Can country policy and institutional frameworks reduce global inflation?

Ozili, Peterson K

2025

Can country policy and institutional frameworks reduce global inflation?

Peterson K. Ozili

Abstract

The study investigates the effect of country policy and institutional frameworks (CPIFs) on global inflation while controlling for the rate of unemployment and economic growth rate from 2005 to 2023. The country policy and institutional frameworks examined are the economic management policies, social inclusion/equity policies, structural policies, and public sector management and institutions. The findings reveal that public sector management and institutions as well as social inclusion and social equity policy have a significant effect on global inflation. The results imply that the presence of strong public sector management and institutions lead to a significant decrease in the inflation rate while social inclusion and social equity policies lead to an increase in the inflation rate. The implication of the findings is that public sector management and institutions as well as social inclusion and social equity policies are crucial for the persistence of global inflation.

Keywords: inflation, unemployment, economic growth, GDP growth, institutions.

JEL codes: E31, E32.

July 2025

1. Introduction

This study investigates the effect of country policy and institutional frameworks (CPIFs) on global inflation. Rising global inflation has received much attention among economists lately. Recently, global inflation reached its highest level in 2022, which is the highest level since the mid-1990s. This was due to global supply chain disruptions caused by the Russia-Ukraine war and the rebound in oil prices after COVID-19 pandemic restrictions were lifted (Ozili and Arun, 2023). The persistent high global inflation led to calls for countries around the world to strengthen institutions and improve the policy and institutional frameworks that support sustainable growth and poverty reduction while navigating the high global inflation environment. The effectiveness and quality of country policy and institutional frameworks is often assessed and rated annually in the World Bank's Country Policy and Institutional Assessment report.

The existing literature has investigated the determinants of inflation. Recent studies in the existing literature identify several determinants of inflation such as federal government spending or fiscal spending (Kinlaw et al, 2023); oil price shocks and global demand shocks (Ha et al, 2024; Sek, 2023); temperature, exchange rate and wages (Köse and Ünal, 2024); real GDP, world food price, rainfall amount, population size, money supply, exchange rate, interest rate (Kuma and Gata, 2023); fintech development (Ben Romdhane et al, 2024); money supply (Olaoye et al, 2024); past inflation, the general macroeconomic situation, economic policy uncertainty, information search on the internet (Kučerová et al, 2024); central bank independence, inflation, government indebtedness, financial development, central bank credibility (Cho and Kim, 2024); fiscal deficit (De Alwis et al, 2023); depreciation of nominal exchange rate and the intensity of sanctions against countries (Hemmati et al, 2023). Majority of these recent studies have a country-specific, cross-country and regional focus, but none of the recent studies have examined the determinants of inflation at a global level using world average data. Also, recent studies have paid little or no attention to the effect of CPIFs on global inflation.

Understanding the effect of CPIFs on global inflation is important because it can provide insights into how the country policy and institutional frameworks that support sustainable growth and poverty reduction can influence the rate of inflation. It can reveal whether CPIFs

are a factor affecting global inflation and policymakers can use such insights to determine the CPIF priority areas they need to focus on and improve to combat persistent inflation. In the literature, there is much interest in the determinants of inflation, but there is very little research into whether CPIFs or its components are significant determinants of global inflation. This study therefore investigates the effect of CPIFs on global inflation. In the empirical analysis, world average data were collected from the world bank's annual World Bank's Country Policy and Institutional Assessment report and analysed using multiple regression estimation methods. The results show that the presence of strong public sector management and institutions lead to a significant decrease in the inflation rate while social inclusion and social equity policies lead to an increase in the inflation rate.

This study contributes to the economic literature that examine the determinants of inflation. Recent studies examining the determinants of inflation are mostly country-level and regional studies (e.g., Kinlaw et al, 2023; Ha et al, 2024; Sek, 2023; Köse and Ünal, 2024; Kuma and Gata, 2023; fintech development, Ben Romdhane et al, 2024; Olaoye et al, 2024; Kučerová et al, 2024). The present study adds to this literature by examining the CPIFs as a determinant of inflation using world average data as computed by the world Bank – this is a context which has not been examined in the existing literature.

The rest of the study is structured as follows. Section 2 presents the literature review. Section 3 presents the research design. Section 4 presents the empirical results. Section 5 presents the conclusion of the study.

