EMERGING MARKETS DEBT – MONTHLY MARKET MUSINGS

Get up! Stand up! Stand up for… (EM) central bank independence

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Key takeaways

- After a relatively stable summer, and very strong performance this year, we reaffirm the case for investing in emerging market (EM) fixed income.
- We like a set of EM currencies, and EM local currency duration remains a high conviction; however, we suggest an active approach to managing political and global macro risks.
- As the outlook for US monetary policy comes back in focus, so has the debate around central bank independence. This month, we review the experience of some EM economies.

September 2025 – As summer ends and it's "back to school" (and markets), we can reflect on a relatively stable summer where carry rather than price appreciation has driven emerging market (EM) bond returns. This year's impressive EM fixed income performance continues: hard currency sovereign debt returned 8.7% to the end of August and local currency was up 14% (data from Bloomberg).

Despite political noise, trade uncertainty fell over the summer. The powerful combination of anticipated lower US interest rates, a softer US dollar, lower volatility and paced EM monetary policy easing came together to create a supportive environment for EM debt.

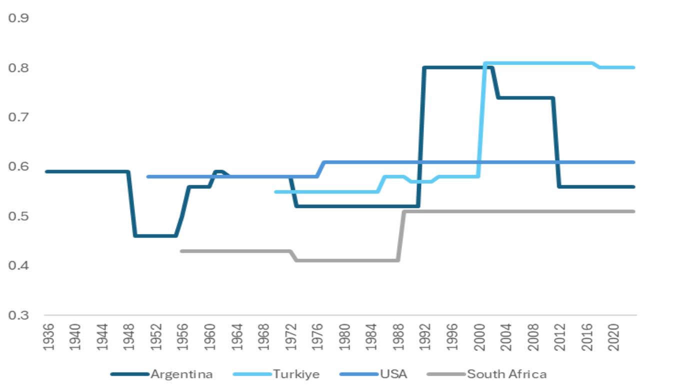
Since June, some of our preferred currencies, such as the Brazilian real and Turkish lira, have been top performers (Bloomberg data). There are still reasons to like them – as monetary policy outlooks, real-yield cushions and measures of risk and return, such as carry-to-vol, remain enticing. EM local currency duration also remains a high conviction position in our portfolios, as high real interest rates give central banks room to cut in the context of slowing growth. We still like local duration opportunities in Brazil, Peru, Romania and South Africa, but an active approach to managing EM positions remains essential amid political uncertainty. We are more cautious on spread assets because of tight spreads, softer global growth and expected forthcoming issuance. Recent White House statements that call for a looser monetary policy stance by the Federal Reserve, in the context of larger medium-term fiscal deficits, support our US curve steepening position.

The renewed focus on US monetary policy expectations that followed softer US jobs data last month has been accompanied by a debate on central bank independence. President Donald Trump's administration seems eager to reshape the monetary policy decision-making group at the Federal Reserve. Although this possibility has weighed on the US dollar, markets have so far played down the potential for a seismic shift in near-term US monetary policy.

Central bank independence is a foundation of effective economic policy. Research shows a sustained increase in central bank independence over the past century, across countries' income levels.[1] This can be measured by the Central Bank Independence - Extended (CBIE) index, by Davide Romelli, which scores central banks on a scale of 0 (no independence) to 1 (full independence). For reference, the Federal Reserve's score of 0.61, an average one globally, has been fairly stable over time (see fig.1).

World Bank research suggests that, by acting as a constraint on central bank lending to the government, independence improves the latter's ability to borrow at lower cost, especially in EM.[2] However, in assessing central banks, it is important to distinguish between *de jure* and *de facto* independence – a distinction not always captured in the CBIE score. Here, we review the experiences of **Argentina, Türkiye** and **South Africa**.

Fig. 1 Measuring the independence of central banks



Source: Central Bank Independence - Extended (CBIE) index by Romelli (2022). The scale runs from 0 (no independence) to 1 (full independence).

Argentina's CBIE score is highly volatile. After reforms in the 1990s strengthened it, the economic crisis and debt default of 2001 initiated a progressive erosion of the Banco Central's (BCRA) independence. After the currency board collapsed, reforms in 2002 switched the BCRA to quantitative monetary targets and opened it to direct monetary financing of the Treasury. A new charter in 2012 then set a "dual mandate" for the bank and expanded limits on government financing. This made the bank more susceptible to political influence, with frequent leadership changes. Inflation targeting resumed briefly during the administration of Mauricio Macri but gave way to extensive fiscal deficit financing under his successor, Alberto Fernández, which fuelled high inflation. Argentina has gone through several bouts of high inflation and credit events. In 2024, inflation exceeded 200% year-on-year (yoy) before falling to about 37% in August 2025 (Bloomberg data). Since President Javier Milei took over, some progress has been made in reducing distortions, but more work lies ahead. Investors are reallocating capital to Argentina's reform story, a trend we have highlighted.

The Constitution of **South Africa** states that the Reserve Bank (SARB) must act "independently and without fear, favour or prejudice" with its primary objective to protect "the value of the currency", which is read as maintaining price stability. This has been done via an inflation targeting framework using the repo rate as the primary policy tool. Success in containing inflation has hinged on the bank's credibility. Debate has sometimes concerned whether to target additional objectives (eg, growth and employment) and attempts have been made to influence the SARB, for instance by changing its ownership structure. However, the political establishment has effectively allowed it to defend its independence. Indeed, the SARB has been an interesting case where its *de facto* independence exceeds what is *de jure*. Stability in SARB leadership has contributed to this as well as to monetary discipline and institutional credibility. Governor Lesetja Kganyago, in office since 2014, was reconfirmed last year for a third term. International investors have come to see the SARB as an anchor in turbulent fiscal and political times.

Türkiye illustrates well the difference between *de jure* and *de facto* independence. Its CBIE score has been stable since the reforms of the early 2000s. The 2001 amendment to the Central Bank of the Republic of Türkiye (CBRT)'s law, which followed a severe economic crisis and IMF support, saw an independent Monetary Policy Committee being set up and tasked with a mandate of price stability. However, a series of more politically aligned appointees took the helm of the bank from 2010 onwards, with more frequent leadership changes since 2019. Pressure also grew for the CBRT to lower interest rates regardless of the inflation outlook. Markets have come to view CBRT's independence as *de facto* compromised, although a more stable period has ensued since the 2023 elections. The bank has set monetary policy more consistently, with inflation falling from a peak of 86%yoy in 2022 to about 34% in August 2025 (Bloomberg data). International investors have gone back into local currency instruments, highlighting how more orthodox policy can attract investment and lower borrowing costs.

[1] Romelli, "Trends in Central Bank Independence: A De-jure Perspective", February 5, 2024, BAFFI CAREFIN Centre Research Paper No. 217.

[2] Athanasopoulos, Fraccaroli, Kern & Romelli, "Central bank independence and sovereign borrowing", July 2025, World Bank Policy Research Working Paper 11179.