The European Journal of Comparative Economics
Vol. X, no. X, pp. xx-xx
ISSN 1824-2979

The impact of populism on central bank communication: Analyzing theoretical developments and the case of Hungary

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Abstract:

This study examines the impact of populism on central bank communication, with a focus on theoretical developments and the specific case of Hungary. Populism, characterised by the opposition between 'the pure people' and 'the corrupt elite', challenges traditional institutions, including central banks, which are seen as part of the elite due to their unelected technocratic leadership. The rise of populism has led to increased scrutiny and pressure on central banks, which have been forced to adapt their communication strategies in order to maintain credibility and public trust. The analysis explores how central banks are shifting their communication to defend their reputation in response to populist pressures, moving away from traditional roles and toward a focus on predictability and public engagement.

JEL Codes: E52, E58, P16

Keywords: Populism, Central bank communication, Credibility, Monetary policy, Hungary

1. Introduction

Populism is a complex and evolving concept, which has generated much discussion and debate over the years. The fact that it is constantly evolving and comes in different forms makes its definition even more difficult (Devinney and Hartwell, 2020; Funke et al. 2020; Guriev and Papaioannou, 2022). However, Mudde, provides a general definition of populism by describing it as the separation of a society into two homogeneous and antagonistic groups which are 'the pure people' and 'the corrupt elite' (Guriev and Papaioannou, 2022; Mudde, 2007; Mudde and Kaltwasser, 2017). Rodrik (2018) makes a similar point, as he argues that populist leaders have a unifying theme that consists of a protest orientation, the claim to speak for the people against the elites, as well as an opposition to the liberal economy and globalization (Rodrik, 2018). Thus, the rejection of a corrupt and disconnected elite is central to populist theory. The peculiarity of the elite is that it is usually described as working against the 'general will' of the people in various

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http://dx.doi.org/10.25428/1824-2979/028
First published online: 31/05/2024

national and international institutions[1]. As a result, institutions are seen as an obstacle to the direct exercise of power by the people, as they are perceived to serve the elite. From this perspective, populists target the central bank, with a particular focus on the unelected technocrats who run it.

Today, many central banks face challenges to their institutional beliefs and practices caused by the rise of populism (Goodhart and Lastra, 2018). Historically, as R. Hawtrey in *The Art of Central Banking* (1932), the relationship between a government and a central bank can change rapidly. More recently, Feiertag (2012) writes that the tools, standards, and missions of central banks are transforming in response to an ever-changing environment.

With the global financial crisis, the role assigned to central banks is changing. In order to limit the consequences of the crisis on economic activity, most central banks around the world have seen their mandates broaden. They are no longer the sole guarantors of price stability, but now play a role in micro and macro-prudential regulation (Blancheton, 2016). To revive the economy, central banks are increasingly willing to use unconventional measures, which forces them to provide more precise explanations of their monetary policy. Similarly, with the broadening of central banks' mandates, the consensus that central banks should be independent in pursuing a monetary policy geared to price stability is being called into question. They are now under increasing fire, and face new pressures on the reputation, accountability and regulatory role of central banks.

For a long time, central bankers were reluctant to communicate, adopting a silence that persisted until recently (Blinder *et al.,* 2008). However, since the late 1990s, communication has become a crucial issue in enhancing the transparency and credibility of central banks, which in turn is essential to gain public support and preserve the independence of these institutions. Credibility is a key concept, as the ability of monetary policy to achieve policymakers' future objectives depends on the inflationary expectations of the public (Cukierman, 1986). In sum, communication is an essential tool for establishing and maintaining the credibility of central banks.

[1] "*By appealing to the general will of the people, populism enacts a specific logic of articulation, which enables the formation of a popular subject with a strong identity ('the people'), which is able to challenge the status quo ('the elit')*". (Mudde and Kaltwasser, 2017, p.18).

Nevertheless, with the various political pressures, notably populist, central banks are gradually shifting their communication towards the defence of their reputation, thus moving away from their traditional tasks (McPhilemy and Moschella, 2019). Therefore, this study examines the changes in central banks' communication in response to the rise of populism.

Indeed, the crisis of 2008-2009 has had a significant impact on the criticism of central banks by populist leaders who see them as failing. Although populist movements are not new, the economic downturns and austerity policies that followed the crisis have increased their influence. Faced with high public debt and large deficits, the eurozone countries have taken steps to restore budgetary balance. From spring 2010 onwards, an economic discourse advocating strict compliance with treaty rules limiting public deficits to 3% of GDP and public debt to 60% became widespread (Constantini, 2017; Lebaron, 2016). These rules were strengthened by the Treaty on Stability, Control and Governance, which introduced tougher sanctions for countries in breach of budgetary standards. In addition, with this Treaty, countries committed themselves to enshrining the golden budget rule in their constitutions, limiting structural deficits to 0.5% of GDP. At the same time, the European Stability Mechanism (ESM), established in 2012, had the capacity to raise up to €700 billion to help countries in difficulty, but in exchange they had to accept austerity measures and significant cuts in public spending[2].

Accordingly, when policies aimed at reducing public debts and deficits or decreasing state intervention threaten social institutions, voters turn to a movement that they see as protecting them (Cayla, 2019).

It is in this context that Hungary experienced a populist political shift in 2010 with the arrival of Viktor Orbàn to power.

Orbàn's government claims to follow an 'illiberal'[3] model which leads to regular tensions with its central bank and the European institutions. This nationalist movement is peculiar in that Hungary is at the heart of the European Union, being a member of the Economic and Monetary Union (EMU) but has not adopted the single currency and

[2] Meanwhile, the monetary policy of European central banks has become highly expansionary. In the mid-2010s, European Central Bank President Mario Draghi implemented measures to save the euro after his 'whatever it takes' pledge. He lowered the main interest rate to zero and introduced 'quantitative easing'.

