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Nexus between Corruption and Macroeconomic Indicators in
Lower Developing Countries

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Research Highlights

This study aims to investigate the impact of money supply growth rate, inflation and GDP growth rate, on corruption using the annual data from 2000-2016. The data was collected from World Bank for inflation, money supply, GDP and control of corruption (COC) index. The corruption perception index (COP) index was collected from Transparency International. The relationship between COP and inflation is found to be unidirectional hence COP granger causes inflation but inflation does not granger causes COP. This study revolves around Corruption and it is an important variable that is affecting inflation, and it has caused the need for improvising the fiscal and monetary policies which require an element of anti-corruption policies to combat corruption and inflation.

Research Objectives

Inflation is the rise in the general price level, generally when inflation is high in an economy then there is a decrease in purchasing power and decrease in saving rates. These consequences of inflation have increased the interest to pursue this study. The purpose of this study is to investigate the impact of GDP growth rate, money supply growth rate and corruption (corruption of perception and control of corruption index) on inflation for lower developing countries from 2000-2016. The nature of the relationship of these macroeconomic factors with inflation is analyzed. When the inflationary effect on these countries is analyzed then the study discusses in detail the remedial measures which are taken to improve the economic conditions. The results of the study will be beneficial for the policy makers, economists and the government of the developing countries. When the relationship between inflation and macroeconomic indicators is known then the policy makers can devise policies accordingly to reduce inflation and improve the economic condition of the lower developing countries.





Methodology

The methodology of the study is based on positivist philosophy using Panel Vector Auto regression model (Canova and Cicarelli, 2013). The annual panel data from 2000-2016 has been collected for Consumer Price Index (Inflation), GDP growth rate (annual %), broad money growth rate (annual %), control of corruption index and corruption of perception index. The complete data of lower developing countries (43 countries as defined by World Bank) was obtained from Transparency International, World Development Indicators and World bank databases. Stationarity was checked using Im Pesaran-Shin test after that Panel VAR estimates were obtained. To achieve the objectives of the study, on the basis of Panel VAR impulse response function (IRF), variance decomposition and Granger causality test were undertaken (Ahmed et al., 2018).

Results

The graphs of the impulse response function obtained through Panel VAR estimates show that there is impact of money supply (MS), GDP (GDP) and inflation (INF) on Control of Corruption (DCOC) as well as on Corruption Perception Index (DCOP) in the short run. The results also suggest that there is only unidirectional impact of all the selected macroeconomic variables on corruption proxies in lower developing countries. Specifically, the impact from inflation to DCOP shows reduction in the short run and it dies down in long run. But from DCOP to inflation there are sharp shocks (Ozsahin and Ucler, 2017). Sharp shocks of inflation to DCOC are seen in the short run but the shocks from DCOC to inflation are seen three years and are very minor. There is short run relationship between money supply and DCOC and DCOP and money supply. The findings are in contrast to Akca, Ata and Karaca (2012) who found there is impact of inflation on corruption where as no impact of corruption on inflation. There is a bi-directional relationship between corruption and inflation (Sassi, 2017).





Findings

The relationship between corruption and inflation, was found out by the empirical results, which could be a contribution to policy implications. Corruption being an important variable effecting inflation has caused to improvise the fiscal and monetary policies by including an element for anti-corruption strategies. Controlling corruption with effective policies can reduce inflation rate and achieve price stability. There are many economic and social factors responsible for corruption. Finding remedies for these factors will help to break the cycle of corruption and inflation. The research can be extended by adding more macroeconomic variables (i.e large scale manufacturing etc.), comparing corruption country wise and by devising more corruption related proxies/indexes country to country.

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