable when employing alternative measures of independence, including the unweighted Garriga index and sub-indices focusing specifically on lending limits and central bank governor independence. Detailed regression outputs for these alternative specifications are provided in the Appendix (Tables 13 to 18). Further evidence supporting the temporal conditioning of the CBI premium comes from auxiliary samples. As shown in Appendix Tables 11 and 12, extending the sample period backward to include earlier crises—such as starting in 2002 or 2005 to encompass the Global Financial Crisis—while ending in 2020 or 2024, consistently attenuates the estimated coefficient on

[8] Interacting IT with the statutory CBI index raises an interpretation concern because the CBI index already includes a price-stability mandate component, so related legal reforms may be partially captured by both measures. We therefore interpret IT×CBI as the incremental association of operating an inflation-targeting regime beyond the de jure mandate already embedded in the CBI index, rather than as an estimate of complementarity. The weighted Garriga CBI index places substantial weight (50%) on restrictions on central bank lending to the government, which helps distinguish the index from IT but does not eliminate the overlap concern.

CBI. This pattern reinforces our central finding that the yield-compressing effect of institutional credibility is most pronounced during stable, non-crisis periods.

In sum, we find robust evidence that greater central bank independence is associated with lower sovereign borrowing costs, but this "CBI premium" is state-contingent. It is clearly priced during stable periods (2010–2020) but vanishes in samples dominated by global systemic crises, when *de facto* policy conduct converges and common shocks dominate cross-country variation in *de jure* institutional design[9].

Table 5: Robustness: Alternative CBI Measures and Sovereign Yields, 2010–2020

	(1)	(2)	(3)	(4)	(5)	(6)
CBI (Garriga, unweighted)	-11.119***					
	(2.369)					
CBI (Cukierman: lending limits)		-3.818***				
		(1.100)				
CBI (Cukierman: objectives)			-3.315***			
			(0.945)			
CBI (Cukierman: policy)				-2.931		
				(1.780)		
CBI (Cukierman: CEO)					-7.768**	
					(3.125)	
CBIE index (updated)						-6.406
						(8.324)
Country FE	yes	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes	yes
Observations	1,353	1,353	1,353	1,353	1,353	1,291
Adj. R^2	0.856	0.856	0.856	0.855	0.856	0.865

Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

To strengthen the interpretation of our core findings, we conduct two complementary validation exercises, reported in the Appendix. We first examine the direction of causality using panel Granger-causality tests (Appendix 8). The results are consistent with a unidirectional relationship

[9] A natural concern is whether the estimated relationship between CBI and 5-year yields reflects a broad, credibility-driven repricing of sovereign risk or instead a shift in investor demand across maturities—for example, a portfolio reallocation into the 5-year segment that compresses its yield even if borrowing costs at other tenors do not decline by the same magnitude. As discussed in Section II., limited and uneven yield-curve coverage in EMDEs prevents us from evaluating maturity-by-maturity effects or testing directly for such cross-maturity substitution. We therefore interpret our estimates as pertaining to **long-term** local-currency borrowing costs (proxied by the 5-year point) and remain agnostic about implications for other maturities.

running from CBI to local-currency yields ($p = 0.0029$), with no corresponding evidence of reverse causality ($p = 0.7334$). This pattern is consistent with the theoretical premise that institutional design influences market pricing rather than being endogenously adjusted in response to it, thereby mitigating a key endogeneity concern. Second, we assess whether the country subgroups used in our interaction analysis are comparable to their control groups. Sample-balance tests (Appendix **??**) compare the SSA and inflation-targeting (IT) subsamples to their respective control groups across a set of pre-determined covariates. For the IT subgroup, for instance, the joint balance F-test is not statistically significant at conventional levels ($p = 0.0762$). This suggests that the interaction effects we document are unlikely to be driven by systematic, pre-existing differences in observables between these country groups.

Taken together, these exercises mitigate concerns about reverse causality and support the interpretation that the conditional associations we identify between CBI and sovereign borrowing costs are consistent with the theoretical premise that institutional design influences market pricing, rather than the reverse. We interpret these results as robust conditional correlations that inform the theoretical relationship between institutions and market outcomes.

The subsequent sections decompose this overall effect into the risk-premium and term-premium channels.

V.0.1. Decomposing the Channels: Risk and Term premia Having established a robust negative relationship between CBI and sovereign yields, we now decompose this aggregate effect to understand its underlying channels. Specifically, we examine whether CBI reduces borrowing costs by lowering the near-term sovereign risk premium, the long-term inflation (term) premium, or both. This analysis clarifies the economic mechanisms through which institutional credibility influences market pricing.

We begin by investigating CBI's effect on the term premium, which compensates investors for long-horizon interest rate and inflation uncertainty. Table 4 presents the results from panel regressions for the period 2010–2019, controlling for country and time fixed effects alongside key macroeconomic variables.

The coefficient on the CBI index is negative and statistically significant across all specifications, indicating that greater central bank independence is associated with a lower term premium.

The economic magnitude is meaningful: a 0.1-point increase (on a 0–1 scale)increase in the CBI index is associated with a reduction in the term premium of roughly 0.61 to 0.73 percentage points in the core specifications (columns 1–3). This relationship persists when controlling for debt-to-GDP, economic development, primary balances, and global financial conditions (proxied by the US 10-year yield in column 6). The consistency of this result suggests that independent central banks are perceived as more credible guardians of long-term price stability, thereby reducing the

Table 6: Central Bank Independence and the Term Premium, 2010–2019

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CBI	-7.279***	-6.443***	-6.082***	-7.226**	-4.579*	-6.014**	-4.256
	(1.563)	(1.846)	(1.682)	(2.766)	(2.344)	(2.713)	(2.550)
Debt-to-GDP (%)	0.034**	0.033**	0.024*	0.033**	0.032**	0.008	0.009
	(0.014)	(0.015)	(0.012)	(0.015)	(0.015)	(0.012)	(0.011)
ln(GDP/Capita)	3.536**	3.452**	3.197**	3.435**	3.471**	1.823	2.010*
	(1.331)	(1.354)	(1.443)	(1.373)	(1.349)	(1.178)	(1.173)
primary balance (% GDP)		-0.042		-0.042	-0.043	-0.084	-0.084
		(0.059)		(0.059)	(0.059)	(0.067)	(0.067)
Claims on CG (% GDP)			0.050*				
			(0.029)				
IT dummy× CBI				3.426			
				(7.777)			
SSA dummy× CBI					-11.783		
					(11.616)		
USGG10YR						0.693***	
						(0.172)	
VIX							0.050**
							(0.022)
Constant	-24.771**	-24.615**	-22.676*	-24.897**	-23.077*	-11.834	-13.708
	(11.280)	(11.398)	(11.910)	(11.187)	(11.611)	(10.259)	(10.235)
Time FE	yes	yes	yes	yes	yes	yes	no
Country FE	yes	yes	yes	yes	yes	yes	yes
Countries	38	38	37	38	38	38	38
SSA Countries	16	16	16	16	16	16	16
Observations	1,061	1,061	1,051	1,061	1,061	1,061	1,061
Adj. R-squared	0.575	0.576	0.580	0.575	0.576	0.551	0.540

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

compensation investors require for future inflation risk. We next examine CBI's effect on the risk premium, which reflects compensation for near-term macroeconomic, fiscal, and institutional risk. Table 5 reports the main results for the risk premium over the 2010–2019 period. We find that central bank independence also significantly reduces the sovereign risk premium. The coefficient on the CBI index is negative and statistically significant in most specifications. The estimates imply an economically substantial effect: a 0.1-point increase (on a 0–1 scale) in CBI is associated with a reduction in the risk premium of approximately 1.4 to 1.7 percentage points in our preferred models (columns 1-3). This indicates that CBI mitigates investors' perceptions of near-term sovereign risk.

