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Determinants of Inflation: A Case of Pakistan (1970-2007)

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ABSTRACT The high inflation is undesirable phenomenon. The causing factors of high inflation remained inconclusive by both monetary and fiscal perceptions. The procurement prices and administered prices along with imported inflation have contributed to higher inflation. The paper focuses on the determinants of inflation in Pakistan using four price indicators, i.e. CPI, WPI, SPI, and GDP Deflator for the long-run (time period of 1971-72 to 2005-06). It is found that depreciation of exchange rate and increase in the value of imports has contributed shooting up of CPI, WPI, SPI and GDP deflator. The support prices of sugar-cane, rice, wheat, and cotton (collectively) have affected all the indicators positively however, the support price of wheat independently has affected only GDP deflator. Expectation effect has also contributed positively towards all the indicators. Contrary to the general perception that budget deficit creates inflation, our results explain that budget deficit has played no role in boosting all the four indicators of inflation in Pakistan in the long-run.

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