

Fiscal Populism and Monetary Policy Rules

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Outline

- ▶ Motivation, findings, and related literature
- ▶ A simple model with inflation and populism legacy
- ▶ Empirical Methods and Data
- ▶ Results: Monetary policy and the populist-driven legacy of high inflation
- ▶ Conclusion

Motivation

- Many inflation-targeting (IT) CBs operate in countries with a history of populist regimes, fiscal dominance, and high inflation.
- Historically, populist governments, especially left-leaning ones, have often relied on central bank financing of fiscal deficits.
- Deficit monetization can leave a lasting imprint on inflation expectations and on the credibility of monetary institutions.
- We ask whether this legacy affects the conduct of monetary policy today.
- The paper explores whether central banks exposed to past fiscal populism respond more aggressively to deviations of inflation expectations from target.

Main Findings

- Populist regimes are associated with increases in central bank lending to the government.
- This pattern is driven primarily by left-leaning populist regimes.
- Increases in central bank credit to the government are followed by significant increases in inflation.
- Countries with a history of fiscal populism & deficit monetization adopt more aggressive monetary policy rules under IT.
- The legacy of fiscal populism remains visible even after controlling for past inflation

Related Literature

- **Inflation targeting:** Ball (2010), Svensson (2010), Walsh (2010), Goncalves and Salles (2008), Lin and Ye (2009), Bhalla et al. (2023), Duncan et al. (2022).
- **Experienced learning and inflation expectations:** Malmendier and Nagel (2016), Salle et al. (2023), Magud and Pienknagura (2025), Gennaioli et al. (2024), Jácome et al. (2025).
- **Fiscal policy, monetary policy, and inflation:** Sargent and Wallace (1981), Cochrane (2023), Kehoe and Nicolini (2021), Jácome and Pienknagura (2026).
- **Populism and macroeconomic outcomes:** Dornbusch and Edwards (1990a,b), Funke et al. (2023), Magud and Spilimbergo (2021).
- **Our contribution:** we link these literatures by showing how past fiscal populism and deficit monetization shape monetary policy rules under IT.

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A Simple NK Framework

- Consider a standard three-equation New Keynesian model:

$$y_t = E_t y_{t+1} - \frac{1}{\sigma}(i_t - E_t \pi_{t+1})$$

$$\pi_t = \beta E_t \pi_{t+1} + \kappa y_t$$

- The central bank implements strict inflation targeting:

$$\pi_t = 0$$

- Under rational expectations and perfect credibility, $E_t \pi_{t+1} = 0$.
- Hence inflation stabilization is costless:

$$y_t = 0, \quad i_t = 0.$$

- With no history dependence, policy rules need not react to past inflation or past populism.

Experienced Learning and Policy Tightening

- Suppose past high inflation, π^H , and past populism, P , affect inflation expectations:

$$E_t \pi_{t+1} = \lambda^t \pi^H + \lambda^{t-\tau} P$$

- Even if the central bank keeps inflation at target, $\pi_t = 0$, expectations remain above target for some time.
- The Phillips curve then implies a negative output gap:

$$y_t = -\frac{\beta}{\kappa}(\pi^H + \lambda^{-\tau} P)\lambda^t$$

- The Euler equation implies a policy rate above steady state:

$$i_t = \frac{\beta}{\kappa} \sigma (1 - \lambda)(\pi^H + \lambda^{-\tau} P)\lambda^t$$

Takeaway: History-dependent expectations make inflation stabilization costly and call for a more hawkish monetary-policy response for a prolonged period of time. The main contribution of the paper is to show that this implication is borne out in the data. We turn to this next.

