

Investigating the Relationship between Central Bank Independence and Government Budget Deficit in Iran

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Abstract

The government budget deficit in Iran has destructive effects on the economy due to the monetization of the deficit and the resulting increase in the monetary base, leading to higher inflation. This inflation reduces purchasing power and has other negative impacts on the economy. Controlling the government budget deficit has been a focus for experts and appears to be a priority for governments. Identifying ways to reduce and control the budget deficit can significantly enhance economic stability. This study examines the effect of central bank independence on the government budget deficit from 1991 to 2022, using the autoregressive distributed lag (ARDL) model. The findings show that central bank independence has an inverse and significant effect on the government's budget deficit. The policy recommendation from this research is to recognize the independence of the Central Bank of Iran and implement measures to increase its political and legal independence, governance, and transparency in monetary policy and accountability.

Keywords: Central bank independence; Budget deficit; ARDL model; Iran.

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