2. Theory and Literature review

2.1. Institutional theory of inflation - Theoretical framework

Early studies show that inflation is driven mostly by fiscal spending and monetary factors (Sill, 2005; Weil, 1987). However, many studies have begun to identify institutional weakness, institutional action or inaction as potential drivers of inflation. This perspective has been championed by Van Lelyveld (2000), Campolmi and Faia (2011) and Krause and Méndez (2008). The main argument is that when institutions make policies or take regulatory actions that are perceived to indirectly affect the purchasing power of the general public, the general

public will respond and adapt their behaviour to such policies and actions (Van Lelyveld, 2000). The manner in which the general public respond to institutional policies and actions can indirectly influence the persistence of inflation.

For example, institutions such as labour unions can react to increase in central bank interest rate by demanding for increase in workers' wages, but such increase in wages can cause inflation. Central banks, seeking to control inflation, may be pressured to undertake development finance activities to improve living conditions and human welfare during bad times but such increase in monetary spending can trigger inflation in the sectors where such interventions are made. Fiscal authorities can also increase fiscal spending to implement the social inclusion and equity program of the government for low-income groups in a country but these groups may respond by spending the monies received on purchases or activities that are not growth-enhancing. When the increased fiscal spending on social inclusion and equity programs is not matched with greater spending on growth-enhancing activities or purchases by low-income groups, such fiscal spending can trigger inflation.

The institutional theory of inflation can also be viewed from the lens of institutional weaknesses (Van Lelyveld, 2000). Institutional weaknesses that permit corruption to take place in public institutions can trigger inflation (Elkamel, 2019). This can occur through unexplainable contract inflation and budget padding, which transfers the proceeds of corrupt funds into the hands of self-interested individuals who will use those funds to speculate in property and real estate markets, thereby pushing house prices up and increasing the cost of living. However, the presence of strong public management institutions can mitigate such practice and prevent unexplainable contract inflation and budget padding that indirectly trigger inflation in housing and other markets.

2.2. Literature review

Recent studies in the existing literature have examined the determinants of inflation. For instance, Kinlaw et al (2023) examined the determinants of inflation in the United States. They used data obtained for 2022 from the Federal Reserve Bank of St. Louis. They analysed the data using a hidden Markov model. They found that federal government spending, or fiscal spending, was the single most important determinant of inflation in the United States. Ha et al (2024) examined the factors determining the fluctuations in global inflation in G7 countries.

They focused on the monthly headline consumer price index over the past half-century using a factor-augmented vector autoregression model. They found that oil price shocks and global demand shocks explained most of the variation in global inflation. Oil price shocks had a smaller effect on global core CPI inflation variation. Köse and Ünal (2024) examined the effect of temperature, oil price, exchange rate and wages in the agricultural industry on food price inflation. They used monthly data from January 2003 and December 2020 for Latin American countries and analysed the data using structural vector autoregression model and panel Granger causality test. They found that oil price and temperature are significant factors affecting food price inflation. They also found that a large part of food inflation was explained by the exchange rate.

Sek (2023) examined the effect of oil price changes on sectoral inflation particularly consumer price inflation, industrial price inflation, and producer price inflation in Malaysia. Using the Markov-switching regression method, they found evidence of different reactions of sectoral domestic price inflation to oil price changes. Changes in oil prices have asymmetric effects on domestic price inflation. The impact is higher on industrial and producer prices than on consumer price. The effect is also higher in sectors that utilize more oil and energy resources such as the transportation sector, manufacturing sector, electrical sector, petroleum sector and chemicals sector. It was also found that the other determinants of inflation in Malaysia are real exchange rate, aggregate supply, and aggregate demand. Kuma and Gata (2023) examined the determinants of food price inflation in Ethiopia using data from 1990 to 2021. They analyse the data using the Autoregressive Distributed Lag method and found that the determinants of food price inflation in Ethiopia are real GDP, world food price, rainfall amount, population number, money supply, exchange rate, and interest rate. The long run result indicates that lagged real GDP and world food price affected food price inflation negatively while domestic food prices, annual rainfall, interest rate and money supply had a positive effect on inflation. Their findings indicate that Ethiopian policymakers should consider tightening monetary policy, balancing population growth with the growth of the economy, and increase the use of irrigation technologies in drought-prone areas to increase food production and lower food price inflation.