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Empirical Methods: Two distinct set of exercises

1. Explore the link between populism, central bank credit to the central government, and inflation.

- Link between populist regimes and central bank lending

$$CBL_{c,t+h,t-1} = \alpha_c + \tau_t + \beta POP_{c,t} + \sum_{j=1}^3 (\gamma_j \pi_{c,t-j} + \omega_j CBL_{c,t-j,t-j-1} + \rho PB_{c,t-j}) + \varepsilon_{c,t} \quad (1)$$

- Left-leaning populist vs. right-leaning

$$CBL_{c,t+h,t-1} = \alpha_c + \tau_t + \beta_L LPOP_{c,t} + \beta_R RPOP_{c,t} + \sum_{j=1}^3 (\gamma_j \pi_{c,t-j} + \omega_j CBL_{c,t-j,t-j-1} + \rho PB_{c,t-j}) + \varepsilon_{c,t} \quad (2)$$

- CB claims and inflation

$$\Delta p_{c,t+h,t-1} = \alpha_c + \tau_t + \beta CBL_{c,t} + \sum_{j=1}^3 (\gamma \pi_{c,t-j} + \omega CBL_{c,t-j} + \rho PB_{c,t-j}) + \varepsilon_{c,t} \quad (3)$$

- ($CBL_{c,t+h,t-1}$: log diff. of CB claims on the government between $t+h$ and $t-1$).
- LPMs dif-in-dif methodology proposed by Dube et al (2025).

Empirical Methods: Two distinct set of exercises (II)

2. IT CBs' monetary policy reaction functions: link with past country populism, inflation, and fiscal imbalances

- Estimate Taylor rules panels:

$$i_{c,t} = \alpha_c + \rho i_{c,t-1} + \beta \pi gap_{c,t} + \gamma Ygap_{c,t} + \theta \Delta NEER_{c,t} + \mu \Delta NEER_{c,t-1} + \omega i_{US,t-1} + \varepsilon_{c,t} \quad (4)$$

$$i_{c,t} = \alpha_c + \rho i_{c,t-1} + \beta \pi gap_{c,t} + \gamma Ygap_{c,t} + \sum_{f \in F} z_c^f (\delta_f \pi gap_{c,t} + \tau_f Ygap_{c,t}) + \theta \Delta NEER_{c,t} + \mu \Delta NEER_{c,t-1} + \omega i_{US,t-1} + \varepsilon_{c,t} \quad (5)$$

$$i_{c,t} = \alpha_c + \rho i_{c,t-1} + \beta \pi gap_{c,t} + \gamma Ygap_{c,t} + \sum_{f \in F} z_c^f (\delta_f \pi gap_{c,t} + \tau_f Ygap_{c,t}) + \sum_{f \in F} z_c^f \times q_{c,t} \times (\sigma_f \pi gap_{c,t} + \nu_f Ygap_{c,t}) + \theta \Delta NEER_{c,t} + \mu \Delta NEER_{c,t-1} + \omega i_{US,t-1} + \varepsilon_{c,t} \quad (6)$$

