

## How much do central banks care about growth and employment?

### A content analysis of 51 low and middle income countries<sup>1</sup>

This policy brief presents the main findings of a content analysis of the objectives and mission statements in the Establishment Laws of selected Central Banks (CBs) in developing countries as well as recent speeches by their senior officials. As shown in Table 1, 51 low and middle income countries across different geographical regions are covered under this analysis. The purpose of this content analysis is to understand the policy priorities of CBs.

This work is conducted in two steps. First, the content of the objectives and mission statements of the selected CBs as stated in their respective Establishment Laws is

analysed against predetermined criteria (price stability, exchange rate stability, economic growth and employment creation). Synonyms of these key words are also taken into account (e.g. “low inflation” as a synonym for price stability). This first exercise is carried out in order to gain knowledge about the legal foundations of CBs’ policy actions as Establishment Laws define the scope and purposes of policy measures taken by CBs. While CBs’ websites and policy documents may describe the objectives and mission statements of the CBs, the analysis relies on statements in Establishment Laws of CBs for the sake of accuracy and consistency.<sup>2</sup> Furthermore, we identify whether or not the CBs have an inflation target. In this regard, we define “inflation target” in broad terms, that is, besides those CBs with a numerical target for inflation, we also include CBs that set an implicit target (e.g. the inflation rate should be below GDP growth). We would like to note that having an inflation target is not identical to having an inflation targeting regime. The latter relies on a

‘single objective-single instrument’ framework that assumes a well-developed institutional and financial environment, although this assumption is not necessarily met in many developing countries that have adopted inflation targeting regimes.<sup>3</sup>

Second, three speeches and/or key note statements for each country (sample size of 153 speeches), all dating from the period between 2010 and 2013, are selected for this content analysis. These speeches and key note statements are scrutinised using criteria in five broad areas (macroeconomic stability, economic growth, employment, social development and financial inclusion).<sup>4</sup> In selecting the different statements, careful attention was paid to cover different years (2010, 2011, 2012 and 2013) for a given country and to include key statements that outline the current thinking and policy priorities of the CB. To ensure that the selected statements provide a broad overview of the CBs’ monetary policy, priority has been given to key note speeches given by the Governor or Vice-Governor, for instance at an annual meeting, in front of the parliament, at a high-level conference on a relevant topic or the Governors’ foreword in the CBs’ annual reports.

Some caveats apply to the findings of this research. Variations in CBs’ institutional function vis-à-vis other government agencies may affect the results of this analysis. For instance, CBs in some countries play developmental roles, while other countries have separate development banks to carry out this task under the regulatory ambit of the CB (e.g. Pakistan).

## Box 1

### Content Analysis

A content analysis is a quantitative research method which is used in various academic disciplines. It allows one to systematically study the content of any type of communication (e.g. written texts, speeches) based on predetermined criteria. For example, the technique is used to determine the existence of specific keywords, phrases, themes or concepts within a text. Depending on the research question, the results of the analysis can, for instance, be used to draw conclusions about the thematic focus of a text or the importance given to certain subject areas. Of course, any content analysis entails some degree of subjective judgement on the intent of particular statements or expressions. This should be borne in mind when analysing results based on content analysis.

#### Sources:

*Berelson, B. Content Analysis in Communication Research, 1952.*

*Busha, C. H.; Herter, S. P. Research Methods in Librarianship: Techniques and Interpretation, 1980.*

*Islam, I. et al. Macroeconomic Policy Advice and the Article IV Consultations: A Development Perspective, ILO Research Paper No.2, 2012.*

*Weisbrot, M.; Jorgensen, H. Macroeconomic Policy Advice and the Article IV Consultation: A European Union Case Study. Center for Economic and Policy Research, ILO Research Paper No.7, 2013.*

Finally, we recognise that if country coverage is increased – and thus the sample size is expanded – the generality and validity of the results might be affected.

**Table 1: Countries covered by the analysis**

By Income Level			
Income Level	Low-Income	Lower-Middle Income	Upper-Middle Income
Country	<i>Afghanistan</i> , <i>Bangladesh</i> , <i>Cambodia</i> , <i>Ethiopia</i> , <i>Kenya</i> , <i>Kyrgyzstan</i> , <i>Malawi</i> , <i>Mozambique</i> , <i>Nepal</i> , <i>Rwanda</i> , <i>Tanzania</i> , <i>Uganda</i>	<i>Bhutan</i> , <i>Bolivia</i> , <i>Djibouti</i> , <i>Egypt</i> , <i>Ghana</i> , <i>India</i> , <i>Indonesia</i> , <i>Kosovo</i> , <i>Laos</i> , <i>Mongolia</i> , <i>Morocco</i> , <i>Nigeria</i> , <i>Pakistan</i> , <i>Papua New Guinea</i> , <i>Philippines</i> , <i>Ukraine*</i> , <i>Zambia</i>	<i>Albania</i> , <i>Algeria</i> , <i>Angola</i> , <i>Azerbaijan</i> , <i>Belarus</i> , <i>Botswana</i> , <i>Bulgaria</i> , <i>Chile**</i> , <i>China</i> , <i>Fiji</i> , <i>Hungary</i> , <i>Jamaica</i> , <i>Macedonia</i> , <i>Malaysia</i> , <i>Mexico</i> , <i>Montenegro</i> , <i>Namibia</i> , <i>Thailand</i> , <i>Turkey</i> , <i>South Africa</i> , <i>Suriname</i> , <i>Venezuela</i>