[3] "*Orbán reasoned that as liberalism promotes the selfish interests of – often unpatriotic – individuals, only an illiberal democracy can devotedly serve the general interest of the whole nation.*" (Bíró-Nagy, 2017, p.36).

continues to use the Forint as its national currency. As a result, monetary policy issues remain the responsibility of its national bank[4]. Hungary is also characterised by strong resistance to economic and political pressure from the International Monetary Fund and the European Union. (Johnson and Barnes, 2015). Furthermore, it is important to note that the current government has been in place for more than 10 years. Thus, Hungary can be considered a perennial nationalist system.

We will show how, based on the economic literature, and driven by the economic environment; communication has become a central element of central bank policies. We will then examine the implications of this evolution of communication on the confidence and credibility of central banks, as well as the communication strategies they can put in place to respond to the challenges posed by populism.

First, we will explore the impact of the economic literature on the communication paradigm adopted by central banks, which has moved from silence to increased communication with a wider audience. Secondly, we will analyse the influence of populism on central banks, in particular on their communication strategy. We will illustrate our point by looking at the situation in Hungary.

2. Independence, transparency and communication of central banks: theoretical arguments

In the 19th century, national banks were an instrument of the political agenda of national unification, through the homogenisation of money and the contribution to financial integration (Feiertag and Margairaz, 2016; Flandreau, 2006; Helleiner, 2003). They played an important role in the development of nation-states and flourished during this period in order to control the payment instruments in a country.

The arrival of the First World War led to the collapse of the financial system, the gold standard, and reinforced the role of the State to the detriment of the national bank. "*World War I was a stern test of bank independence. But the war proved too stressful, and independence was abandoned*" (Capie, 1995, p11). Faced with the financial instability and inflationary pressures following the war, central bank independence was seen as a solution to combat inflation. The influential Governor of the Bank of England,

[4] Thus, since 2008, the forint's exchange rate has floated freely against the euro as a reference currency, after having been linked to the euro since 2001 via a fluctuation band of around 15% (Zoican, 2009).

Montagu Norman, was a particular advocate of this and favoured independence for the creation of new central banks in Europe (Do vale, 2022). The latter, with the contribution of Benjamin Strong, Governor of the US Federal Reserve, mainly questioned the legitimacy of political intervention in monetary affairs and advocated international cooperation (Johnson, 2016). As a result, in 1922, at the Genoa Conference, a conference aimed at restoring world monetary order, two original principles for the conduct of central banking activities were defined. Central banks should cooperate with each other in an exclusive relationship and central banks should be autonomous institutions[5] (Cottrell, 2012; Singleton, 2010; Helleiner, 2003). The prevailing ethos of central banks is then characterised by Montagu Norman's motto: '*Never apologise, never explain*' (Haldane, 2021). As a result, central bankers did not feel the need to communicate their activities with the general public and this view of central banking continued until relatively recently. Hawtrey added in 1925 that the tradition of silence observed by central banks prevented them from being subjected to persistent criticism. As a result, central bankers do not feel the need to communicate their activities with the general public and this view of central banking continues until relatively recently.

After the 1929 crisis and the end of the gold exchange standard in 1931, the arrival of the Great Depression marked a new turning point in the relationship between governments and central banks. This period looks like a huge failure for central banks as their models collapsed (Goodhart, 2011). Distrust of central banks led to a movement for government control of banks of issue. Nationalisation of banks is seen as more compatible with public interest operations. Thus, the responsibility for monetary policy was transferred to public treasuries. The model of a public central bank began to take shape and became internationally accepted in the 1940s (Blancheton, 2016; Singleton, 2010).

[5] "*At its root lay an inherent mistrust of popularly elected governments, which the central bankers feared might pander to the masses through unsustainable spending rather than guard the value of their currencies.*" (Johnson, 2016, p16).

2.1. The changing role of central banks in monetary policy and economic governance since the Second World War

In the aftermath of the Second World War, and following the transformations seen after the Great Depression, central banks changed the hierarchy of their objectives and focused on economic stability and government financing (Jeffers and Plihon, 2022). In the 1950s, central bankers and macroeconomic policymakers aim for the multiple objectives of full employment, low inflation, a stable balance of payments and high economic growth (Singleton, 2010). The simultaneous pursuit of these four objectives, however, faces difficulties, as presented by Kaldor in 1971. For example, central bankers accept that macroeconomic policy is conducted in close cooperation with governments. Although this partnership may differ from country to country, cooperation is at the core of the collaboration (Deyris *et al.,* 2022; Singleton, 2010). Central banks will therefore play an important role in the reconstruction of European economies by using the financing of the public debt accumulated during the war. At the end of the 1960s, with the rise of financial capitalism, the system began to change. A new phase opened up for central banks with the acceleration of inflation in the 1970s and the abrupt change in monetary policy (Jeffers and Plihon, 2022).

These changes appeared from a theoretical point of view in the early 1960s, when Milton Friedman and the monetarists updated the principles for effective monetary policy. In his 1962 essay, *Should there be an independent monetary authority?* Friedman discusses three alternatives to reduce the number of errors in terms of monetary policy: a peg to a good standard (gold standard or silver), an independent central bank and the definition of strict rules (Desmedt and Llorca, 2016). However, Friedman is opposed to the independence of central banks and favours the definition of strict rules. He justifies his point of view by listing three technical shortcomings of an independent central bank. Firstly, in times of uncertainty and instability, the dispersion of responsibilities encourages the central bank to shirk responsibility. Second, independent central banking depends on personalities, which encourages instability. Finally, independent central banking almost inevitably overemphasises the views of bankers (Friedman, 1962; Schwartz, 2009). To illustrate his points, Friedman uses the interwar period and in particular the personality of Montagu Norman. He demonstrates that with Norman, we see an implicit doctrine that is clearly a framework for dictatorship and totalitarianism

(Blancheton, 2016; Friedman, 1962). As a result, central bank independence has the effect of restricting democratic control of monetary policies (Desmedt and Llorca, 2016). Thus, for the central bank to be independent, a set of instructions must be followed. It must then set an objective to be achieved through the control of monetary policy.