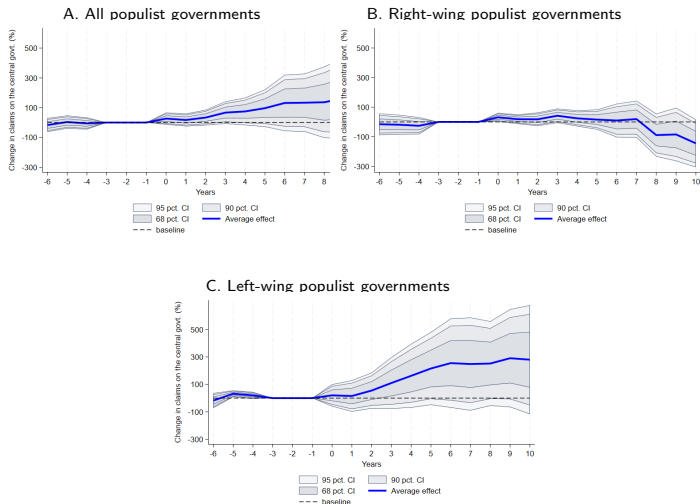
Data: Definitions and sources

- First sample: 47 countries 1960-2008
- Second sample: 32 countries from the first year each country adopts an IT regime until 2023.
- $f \in F = \{\text{financial development, trade openness, capital account openness, central bank independence, past inflation, past populist regimes, past episodes of central bank lending}\}$.
- z_c^f exposure to past right- and left-wing populist regimes and $q_{c,t}$ captures either disagreement about inflation expectations or accelerating inflation
- **Expectations data.** Consensus Economics; follow Brito, Carriere-Swallow, and Gruss (2018) to construct 12-months ahead expectation
- **CB data.** Policy rates: BIS' statistics; inflation targets: AREAER and BIS. Central bank claims on the central government: IMF's non-standardized survey.
- **Macro data.** Quarterly GDP, inflation, and NEER: IFS, complemented with Haver. Primary balances: Mauro et al. (2015).
- **Populism.** Funke et al (2023). Populists
- **High past inflation.** Avg inflation 1960 (or first year of data)-ten years before the adoption of the IT regime; $\text{Infl}=\text{H}$ if $> 75\text{th}$ percentile of every observed country-year rate of inflation: WDI
- **Initial conditions.** Central bank independence: Romelli (2023); FD: from Svirydzenka (2016); KA openness: Chinn and Ito (2016); FXI: Adler et al (2022); trade openness and historical inflation: WDI.

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Populism and Central Bank Lending



Notes: This figure plots the percent change increase in central bank claims on the central government h years after a populist regime enters office. Results follow the specifications in equations 1 and 2. Standard errors are calculated following the Driscoll-Kraay method. Shaded areas represent 68 percent (one standard deviation), 90 percent, and 95 percent confidence intervals

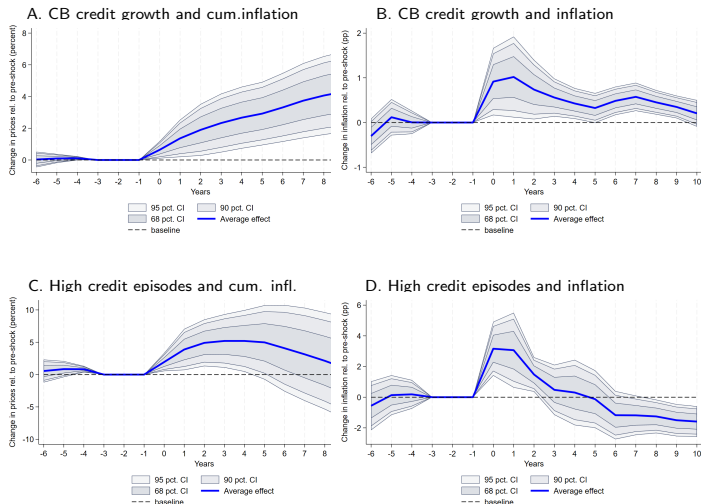
Past Exposure to Populism: Abnormal CB Credit Growth

Dep var.	Episodes of abnormal central bank credit growth				
	(1)	(2)	(3)	(4)	(5)
Years under populist government	-0.0039* (0.0023)				
Years under right-wing populist government		-0.0134** (0.0050)	-0.0109** (0.0044)		
Years under left-wing populist government		0.0099* (0.0055)	0.0109** (0.0048)		
Growth of central bank credit to the central govt.			0.0794* (0.0451)		0.0793* (0.0451)
Growth of central bank credit to the central govt. (t-1)			0.0151 (0.0118)		0.0151 (0.0116)
Growth of central bank credit to the central govt. (t-2)			0.0023 (0.0146)		0.0016 (0.0143)
Years under right-wing populist government (up to t-3)			-0.0136*** (0.0048)	-0.0105** (0.0048)	
Years under left-wing populist government (up to t-3)				0.0088* (0.0052)	0.0114** (0.0051)
Left-wing populist govt. dummy				-0.0553 (0.0516)	-0.0362 (0.0433)
Left-wing populist govt. dummy (t-1),				0.0722 (0.0649)	0.0763 (0.0547)
Left-wing populist govt. dummy (t-2),				0.0020 (0.0271)	-0.0388 (0.0277)
Right-wing populist govt. dummy				0.0609 (0.0990)	0.0320 (0.0736)
Right-wing populist govt. dummy (t-1),				-0.0411 (0.0716)	-0.0112 (0.0631)
Right-wing populist govt. dummy (t-2),				-0.0259 (0.0283)	-0.0406 (0.0259)
Country FE	YES	YES	YES	YES	YES
Year FE	YES	YES	YES	YES	YES
Observations	1,970	1,970	1,970	1,970	1,970
R-squared	0.0012	0.0084	0.1313	0.0115	0.1332

Note: Driscoll-Kraay standard errors in parenthesis.