Note: Countries without an inflation target are italicised. Country classification by income follows the World Bank's criterion for classifying economies. See <http://data.worldbank.org/about/country-classifications>

Note\*: Ukraine adopted an inflation targeting regime in 2013.

Note\*\*: Chile was classified as an upper-middle income country until 2012 and is now ranked in the high income country category.

By Region					
Region	Latin American and the Caribbean	Sub-Sahara Africa	The Middle East and North Africa	Eastern Europe and Central Asia	Asia and the Pacific
Country	Bolivia Chile Jamaica Mexico Suriname Venezuela	Angola Botswana Djibouti Ethiopia Ghana Kenya Malawi Mozambique Namibia Nigeria Rwanda South Africa Tanzania Uganda Zambia	Algeria Egypt Morocco Turkey	Afghanistan Albania Azerbaijan Belarus Bulgaria Hungary Kosovo Kyrgyzstan Macedonia Montenegro Ukraine	Bangladesh Bhutan Cambodia China Fiji India Indonesia Laos Malaysia Mongolia Nepal Pakistan Papua New Guinea Philippines Thailand

## Main findings

### Content analysis of CBs' objectives and mission statements (Table 2 and Figure 1)

- All of the CBs in our sample include price stability in their objectives and mission statements as laid down in the

respective Establishment Laws. In addition, 30 of the 51 CBs we analysed have an inflation target.

- 40 of the 51 CBs' objectives and mission statements mention economic growth. In 18 of these CBs priority is given to price stability, while economic

growth is only a secondary objective. Eleven CBs put equal emphasis on stability and growth. The other eleven CBs prioritise growth over stability.

- 38 CBs include exchange rate stability as part of their objectives and missions. CBs with an inflation target tend to have a greater focus on stabilising exchange rates than those without an inflation target.

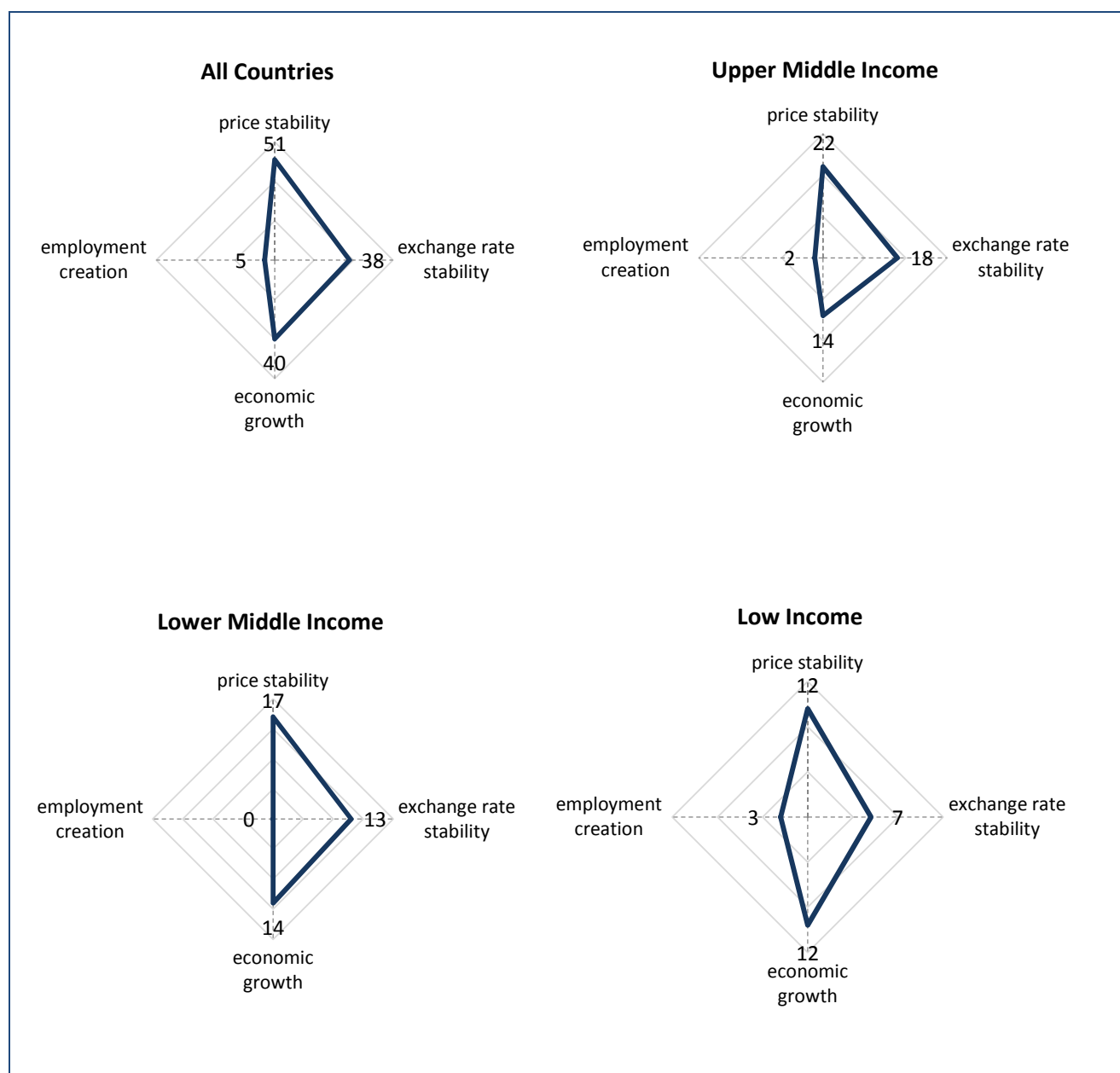
- Only five countries (i.e. Bangladesh, Jamaica, Kenya, Malawi and Turkey) mention employment in their CBs' Establishment Laws. With the exception of Malawi, all these countries have inflation targets. This suggests that having an inflation target does not preclude the possibility of having an employment objective.