Ben Romdhane et al (2024) examined the impact of financial technologies (Fintech) on inflation and unemployment in Asian economies from 2011, 2014 and 2017. They found a

consistently strong and positive relationship between fintech and unemployment. They found that fintech development led to a reduction in inflation and unemployment. They conclude by postulating that digital finance is a modern driver of economic development in Asian countries. They recommended that Asian countries should invest, develop and expand their information and communication technologies to develop digital finance infrastructure for businesses. Adjemian et al (2024) examined the factors affecting recent food price inflation in the United States beginning from mid-2021. They noted the recent fast pace of U.S. food prices which was attributed to pandemic-related supply chain disruption, labor shortages, rising transportation costs and wages, food commodity and fertilizer shocks, all of which were caused by Russia's invasion of Ukraine, and the demand-side effects of recent monetary and fiscal stimulus. In their analysis, they decompose the determinants of US food price inflation into supply-side and demand-side factors. They found that supply-side factors explained most of the recent hike in US inflation. However, the demand-side factors, particularly, the money supply indicators, have a stronger correlation with recent food price.

Olaoye et al (2024) investigate the effect of fiscal policy on the inflation rate in 44 sub-Saharan African countries from 2003 to 2020 using a non-linear system generalized method of moments (system GMM) and the dynamic panel threshold estimation techniques. They found that the recent increase in inflation rate is caused by fiscal factors while monetary policy alone does not affect inflation. They also found that money supply has a positive but insignificant impact on inflation, implying that the current inflation rate in the region is not induced by money supply. The study conclude that the inflation rate in the SSA region is induced by fiscal policy. Kučerová et al (2024) examined the determinants of European consumers' inflation expectations using survey data from European Union countries. They used the panel data regression method and found that inflation expectations in the EU are determined by past inflation, the general macroeconomic situation, economic policy uncertainty and information search on the internet. They also found that inflation expectations of consumers are higher in the Central and Eastern European countries than in Euro Area countries.

Cho and Kim (2024) examined whether country institutional and economic preconditions play a significant role in helping countries to meet their pre-announced inflation target. They examined this issue in 19 inflation-targeting countries and found that the countries that meet their pre-announced inflation target are countries that have stronger institutional or

economic preconditions such as central bank independence, inflation, government indebtedness, financial development and central bank credibility. De Alwis et al (2023) examined the association between fiscal deficit and inflation in Sri Lanka. They pointed out that Sri Lanka was experiencing one of its worst inflation crises which led the government to use fiscal deficits to meet its obligations. They analysed the link between fiscal deficit and inflation using the ARDL technique based on data from 1977 to 2019. They found that fiscal deficit had a positive association with inflation in Sri Lanka both in the short and long run. Hemmati et al (2023) examined the key determinants of inflation in Iran. They analysed inflation annual data from 1978 to 2019 using the Auto-Regressive Distributed Lag model and the Error Correction Model. They controlled for monetary, fiscal policies and exchange rate factors. They found that increase in money supply, depreciation of nominal exchange rate, increase in fiscal deficit and intensification of sanctions are the determinants of inflation in Iran. These determinants have a significant effect on inflation in the long run, while money supply and currency depreciation are significant determinants of inflation in the short-run. These recent studies examined the determinants of inflation, but they did not examine the country policy and institutional determinants of global inflation.

3. Research design

Annual inflation and CPIFs world-average data were obtained from the world development indicators (WDI). The world bank reports world-average data for many variables. The other economic variables were also obtained from the WDI as shown in table 1. The period examined is from 2005 to 2023. The sample period covers at least two full economic cycles. The baseline model used in this study is specified in equation 1 below.

$$INF_t = c + \beta 1 EMM_t + \beta 2 SIE_{i,t} + \beta 3 PMI_t + \beta 4 SPC_t + \beta 5 UNEMP_t + \beta 6 GDP_t + e_t \ldots\ldots\ldots Eq\ (1)$$

The variables in the model are INF = Inflation, consumer prices. EMM = economic management cluster average. SIE = policies for social inclusion/equity cluster average. PMI = public sector management and institutions cluster average. SPC = structural policies cluster

average. UNEMP = total unemployment rate. GDP = GDP growth rate. t represents year. Eit is the error term. The model is specified below.

