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Central Bank Independence, Inflation and Volatility Nexus: Does Independence Can Solve Inflation? *

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Abstract

In this study, the relationship between central bank independence and both inflation rate and inflation uncertainty is examined with the help of panel data analysis for BRICS-T countries, using data for the period 1995-2017. The findings reveal several notable results. First, the study finds a statistically significant and negative relationship between the level of central bank independence and inflation in BRICS-T countries. Consequently, this means that a higher degree of independence is associated with lower inflation rates.

Additionally, the study reveals a statistically significant and positive relationship between central bank independence and inflation uncertainty. This shows that inflation uncertainty tends to increase as the level of independence increases. These results shed light on the complex dynamics between central bank independence, inflation, and inflation uncertainty, providing valuable information for policymakers, central banks, and researchers interested in monetary policy effectiveness and macroeconomic stability. It is recommended that future studies investigate the underlying mechanisms driving these relationships and evaluate potential differences across countries and time periods.

Keywords: BRICS-T, inflation, inflation uncertainty, central bank independence.

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