Table 7: Central Bank Independence and the Risk Premium, 2010–2019

	(1)	(2)	(3)	(4)	(5)	(6)
CBI	-14.55***	-14.34***	-14.25***	-17.33***	-7.134	-14.54***
	(2.533)	(3.495)	(3.503)	(0.911)	(15.05)	(3.679)
Financial risk(% Δ)	-0.0303**	-0.0162	-0.0146	-0.0165	-0.0163	-0.0181
	(0.00916)	(0.0107)	(0.0113)	(0.0107)	(0.0107)	(0.00952)
Debt-to-GDP (%)	0.0577**	0.0580**	0.0558**	0.0580**	0.0577**	0.0466**
	(0.0184)	(0.0166)	(0.0179)	(0.0164)	(0.0167)	(0.0146)
RER	-0.0398					
	(0.0248)					
ln(GDP/Capita)		-0.991	-0.852	-1.061	-1.042	-1.395
		(1.236)	(1.233)	(1.249)	(1.258)	(0.992)
primary balance (% of GDP)			-0.0406			
			(0.0445)			
IT dummy× CBI				11.99		
				(9.558)		
SSA dummy× CBI					-8.493	
					(15.26)	
VIX						0.0109
						(0.0187)
Δ ln(Brent oil %)						0.000142
						(0.00277)
Time FE	yes	yes	yes	yes	yes	no
Country FE	yes	yes	yes	yes	yes	yes
Countries	22	37	37	37	37	37
SSA Countries	6	9	9	9	9	9
Observations	716	1,167	1,167	1,167	1,167	1,167
Adj. R-squared	0.404	0.630	0.632	0.631	0.630	0.632

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The credibility dividend appears particularly pronounced for Sub-Saharan African (SSA) countries. Although the interaction term CBI × SSA dummy in column 5 is not individually significant, the direction and magnitude of the coefficient suggest a potentially stronger total effect in this region. This aligns with the view that in institutional environments where commitment mechanisms are often weaker, a strong and independent central bank may provide a disproportionately valuable signal of stability to investors.

Taken together, the results from Tables 4 and 5 demonstrate that central bank independence operates through both primary channels of sovereign pricing. It simultaneously lowers the compensation investors demand for bearing long-term inflation uncertainty (the term premium) and for facing near-term sovereign risk (the risk premium). This dual-channel effect underscores the comprehensive nature of the credibility premium associated with institutional independence and explains the strength of the aggregate yield reduction documented earlier. For policymakers, this implies that strengthening central bank independence can deliver tangible benefits by reducing borrowing costs across both the short and long segments of the yield curve.

Reconciling the component magnitudes. The component estimates in Tables 4 and 5 help interpret why the headline yield effect can appear smaller than the combined movements in the two premium components. In our EMDE panel, expectations of future policy rates are not directly observed. The near-term risk premium is proxied with its current realization, and the longer-horizon premium component is proxied by the long–short gap, which also absorbs any difference between today's short rate and the expected average short rate over the bond's life. For this reason, the component estimates should be read as evidence about channels—premium compression versus the policy-rate path—rather than as objects that must add up mechanically. The pattern in the tables is consistent with a credibility mechanism: stronger independence compresses risk compensation while markets simultaneously price a less accommodative policy reaction when inflationary or fiscal pressures emerge.

VI. Conclusion

This paper examines whether the institutional credibility conferred by *de jure* central bank independence (CBI) is reflected in local-currency sovereign borrowing costs in emerging and developing economies. Using data for up to 137 EMDEs over 2000–2024, we establish five main results. First, stronger *de jure* CBI is associated with lower inflation and reduced inflation volatility. Second, in normal times (2010–2020), a 0.1-point increase in CBI (on a 0–1 scale) is associated with a 0.6–0.7 percentage point decline in five-year local-currency sovereign yields. Third, a term-structure decomposition indicates that this decline operates through two channels: lower near-term risk compensation and a compressed term premium linked to long-run inflation risk. Fourth, the effect is heterogeneous: it is stronger under inflation-targeting regimes and economically larger in Sub-Saharan Africa, but it weakens and becomes statistically insignificant during systemic global crises. Fifth, domestic fundamentals—including institutional credibility and macro-fiscal conditions—explain more yield variation than global factors, a pattern that is especially pronounced in Sub-Saharan Africa. The central takeaway is the state-dependence of the credibility premium.

In normal times, statutory constraints that limit fiscal dominance are priced into local-currency yields. During systemic stress, however, synchronized global risk repricing and common shocks can dominate cross-country variation in domestic fundamentals, temporarily weakening the empirical link between *de jure* institutional design and borrowing costs.

These findings offer clear guidance for the design of monetary frameworks and the development of local-currency bond markets. For EMDEs seeking to deepen domestic debt markets and reduce borrowing costs in normal times, strengthening legal central bank independence—particularly within a rule-based framework such as inflation targeting—appears to be economically meaningful. At the same time, the results underscore that institutional reforms are not a full hedge against extreme global shocks, highlighting the need for complementary resilience policies, including credible fiscal frameworks and measures to improve market depth and liquidity.

Future research can extend this work in several valuable directions. Disentangling pricing by investor class would clarify demand-side channels. Incorporating *de facto* measures of independence could test whether legal protections reduce yields only when credible in practice. Sharper identification could come from event studies of discrete legal reforms. The crisis-state attenuation invites more granular analysis of interactions with global risk measures to characterize when global shocks dominate domestic institutional quality. Finally, the pronounced effects in Sub-Saharan Africa motivate deeper work on the role of regional monetary arrangements, fiscal institutions, and foreign participation.

Overall, the evidence indicates that local-currency debt markets price institutional credibility in normal times. This strengthens the economic rationale for safeguarding central bank independence as a core element of a broader strategy to build macro-financial resilience and secure more stable domestic financing.

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A Appendix : Additional Figures and Tables

A1. Reform Chronology and CBI-Inflation Relationship:

As discussed in Section II.3. of the main text, the global trend toward central bank independence has been characterized by waves of legal reforms. Figure 8 provides additional details on the timing of these institutional changes and their historical relationship with inflation outcomes. Panel (A) shows the annual count of legal reforms that either increased or decreased CBI across different regions from 1970 to 2020. This timeline reveals distinct periods of concentrated reform activity, corresponding to major shifts in macroeconomic policy paradigms. Panel (B) examines how the

relationship between CBI and inflation has evolved across decades, highlighting the changing empirical association as institutional frameworks matured and global inflation dynamics shifted.

Figure 8: Temporal and Regional Patterns of CBI Reforms, 1970–2020

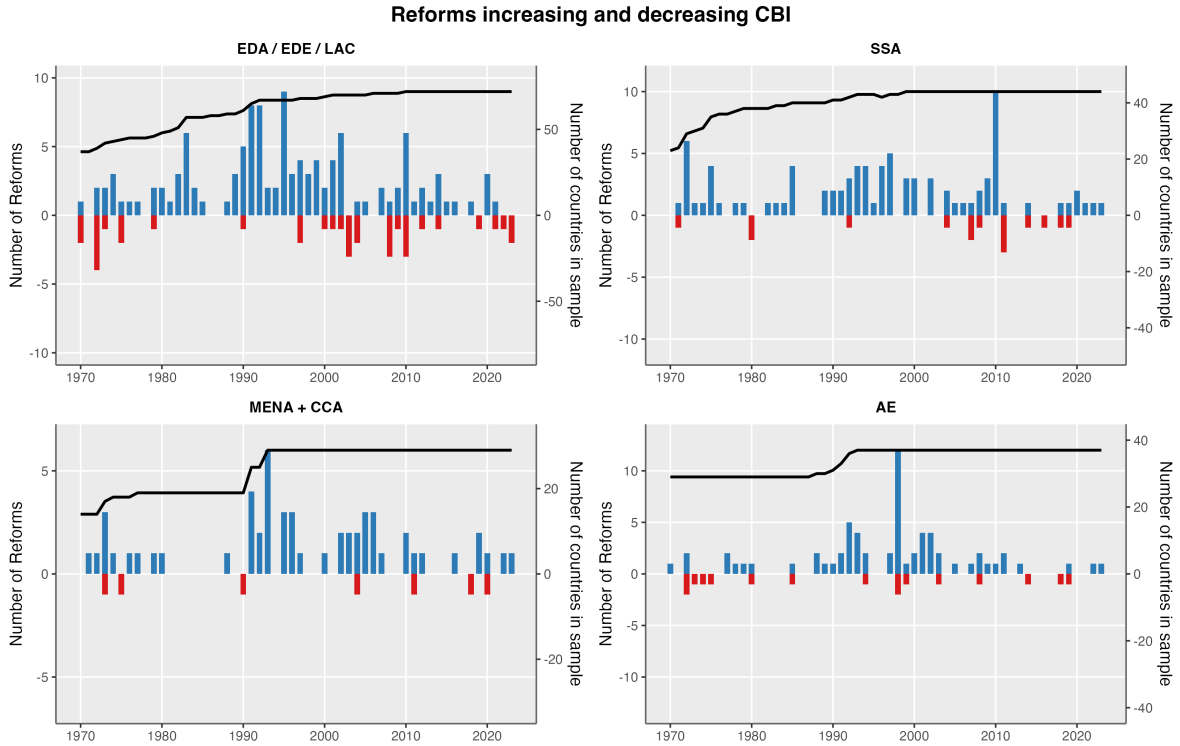


Table 8: Granger Causality and Balance Tests

Panel A. Granger causality (5-year yield)	**F-stat**	**p-value**
CBI → Yields	6.693	0.0029
Yields → CBI	0.312	0.7334
Conclusion: Unidirectional: CBI → Yields		
Panel B. Sample balance tests		
SSA vs. non-SSA	0.144	0.7060
Inflation targeting (IT) vs. non-IT	3.319	0.0762

Notes: Entries report F-statistics and cluster-robust p-values (clusters: country). Granger tests use country and time fixed effects. Balance tests compare group means with the same clustering. All statistics are rounded to four decimals for p-values and three for F-statistics. The unidirectional Granger-causal relationship from CBI to yields is consistent with the assumption that institutional design influences market pricing, rather than the reverse. Balanced samples further support internal validity.