The model in equation 1 is estimated using three regression methods to ensure the robustness of the results. The regression methods used to estimate the models are the fully modified ordinary least squares (OLS) regression method, the robust OLS regression method and the generalized linear model (GLM) regression method. The fully modified OLS regression method is a variant of the OLS regression that accounts for serial correlation and endogeniety in the regressors that result from the existence of a cointegrating relationship between the variables (Wagner and Hong, 2016). The robust OLS regression method is a type of OLS regression method that is less sensitive to outliers while estimating the linear relationship between the outcome and the predictor variables (Bun and Harrison, 2019). The generalized linear model regression method is a type of regression that is flexible to accommodate data observations that violate the linear model assumptions through a link function and a variance function (Fox, 2015).

The dependent variable is the annual inflation rate based on the consumer price index. The EMM variable is the economic management cluster variable. It refers to the combination of macroeconomic management policy, fiscal policy, and debt policy which are used to manage the economy. Effective or strong economic management implies the existence of effective macroeconomic policy, fiscal policy and sustainable debt policy frameworks that work together to curtail excessive government spending and reduce the level of inflation. Therefore, a negative relationship between EMM and inflation is expected. The SIE variable is the social inclusion and social equity policies cluster variable. The SIE variable is made up of gender equality policy, equity of public resource use policy, building human resources policy, social protection and labor policy, and institutional policies for environmental sustainability. Effective or strong social inclusion and social equity institutional policies would attract significant funding towards social inclusion and social equity activities and such funding could contribute to inflation in the economy. Therefore, a positive relationship between SIE and inflation is expected. The PMI variable is the public sector management and institutions cluster variable. The PMI variable captures property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, accountability, and corruption in the public sector.

Effective or strong public sector management and institutions would introduce discipline in fiscal and budgetary spending and reduce inflation. Therefore, a negative relationship between PMI and inflation is expected. The SPC variable is the structural policies cluster variable. The SPC variable includes trade policy, financial sector policy, and business regulatory environment policy. Effective or strong structural policies would fix economic structures and remove existing non-market structural barriers that cause inflation in markets. Therefore, a negative relationship between SPC and inflation is expected. The GDP variable is the annual gross domestic product growth rate. A high GDP growth rate means that there are abundant economic opportunities in the economy. As a result, consumers will demand for more goods and services while producers will increase the price of goods and services to meet the high demand for goods and services, thereby leading to increase in inflation. Therefore, a positive relationship between GDP growth rate and inflation is expected. The UNEMP variable is the total unemployment rate. When many adults are not formally employed, they may seek informal employment in sectors that deal with cash-based transactions. The increase in cash-based transactions can trigger inflation since central bank interest rates have no effect on cash in the hands of people. Therefore, a positive relationship between unemployment (UNEMP) and inflation is expected.

Regarding the data distribution, the descriptive statistics in table 2 shows that there is a wide dispersion in the INF and GDP variables while the dispersion is smaller for the EMM, SIE, PMI, SPC FINDEX, ISI and UNEMP variables. Meanwhile, the Pearson correlation matrix in table 3 suggests that the EMM, SIE, SPC and GDP are positively correlated with the INF variable. This indicates that better economic management, social inclusion and equity policies, structural policies and economic growth are correlated with higher global inflation. In contrast, the PMI and UNEMP variables are negatively correlated with the INF variable. This indicates that better public sector management and institutions, and higher unemployment are correlated with lower inflation. Overall, the correlation coefficients of all the variables are very low, therefore, multicollinearity is not a problem in the empirical analysis.

