

Title: Inflation-Growth profiles Across Countries: Evidence from Developing and Developed Countries

Author: Ardeshir Sepehri^a & Saeed Moshiri^b, University of Manitoba,

Abstract

This paper empirically examines the role and significance of inflation on economic growth of countries at different levels of development. Using a non-linear specification and the data from four groups of countries at various stages of development, it finds evidence for a turning point in the relationship between inflation and growth for all groups but the OECD countries. The estimated turning points vary widely from as high as 15 percent per year for the lower-middle-income countries to 11 percent for the low-income countries, and 5 percent for the upper-middle-income countries. While inflation below these thresholds has no significant positive or negative effect on growth of the low- and middle-income countries, inflation beyond these thresholds becomes harmful to growth of all groups of developing countries. Aggregation of countries at various stages of development tends to introduce a significant bias in the estimated turning point in inflation-growth relation as well as in the estimated effect of inflation on growth. The existence of such a degree of heterogeneity across countries at various stages of development suggests the inappropriateness of setting a single, uniform numerical policy target applicable to all (developing) countries.

* Correspondence address: Department of Economics, University of Manitoba, Winnipeg, Manitoba, Canada, R3T 5V5. Fax: (204) 474-7681; e-mail: sepehri@cc.umanitoba.ca