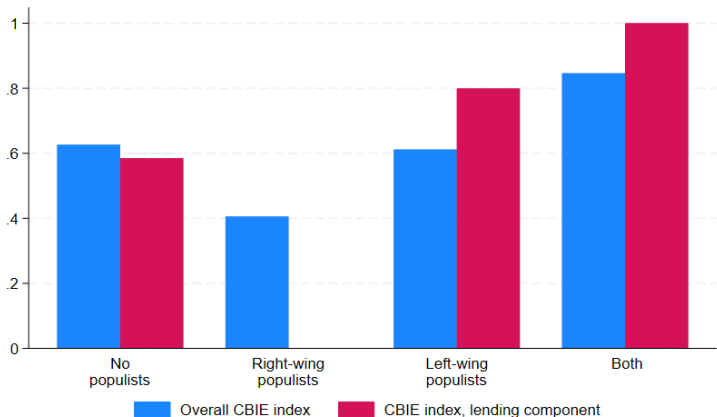
*** p < 0.01, ** p < 0.05, * p < 0.1

Central Bank Credit and Inflation



Notes: This figure plots the relationship between central bank credit and inflation. Panels A and C plot the cumulative change in inflation over the projection horizon, that is the difference between $\ln p_{t+h}$ and $\ln p_{t-1}$, while Panels B and D plot the change in the inflation rate, that is $\pi_{t+h} - \pi_{t-1}$. Panels A and B show the dynamic association with a 1 SD change in central bank claims on the central government, while C and D show the response in the aftermath of a high CB credit growth episode. Results follow the specifications in equations 3. Standard errors are calculated following the Driscoll-Kraay method. Shaded areas represent one standard deviation (68 percent), 90 percent and 95 percent confidence intervals

Past Populism and Central Bank Independence in 2022



Notes: This figure plots the average value for the overall Central Bank Independence-Extended (CBIE) index proposed by [?, ?] and the central bank lending component. Averages are calculated for four groups of countries in our sample of IT central banks—those with no history of populist governments in the years preceding the establishment of the IT regime, those with a history of right-wing populist governments, those with a history of left-wing populist governments, and those with a history of both types of populist governments.

The Role of Past Exposure to Populism and Abnormal Central Bank Lending on Monetary Policy