A2. Additional Figures on Yield Decomposition and Dominance Analysis

Table 9: Central Bank Independence and Inflation, 2000–2019

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CBI	-10.30***	-10.80***	-11.52***	-8.599	-12.66***	-13.81***	-12.66***
	(2.501)	(2.561)	(2.809)	(5.754)	(2.789)	(2.810)	(2.919)
ln(GDP/Capita)	-1.073	-0.00741	0.213	-0.142	0.126	-2.005	0.127
	(0.796)	(1.411)	(1.477)	(2.243)	(1.590)	(1.370)	(1.638)
CPI_{t-2}	0.857***	0.859***	0.855***	0.866***	0.851***	0.851***	0.851***
	(0.00751)	(0.00763)	(0.00859)	(0.0121)	(0.00893)	(0.0101)	(0.00890)
ln(Government cons)		-0.244	-0.582	1.046	-0.208	-1.079	-0.209
		(1.144)	(1.172)	(1.473)	(1.235)	(1.133)	(1.254)
Cont of Corruption			-0.685	-1.892*	-0.921	-0.331	-0.921
			(0.963)	(1.031)	(0.998)	(0.968)	(0.994)
$\ln(\text{RER})_{t-2}$				0.0609			
				(2.995)			
Debt-to-GDP (%)					0.00522	0.00583	0.00523
					(0.0105)	(0.0109)	(0.0108)
VIX						0.0206	
						(0.0148)	
US dollar index						0.0404**	
						(0.0164)	
SSA dummy × CBI							0.00900
							(5.568)
Constant	33.73*	14.17	16.36	-13.69	10.61	77.66***	10.60
	(19.01)	(21.73)	(22.94)	(39.27)	(24.21)	(14.29)	(24.68)
Countries	137	126	126	52	124	124	124
SSA Countries	42	38	38	15	38	38	38
Observations	10516	9134	8688	3560	8495	8495	8495
R-squared	0.910	0.914	0.911	0.916	0.910	0.902	0.910

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 10: Central Bank Independence and Inflation Volatility, 2000–2019

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CBI	-0.491	-0.475	-0.230	-0.994**	-0.981**	-0.858*	0.603
	(0.874)	(0.785)	(0.523)	(0.384)	(0.442)	(0.456)	(0.664)
ln(GDP/Capita)	-1.825**	-1.724**	-1.821**	-0.495	-0.478	-0.188	-0.507
	(0.761)	(0.708)	(0.735)	(0.424)	(0.446)	(0.431)	(0.446)
$\ln(\text{RER})_{t-2}$	2.730*	2.684*	2.778*	0.712**	0.697**	0.328	0.672**
	(1.529)	(1.462)	(1.472)	(0.289)	(0.291)	(0.310)	(0.280)
Debt-to-GDP (%)	0.00332	0.00362	0.00404	0.00195	0.00177	0.00283	0.000642
	(0.00365)	(0.00324)	(0.00327)	(0.00224)	(0.00228)	(0.00222)	(0.00256)
CPI_{t-2}		0.0131***	0.0132***	0.0107**	0.0106**	0.00973**	0.0107**
		(0.00444)	(0.00460)	(0.00462)	(0.00467)	(0.00420)	(0.00465)
Cont of Corruption			0.264	0.00970	0.00895	-0.113	0.00147
			(0.191)	(0.161)	(0.163)	(0.160)	(0.169)
ln(Government cons)				-0.276	-0.301	-0.155	-0.289
				(0.422)	(0.445)	(0.452)	(0.440)
primary bal. (%GDP)					-0.00463	-0.00718	-0.00409
					(0.00706)	(0.00737)	(0.00706)
VIX						0.0101***	
						(0.00334)	
US dollar index						-0.00163	
						(0.00283)	
SSA dummy × CBI							-2.441**
							(1.077)
Constant	32.41***	30.05***	31.85***	16.24***	16.51***	7.544***	16.45***
	(11.85)	(10.73)	(11.31)	(4.711)	(4.856)	(2.291)	(5.064)
Countries	59	59	59	51	50	50	50
SSA Countries	17	17	17	15	15	15	15
Observations	3476	3476	3380	2774	2726	2726	2726
R-squared	0.381	0.393	0.397	0.284	0.281	0.255	0.283

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 11: Central Bank Independence and Five-Year Local-Currency Sovereign Yields, 2005–2020

	2005–2020				
	(1)	(2)	(3)	(4)	(5)
CBI	-6.221***	-5.305**	-5.524***	-4.189	-4.307
	(2.162)	(2.068)	(2.038)	(3.486)	(3.661)
Overall ICRG	-0.300***	-0.301***	-0.302***		
	(0.093)	(0.093)	(0.093)		
Debt-to-GDP (%)	0.087***	0.087***	0.087***	0.045	0.045
	(0.019)	(0.020)	(0.019)	(0.036)	(0.035)
CAB (% GDP)	-0.013	-0.013	-0.014		
	(0.048)	(0.048)	(0.048)		
VIX	0.031**	0.030**	0.031**	0.031**	0.031**
	(0.012)	(0.012)	(0.012)	(0.012)	(0.012)
Δln(Brent)	0.008***	0.008***	0.008***	0.007**	0.007**
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.035	0.036	0.035	0.038	0.038
	(0.024)	(0.024)	(0.024)	(0.024)	(0.024)
US 10Y rate	0.222*	0.220*	0.221*	0.198	0.199
	(0.122)	(0.122)	(0.122)	(0.132)	(0.132)
IT $\times$ CBI		-14.862			
		(9.250)			
SSA $\times$ CBI			-11.213		
			(13.784)		
Financial risk				-0.113**	-0.112**
				(0.053)	(0.052)
Economic risk				-0.115*	-0.113
				(0.066)	(0.068)
Political risk					-0.014
					(0.063)
Country FE	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	yes
Countries	40	40	40	40	40
SSA Countries	15	15	15	15	15
Observations	1,671	1,671	1,671	1,683	1,683
Adj. R-squared	0.828	0.828	0.828	0.811	0.811

Table 12: Central Bank Independence and Five-Year Local-Currency Sovereign Yields, 2002–2024

	(1)	(2)	(3)	(4)	(5)
CBI	2.276	2.572	-2.652	3.627	3.664
	(4.902)	(5.349)	(2.117)	(4.757)	(4.737)
Overall ICRG	-0.312***	-0.312***	-0.350***		
	(0.090)	(0.090)	(0.083)		
Debt-to-GDP (%)	0.029	0.029	0.021	0.008	0.008
	(0.023)	(0.023)	(0.020)	(0.024)	(0.025)
CAB (% GDP)	0.029	0.029	0.028		
	(0.051)	(0.050)	(0.044)		
VIX	0.018	0.018	0.014	0.009	0.008
	(0.016)	(0.016)	(0.016)	(0.015)	(0.016)
Δln(Brent)	-0.073	-0.064	-0.040	0.043	0.040
	(0.440)	(0.446)	(0.393)	(0.416)	(0.418)
US dollar index	-0.008	-0.008	-0.005	0.003	0.003
	(0.023)	(0.023)	(0.023)	(0.025)	(0.025)
US 10Y rate	0.670***	0.670***	0.619***	0.488**	0.480**
	(0.183)	(0.183)	(0.187)	(0.182)	(0.187)
IT $\times$ CBI		-4.577			
		(7.082)			
SSA $\times$ CBI			30.863*		
			(18.314)		
Financial risk				-0.226***	-0.227***
				(0.050)	(0.049)
Economic risk				-0.080	-0.082*
				(0.050)	(0.047)
Political risk					0.010
					(0.040)
Country FE	yes	yes	yes	yes	yes
Year FE	no	no	no	no	no
Countries	42	42	42	42	42
SSA Countries	16	16	16	16	16
Observations	2,235	2,235	2,235	2,259	2,259
Adj. R-squared	0.767	0.767	0.779	0.767	0.767

Standard errors clustered by country in parentheses.