	Table 1. Description of variables and source		
Variable	Variable name	Description of variables	Source
INF	Inflation, consumer prices (annual %)	Inflation as measured by the consumer price index reflects the annual percentage change in the cost to the average consumer of acquiring a basket of goods and services that may be fixed or changed at specified intervals, such as yearly. The Laspeyres formula is generally used.	WDI
EMM	CPIF economic management cluster average	The economic management cluster includes macroeconomic management, fiscal policy, and debt policy.	WDI
SIE	CPIF policies for social inclusion/equity cluster average	The policies for social inclusion and equity cluster includes gender equality, equity of public resource use, building human resources, social protection and labor, and institutional policies for environmental sustainability.	WDI
PMI	CPIF public sector management and institutions cluster average	The public sector management and institutions cluster includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, accountability, and corruption in the public sector.	WDI
SPC	CPIF structural policies cluster average	The structural policies cluster includes trade, financial sector, and business regulatory environment.	WDI
UNEMP	Total unemployment rate	Unemployment refers to the share of the labor force that is without work but available for and seeking employment.	WDI
GDP	GDP growth rate	Annual percentage growth rate of GDP at market prices based on constant local currency.	WDI

.

Table 2. Descriptive statistics (World average)							
Statistic/	INF	EMM	SIE	PMI	SPC	UNEMP	GDP
Mean	3.73	3.36	3.28	3.04	3.28	6.00	2.87
Median	3.32	3.35	3.28	3.06	3.29	6.03	3.12
Maximum	8.94	3.55	3.33	3.11	3.41	6.58	6.25
Minimum	1.44	3.15	3.23	2.94	3.15	4.96	-2.93
Std. Dev.	2.04	0.15	0.02	0.05	0.09	0.40	2.02
Observations	19	19	19	19	19	19	19

.

Table 3. Pearson correlation

Variable	INF	EMM	SIE	PMI	SPC	UNEMP	GDP
INF	1.00						

EMM	0.20	1.00					
	(0.40)	-----					
SIE	0.34	0.47**	1.00				
	(0.14)	(0.04)	-----				
PMI	-0.07	0.91***	0.42*	1.00			
	(0.76)	(0.00)	(0.06)	-----			
SPC	0.21	0.98***	0.45*	0.91***	1.00		
	(0.36)	(0.00)	(0.05)	(0.00)	-----		
UNEMP	-0.41*	0.58**	0.22	0.68***	0.51**	1.00	
	(0.08)	(0.01)	(0.36)	(0.00)	(0.02)	-----	
GDP	0.14	0.07	-0.001	0.06	0.11	-0.29	1.00
	(0.56)	(0.78)	(0.99)	(0.78)	(0.67)	(0.22)	-----

P-value is in parenthesis. ***,**,* represent statistical significance at the 1%, 5%, 10% level.

4. Discussion of results

4.1. Baseline results

Table 4 shows that the PMI variable is significant and negatively related to inflation (INF) in columns 1-3. The significant negative coefficient for the PMI variable is robust across the three estimations. This indicates that the presence of strong public sector management and institutions lead to a significant decrease in the inflation rate. This implies that strengthening public sector management and institutions can reduce global inflation rate. This result is consistent with the expectation that effective or strong public sector management and institutions would introduce discipline in fiscal and budgetary spending and reduce inflation. The SIE variable is significant and positively related to the INF variable in columns 1-3. The significant positive coefficient for the SIE variable is robust across the three estimations. This indicates that social inclusion (and social equity) policies lead to an increase in global inflation. However, we interpret the positive coefficient on the SIE variable cautiously because greater social inclusion (and social equity) policy interventions may have coincided with periods of fiscal stimulus or macroeconomic distress during the post-2008 global financial crisis period and the post-2020 COVID-19 period. The other two CPIF variables, which are the EMM and SPC variables, are not robustly significant across the three estimations in columns 1-3. The results indicate that stronger economic management and the introduction of structural policies do not have a robust significant effect on global inflation. This implies that economic management and structural policies do not affect inflation in a significant way. The UNEMP and GDP variables are also not robustly significant across the three estimations in columns 1-3 of table 4. The results indicate that the unemployment rate and economic growth rate have an insignificant effect on global inflation.

4.2. Interaction analysis of the CPIF variables

Next, we account for complementarities and interdependencies in institutional policymaking and implementation. Institutions are independent of one another, and they often implement institutional policies concurrently or at the same. They do not wait for one institutional policy to yield results before implementing the next institutional policy. When institutional policies are implemented concurrently, they may complement each other. Therefore, there is a need to account for complementarities and interdependencies among institutional policies. We

capture this by using interaction terms for the CPIF variables. We interact the EMM, SIE, PMI and SPC variables with one another to account for complementarities and interdependencies in institutional policies.