Dep. var.	(1)	(2)	(3)	Policy Rate (4)	(5)	(6)	(7)
Policy rate (t-1)	0.8723*** (0.0323)	0.8604*** (0.0313)	0.8573*** (0.0313)	0.8634*** (0.0307)	0.8616*** (0.0306)	0.8591*** (0.0303)	0.8581*** (0.0304)
XR depreciation	-0.0196* (0.0110)	-0.0194* (0.0110)	-0.0198* (0.0110)	-0.0183* (0.0110)	-0.0187* (0.0110)	-0.0185* (0.0111)	-0.0189* (0.0111)
XR depreciation (t-1)	0.0203** (0.0100)	0.0198** (0.0100)	0.0204** (0.0099)	0.0191* (0.0100)	0.0197** (0.0100)	0.0193* (0.0101)	0.0199* (0.0101)
US Pol. rate (t-1)	0.0748*** (0.0269)	0.0893*** (0.0265)	0.0994*** (0.0283)	0.0943*** (0.0279)	0.1006*** (0.0286)	0.0980*** (0.0275)	0.1035*** (0.0284)
Output gap	0.0687*** (0.0151)	0.0634*** (0.0157)	0.0550*** (0.0153)	0.0589*** (0.0125)	0.0538*** (0.0147)	0.0582*** (0.0145)	0.0527*** (0.0154)
Inflation gap (expected inf)	0.2207*** (0.0714)	0.1981** (0.0790)	0.0917 (0.0729)	0.2023*** (0.0726)	0.1304* (0.0750)	0.1949** (0.0780)	0.1363* (0.0720)
Inf. gap x Past central bank lending dummy		0.1444** (0.0676)	0.1179* (0.0664)			0.0775 (0.0607)	0.0710 (0.0612)
Output gap x Past central bank lending dummy		0.0003 (0.0064)	-0.0046 (0.0074)			-0.0015 (0.0086)	-0.0036 (0.0087)
Inf. gap x Pre-IT inflation			0.4048** (0.1900)		0.2724** (0.1349)		0.2237* (0.1303)
Output gap x Pre-IT inflation			0.0478 (0.0306)		0.0298 (0.0342)		0.0367 (0.0330)
Inf. gap x Past right-wing populist				0.0322 (0.0232)	0.0357 (0.0244)	0.0072 (0.0202)	0.0119 (0.0207)
Output gap x Past right-wing populist				0.0005 (0.0043)	-0.0024 (0.0061)	0.0011 (0.0056)	-0.0015 (0.0070)
Inf. gap x Past left-wing populism				0.0288*** (0.0096)	0.0245*** (0.0086)	0.0225*** (0.0072)	0.0194*** (0.0066)
Output gap x Past left-wing populism				0.0009 (0.0015)	0.0005 (0.0016)	0.0011 (0.0017)	0.0007 (0.0017)
Observations	2,617	2,617	2,513	2,617	2,513	2,617	2,513
Number of groups	32	32	31	32	31	32	31
Adjusted R-squared	0.900	0.903	0.901	0.904	0.902	0.905	0.902

Note: This table reflects equations 4-5 The inflation gap is computed using inflation expectations. All specifications control for country fixed effects. Driscoll-Kraay standard errors in parenthesis.

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

Past Fiscal Populism Makes: IT CBs More Hawkish Today

- Column (7): Allowing the response to the inflation-expectations gap to depend on past country experiences.
- In the richest specification, the estimated rule is:

$$\begin{aligned} i_{c,t} = & \alpha_c + 0.858^{(*)} i_{c,t-1} + 0.136^{(*)} \pi_{c,t} + 0.053^{(***)} Y_{c,t} \\ & + \pi_{c,t} (0.071 \text{ PastCBL}_c + 0.224^{(*)} \text{PreITInfl}_c) \\ & + \pi_{c,t} (0.012 \text{ RPOP}_c + 0.019^{(***)} \text{LPOP}_c) \\ & + \text{other variables} + \varepsilon_{c,t}. \end{aligned}$$

- Despite the effect of past inflation (Jacome et al. (2025) , countries with a history of left-wing populism respond more strongly to inflation
- This effect is economically and statistically meaningful, while the corresponding right-wing-populism effect is small and insignificant.
- The result remains visible even after controlling for past inflation and past central bank lending.

