

Inflation, inflation uncertainty and output growth: what does the data say for Malaysia?

ABSTRACT

Purpose: The purpose of this paper is to examine the causal relationships between inflation, output growth and their uncertainties in Malaysia. **Design/methodology/approach:** The modeling approach allows for structural breaks to avoid the masking of specific impacts. **Findings:** Based on the asymmetric Generalized Autoregressive Conditional Heteroskedasticity model, the paper found strong evidence favoring a positive effect of a change in the inflation uncertainty as predicted by the Friedman-Ball hypothesis. In addition, inflation (inflation uncertainty) has direct (indirect) negative effect on the output growth. The results are consistent with the Taylor effect δ increases in inflation uncertainty decreases output uncertainty. The analysis also reveals that economic uncertainty lowers the growth rate of output, complying with Bernanke's idea. **Originality/value:** The present study suggests that extra efforts are required to locate the breaks in the variance in order to draw concrete evidence on link between economic uncertainty and macroeconomic performance.

Keyword: Inflation; Inflation uncertainty; Output growth; Structural breaks