At the end of the following decade, the work of the New Classical Economics (NCE) influenced central banks. Until then, central banks had limited themselves to implementing monetary policy, which was left to the discretion of the political authorities. Therefore, in order to give credibility to anti-inflationary policies, theorists favour the establishment of central bankers who are autonomous from political power, notably with the phenomenon of temporal inconsistency put forward by Kydland and Prescott (1977). "*Dynamic inconsistency arises when the best plan made in the present for some future period is no longer optimal when that period actually starts*" (Eijffinger and De Haan, 1996, p5). In other words, this means that short-term interests may jeopardise the pursuit of more desirable long-term policies. For the monetary authority, in order to be credible, it is preferable to adopt strict rules, rather than to introduce discretionary policy. Credible monetary policy is therefore linked to central bank independence.

Subsequently, the theoretical work of Barro and Gordon (1983) demonstrates that low inflation is generally associated with an independent central bank. In other words, they argue in their paper that only a real monetary variable can influence real economic variables. A time-inconsistent monetary policy is a policy that is conducted in a discretionary manner, but which generates an inflationary bias (Blancheton, 2016)[6]. Therefore, the generalisation of central bank independence can reduce inflationary bias and lead to an increase in credibility. The work subsequently proposed by Cagan (1986) also points in this direction.

We can then turn to the work of Rogoff (1985), who explains in his model that the problem of time inconsistency of monetary policy can only be reduced if financial authority is delegated to an independent and conservative central bank. Indeed, if the central bank is conservative, it will be more opposed to inflation than the government (De Haan *et al.,* 2018). This is therefore a credibility problem for politicians, they have

[6] « *Une banque centrale – non indépendante du gouvernement – serait toujours incitée à créer des surprises d'inflation afin de stimuler l'activité à court terme – au-delà de son niveau d'équilibre – ce qui accroît l'inflation sans modifier le niveau de production à l'équilibre.* » (Blot, 2018, p132).

an incentive to go back on their promises to keep inflation low in the future. Conversely, independent central bankers are less sensitive to the political electoral cycle and are generally more concerned about the risks to price stability than elected politicians (Bodea and Hicks, 2015). This model thus provides the first theoretical justification for central bank independence. In the same year, Backus and Drifill (1985), questioned the degree of veracity that can be attributed to a government's announcements in its fight against inflation. Following a reasoning based on game theory, they state that the political word on monetary matters is devalued. To obtain an effective anti-inflationary policy, central bankers must be autonomous in order to obtain a gain in credibility (Clévenot *et al.,* 2015). We therefore have consistency with the model proposed by Rogoff.

2.2. Central bank independence: between theory and reality

In the 1980s and 1990s, the economic literature emphasised the notion of credibility, which is supposed to reinforce the word of the public authorities. For Cukierman 1986, for example, the credibility of monetary policy makers is crucial to achieving their future objectives, since the public's inflation expectations depend directly on it (Cukierman, 1986). Thus, to be credible, a policy must be consistent. The search for credibility is based in particular on the work of New Classical Economics (NCE) with the aim of challenging Keynesian discretionary practices. Entrusting monetary policy to an independent central bank would thus avoid the surprise effects advocated by monetarism (Le Héron, 2016).

Moreover, after 1990, and following the dominant thinking, more and more central banks are becoming independent from the political powers (De Haan *et al.,* 2018; Dincer and Eichengreen, 2014), with the aim of keeping inflation low. This rise in independence affects Europe in particular. Indeed, prior to the creation of the European Central Bank in 1998, the Maastricht Treaty required all member countries to grant independence to their central banks. The shift to an inflation-targeting strategy, adopted by central banks around the world, can be seen as the turning point in the transition from hermeticism to transparency.

Central bank independence has appeared to many classical economists as the optimal solution to time inconsistency, with theoretical support and apparent empirical success (Hartwell, 2019). However, it is important to note that the literature justifying central bank independence also faces many criticisms. Indeed, several empirical studies have also established a correlation between the degree of central bank autonomy and inflation performance. Bade and Parkin (1988) and Alesina (1989) were among the first to create an index based on legal aspects of central banks. However, the indices of Grilli, Masciandaro and Tabellini[7] (1991) and Cukierman, Webb and Neyapti[8] (1992) are the most widely used in the literature. Although most of these studies suggest a clear relationship between central bank autonomy and inflation, there are several contradictory points of view, in particular the studies by Cargill (1995) and Jenkins (1996). Furthermore, the use of legal data to assess central bank independence has been repeatedly criticised (Forder, 1996; King, 2001).

In addition to empirical studies, the literature supporting central bank independence has also faced criticism. Hayo and Hefeker 2002 summarise these criticisms by highlighting the importance given to central bank independence. According to McCallum (1995, 1997), granting central bank independence does not solve the credibility problem, but simply moves it to another level. As long as governments can easily revoke the independence status, it does not contribute much to the credibility of monetary policy. Other economists, such as Bibow (2004, 2010), Hayo and Hefeker (2002), and Forder (1998), do not believe that time inconsistency models realistically describe the behaviour of policy makers. Forder (2001) even argues that the incentive to suppress independence may increase with the gain in credibility from the use of central bank independence. Forder (2005) goes on to stress the multiplicity of reasons for the rapid acceptance of the idea of central bank independence.

To further explore the relationship between a government and a central bank, a distinction can be made between de jure (legal) independence and de facto (operational or effective) independence. Legal independence is defined in particular by the conditions for the appointment and removal of central bank officials. Conversely, de facto independence is the more or less real capacity of a bank to use its instruments

[7] Grilli, Masciandaro and Tabellini (1991) developed an index to measure central bank independence (the GMT index) and regressed inflation rates from 1950 to 1989. Their analyses revealed an inverse correlation between central bank independence and the level of inflation for each decade studied.

[8] Cukierman, Webb and Neyapti (1992) studied the level of formal independence in 68 countries from 1950 to 1989. Their CWN index is based on the central bank's compliance with 16 criteria divided into four main categories: governance, monetary policy, objectives and restrictions on state financing.

effectively and is therefore rather difficult to measure. A contrast can thus appear between the degree of legal autonomy and that of real de facto independence (Blancheton, 2016). Usually, to measure de facto independence, the economic literature looks at turnover rates of bank governors or conducts surveys of central banks (Bodea and Hicks, 2015). The policy literature focuses instead on the conditions that give legal central bank independence a de facto effect (Bodea and Hicks, 2015).

