

Financial Crisis and Central Bank Independence and Governance (CBIG)

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Abstract

This study examines the impact of financial crisis on central bank independence and governance in the Asia Pacific. It applies a unique CBIG index-model developed by Ahsan, Skully and Wickramanayake (2008) for 36 countries for the period 1991 to 2005. This paper examines changes in the CBIG in the Asia Pacific before and after the Asian financial crisis in 1997. It applies a panel data pooled regression model and finds that the Asian financial crisis dummy is significantly different in the post-crisis period compared to the pre-crisis period. The six sub-indices of CBIG (i.e. legal, political, price stability objectives, exchange rate policy, monetary policy & deficit financing and finally, accountability & transparency) were tested in the same manner and found the same thing. As a result the improved CBIG in the post-crisis period has contributed to lower the inflation in the entire Asia Pacific region.