Amplifiers of the Legacy of Fiscal Populism

VARIABLES	(1) Policy rate	(2) Policy rate	(3) Policy rate	(4) Policy rate	(5) Policy rate	(6) Policy rate	(7) Policy rate
Policy rate (t-1)	0.8634*** (0.0307)	0.8324*** (0.0398)	0.8317*** (0.0401)	0.8304*** (0.0401)	0.8315*** (0.0399)	0.8265*** (0.0401)	0.8610*** (0.0325)
XR depreciation	-0.0183* (0.0110)	-0.0159 (0.0136)	-0.0166 (0.0135)	-0.0171 (0.0134)	-0.0166 (0.0135)	-0.0177 (0.0136)	-0.0173 (0.0109)
XR depreciation (t-1)	0.0191* (0.0100)	0.0221* (0.0115)	0.0219* (0.0118)	0.0222* (0.0118)	0.0221* (0.0118)	0.0238** (0.0118)	0.0191* (0.0100)
US Pol. rate (t-1)	0.0943*** (0.0279)	0.1267*** (0.0343)	0.1243*** (0.0344)	0.1267*** (0.0345)	0.1249*** (0.0341)	0.1290*** (0.0337)	0.0947*** (0.0295)
Output gap	0.0589*** (0.0125)	0.0781*** (0.0230)	0.0731*** (0.0249)	0.0715*** (0.0249)	0.0746*** (0.0247)	0.0669*** (0.0235)	0.0585*** (0.0125)
Inflation gap (expected inf)	0.2023*** (0.0726)	0.1541** (0.0718)	0.1549** (0.0714)	0.1552** (0.0714)	0.1546** (0.0715)	0.4088*** (0.0776)	0.2028*** (0.0734)
Inf. gap x Past right-wing populist	0.0322 (0.0232)	0.0459* (0.0250)	0.0345 (0.0275)	0.0322 (0.0290)	0.0417 (0.0265)	-0.0013 (0.0269)	0.0299 (0.0251)
Output gap x Past right-wing populist	0.0005 (0.0043)	-0.0024 (0.0042)	-0.0019 (0.0046)	-0.0014 (0.0111)	-0.0003 (0.0046)	0.0006 (0.0045)	0.0006 (0.0044)
Inf. gap x Past left-wing populism	0.0286*** (0.0096)	0.0340*** (0.0094)	0.0219*** (0.0065)	0.0224*** (0.0064)	0.0229*** (0.0062)	0.0113* (0.0061)	0.0238*** (0.0104)
Output gap x Past left-wing populism	0.0009 (0.0015)	-0.0006 (0.0012)	-0.0004 (0.0013)	-0.0044* (0.0023)	-0.0004 (0.0013)	0.0000 (0.0013)	0.0010 (0.0015)
High CV of inflation expectations			-0.0994 (0.0716)	-0.1063 (0.0699)		-0.0229 (0.0804)	
High CV x Inf. gap x Past left-wing populism			0.0154** (0.0077)	0.0144* (0.0076)		0.0262*** (0.0090)	
High CV x Inf. gap x Past right-wing populism			0.0200 (0.0287)	0.0203 (0.0298)		0.0519 (0.0334)	
High CV x Output gap x Past right-wing populism				0.0073 (0.0137)			
High CV x Output gap x Past left-wing populism				0.0050* (0.0029)			
High inflation dispersion					-0.0720 (0.0646)		
High inf. disp. x Inf. gap x Past left-wing populism					0.0146* (0.0085)		
High inf. disp. x Inf. gap x Past right-wing populism					0.0068 (0.0281)		
High CV x Inf. gap						-0.2586*** (0.0986)	
$\Delta T \times$ Inf. gap x Past left-wing populist							0.0038** (0.0016)
$\Delta T \times$ Inf. gap x Past right-wing populist							0.0119 (0.0212)
Observations	2,617	1,965	1,965	1,965	1,965	1,965	2,595
Number of countries	32	22	22	22	22	22	32
Time FE	NO	NO	NO	NO	NO	NO	NO
Years as IT FE	NO	NO	NO	NO	NO	NO	NO
Adjusted R-squared	0.904	0.895	0.896	0.896	0.896	0.898	0.903

Note: This table reflects equation 6 The inflation gap is computed using inflation expectations. All specifications control for country fixed effects. Driscoll-Kraay standard errors in parenthesis.