Over the past decades, central banks around the world have thus increased their independence, however, according to Walsh (2005), legal measures of independence may not be an accurate representation of the relationship between the central bank and the government. Furthermore, it is difficult to find systematic indicators to measure actual central bank independence when it differs from legal independence. It is sometimes difficult to clearly identify violations of actual or de facto independence, but the perceived or actual pressure on the central bank can influence the outcome and credibility of monetary policy (Binder, 2021).

In order to further analyse central bank independence and its effectiveness in achieving its objectives, the following section will look at the importance of communication in this relationship.

2.3. Communication as a vector of credibility

Beyond independence, there is the issue of central bank accountability. With the generalisation of this independence, the unelected officials in charge of monetary policy are now responsible for their actions, but this autonomy is conditional on the obligation to explain their decisions. Generally, the Central Bank's responsibility is established in its statutes and in most cases, the Central Bank is formally accountable to parliament (Blinder, 2001). "*An accountable central bank must give account, explain and justify the actions or decisions taken, against criteria of some kind, and take responsibility for any fault or damage*" (Goodhart and Lastra, 2018, p.54). However, the way in which a central bank exercises its responsibility depends to a large extent on its publicly stated objectives[9] (Aglietta and de Boissieu, 1998).

[9] The ECB, which is highly independent and focused solely on price stability, differs from the US Federal Reserve (FED), which has a broader mandate.

As far as the European Central Bank is concerned, it has the opportunity to explain its decisions and their justifications to national parliaments, without being held to account (Lastra and Dietz, 2022). However, in the eurozone, there is a significant brake, since the Central Bank cannot be sanctioned by parliament, limiting the scope of these exchanges (Blot, 2018). In contrast, in the United States and many other countries, the US Congress holds the power to change the Central Bank's mandate, reinforcing the notion of constraint (de Grauwe and Gros, 2009).

Because the principle of central bank independence implies a very limited set of objectives, generally centred on an inflation target, and very few possibilities for sanction, the main accountability mechanism is that provided by the publication of information on the bank's deliberations and activities. Thus, accountability is the pillar on which the legitimacy of a central banks' actions rests, giving rise to a need for transparency. This obligation requires the central bank to give an open account of its actions, its objectives and the reasons behind its decisions.

Until the end of the twentieth century, following the model advocated by Montagu Norman, opacity predominated in central banks. The vision of central bank communication policy was shrouded in mystery (Brunner, 1981). Since then, much has been written about why central banks should be transparent and communicate effectively with financial markets and the public. As early as 1986, Goodfriend (1986) points out that the theoretical arguments in favour of secrecy are unconvincing. Subsequently, in the 1990s, central bank communication became more important with the democratisation of inflation targeting (Mishkin and Posen, 1998, Mishkin, 2004). It thus provides information on how the central bank intends to achieve its announced objectives. In order to strengthen their credibility, policymakers increase their communications and thus play a central role in monetary policy. We are hence moving from an abstruse central banker, capable of surprising the markets, to a central banker trying to be as predictable as possible (Blinder *et al.,* 2008). Transparency through communication therefore becomes essential to explain monetary policy decisions and the reasons behind them.

This vision is notably supported, at the beginning of the 21st century, by the new Keynesians, Woodford (2003) and Blinder (2000), who reinforce the notion of credibility of central banks through communication. Alan Blinder was one of the first to question whether central bank communication really matters. Woodford (2003) suggests that with a stable interest rate policy that is known in advance, monetary policy will be more effective. He justifies this proposal by the fact that the demand for credit is linked to expectations of long-term interest rates, which are themselves dependent on short-term interest rates. If the central bank announces its intentions on future interest rates, it will reduce the uncertainty of its future decisions.

At the same time, Guthrie and Wright (2000) present a model of monetary policy implementation in which investors, acting in their own interest, force interest rates to the levels desired by the monetary authorities. As a result, if interest rates deviate from those required by the monetary authority, only one operation is needed to restore them. This is known as an 'open mouth' operation. The authors use New Zealand's monetary policy to illustrate their point. Simple announcements can have a really important effect, as in some cases signals are sent and market rates change without any liquidity operation ever being undertaken. Lavoie (2005) or Desmedt and Llorca (2016) also highlight the work of Guthrie and Wright by indicating that nowadays open mouth operations can have more powerful effects than open market operations.

These communications must contain relevant explanations in order to make the central bank understandable to the public. The central bank has several instruments at its disposal for this purpose and can use different consistencies in their explanations depending on the objective to be achieved. The communication strategy becomes a tool for central banks to shape long-term interest rate expectations. Since the 1990s, they have made considerable efforts in the field of communication by continually seeking new and effective ways of communicating. Thus, the independence of central banks during the 1990s was driven by an increased need for transparency and credibility vis-à-vis agents. We then moved from a mysterious central banker, characterised in particular by the sentence pronounced by Greenspan in 1987 "I*f I seem unduly clear to you, you must have misunderstood what I said",* and which echoes Norman's declaration in the 1920s, to a central banker now focused on communication and predictability. *"As it became increasingly clear that managing expectations is a useful part of monetary policy, communication policy rose in stature from a nuisance to a key instrument in the central banker's toolkit*." (Blinder *et al.,* 2008, p.911). Communication hence helps to shape financial markets' expectations and understanding of current and future monetary policy decisions. Many central banks are accordingly embracing transparency, for example, by making the minutes of their monetary policy meetings more readily available, or by adopting policies such as 'forward guidance' to indicate their medium-term policy directions (Johnson *et al.,* 2018).

While, as Blinder et al. (2008) point out, communication, and transparency improve the effectiveness of monetary policy, there is no consensus on what constitutes an optimal communication strategy (Ehrmann and Fratzscher, 2007). However, with the global financial crisis at the end of the 2000s, central bank communication becomes particularly important in building confidence and subsequently restoring the conditions for economic growth.