**Table 2: Content Analysis of Objectives and Mission Statements of CBs in 51 Countries**

	ALL Countries	Lower Income	Lower Middle Income	Upper Middle Income	With Inflation Target	Without Inflation Target
<b>Price Stability</b>	51	12	17	22	30	21
<b>Exchange Rate Stability</b>	38	7	13	18	24	14
<b>Economic Growth</b>	40	12	14	14	25	15
<i>Direct</i> (equal emphasis on stability and growth)	11	2	3	6	6	5
<i>Indirect</i> (stability for growth)	11	4	3	4	8	3
<i>Secondary</i> (priority to stability)	18	5	8	5	12	6
<b>Employment Creation</b>	5	3	0	2	4	1

Note: Shows how many of the 51 CBs make reference to price stability, exchange rate stability, economic growth and employment creation in their mission statements as laid down in the respective Establishment Laws. In the case of economic growth, it is also mentioned whether the emphasis on growth is direct, indirect or secondary.

**Figure 1: Content Analysis of Objectives and Missions Statements of CBs in 51 Countries: Graphical Overview**



Note: Figure 1 illustrates the 51 CBs' reference to price stability, exchange rate stability, economic growth and employment creation in their mission statements as laid down in the respective Establishment Laws. See *Table 2* for more information.

### Content analysis of speeches by senior central bankers (Table 3)

- The vast majority of speeches (120 out of 153 speeches) refer to inflation, reflecting the CBs' main role as the guardian of price stability. 89 speeches refer to exchange rates.
- In general, Governors of CBs with an inflation target are more concerned

about stability than their counterparts without such targets.

- 89 speeches mention economic growth rates or targets and 77 refer to investment. Growth related key words are more frequently mentioned by CB Governors in countries with an inflation target than their counterparts in countries without an inflation target. This

suggests that having an inflation target does not preclude the possibility of having a growth objective. The higher the income of a country, the more frequently employment-related terms appear in the speeches.

- Employment-related terms are mentioned more frequently by senior official of CBs with an inflation target. This suggests that having an inflation target does not necessarily act as a barrier to expressing aspirations and concerns about employment as a goal. Despite this, one is struck by the low incidence of citations (44 out of 153) pertaining to employment in speeches and statements delivered by central bankers.

- Apart from the term “poverty”, selected key words relating to social development (e.g. health and education) are hardly mentioned in the speeches.
- 42 speeches mention financial inclusion and 19 financial literacy or education. Terms related to financial inclusion are most frequently mentioned by lower middle income countries. The modest frequency of citations pertaining to financial inclusion is somewhat surprising given the attention that this topic has attracted as part of the global discourse on development.

