Central Bank Independence and Economic Performance

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Abstract

This paper examines the influence that several factors may have on the relationship between legal Central Bank Independence (CBI), on the one hand, and the inflation and real GDP growth on the other. Using multivariate regression analysis for 39 OECD during the two periods, 1991-1998 and 1999-2006, we show that even if we include several control variables in the regression, the negative relationship between CBI and inflation, and the lack of relationship between CBI and the variability of real GDP growth remaining were unaffected. Also, we decompose the index of CBI into its four components and we examine whether they matter for inflation, for real GDP growth and for the sacrifice ratio.

Keywords: central bank independence, inflation, real output growth, ordinary least squares estimation.