Moreover, it has become a key factor in the evolution of credibility. It should be noted that credibility can vary in a non-linear way, requiring considerable effort to be gained gradually, but can also be lost at any time (Bordo and Siklos, 2015).

Thus, in this context, it is important to note that central bank communication can face challenges such as populism, which can undermine the credibility of economic institutions and disrupt market confidence.

3. Changing and challenging beliefs: the impact of the financial crisis and the rise of populism

Following the financial crisis of 2007-08, central banks underwent major changes, becoming the main actors against the crisis with extended prerogatives to deal with this difficult situation (Gnan and Masciandaro, 2020). They intervene with original measures, notably unconventional ones, to help governments contain the rise in debt and minimise the consequences on economic activity. Thus, central banks are no longer limited to monetary policy, but now play a role in micro and macro-prudential regulation (Blancheton, 2016; Blot, 2018; Cerutti *et al.,* 2016). They also guide expectations to maximise the impact of their decisions. In addition to setting up new instruments, central banks are moving closer to governments, thereby reducing their degree of independence (Desmedt and Llorca, 2016). Blinder (2013) considers that close cooperation between the central bank and the treasury in a crisis is both inevitable and desirable. Indeed, in response to the financial crisis, the main central banks are moving away from the pursuit of price stability to focus on financial stabilisation. The long-term time horizon of the central bank is then temporarily replaced by a shorter horizon, close to the considerations of the public treasury and favouring cooperation[10].

In consequence, for a central bank, crisis management is important for strengthening its credibility, even if this credibility does not explicitly concern the fight against inflation. It must then explain its unusual policy measures clearly and coherently. As a result, with the reformulation of monetary policies, the audience of the central bankers' discourse is increasing, becoming the key factor of the Central Banks' policy.

3.1. The financial crisis as a catalyst for the rise of populism

With the financial crisis, central banks have thus resorted to unconventional monetary policies that require them to explain their new policies in more detail (Blinder *et al.,* 2017). Moreover, one of these unconventional tools, 'forward guidance', relies entirely on communication. Under 'forward guidance', the central bank not only communicates about current monetary policy, but also makes explicit statements about the future path of policy (Blinder *et al.,* 2017). "*Central bank communication in normal times aims at making monetary policy—through instruments such as interest rate policies—more effective. Forward guidance, however, is nothing other than communication; communication itself becomes a monetary policy instrument.*" (Issing, 2018, p28).

With this broadening of central bank mandates in the aftermath of the global financial crisis, the consensus that central banks should be independent in the pursuit of price stability-oriented monetary policy is being challenged. They are now under increasing fire, and face new pressures on the reputation, accountability and regulatory role of central banks. The European Central Bank, for example, has to answer to the courts after numerous German plaintiffs questioned its bond-buying programme, which they consider to be equivalent to monetary financing of public debt, hence violating the EU treaties (Lombardi and Moschella, 2015). These attacks on central banks and on central bankers who overstep their mandate or remit can also be seen as attacks on central bank independence (Goodhart and Lastra, 2018; Issing, 2018).

[10] "*Lots of things change in a crisis. One of them is the time horizon. When the issue becomes how to keep your financial system functioning until the weekend, the hangman's noose concentrates the mind wonderfully—and not on the long run. The central bank's vaunted long time horizon evaporates, temporarily replaced by the same time horizon the treasury has— which is short. That makes cooperation more natural.*" (Blinder, 2013, p.164).

In the wake of the crisis, central bankers are therefore facing fundamental challenges to their previously dominant and widely shared beliefs and practices (Johnson *et al.,* 2018). Doubts about central bank independence are notably characterised by the increase in the number of press articles dealing with central bank independence (Borio, 2019).

"*Consider, for instance, the views expressed at a recent Bank of England conference (September 2017) on central bank independence, reflecting the perceived mood of the times. Central bank independence has been described as 'a product of its time' (Willem Buiter), 'nice to have while it lasted' (Charles Goodhart), an arrangement that is 'unlikely to survive much longer' (Guy Debelle, Deputy Governor of the Reserve Bank of Australia) and that will continue only as long 'as the political class, sensitive to the electorate, remains convinced that it delivers some clear benefits' (Andrew Tyrie, former chair of the House of Commons Treasury Committee)*" *(*Borio, 2019, p3).

The question of preserving strict independence is therefore at the centre of the debate.

Beyond the direct criticism of central banks, the economic crisis is accelerating the rise of populist politics around the world. Indeed, the anti-globalisation movements following the crisis are challenging the traditional political landscape. This movement is not new, since as Funke et al. (2016) argue, financial crises typically lead to political polarisation and populism.

However, the financial crisis of the late 2000s leads to a more significant surge in populist movements. In particular, parties promoting nationalist rhetoric find themselves with significantly higher levels of parliamentary representation[11]. Thus, although populist movements are not new, the economic downturns in many countries and the austerity policies that follow the crisis reinforce these movements. They are, more broadly, a reaction to the economic disarray felt by the working classes as a result of various economic policies and neoliberalism.

The rise of nationalism can also be seen in the notion of a 'double movement' described by Karl Polanyi in *The Great Transformation* (Polanyi, 1944). At the same time, there is an extension of market exchange with the transformation of human beings, nature and money into commodities, and conversely, there are counter-movements

[11] "*After financial crises, voters seem to be systematically lured by the political rhetoric of the far right, with its frequently nationalistic or xenophobic tendencies.*" *(*Funke *et al.,* 2016, p.228).

aimed at protecting the population against the market. Voters then turn to a movement that they believe will protect social institutions from policies aimed at reducing public debts and deficits, or reducing state intervention[12] (Cayla, 2019).

