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IMPACT OF THE INFLATION RATE, CURRENT BALANCE ON PAKISTAN GDP

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Abstract: The main objective of this paper is to examine the relationship between inflation, Current balance,and GDP of Pakistan. Annual time series data for the period 1980 to 2017 is used in this study. The OLS method is used to find out the result. The empirical result shows that inflation rate is significant at 10% level of significance,but the current balance account at 5% level of significance but the coefficients of both independent variables are negative which shows that there is an inverse relationship between dependent and independent variables.

Key words: Inflation, GDP, OLS.

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Introduction

GDP (Gross domestic product) is an important indicator to check the economyof a country. The GDP of Pakistan in 2017 around was 304.95 billion U.S dollars. In this study, we have reviewed the impact of some important economic variables on Pakistan's GDP.

Similarly, this study is aimed at finding the effects of some macroeconomic factors like inflation, interest rate and real exchange rate on Pakistan's GDP and finding its steps and measures. The government of Pakistan considering these factors can be taken by the Government of India to promote economic development (GDP). Previous studies were supported in this regard.Blejer (2000) and Naseem et al., (2018) found that if a country has high inflation in an economy that country

faced many difficulties to run the policies easily. Due to high inflation, there is always a relationship with the change in the rising price, which can lead Investment plans are not sure about being profitable in the future. It leads to more Orthodox will say otherwise with the investment decisions. This, finally, Leads to lower levels of investment and economic growth. Infection may also affect. The balance of the economy is relatively expensive in its exports. Other than that, talk to the tax system to disturb inflation and bankruptcy decisions. Firms had to allocate more resources to deal with inflation. Sweidan (2004) found that weak negative correlation is between GDP and inflation rate. Munir et al., (2009) found that the relationship between inflation rate and GDP is non-linear in the case of Malaysia. Kemal et al., (2006) conclude that an increase in the money supply becomes to create the inflation thus verifies that's quantity theory of money. Hansen (2000) they look for an inflation value for Malaysia and confirm that the relationship between inflation and economic growth is nonlinear. The estimated threshold repression model estimated that 3.89 percent compared to the interval approach of Infrastructure, in which inflation significantly damages the actual GDP development rate. Also, with the level below the threshold, figures of growth between inflation and growth have a significant positive relationship.

Objectives of the Study

The major objective of the present study is to examine the impact of inflation on GDP growth in Pakistan.

Data and methodology

In this study to find the relationship between GDP, Inflation rate and Current balance account secondary data is used. In a past study many research work on this topic. So annually data is used in this study for the period 1980-2017. The data of these variables are collected from the World development indicator and State bank of Pakistan. To check the relationship between GDP growth-inflation rate and current balance regression technique were used as (Mohsin et al., 2018). The multiple regression models are used to find out the impact of the inflationrate andthe current balance on GDB growth.

$$Y = \alpha + \beta 1IN + \beta 2CB + e$$

Y= is dependent variable (GDB growth)

IN= independent variable (inflation rate)

CB= independent variable (current balance)

a=consent

e= error term

Result

Table#1 Descriptive statistics

	GDP	IN	CB
Mean	4.820386	8.605235	-2.701586
Median	4.832817	8.837937	-2.74153
Std. Dev.	2.189203	3.937775	2.527608
Skewness	0.296471	0.562481	0.201004
Kurtosis	2.639573	3.541903	4.459111
Jarque-Bera	0.662045	2.143894	3.149596
Probability	0.718189	0.342341	0.207049
Observations	33	33	33

H0= data is normally distributed

H1= Data is not normally distributed

In the above table shows that the mean value of GDP is 4.82, IN 8.60 and CB is -2.70 and the skewness of all variables are positive. The Jaraque-Bera test is insignificant which means that the data are normally distributed.

Table#2 Regression analysis

Ordinary Least Squares Method				
Sample: 1 33				
Dependent Variable: Y				
Included observations: 33				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	5.29103	0.86412	6.123028	0.000
IN	-0.17519	0.093969	-1.864351	0.0721***
CB	-0.383816	0.146394	-2.621798	0.0136**
Adjusted R-squared	0.162455	S.D. dependent variable		2.189203
F-statistic	4.103456	Durbin-Watson statistics		1.123089
Prob(F-statistic)	0.026588			

, **, * which mean that's significant at 1%, 5% and 10% respectability*

In the above table shows the result of ordinary least square (OLS) to find the relationship between GDP, IN,and CB. The variable IN (inflation rate) isstatistically significant at 10% level,but the sing of the coefficient is a negative mean inverse relation between GDP and Inflation rate and the variable CB (current balance) are significant at 5% level,but the sing of the coefficient is negative same as the inflation rate coefficient. The F-statistics is significant at 5% level shows that the model is a good fit.

Conclusion

Trade is soberly significant to Pakistan economy the sum of import and export is 25% of GDP. In this study analyzed the relationship between GDP, Inflation and current balance account. The empirical result shows that inflation is significant at 10% level,and current balance account significant at 5% level but the sing of both independent variables are negative which mean shows the inverse relation with GDP. This studywill behelp to domestic, foreign investor as well as a policymaker.

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