Also, proponents of the institutional theory of inflation, such as Van Lelyveld (2000), Campolmi and Faia (2011) and Krause and Méndez (2008) predicts that inflation is not driven solely by monetary factors; rather, it is also influenced by the actions or policies of institutions or institutional actors such as central banks who may undertake development finance interventions (as was seen during the COVID-19 pandemic) or the actions of the fiscal authorities and regulators, as well as labour market unions, industry groups and market associations who will respond to the inflationary or anti-inflationary policies of fiscal and monetary authorities. This gives rise to an interplay of institutional actions or policies that interact with one another at the same time in response to inflation. We account for this by examining the joint effect of the CPIF variables on global inflation. To do this, we interact the EMM, SIE, PMI and SPC variables and examine their effect on global inflation.

We interpret the interaction terms as follows. A significant negative sign on the EMM*SIE coefficient would mean that sound macroeconomic management and social inclusion institutional policies jointly reduce inflation. A significant negative sign on the SPC*PMI coefficient would mean that sound social protection and public management institutional policies jointly reduce inflation.

The result is reported in tables 5 and 6, and also in columns 4 to 6 of table 4. The results show that the EMM*SIE, EMM*PMI and EMM*SPC variables are statistically insignificant in relation to the INF variable in table 5. The SIE*PMI, SIE*SPC and PMI*SPC variables are also statistically insignificant in relation to the INF variable in table 6. The interaction results imply that the joint CPIF variables do not have a significant effect on the inflation variable. However, the earlier result in columns 1-3 of table 4 shows that each of the CPIF variables (particularly the PMI and SIE variables) have an individual effect on global inflation.

Variable	GLM	Fully modified OLS	Robust OLS	GLM	Fully modified OLS	Robust OLS
	(1)	(2)	(3)	(4)	(5)	(6)
	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)
EMM	13.919 (0.24)	14.210* (0.07)	4.989 (0.39)	13.918 (0.42)	15.014 (0.16)	7.051 (0.38)
SIE	23.237** (0.01)	20.678*** (0.00)	18.211*** (0.00)	23.238** (0.04)	21.349*** (0.00)	16.918*** (0.00)
PMI	-41.234** (0.04)	-36.678** (0.01)	-37.427*** (0.00)	-41.234* (0.05)	-38.156*** (0.00)	-38.831*** (0.00)
SPC	6.705 (0.77)	5.054 (0.72)	13.688 (0.21)	6.705 (0.78)	4.804 (0.73)	15.456 (0.15)
EMM*SIE*PMI*SPC				0.00002 (0.12)	-0.0002 (0.99)	-0.042 (0.15)
UNEMP	-2.623 (0.11)	-2.796** (0.02)	-0.768 (0.34)	-2.623 (0.13)	-2.723** (0.02)	-0.699 (0.37)
GDP	-0.041 (0.83)	-0.049 (0.67)	0.106 (0.25)	-0.041 (0.83)	-0.048 (0.68)	0.107 (0.23)
Pearson statistic	1.927			2.088		
R-square		66.31	55.41		66.25	55.59
Adjusted R-square		52.28	38.26		47.84	33.38