Pierre Rosanvallon, in *Le siècle du Populisme - Histoire, théorie, critique* defines populism as an angry reaction of a population towards democracy. Although the term is generally misused to stigmatise opponents, populism is characterised by the importance given to emotions[13] and the rejection of institutions. Society is then split in two between the elites on the one hand and the people on the other (Mudde, 2007: Mudde and Kaltwasser, 2017). In the same vein, in 2017, Godhart and Lastra define populism as follows: "*The word 'populism' has tended to become a generalised, pejorative term of abuse applied to any political party of the (extreme) right, or left, that does not share the main economic tenets of the liberal, central establishment*" (Goodhart and Lastra, 2018, p.50). Similarly, for Rodrik (2008), in the economic domain, populists reject constraints on the conduct of economic policy. External constraints as well as autonomous institutions reduce their policy options. In this sense, the independence of the central bank and its unique mandate based on the pursuit of price stability can be seen as an 'anti-populist economic institution' (Gnan and Masciandaro, 2020).

On the other hand, in recent years, warnings of a populist threat to central bank independence have multiplied. They are based on a deep antagonism between technocracy and populism (Binder, 2021), with banks themselves being seen as technocratic institutions (Coiffard, 2018). Indeed, on the one hand, populist movements consider central bankers to be part of the global elite[14] behind globalisation, and hence its consequences on inequality. On the other hand, this global elite is seen as relatively disconnected from the needs of individual countries. The legality and legitimacy of the measures taken by central banks around the world are therefore increasingly being questioned (Ferrara *et al.,* 2021).

[12] This phenomenon is particularly prevalent in Eastern Europe, notably in Hungary and Poland (Kalb, 2018).

[13] See Rosanvallon 2020, Chapter I – part 5.

[14] "*Central bankers, as we know, are members of an elite group of government appointees numbering in the dozens globally charged with executing these and/or related policy agendas. These figures do not, however, merely carry out the procedures of a technocratic officialdom. Rather, they are in many cases the designers of a new monetary regime; it is they who are crafting its distinctive linguistic and communicative features of a public currency*." (Holmes, 2016, p.4).

Although a distinction can be made between left and right-wing populism (Rosanvallon, 2020; Gnan and Masciandaro, 2020), what interests us here is populism's aversion to globalisation. Indeed, both movements of populism share anti-globalisation economic narratives and both represent a dissatisfaction with globalisation with the emergence of a strong state. There is an increasingly important divide between nationalism and globalisation (Gnan and Masciandaro, 2020). However, although nationalism and globalisation are seen as incompatible, in reality the relationship is much more complex. Helleiner (2003) and Shulman (2000) show that a multitude of economic policies are devoted to the pursuit of nationalist goals such as the promotion of a nation's unity, identity and autonomy. They therefore consider that free trade can be used by a nation claiming to be nationalistic in order to enhance the nation's power, prestige or prosperity. Nationalism is not necessarily in contradiction with economic liberalism; nationalist aspirations for autonomy can lead to economic openness as well as closure. It may therefore be appropriate for a nationalist government not to profoundly affect the statutes of central banks in order to retain international legitimacy.

The question then arises as to how far this preservation of central bank independence can be reconciled with the populist aspirations that often challenge the economic elites in place. Moreover, the communication of central banks can also play an important role in this dynamic by contributing to strengthening or weakening their credibility in the eyes of the general public and economic actors. Thus, in this context of rising populism and questioning of experts, the communication of central banks can become a major challenge to maintain their independence and legitimacy.

3.2. The reaction of central banks: the importance of communication

As noted earlier, in the rhetoric of populist leaders, central banks are part of the technocratic elite. Given the importance of credibility, reputation and communication in central banking, pressures can undermine the effectiveness of central banks. These pressures are typically a call for easing monetary conditions, threats to replace a central banker, as well as actual or potential changes in central banking legislation. Binder (2019) investigates political pressure on or government interference with the central bank across a panel of 118 central banks. Political pressure on central banks is found to be widespread, but in only 4 per cent of the cases studied did the pressure on central banks involve actual or potential changes to central banking legislation (Binder, 2019). Political pressure is more important when a nationalist party is in power. This confirms the willingness of populist governments to influence central bank policies.

With the rise of populism, more and more central banks are facing pressure. Bianchi *et al.* (2019) look at former US President Trump's public criticism of Federal Reserve Chairman Powell. But the Fed is not the only central bank under fire from governments, in other countries such as Hungary, Turkey and Brazil, they are too. In England, for example, conservative politicians have attacked the Governor of the Bank of England, Mark Carney, for his apparent opposition to Brexit (Farrell, 2016), or in India, the resignation of Urjit Patel, the Governor of the Indian Central Bank in December 2018, follows a conflict with the government of Narendra Modi (Mundi and Kazmin, 2018).

In some cases, the pressure from politicians goes further than just threatening central banks. One example is the appointment in 2013 of György Matolcsy as head of the Hungarian Central Bank, an architect of the ruling Fidesz party's economic policy and a strong supporter of monetary policy easing (Johnson and Barnes, 2015). In Turkey, President Recep Tayyip Erdoğan sacked Turkish monetary policymaker Murat Cetinkaya in 2018 and claimed the power to appoint rate setters (Glinavos, 2020).

In general, populist governments call for monetary policy measures to stimulate an often already growing economy. The question that arises, and which is echoed by Gavin and Manger (2021), is why do governments make threats in public when they could be made behind closed doors? "*In most countries, governments have the authority to dismiss the central bank governor and install a more pliant figure, a more direct means to obtain interest rate reductions than public attacks on the institution.*" (Gavin and Manger, 2021, p3). Public attacks by governments therefore appear to be generally rhetoric aimed at a domestic audience rather than policy statements. However, by doing so, governments show their resolve and clearly threaten the de facto independence of the central bank, even if legal independence is maintained (Gavin and Manger, 2021). Maintaining the legal independence of central banks may allow populist governments to maintain credibility with international institutions and markets in order to continue to attract capital.

In response to these pressures, central banks are again evolving their communications. In general, central bankers have to strike a balance between political pressures and what they consider to be optimal monetary policy. Binder and Spindel (2020) look at how politics shapes the Federal Reserve's communication. Political attacks on the Fed are not new. However, former President Trump, in particular, has repeatedly criticised the central bank and its Governor Powell. He criticises the latter acerbically or questions the Fed's performance on Twitter (Binder and Spindel, 2020). This situation puts the central bank in a difficult position, since if the Fed goes along with the President, this may call into question its credibility, while conversely, if it resists the incessant demands, it runs the risk of having its mandate changed by Congress, reducing its powers and responsibilities. In this context, the Fed seems to have put aside its communication toolbox and is limiting itself to case-by-case political choices (Binder and Spindel, 2020).