Table 13: Central Bank Independence and Five-Year Yields, 2010–2020: CBIE Index

	(1)	(2)	(3)	(4)	(5)
CBIE index (updated)	-6.406	-3.520	-6.864	-7.174	-7.062
	(8.324)	(9.351)	(8.325)	(8.442)	(8.528)
Overall ICRG	-0.299***	-0.295***	-0.304***		
	(0.084)	(0.085)	(0.085)		
Debt-to-GDP (%)	0.066**	0.066**	0.065**	0.025	0.025
	(0.025)	(0.025)	(0.025)	(0.038)	(0.037)
CAB (% GDP)	0.029	0.030	0.026		
	(0.045)	(0.045)	(0.045)		
VIX	0.043	0.043	0.043	0.044	0.044
	(0.027)	(0.027)	(0.027)	(0.027)	(0.027)
$\Delta \ln$(Brent)	0.002	0.002	0.002	0.002	0.002
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.041	0.042	0.041	0.044	0.046
	(0.028)	(0.028)	(0.028)	(0.028)	(0.028)
US 10Y rate	0.256*	0.255*	0.256*	0.190	0.187
	(0.150)	(0.150)	(0.150)	(0.188)	(0.185)
IT × CBI		-12.544			
		(18.934)			
SSA × CBI			36.988*		
			(19.116)		
Financial risk				-0.137***	-0.134***
				(0.047)	(0.047)
Economic risk				-0.089	-0.083
				(0.066)	(0.065)
Political risk					-0.040
					(0.072)
Country FE	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes
Countries	38	38	38	38	38
SSA Countries	15	15	15	15	15
Observations	1,291	1,291	1,291	1,303	1,303
Adj. R^2	0.865	0.865	0.865	0.850	0.850

Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 14: Central Bank Independence and Five-Year Yields, 2010–2020: Cukierman CEO Index

	(1)	(2)	(3)	(4)	(5)
CBI (Cukierman: CEO)	-7.768**	-7.768**	-7.768**	-6.306**	-8.027**
	(3.125)	(3.125)	(3.125)	(3.082)	(3.308)
Overall ICRG	-0.376***	-0.376***	-0.376***		
	(0.093)	(0.093)	(0.093)		
Debt-to-GDP (%)	0.064**	0.064**	0.064**	0.025	0.025
	(0.025)	(0.025)	(0.025)	(0.038)	(0.036)
CAB (% GDP)	0.014	0.014	0.014		
	(0.049)	(0.049)	(0.049)		
VIX	0.050*	0.050*	0.050*	0.051*	0.050*
	(0.026)	(0.026)	(0.026)	(0.027)	(0.026)
$\Delta \ln$(Brent)	0.002	0.002	0.002	0.003	0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.035	0.035	0.035	0.037	0.040
	(0.027)	(0.027)	(0.027)	(0.028)	(0.027)
US 10Y rate	0.299**	0.299**	0.299**	0.234	0.227
	(0.147)	(0.147)	(0.147)	(0.182)	(0.177)
Financial risk				-0.164***	-0.158***
				(0.046)	(0.046)
Economic risk				-0.111*	-0.096
				(0.066)	(0.064)
Political risk					-0.090
					(0.079)
Country FE	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes
Countries	40	40	40	40	40
SSA Countries	15	15	15	15	15
Observations	1,353	1,353	1,353	1,365	1,365
Adj. R^2	0.856	0.856	0.856	0.840	0.841

Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 15: Central Bank Independence and Five-Year Yields, 2010–2020: Cukierman Lending Limits Index

	(1)	(2)	(3)	(4)	(5)
CBI (Cukierman: lending limits)	-3.818***	-3.557***	-3.557***	-3.516***	-4.105***
	(1.100)	(1.041)	(1.041)	(1.036)	(1.157)
Overall ICRG	-0.379***	-0.378***	-0.378***		
	(0.093)	(0.093)	(0.093)		
Debt-to-GDP (%)	0.064**	0.064**	0.064**	0.024	0.025
	(0.025)	(0.025)	(0.025)	(0.037)	(0.036)
CAB (% GDP)	0.013	0.014	0.014		
	(0.048)	(0.049)	(0.049)		
VIX	0.049*	0.049*	0.049*	0.051*	0.049*
	(0.026)	(0.026)	(0.026)	(0.027)	(0.026)
$\Delta \ln$(Brent)	0.002	0.002	0.002	0.002	0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.035	0.035	0.035	0.037	0.040
	(0.027)	(0.027)	(0.027)	(0.028)	(0.027)
US 10Y rate	0.300**	0.299**	0.299**	0.234	0.227
	(0.147)	(0.147)	(0.147)	(0.182)	(0.176)
IT × CBI		-65.827***			
		(11.218)			
SSA × CBI			-65.827***		
			(11.218)		
Financial risk				-0.169***	-0.162***
				(0.046)	(0.046)
Economic risk				-0.111	-0.096
				(0.066)	(0.063)
Political risk					-0.090
					(0.078)
Country FE	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes
Countries	40	40	40	40	40
SSA Countries	15	15	15	15	15
Observations	1,353	1,353	1,353	1,365	1,365
Adj. R^2	0.856	0.857	0.857	0.840	0.841

Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 16: Central Bank Independence and Five-Year Yields, 2010–2020: Cukierman Objectives Index

	(1)	(2)	(3)	(4)	(5)
CBI (Cukierman: objectives)	-3.315***	1.220	-0.756	-4.117***	-4.143***
	(0.945)	(2.850)	(2.197)	(1.367)	(1.321)
Overall ICRG	-0.365***	-0.365***	-0.367***		
	(0.092)	(0.092)	(0.092)		
Debt-to-GDP (%)	0.065**	0.065**	0.065**	0.025	0.026
	(0.025)	(0.025)	(0.025)	(0.038)	(0.037)
CAB (% GDP)	0.010	0.008	0.009		
	(0.048)	(0.049)	(0.049)		
VIX	0.051*	0.051*	0.051*	0.052*	0.052*
	(0.026)	(0.026)	(0.026)	(0.027)	(0.027)
$\Delta \ln$(Brent)	0.003	0.003	0.003	0.003	0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.035	0.036	0.035	0.038	0.041
	(0.027)	(0.027)	(0.028)	(0.028)	(0.027)
US 10Y rate	0.289*	0.289*	0.290*	0.227	0.221
	(0.147)	(0.147)	(0.147)	(0.182)	(0.177)
IT × CBI		-4.860			
		(2.968)			
SSA × CBI			-3.119		
			(2.631)		
Financial risk				-0.161***	-0.153***
				(0.046)	(0.047)
Economic risk				-0.111	-0.098
				(0.066)	(0.065)
Political risk					-0.078
					(0.078)
Country FE	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes
Countries	40	40	40	40	40
SSA Countries	15	15	15	15	15
Observations	1,353	1,353	1,353	1,365	1,365
Adj. R^2	0.856	0.855	0.855	0.840	0.841

Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Table 17: Central Bank Independence and Five-Year Yields, 2010–2020: Cukierman Policy Index

	(1)	(2)	(3)	(4)	(5)
CBI (Cukierman: policy)	-2.931	-3.283*	-2.931	-3.990**	-3.661*
	(1.780)	(1.891)	(1.780)	(1.964)	(1.897)
Overall ICRG	-0.365***	-0.366***	-0.365***		
	(0.092)	(0.093)	(0.092)		
Debt-to-GDP (%)	0.066**	0.066**	0.066**	0.025	0.027
	(0.025)	(0.025)	(0.025)	(0.038)	(0.037)
CAB (% GDP)	0.009	0.009	0.009		
	(0.048)	(0.048)	(0.048)		
VIX	0.051*	0.051*	0.051*	0.053*	0.052*
	(0.026)	(0.026)	(0.026)	(0.027)	(0.027)
$\Delta \ln$(Brent)	0.003	0.003	0.003	0.003	0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.035	0.035	0.035	0.038	0.041
	(0.028)	(0.028)	(0.028)	(0.028)	(0.027)
US 10Y rate	0.291*	0.291*	0.291*	0.234	0.228
	(0.147)	(0.147)	(0.147)	(0.183)	(0.178)
IT × CBI		0.974			
		(3.191)			
SSA × CBI			0.000		
			(.)		
Financial risk				-0.154***	-0.147***
				(0.048)	(0.048)
Economic risk				-0.116*	-0.104
				(0.066)	(0.064)
Political risk					-0.077
					(0.078)
Country FE	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes
Countries	40	40	40	40	40
SSA Countries	15	15	15	15	15
Observations	1,353	1,353	1,353	1,365	1,365
Adj. R^2	0.855	0.855	0.855	0.840	0.840