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

Robustness: Additional Controls

Dep. var.	Policy Rate					
	(1)	(2)	(3)	(4)	(5)	(6)
Policy rate (t-1)	0.8562*** (0.0316)	0.8540*** (0.0311)	0.8624*** (0.0311)	0.8599*** (0.0306)	0.8557*** (0.0307)	0.8545*** (0.0306)
XR depreciation	-0.0188* (0.0111)	-0.0191* (0.0112)	-0.0178 (0.0110)	-0.0183 (0.0112)	-0.0185* (0.0110)	-0.0185* (0.0111)
XR depreciation (t-1)	0.0185* (0.0097)	0.0188* (0.0097)	0.0184* (0.0099)	0.0188* (0.0098)	0.0182* (0.0097)	0.0186* (0.0097)
Output gap	0.0506*** (0.0137)	0.0380** (0.0151)	0.0317* (0.0173)	0.0272 (0.0178)	0.0501*** (0.0150)	0.0364*** (0.0156)
Inflation gap (expected inf)	0.1928* (0.1074)	-0.0220 (0.1606)	0.1896* (0.1059)	-0.0045 (0.1811)	0.2146** (0.1049)	0.0715 (0.1558)
Inf. gap x Past central bank lending dummy	0.1511* (0.0804)	0.1232* (0.0722)			0.1581** (0.0793)	0.1402* (0.0736)
Output gap x Past central bank lending dummy	-0.0336* (0.0196)	-0.0353* (0.0201)			-0.0367* (0.0204)	-0.0389* (0.0210)
Inf. gap x Pre-IT inflation		0.6017*** (0.2229)		0.5324** (0.2467)		0.3939** (0.1987)
Output gap x Pre-IT inflation		0.0417 (0.0295)		0.0208 (0.0319)		0.0452 (0.0337)
Inf. gap x Past right-wing populist			0.0037 (0.0203)	0.0032 (0.0192)	-0.0484 (0.0352)	-0.0432 (0.0324)
Output gap x Past right-wing populist			-0.0016 (0.0069)	-0.0037 (0.0081)	0.0098 (0.0062)	0.0080 (0.0076)
Inf. gap x Past left-wing populist			0.0271*** (0.0072)	0.0200*** (0.0056)	0.0241*** (0.0062)	0.0192*** (0.0053)
Output gap x Past left-wing populism			-0.0014 (0.0012)	-0.0018 (0.0012)	-0.0011 (0.0012)	-0.0017 (0.0012)
Observations	2,617	2,513	2,617	2,513	2,617	2,513
Number of groups	32	31	32	31	32	31
Adjusted R-squared	0.905	0.904	0.905	0.904	0.907	0.905

Note: The inflation gap is computed using inflation expectations. All specifications control for country fixed effects and interactions of the output and inflation gaps with the level of financial development, capital account openness, trade as share of GDP, and central bank independence at the time of IT adoption, as well as interactions with a commodity exporter dummy. Driscoll-Kraay standard errors in parenthesis.

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

Robustness and Additional Controls and Time Fixed Effects

Dep. var.	Policy Rate					
	(1)	(2)	(3)	(4)	(5)	(6)
Policy rate (t-1)	0.8475*** (0.0391)	0.8561*** (0.0385)	0.8494*** (0.0384)	0.8479*** (0.0403)	0.8572*** (0.0397)	0.8500*** (0.0399)
XR depreciation	-0.0272** (0.0107)	-0.0263** (0.0109)	-0.0267** (0.0106)	-0.0283*** (0.0107)	-0.0271** (0.0110)	-0.0275** (0.0107)
XR depreciation (t-1)	0.0195* (0.0106)	0.0191* (0.0107)	0.0195* (0.0106)	0.0203* (0.0106)	0.0197* (0.0105)	0.0201* (0.0105)
Output gap	0.0595*** (0.0173)	0.0460** (0.0200)	0.0532*** (0.0182)	0.0651*** (0.0173)	0.0538*** (0.0194)	0.0600*** (0.0181)
Inflation gap (expected inf)	-0.0482 (0.1729)	-0.0251 (0.1888)	0.0488 (0.1661)	-0.0423 (0.1618)	-0.0285 (0.1791)	0.0476 (0.1553)
Inf. gap x Pre-IT inflation	0.6284** (0.2522)	0.5294** (0.2582)	0.4051* (0.2183)	0.6156** (0.2475)	0.5255** (0.2500)	0.4025* (0.2117)
Output gap x Pre-IT inflation	0.0417 (0.0279)	0.0306 (0.0287)	0.0521* (0.0301)	0.0431 (0.0279)	0.0301 (0.0289)	0.0530* (0.0306)
Inf. gap x Past central bank lending dummy	0.1272* (0.0683)		0.1426** (0.0669)	0.1316* (0.0715)		0.1425** (0.0688)
Output gap x Past central bank lending dummy	-0.0332* (0.0181)		-0.0330* (0.0187)	-0.0336* (0.0176)		-0.0333* (0.0181)
Inf. gap x Past right-wing populist		-0.0011 (0.0178)	-0.0492* (0.0277)		0.0110 (0.0223)	-0.0356 (0.0291)
Output gap x Past right-wing populist		-0.0111 (0.0083)	-0.0007 (0.0069)		-0.0115 (0.0079)	-0.0016 (0.0062)
Inf. gap x Past left-wing populist		0.0222*** (0.0057)	0.0207*** (0.0050)		0.0223*** (0.0056)	0.0210*** (0.0053)
Output gap x Past left-wing populism		-0.0015 (0.0012)	-0.0014 (0.0012)		-0.0015 (0.0013)	-0.0015 (0.0013)
Time FE	YES	YES	YES	YES	YES	YES
Years as IT Control	NO	NO	NO	YES	YES	YES
Observations	2,513	2,513	2,513	2,513	2,513	2,513
Number of groups	31	31	31	31	31	31
Adjusted R-squared	0.915	0.915	0.917	0.918	0.917	0.919