Commonly, central bankers must avoid political debates. In the face of populist pressures, they must legitimise their policies, gain support for their decisions, while remaining responsive to public pressure. Central banks face a constant challenge to official information. According to Thorson (2016), part of the population is inclined to accept information close to these ideals, while avoiding or rejecting dissonant information. Society is now faced with an avalanche of conflicting information, under which the population has to distinguish facts from fabrications (Bergmann, 2020). The difficulty for institutions, such as central banks, is then to bring out the information as clearly as possible. There is a saturation of information transmission channels in a context of loss of trust in institutions by citizens.

This lack of trust in established institutions reduces trust in official information (Bennett and Livingston, 2021).

The ever-increasing number of reports by central banks referring to the work of their researchers based on models and statistics is no longer sufficient. The 'scientific' approach of central banks to policy clashes with the tendency of populisms to disregard facts and analysis. As a result, central bankers are forced to seek new forms of expertise (Binder, 2021; Gnan and Masciandaro, 2019). With populism, institutions, and elites are devalued and bypassed to address the people directly. As a result, central banks through their communications also try to get closer to the people. For example, the European Central Bank is changing its mission statement to include the word people, as the Bank of England did in 2014 (Binder, 2021). By multiplying reports and appealing to 'the people', central banks aim to preserve their credibility in the face of populist constraints. Thus, central bank communication is evolving towards a wider audience, and is becoming an increasingly essential part of any central bank policy. What central banks publish and how they publish it has never been more important, nor more closely followed. But, paradoxically, this content has never been more contested.

To illustrate the complex relationship between a central bank and a populist government, the following section will look at the case of Hungary.

3.3. The questioning of central bank independence in Hungary and the role of communication

The election of Orbàn in 2010 was a turning point in Hungary's history, as neoliberal ideas, which had been in the majority since the fall of communism, were challenged. Its financial and trade openness seems to have made the country vulnerable to the contagion of the crisis (Johnson and Barnes, 2015). The adoption of neoliberal policies and the ensuing difficulties are pushing Central European countries to review the system they have adopted. Orbàn's Hungary appears to be a precursor for the region, with its rejection of international institutions and the implementation of economic nationalism. Citizens look to the nation rather than to Europe for solutions to their difficulties, hence diminishing the sense of European solidarity (Fligstein and Polyakova, 2016). The new government sees liberalism as the main threat in the country and sees itself as the last bastion against excessive globalisation.

The system established in Hungary by Orbàn is a perfect example of a populist model with the establishment of economic nationalism. He uses rhetoric that runs counter to globalisation, using the term 'illiberal' for example. At the same time, it conforms to European standards in order to continue to receive a significant amount of European funds and capital on its territory. The policies implemented by Fidesz navigate between orthodox policies and policies claimed to be 'unorthodox'.

Orbàn's accession to the post of prime minister and his desire to move away from orthodox economic norms influence the communication of the Hungarian central bank. Even if the latter does not fundamentally modify its way of communicating, regularly within its various periodic reports, the central bank does not hesitate to question the measures taken by the government. One example is the August 2010 inflation report, where in an insert the central bank criticises the measures taken by the Orbàn government (Mnb, 2010a). The same is true of the November stability report, where the bank tax introduced by the Hungarian government is questioned (Mnb, 2010b). Moreover, Governor Andràs Simor responds to the government's attacks on his independence through press releases. In February 2012, in an open letter to Prime Minister Orbàn, Governor Simor attacked the government's intention to change the remuneration system of the National Bank's decision-makers (Simor, 2012a). He sees this change as an attack on the independence of the central bank. Subsequently, Simor uses this medium again, to address the Minister of Economy Matolcsy and to question the draft law on the financial transaction tax. Once again, the defence of central bank independence is put forward to justify this public intervention (Simor, 2012b). In consequence, faced with the populist threat and the questioning of its status, the Hungarian national bank does not hesitate to use communication to defend its independence.

At the beginning of 2013, the government's attacks on the Hungarian National Bank intensified. Firstly, the Court of Audit, armed with the powers conferred by the new legislation, accused the Hungarian National Bank of having communicated commercial banking data to the International Monetary Fund in the context of the bailout of Hungary in 2008 (Johnson and Barnes, 2015). This information was allegedly provided without the written consent of the commercial banks. Subsequently, several inspections were carried out regarding the central bank's cost management, accusing the governor of overspending (Kiraly, 2020). However, all these investigations did not lead to any significant results.

More importantly, the real change in the Hungarian central bank that led to the easing of tensions between the institution and the government was the end of Governor Simor's mandate on 1 March 2013. His replacement, announced on the same day, was György Matolcsy, then Minister of Economy, architect of the Fidesz economic policy and fervent supporter of the easing of monetary policy. Ádám Balog, previously responsible for taxes as deputy Secretary of State in Matolcsy's ministry, was appointed as deputy governor. Two people close to Orbàn were therefore appointed to head the central bank in order to implement the economic policy desired by the government in power. Following these appointments, "*Matolcsy followed up his appointment by conducting a* *thorough housecleaning at the MNB, firing multiple top long-time MNB staffers (including the bank's chief economist, the head of financial analysis, and the director of the research department) and demoting two vice-governors.*" (Johnson and Barnes, 2015, p548-9). Many other employees will resign, including the Deputy Governor and Director of the Financial Stability Department, Julia Kiraly, who in a public letter denounces the council's decision-making process and Matolcsy's policies since her arrival (Kiraly, 2020).

With Matolcsy's appointment, the central bank and the government are now working together to pursue Orbàn's financial nationalist agenda. In his introduction, he states that from now on the primary objective of monetary policy is to support the government's economic policy (Piroska, 2021). Monetary policy will now have to be in line with the government's objectives[15], in particular to stimulate economic growth.

