

ABSTRACT

The empirical findings from Cukierman, Webb and Neyapti (1992) about the inverse relationship between central bank independence, especially the legal independence of inflation in developed countries, became the trigger for widespread consensus, including developing countries. However, the fact that there is no conclusive explanation on why and how central bank independence has succeeded in suppressing inflation must be a concern, especially for developing countries, where until now the literature that discusses central bank independence and inflation is still limited. Recent research on central bank independence shows that in explaining the effects of central bank independence associated with inflation, it needs to be elaborated with other factors. Financial development and institutional quality, then become other factors that reviewed in the literature.

The purpose of this study is to examine, the influence of central bank independence directly on the inflation rate and the influence of the conditional variable (financial development and institutional quality) on the relationship of central bank independence to the inflation rate. The sample used was 20 countries in Asia, with institutional diversity being an attraction in this study. Analyzed through a dynamic panel approach (GMM-Arellano and Bond Estimator). The sample time range used in 2008 - 2017 is the post-crisis period, where central bank independence began to become a topic that was widely criticized.

The results show that there is no negative relationship between central bank independence and the inflation rate. Even the independence of the central bank in this study has a significant positive effect on the inflation rate. Whereas after collaborating with a conditional variable. The interaction variables of central bank independence and conditional variables, both the development of the financial sector and institutional quality, showed a significant negative direction towards the inflation rate. The results of this study show that greater independence is not the only effective solution, given the central bank's interdependence with other institutions both domestic and international.

Keywords: *Central Bank Independence, Inflation Rate, Financial Development, Institutional Quality.*