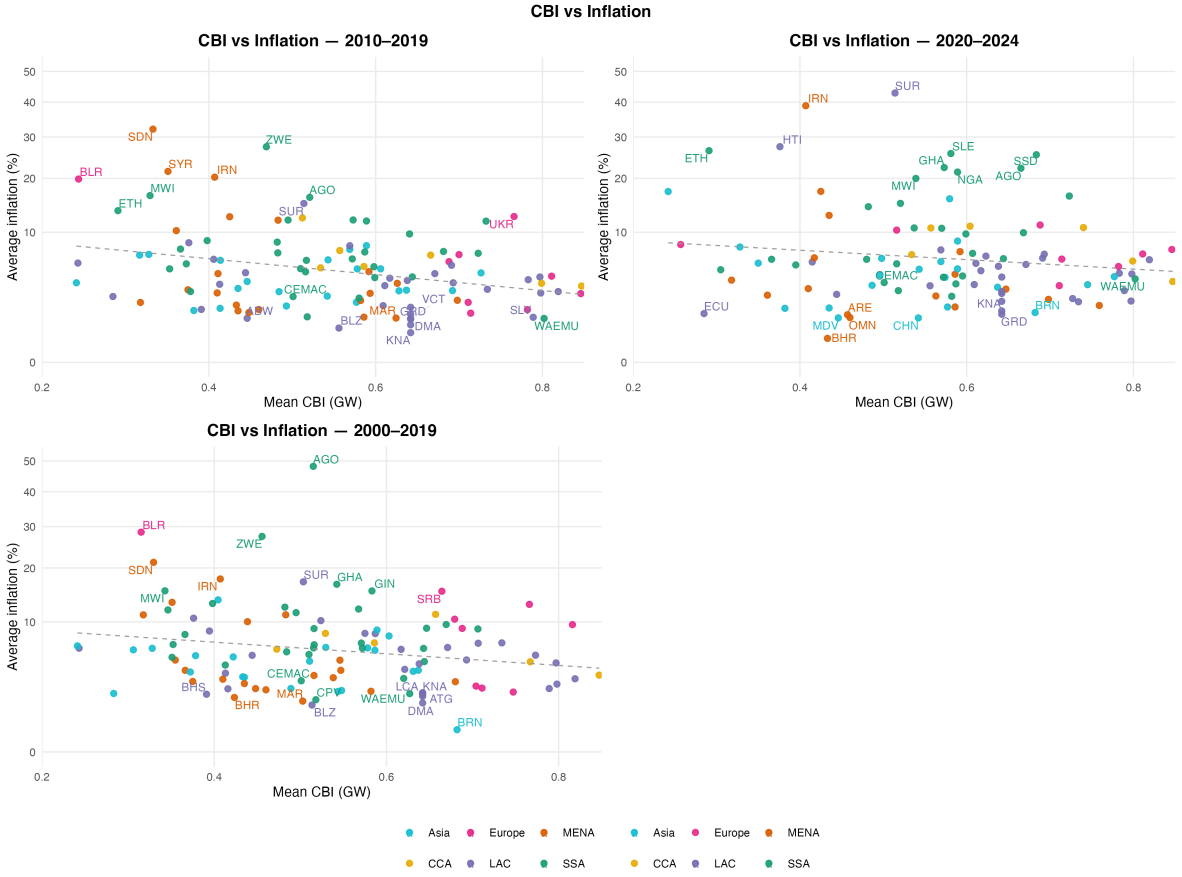
Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

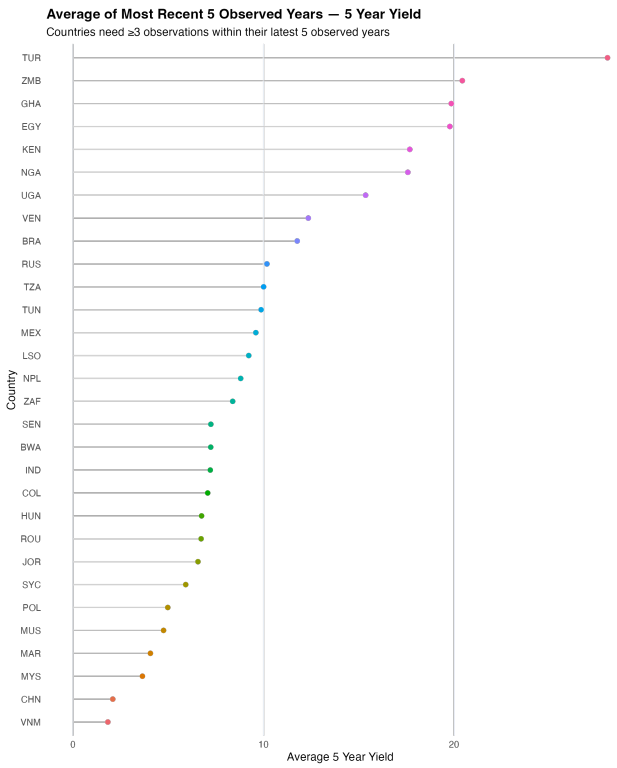
Table 18: Central Bank Independence and Five-Year Yields, 2010–2020: Garriga Unweighted Index

	(1)	(2)	(3)	(4)	(5)
CBI (Garriga, unweighted)	-11.119***	-10.253***	-9.448***	-11.611***	-12.764***
	(2.369)	(3.370)	(3.349)	(3.247)	(3.232)
Overall ICRG	-0.378***	-0.377***	-0.377***		
	(0.092)	(0.094)	(0.093)		
Debt-to-GDP (%)	0.063**	0.063**	0.063**	0.023	0.024
	(0.025)	(0.026)	(0.026)	(0.037)	(0.036)
CAB (% GDP)	0.014	0.013	0.012		
	(0.048)	(0.049)	(0.049)		
VIX	0.049*	0.049*	0.049*	0.050*	0.048*
	(0.026)	(0.026)	(0.026)	(0.027)	(0.027)
$\Delta \ln$(Brent)	0.002	0.002	0.002	0.002	0.003
	(0.003)	(0.003)	(0.003)	(0.003)	(0.003)
US dollar index	0.036	0.037	0.036	0.038	0.041
	(0.027)	(0.027)	(0.028)	(0.028)	(0.027)
US 10Y rate	0.299**	0.298**	0.298**	0.231	0.224
	(0.147)	(0.147)	(0.147)	(0.181)	(0.176)
IT × CBI		-2.660			
		(6.069)			
SSA × CBI			-7.326		
			(7.086)		
Financial risk				-0.174***	-0.166***
				(0.044)	(0.044)
Economic risk				-0.107	-0.091
				(0.066)	(0.064)
Political risk					-0.092
					(0.078)
Country FE	yes	yes	yes	yes	yes
Time FE	yes	yes	yes	yes	yes
Countries	40	40	40	40	40
SSA Countries	15	15	15	15	15
Observations	1,353	1,353	1,353	1,365	1,365
Adj. R^2	0.856	0.856	0.856	0.841	0.842

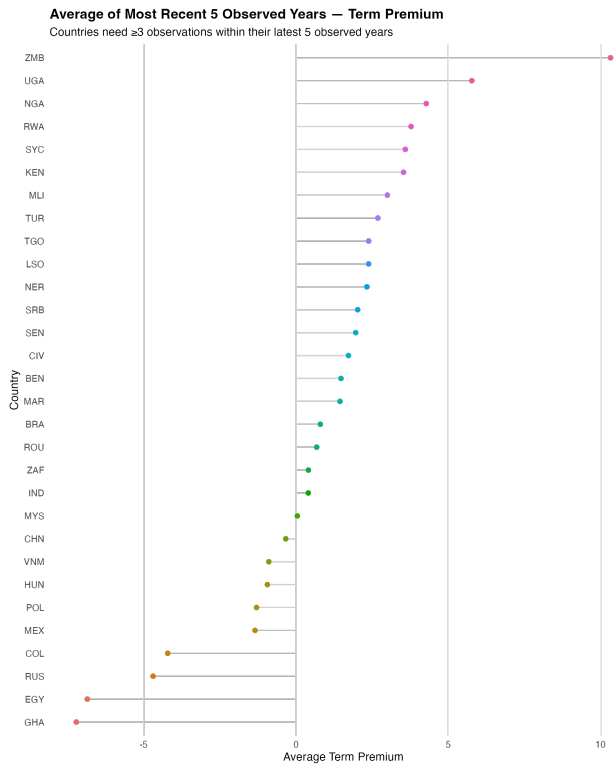
Standard errors in parentheses; * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$.