In addition, while the Hungarian Central Bank has traditionally maintained a low profile in the public arena, it is now adopting a more aggressive approach to communications. Indeed, any criticism of the institution generally gives rise to a press release[16]. Through these press releases, the Hungarian Central Bank is seeking to legitimise its actions by responding to the criticism it may face.

Simultaneously, the Central Bank, which is now dedicated to promoting economic growth while maintaining price stability, has implemented an accommodating interest rate policy. The government party's appointment of external members to the Monetary Council in 2011 marked the beginning of a period of declining interest rates. This trend was further strengthened in March 2013 with the arrival of new management. The aim of the policy was to support the government's economic objectives by committing to maintaining flexible monetary conditions with historically low interest rates (MNB, 2019). Rates were significantly reduced from 5.0% in March 2013 to 2.10% in July 2014, and then maintained at this level despite global financial uncertainty (MNB, 2014b). In March 2015, further rate cuts were justified by diminishing inflationary risks, despite the

[15] "*The MNB and the Orbán government formalized their cooperative relationship in a new MNB statute published in May 2014, intended to clarify the MNB's mission and tasks in post-crisis Hungary*" (Johnson, 2016, p247).

[16] In August 2014, for example, the Central Bank drafted a press release following Kester Eddy's article Company resort makes its comeback at Hungary's central bank' published in the Financial Times (Kester, 2014). The National Bank's statement aims to rectify the arguments in the article reporting the purchase of a property by the Hungarian institution. Its defence is based in particular on a comparison with other central banks with similar properties (MNB, 2014a).

forint's weakness against the euro. The cycle of rate cuts ended in March 2016 with a base rate of 0.9% (MNB, 2016), which remained unchanged until June 2020.

The Hungarian National Bank aimed to boost export competitiveness despite the population's high foreign currency indebtedness through these rate cuts. This is part of a global trend in which major developed economies are adjusting their interest rates in response to challenging economic conditions, bringing them closer to zero.

Since the change of governor, inflation in Hungary has generally remained below 5%. However, between 2021 and 2023, it rose sharply, peaking at 25% in July 2023. To counter this rise, the National Bank will gradually increase its key rate from June 2021, taking it to 13% in September 2022. When inflation returns to levels comparable to those of the past, the Monetary Council will begin to reduce the key rate from autumn 2023.

In addition to a reduction in the key interest rate, in April 2013 the National Bank of Hungary launched the 'Funding for Growth Scheme'. This programme aims to improve financing conditions for small and medium-sized enterprises by offering them preferential financing in order to stimulate investment. While the introduction of guarantee and liquidity schemes for SMEs is not a common practice for central banks, the 'Funding for Growth Scheme' is not unprecedented in developed market economies.

For instance, in 2016, the Hungarian National Bank reduced the reserve requirement from 2% to 1%, following the model of the European Central Bank. This was done with the aim of facilitating credit institutions' liquidity management and reducing money market volatility (MNB, 2016b; Sebők, 2018). In November 2017, a mortgage bond purchase programme was launched to reduce yield spreads between mortgage bonds and government securities. The two-stage programme was closed at the end of 2018 after purchasing bonds totalling HUF 226 billion on the primary and secondary markets (Ferkelt and Sági, 2020; MNB, 2018a; MNB, 2018b).

While its conventional and unconventional monetary policy broadly reflects international standards, in 2014 the national bank announced the creation and funding

of six philanthropic foundations, commonly known as the 'Pallas Athéné Foundations'. These foundations are controversial because the Central Bank supports government economic policy and national debt reduction but allocates part of its profits to foundations instead of returning them to the Treasury. This may indirectly finance government spending via the purchase of government bonds on the secondary market, thereby breaching the ECB's ban on monetary financing[17]. In other words, these foundations are a way for the national bank to take the place of the state, since its resources are used for economic policy purposes. However, supervision by the ECB and Eurostat has led to a reduction in the foundations' holdings of government bonds, followed by their merger without any significant impact on their activities.

With the arrival of Matolcsy as its head, the national bank expanded its tools to meet the expectations of the government. However, these unconventional measures do not completely break with the practices of other central banks. Generally speaking, the national bank's monetary policy is in line with international expectations. Indeed, to maintain its nationalist regime, the Orbán government must preserve its credibility on the financial markets and continue to benefit from aid from the European Union.

The same applies to communication. Despite minor changes, it remains consistent with the standards of international central banks to maintain the institution's credibility.

4. Conclusion

Although the relationship between central banks and states has always been complex, varied and constantly evolving, the current period is particularly interesting. Indeed, central banks have played a key role in the formation of nation-states (Feiertag and Margairaz 2016 and Helleiner 2003), but they are now sometimes the target of attacks from these same nation-states. Thus, with the rise of populism, central bankers are facing a constant challenge to their previously widely held beliefs and practices (Johnson *et al.*, 2018). More and more central banks are facing criticism from politicians about their policies. Similarly, communication, initially aimed at citizens for clarity, is now akin to defending one's reputation (McPhilemy and Moschella, 2019).

While money seems obscure to most people[18], populist leaders exploit this ignorance to drive a wedge between the people and the elites, creating a divide between

[17] These financing activities are therefore a source of controversy and the European Central Bank draws attention, in its annual report (ECB, 2014; ECB, 2015), to the fact that these programs can potentially be perceived as monetary financing.

[18] "*(...) a very small elite group of finance and business professionals who are 'in the know' about money and a general public for whom money is mired in an 'irreducible opacity' (Aglietta and Cartelier, 1998: 147)*" (Braun, 2016, p.1072).

the central bank and the nation. In the face of pressure, communication is used to legitimise monetary policies and gain support for their decisions. In general, it is legitimate to expect a central bank to publicly explain their choices and justify their policies. With the rise of populist pressures, the simplification of the terms adopted and the opening up to new media is going in the direction of ever more important communication for central banks.

However, the loss of public confidence in institutions makes it difficult for central banks to influence the behaviour of economic agents. They need to develop new frameworks and narratives to respond convincingly to both markets and citizens. To do this, central banks will need to develop a discourse that goes beyond neoliberalism in order to respond to populations turning to populism.

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