**Table 3: Content Analysis of 153 Speeches Delivered by CB Senior Officials<sup>5</sup>**

	ALL Countries	Lower Income	Lower Middle Income	Upper Middle Income	With Inflation Target	Without Inflation Target
<b>Macroeconomic Stability</b>						
Price stability, inflation	120	27	43	59	82	38
Public debt	24	2	6	16	20	4
Private sector debt	7	2	4	1	4	3
Budget deficit/surplus	24	2	14	8	16	8
Current account deficit/surplus	36	7	17	12	26	10
Exchange rate	89	22	26	41	65	24
Fiscal Consolidation	15	3	4	8	13	2
<b>Economic Growth</b>						
Economic growth rate/target	89	21	39	29	54	35
National development plan	11	4	3	4	9	2
Priority sector(s) for growth	19	2	11	6	11	8
Investment	77	13	30	34	52	25
Export	52	12	11	29	35	17
Competitiveness	31	4	8	19	27	4
<b>Employment</b>						
Employment	44	6	14	24	25	19
Unemployment	21	2	7	12	17	4
Labour participation rate	1	0	0	1	1	0
Youth (un)employment	3	0	1	2	2	1
Women in the labour market	0	0	0	0	0	0
Wages	14	2	1	11	12	2
Skills and training	12	2	4	6	8	4
Informal employment	4	0	2	2	4	0
Vulnerable employment	0	0	0	0	0	0
<b>Social Development</b>						
Poverty	25	8	7	10	14	11
Inequality in income distribution	7	1	2	4	2	5
Health	8	0	5	3	1	7
Education	15	1	5	9	7	8
Social security	6	2	1	3	5	1
<b>Financial Inclusion</b>						
Financial inclusion	42	12	23	7	30	12
Branchless banking	18	7	10	1	11	7
Financial literacy/education	19	3	10	6	10	9

## Concluding observations

- Overall, a stability-oriented monetary policy agenda is firmly anchored in the 51 CBs' Establishment Laws we surveyed. Without exception, all the CBs' objectives and mission statements in the Laws make a commitment to price stability. Further, 38 of the 51 CBs uphold achieving exchange rate stability as their institutional function. Establishment Laws clearly impose an obligation on CBs to develop and implement policy agendas that seek to achieve macroeconomic stability.
- It is important to note that 40 out of the 51 CBs' Establishment Laws actually mention economic growth, but the degree of emphasis varies. The majority of the CBs (18) place economic growth as a secondary policy goal with priority given to stability. Yet, eleven of the CBs place equal emphasis on growth and inflation control. The other eleven CBs refer to economic growth as an indirect policy objective.
- While most CBs are growth-conscious to a varying degree, only five out of 51 CBs explicitly mention employment as part of their objectives and mission statements in their Establishment Laws. Although monetary policies can play a significant role in employment creation, CBs' objectives and mission statements appear to be only a modest driver of a jobs-oriented policy agenda. CBs may, nevertheless, formulate employment-friendly monetary policy without the legal obligation to do so.
- The speeches of senior central bankers that we analysed generally mirror the core mandate of CBs: price stability. Indeed, 120 out of 153 speeches refer to inflation. Fluctuations in exchange rates are also, though less frequently than price stability, mentioned in senior central bankers' speeches (89 speeches). Hence, a focus on stability is evident in the speeches of senior central bankers. The term "employment" appears more frequently in the speeches than in the CBs' objectives and mission statements in Establishment Laws. 44 speeches refer to employment and 21 to unemployment. Still, the frequency of references to employment is quite modest.

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<sup>1</sup> This policy brief was prepared by Kazutoshi Chatani, Oluwaseun Pedro, Laura Schmid and Mareike Theisling, Employment and Labour Market Policies Branch. This work was initiated by Iyanatul Islam, Chief, Employment and Labour Market Policies Branch and conducted under his guidance. The authors are grateful for research assistance provided by Agustin Velasquez. The standard disclaimer applies: the authors of this policy brief are solely responsible for any remaining errors or omissions.

<sup>2</sup> For India and Bangladesh, we analysed mission statements on their respective website since the Establishment Laws of their CBs refer to their functions, but not the objectives and missions.

<sup>3</sup> See Hammond, G. *Handbook – No. 29: State of the art of inflation targeting – 2012*. Bank of England, Centre for Central Banking Studies, 2012 for a global review of inflation targets and targeting. See also Anwar, S.; Islam, I. Should Developing Countries Target Low, Single Digit Inflation to Promote Growth and Employment?, ILO, *Employment Working Paper No.87*, 2011.

<sup>4</sup> We did not include financial stability as a criterion, although this is becoming increasingly important in recent years, especially in the wake of the global economic and financial crisis of 2007-2009. This issue will be explored in a future update of this policy brief.

<sup>5</sup> Shows how many of the 153 central bankers' speeches make reference to the terms under the following five categories: macroeconomic stability, economic growth, employment, social development and financial inclusion.