Figure 9: Decadal Evolution of the CBI-Inflation Relationship





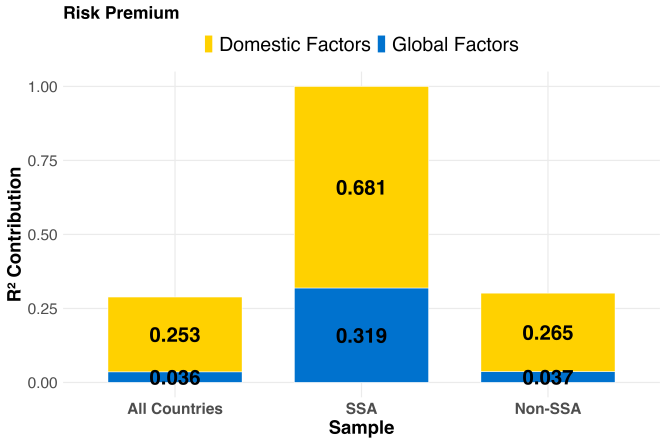
(a) Average five-year yield (most recent five years).



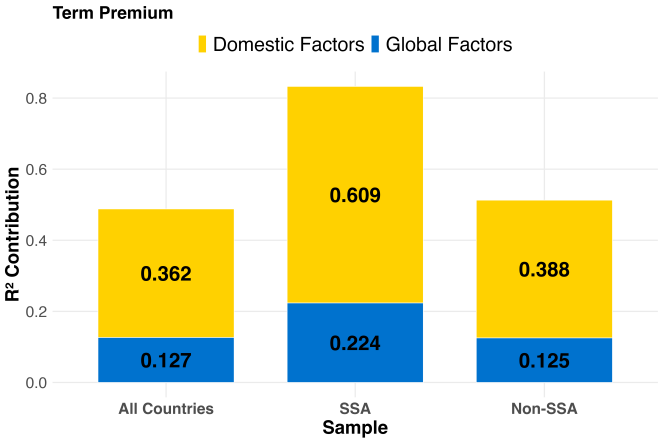
(b) Average term premium (most recent five years).

Figure A1: Cross-country averages of yields and term premia. Countries must have at least three observations in the most recent five years.

Figure A2: Dominance analysis for risk and term premia, showing the proportion of explained variance (R^2) attributed to global versus domestic factors.



Panel A Risk premium



Panel B Term premium

Figure A3: Relative contribution of domestic fundamentals (full variable set) to five-year yields.

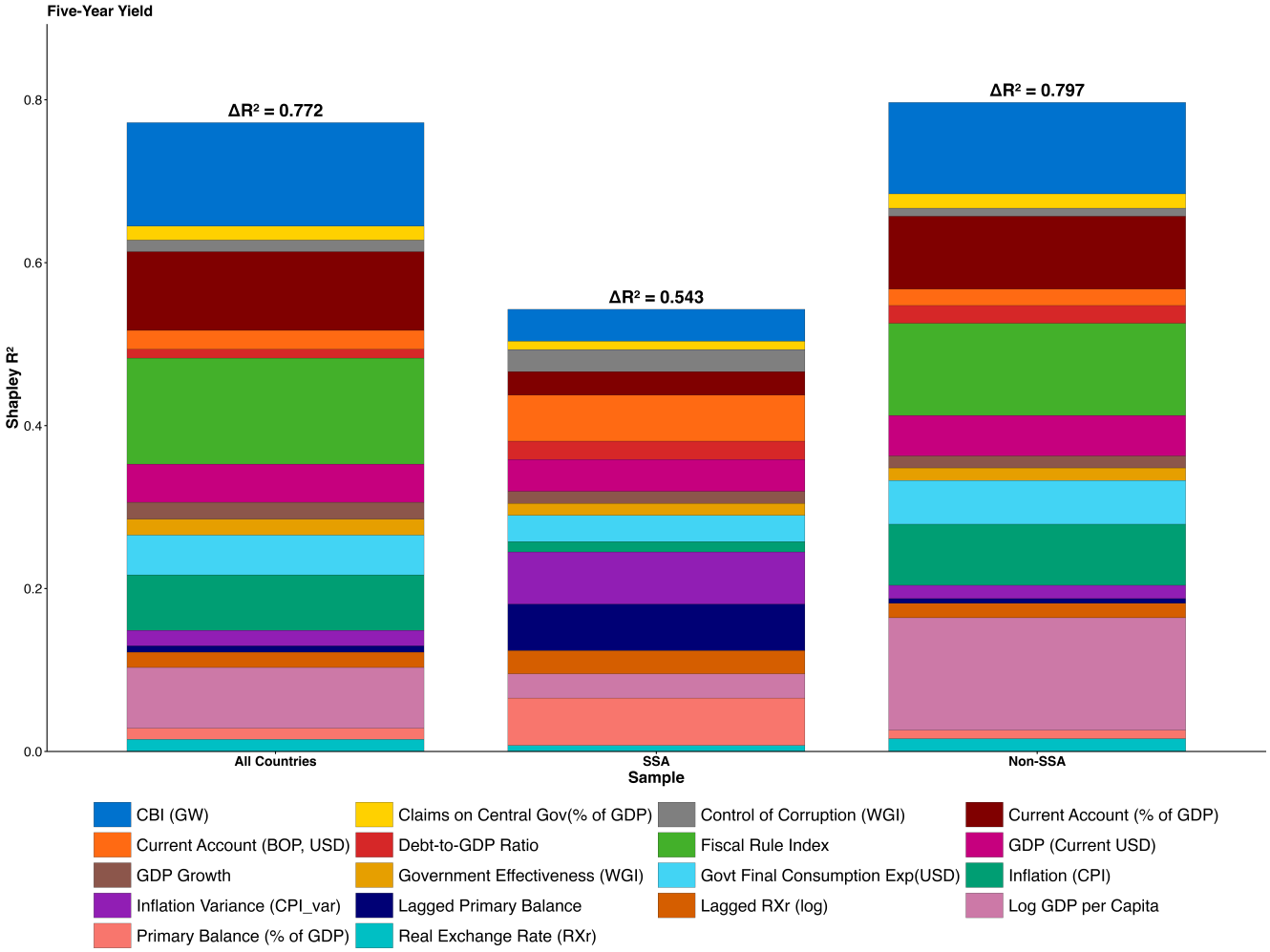


Figure A4: Relative contribution of domestic fundamentals (full variable set) to the short-run risk wedge.

