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# Tax Efficiency, Seigniorage and Central Bank Conservativeness

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## Abstract

We analyse how conservative should an independent central bank be in an economy where the taxable revenue depends on the institutional quality. Initially, we propose an indicator of the degree of conservativeness of a central bank and, then, we characterise its optimal value. We find that the central bank has to be more conservative than the government, except with complete tax inefficiency. Furthermore, we show that the relationship between the optimal relative degree of conservativeness of the central bank and tax efficiency is affected by the volatility of supply shocks. Concretely, when these shocks are not important, the central bank should be less conservative if tax efficiency gets worse. However, this result may not hold when the shocks are relevant. Finally, we examine under

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