Note: The inflation gap is computed using inflation expectations. All specifications control for country fixed effects and interactions of the output and inflation gaps with the level of financial development, capital account openness, trade as share of GDP, and central bank independence at the time of IT adoption, as well as interactions with a commodity exporter dummy. Driscoll-Kraay standard errors in parenthesis.

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

Outline

- ▶ Motivation, findings, and related literature
- ▶ A simple model with inflation legacy
- ▶ Empirical Methods and Data
- ▶ Results: Monetary policy and the populist-driven legacy of high inflation
- ▶ Conclusion

Conclusions

- We revisit historical links populism-central bank lending to the central government, or deficit monetization—fiscal dominance
- CB lending increases substantially in the aftermath of a left-wing populist being elected. CB lending to the central government associated with higher inflation
- Impacts of populist regimes outlive regime's lifespan: IT countries with a populist-driven deficit monetization past respond more strongly to the inflation expectation gap (compared to countries with no populist history)
- The latter not fully explained by the country's inflationary history; the CB has to make extra efforts to signal its independence from the central government
- Countries with a history populist regimes have today legislation granting high levels of independence to CBs, especially regarding lending to the government.
- Simple NK model: CBs in countries w/ legacy of populist-driven high inflation need to be more hawkish to achieve inflation targets (costs are larger).

Thank you!

Populist Government Episodes Started Between 1900 and-2008

Back

Country	Years	Leader(s)	Ideology
Argentina	1916–1930; 1946–1955; 1973–1976; 1989–1999; 2003–2015	Yrigoyen; Perón; Martínez; Menem; Kirchner	L; L; L; R
Bolivia	1952–1964; 2006–2019	Estenssoro–Zuazo; Morales	L; L
Brazil	1930–1945; 1951–1954; 1990–1992;	Vargas; Collor;	L; R;
Chile	1920–1938; 1952–1958	Alessandri–Ibáñez	L
Ecuador	1934–1972; 1996–1997; 2007–2017	Velasco; Bucaram; Correa	R; R; L
Germany	1933–1945	Hitler	R
India	1966–1977;	Gandhi	L
Indonesia	1945–1966	Sukarno	L
Israel	1996–1999	Netanyahu	R
Italy	1922–1943; 1994–2011	Mussolini; Berlusconi	R
Japan	2001–2006	Koizumi	R
Mexico	1934–1940; 1970–1976	Cárdenas; Echeverría	L
Peru	1985–1990; 1990–2000	García; Fujimori	L; R
Philippines	1998–2001	Estrada	L
Poland	2005–2007;	PiS (Kaczyński)	R
Slovakia	1990–1998; 2006–2018	Mečiar; Fico	R; L
South Korea	2003–2008	Roh	R
Taiwan	2000–2008	Chen	R
Thailand	2001–2006	Shinawatra	R
Turkey	2003–	Erdoğan	R
Venezuela	1999–	Chávez–Maduro	L

Notes: This table summarizes populist leadership episodes identified in the dataset of [?]. Episodes combine consecutive leader spells of similar ideology or short interruptions. “L” and “R” denote left- and right-wing populism, respectively. Dates refer to years in office.