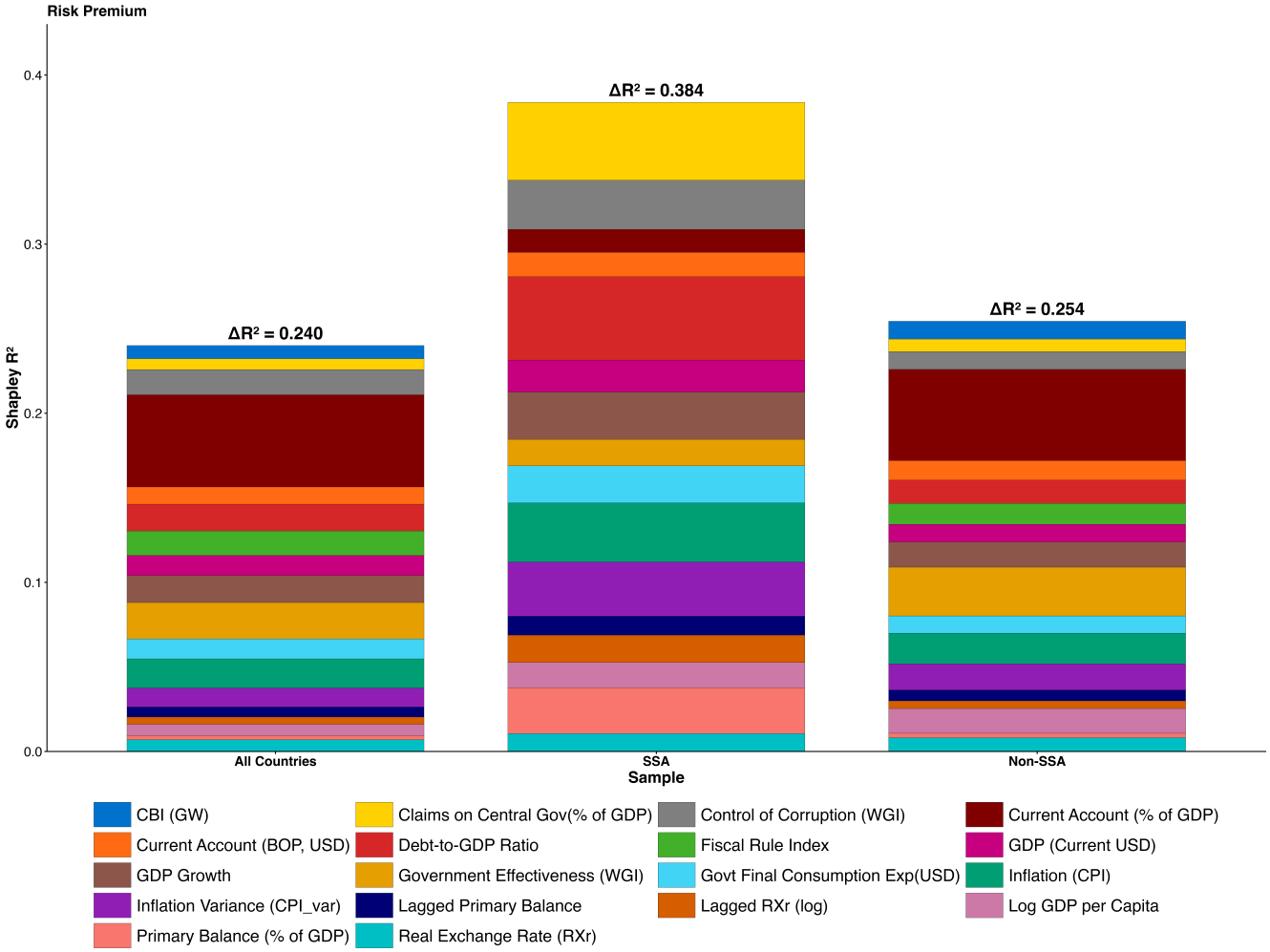


Figure A5: Relative contribution of domestic fundamentals (full variable set) to term premia.

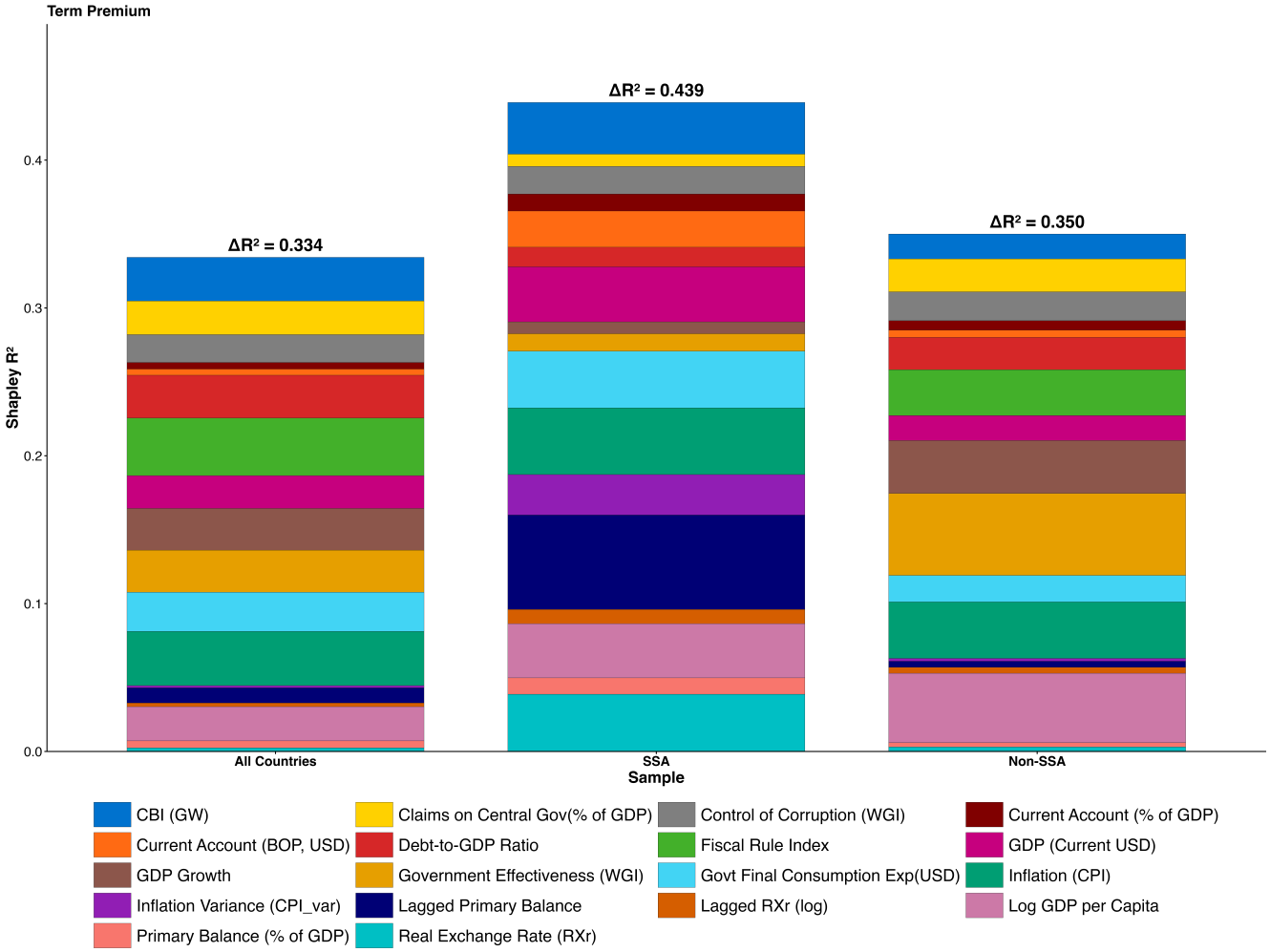


Table 19: Central Bank Independence and the Risk Premium, 2000–2019

	(1)	(2)	(3)	(4)	(5)	(6)
CBI	-6.103	-9.097**	-8.935**	-9.325*	-7.522*	-7.883*
	(4.456)	(3.294)	(3.265)	(4.064)	(3.578)	(3.808)
Financial risk(% Δ)	-0.0418***	-0.0201	-0.0203	-0.0202	-0.0203	-0.0198
	(0.0100)	(0.0102)	(0.0107)	(0.0102)	(0.0103)	(0.00992)
Debt-to-GDP (%)	0.0347	0.0259	0.0220	0.0260	0.0255	0.0247
	(0.0177)	(0.0180)	(0.0190)	(0.0180)	(0.0182)	(0.0144)
RER	0.00531					
	(0.0172)					
ln(GDP/Capita)		-0.208	-0.292	-0.206	-0.149	1.181*
		(0.748)	(0.790)	(0.748)	(0.752)	(0.490)
primary balance (% of GDP)			-0.0511			
			(0.0341)			
IT dummy× CBI				1.260		
				(4.639)		
SSA dummy× CBI					-6.812	
					(4.108)	
VIX						0.00539
						(0.0123)
Δ ln(Brent oil)						-0.00426
						(0.00227)
Time FE	yes	yes	yes	yes	yes	no
Country FE	yes	yes	yes	yes	yes	yes
Countries	22	37	37	37	37	37
SSA Countries	6	9	9	9	9	9
Observations	1,029	1,699	1,695	1,699	1,699	1,693
Adj. R-squared	0.288	0.596	0.601	0.596	0.597	0.592

Standard errors in parentheses

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 20: Central Bank Independence and the Term Premium, 2000–2019

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
CBI	-1.570	-1.517	-1.947	-2.270	-4.336***	-0.608	-2.517
	(2.821)	(3.003)	(3.153)	(2.752)	(1.357)	(2.710)	(2.219)
Debt-to-GDP (%)	0.018**	0.018**	0.008	0.018**	0.034***	0.012	0.007
	(0.008)	(0.008)	(0.015)	(0.008)	(0.010)	(0.008)	(0.009)
ln(GDP/Capita)	1.971	1.779	1.760	1.748	1.828	1.673*	0.791
	(1.191)	(1.196)	(1.257)	(1.206)	(1.226)	(0.933)	(0.862)
primary bal. (%GDP)		-0.079		-0.082	-0.066	-0.102	-0.093
		(0.073)		(0.073)	(0.065)	(0.069)	(0.068)
Claims on Central Government(% GDP)			0.028				
			(0.024)				
IT dummy× CBI				11.330			
				(9.791)			
SSA dummy× CBI					28.758***		
					(9.724)		
USGG10YR						0.456**	
						(0.184)	
VIX							-0.014
							(0.018)
Constant	-14.613	-13.122	-12.439	-15.416	-19.139	-13.788*	-3.563
	(10.360)	(10.470)	(11.126)	(10.773)	(11.460)	(7.967)	(6.995)
Time FE	yes	yes	yes	yes	yes	yes	no
Country FE	yes	yes	yes	yes	yes	yes	yes
Countries	38	38	37	38	38	38	38
SSA Countries	16	16	16	16	16	16	16
Observations	1,350	1,350	1,340	1,350	1,350	1,352	1,352
Adj. R-squared	0.479	0.483	0.481	0.483	0.493	0.461	0.450

Standard errors in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 21: Countries in the Five-Year Local-Currency Yield Regression Sample

Country	ISO3	SSA	Inflation Targeting	IT Adoption Year
Sub-Saharan Africa (15 countries)				
Angola	AGO	yes	no	–
Botswana	BWA	yes	no	–
Cameroon	CMR	yes	no	–
Côte d'Ivoire	CIV	yes	no	–
Ghana	GHA	yes	yes	2007
Kenya	KEN	yes	yes	2013
Mali	MLI	yes	no	–
Niger	NER	yes	no	–
Nigeria	NGA	yes	no	–
Senegal	SEN	yes	no	–
South Africa	ZAF	yes	yes	2000
Tanzania	TZA	yes	no	–
Togo	TGO	yes	no	–
Uganda	UGA	yes	yes	2011
Zambia	ZMB	yes	no	–
Other Emerging and Developing Economies (25 countries)				
Armenia	ARM	no	yes	2006
Brazil	BRA	no	yes	1999
Chile	CHL	no	yes	1999
China	CHN	no	no	–
Colombia	COL	no	yes	1999
Costa Rica	CRI	no	yes	2018
Egypt	EGY	no	no	–
Hungary	HUN	no	yes	2005
India	IND	no	yes	2016
Jordan	JOR	no	no	–
Malaysia	MYS	no	no	–
Mexico	MEX	no	yes	2001
Mongolia	MNG	no	yes	–*
Morocco	MAR	no	no	–
Peru	PER	no	yes	2002
Philippines	PHL	no	yes	2002
Poland	POL	no	yes	1998
Romania	ROU	no	yes	2005
Russia	RUS	no	no	–
Saudi Arabia	SAU	no	no	–
Serbia	SRB	no	yes	2006
Thailand	THA	no	yes	2000
Tunisia	TUN	no	no	–
Turkey	TUR	no	yes	2006
Ukraine	UKR	no	no	–
Uruguay	URY	no	yes	2007
Vietnam	VNM	no	no	–

Notes: Sample includes 40 countries (15 in Sub-Saharan Africa). "Inflation Targeting" indicates countries that have ever adopted an inflation-targeting framework during the sample period. Adoption years are drawn from central bank sources and academic literature. *Mongolia adopted inflation targeting but the exact year requires verification. "–" indicates country has not adopted inflation targeting.

Table 22: Countries in the Term Premium Regression Sample (2010–2019)

Sub-Saharan Africa (16 countries)		**Other EMDEs (22 countries)**	
Country	**ISO3**	**Country**	**ISO3**
Angola	AGO	Armenia	ARM
Benin	BEN	Brazil	BRA
Cote d'Ivoire	CIV	Chile	CHL
Ghana	GHA	China	CHN
Kenya	KEN	Colombia	COL
Lesotho	LSO	Egypt, Arab Rep.	EGY
Mali	MLI	Georgia	GEO
Niger	NER	Hungary	HUN
Nigeria	NGA	India	IND
Rwanda	RWA	Jordan	JOR
Senegal	SEN	Malaysia	MYS
Seychelles	SYC	Mexico	MEX
South Africa	ZAF	Morocco	MAR
Togo	TGO	Poland	POL
Uganda	UGA	Romania	ROU
Zambia	ZMB	Russian Federation	RUS
		Saudi Arabia	SAU
		Serbia	SRB
		Tunisia	TUN
		Turkiye	TUR
		Ukraine	UKR
		Viet Nam	VNM

Table 23: Countries in the Risk Premium Regression Sample (2010–2019)

Sub-Saharan Africa (9 countries)		**Other EMDEs (28 countries)**	
Country	**ISO3**	**Country**	**ISO3**
Angola	AGO	Albania	ALB
Cameroon	CMR	Armenia	ARM
Congo, Rep.	COG	Azerbaijan	AZE
Kenya	KEN	Brazil	BRA
Malawi	MWI	Chile	CHL
Nigeria	NGA	China	CHN
South Africa	ZAF	Egypt, Arab Rep.	EGY
Uganda	UGA	Hungary	HUN
Zambia	ZMB	India	IND
		Indonesia	IDN
		Jordan	JOR
		Lebanon	LBN
		Malaysia	MYS
		Mexico	MEX
		Moldova	MDA
		Morocco	MAR
		Oman	OMN
		Philippines	PHL
		Poland	POL
		Qatar	QAT
		Romania	ROU
		Russian Federation	RUS
		Saudi Arabia	SAU
		Serbia	SRB
		Tunisia	TUN
		Turkiye	TUR
		Ukraine	UKR
		Viet Nam	VNM

Notes: Countries listed are those in the estimation sample for the baseline 2010–2019 risk-premium specification.

Table 24: Countries in the CBI–Inflation Regression Sample, 2000–2024

Sub-Saharan Africa (38)		Other EMDEs		Other EMDEs	
Country	**ISO3**	**Country**	**ISO3**	**Country**	**ISO3**
Angola	AGO	Albania	ALB	Kyrgyz Republic	KGZ
Benin	BEN	Algeria	DZA	Lao PDR	LAO
Botswana	BWA	Argentina	ARG	Lebanon	LBN
Burkina Faso	BFA	Armenia	ARM	Malaysia	MYS
Burundi	BDI	Azerbaijan	AZE	Mauritania	MRT
Cabo Verde	CPV	Bahamas, The	BHS	Mexico	MEX
Cameroon	CMR	Bahrain	BHR	Moldova	MDA
Central African Republic	CAF	Bangladesh	BGD	Mongolia	MNG
Chad	TCD	Barbados	BRB	Montenegro	MNE
Comoros	COM	Belarus	BLR	Morocco	MAR
Congo, Dem. Rep.	COD	Belize	BLZ	Nepal	NPL
Congo, Rep.	COG	Bhutan	BTN	Nicaragua	NIC
Cote d'Ivoire	CIV	Bolivia	BOL	north Macedonia	MKD
Equatorial Guinea	GNQ	Bosnia and Herzegovina	BIH	Oman	OMN
Eswatini	SWZ	Brazil	BRA	Panama	PAN
Ethiopia	ETH	Brunei Darussalam	BRN	Paraguay	PRY
Gabon	GAB	Bulgaria	BGR	Peru	PER
Gambia, The	GMB	Cambodia	KHM	Philippines	PHL
Ghana	GHA	Chile	CHL	Poland	POL
Guinea	GIN	China	CHN	Qatar	QAT
Guinea-Bissau	GNB	Colombia	COL	Romania	ROU
Kenya	KEN	Costa Rica	CRI	Russian Federation	RUS
Lesotho	LSO	Djibouti	DJI	Samoa	WSM
Madagascar	MDG	Dominica	DMA	Saudi Arabia	SAU
Mali	MLI	Dominican Republic	DOM	Serbia	SRB
Mauritius	MUS	Ecuador	ECU	Solomon Islands	SLB
Mozambique	MOZ	Egypt, Arab Rep.	EGY	Sri Lanka	LKA
Niger	NER	El Salvador	SLV	Sudan	SDN
Rwanda	RWA	Fiji	FJI	Suriname	SUR
Senegal	SEN	Georgia	GEO	Syrian Arab Republic	SYR
Seychelles	SYC	Guatemala	GTM	Tajikistan	TJK
Sierra Leone	SLE	Guyana	GUY	Thailand	THA
South Africa	ZAF	Haiti	HTI	Timor-Leste	TLS
Tanzania	TZA	Honduras	HND	Tonga	TON
Togo	TGO	Hungary	HUN	Tunisia	TUN
Uganda	UGA	India	IND	Turkiye	TUR
Zambia	ZMB	Indonesia	IDN	Ukraine	UKR
Zimbabwe	ZWE	Iran, Islamic Rep.	IRN	United Arab Emirates	ARE
		Iraq	IRQ	Uruguay	URY
		Jamaica	JAM	Uzbekistan	UZB
		Jordan	JOR	Venezuela, RB	VEN
		Kazakhstan	KAZ	Viet Nam	VNM
		Kuwait	KWT	Yemen, Rep.	YEM

Notes: Countries are those in the estimation sample of the baseline CBI–inflation regression. Some SSA countries in the sample are members of regional monetary unions (e.g., Senegal and Côte d'Ivoire in WAEMU) and therefore share a common central bank and similar CBI, which limits within-union CBI variation. However, excluding these countries would materially shrink an already constrained sample—especially for local-currency borrowing-cost analysis. Moreover, while CBI is common within the union, outcomes (inflation, inflation volatility, and borrowing costs) still vary across member countries, providing identifying variation for the relationships we study.

PUBLICATIONS

The Credibility Premium: Central Bank Independence and Local-Currency Sovereign Yields

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