Table 4. Effect of CPIF on global inflation

***,**,* denote statistical significance at the 1%, 5% and 10% levels. P-values are in parenthesis

,

Variable	GLM	Fully modified OLS	Robust OLS	GLM	Fully modified OLS	Robust OLS	GLM	Fully modified OLS	Robust OLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)
EMM	14.245 (0.59)	14.842 (0.31)	10.085 (0.40)	14.547 (0.59)	16.235 (0.32)	9.882 (0.42)	14.000 (0.62)	15.557 (0.36)	10.002 (0.44)
SIE	23.313** (0.04)	21.553*** (0.00)	19.685*** (0.00)	22.929 (0.13)	20.256** (0.04)	15.505** (0.02)	23.198 (0.14)	20.828** (0.04)	15.488** (0.03)
EMM*SIE	-0.074 (0.99)	0.150 (0.96)	-1.343 (0.57)						
EMM*PMI				-0.153 (0.97)	-0.359 (0.92)	-1.384 (0.59)			
EMM*SPC							-0.018 (0.99)	-0.188 (0.96)	-1.280 (0.62)
PMI	-41.332* (0.06)	-37.359*** (0.00)	-40.275*** (0.00)	-40.949* (0.08)	-36.927** (0.02)	-35.849*** (0.00)	-41.264* (0.07)	-38.340** (0.02)	-40.373*** (0.00)
SPC	6.633 (0.78)	3.573 (0.78)	14.015 (0.19)	6.581 (0.78)	4.661 (0.75)	14.109 (0.19)	6.749 (0.80)	5.585 (0.74)	18.208 (0.15)
UNEMP	-2.623 (0.13)	-2.747** (0.01)	-0.694 (0.37)	-2.622 (0.13)	-2.744** (0.02)	-0.701 (0.37)	-2.624 (0.13)	-2.734** (0.02)	-0.709 (0.37)
GDP	-0.041 (0.83)	-0.057 (0.60)	0.108 (0.22)	-0.041 (0.83)	-0.049 (0.68)	0.107 (0.23)	-0.041 (0.83)	-0.044 (0.71)	0.107 (0.24)
Pearson statistic	2.088			2.088			2.088		
R^2		66.29	55.63		66.23	55.59		66.28	55.57
Adjusted R^2		47.90	33.44		47.82	33.38		47.89	33.36

***,**,* denote statistical significance at the 1%, 5% and 10% levels. P-values are in parenthesis

.

Variable	GLM	Fully modified OLS	Robust OLS	GLM	Fully modified OLS	Robust OLS	GLM	Fully modified OLS	Robust OLS
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)	Coefficient (p-value)
EMM	14.193 (0.31)	14.776* (0.06)	5.777 (0.35)	14.146 (0.31)	15.387* (0.06)	5.761 (0.36)	14.169 (0.31)	15.172* (0.09)	5.809 (0.36)
SIE	23.487** (0.04)	21.657*** (0.00)	19.787*** (0.00)	23.444** (0.04)	21.773*** (0.00)	19.746*** (0.00)	22.758 (0.14)	20.045** (0.04)	15.321** (0.02)
SIE*PMI	-0.262 (0.96)	0.078 (0.97)	-1.552 (0.56)						
SIE*SPC				-0.203 (0.97)	-0.075 (0.97)	-1.415 (0.57)			
PMI*SPC							-0.239 (0.96)	-0.521 (0.88)	-1.478 (0.58)
PMI	-40.701* (0.09)	-38.048** (0.01)	-435.31*** (0.00)	-41.503* (0.06)	-367.93*** (0.00)	-40.329*** (0.00)	-40.782* (0.08)	-36.811** (0.02)	-35.544*** (0.00)
SPC	6.474 (0.79)	4.338 (0.74)	13.938 (0.20)	7.178 (0.79)	4.046 (0.78)	18.567 (0.12)	7.232 (0.79)	6.314 (0.69)	18.375 (0.13)
UNEMP	-2.622 (0.13)	-2.689** (0.01)	-0.697 (0.37)	-2.622 (0.13)	-2.728** (0.01)	-0.698 (0.37)	-2.621 (0.13)	-2.740 (0.22)	-0.704 (0.37)
GDP	-0.041 (0.83)	-0.063 (0.56)	0.108 (0.22)	-0.041 (0.83)	-0.057 (0.61)	0.107 (0.23)	-0.041 (0.83)	-0.047 (0.69)	0.107 (0.23)
Pearson statistic	2.088			2.088			2.087		
R^2		66.31	55.64		66.30	55.64		66.28	55.59
Adjusted R^2		47.93	33.46		47.92	33.45		47.89	33.39

Table 6. Effect of CPIF on global inflation (interaction analyses)

***,**,* denote statistical significance at the 1%, 5% and 10% levels. P-values are in parenthesis

5. Conclusion

This study examined the impact of CPIFs on global inflation while controlling for the rate of unemployment and economic growth over a 19-year period from 2005 to 2023. The GLM, fully modified OLS and robust OLS regression estimation methods were used in the empirical analysis. It was found that the presence of strong public sector management and institutions lead to a significant decrease in the inflation rate while social inclusion and social equity policies lead to an increase in the inflation rate. The implication of the findings is that public sector management and institutions as well as social inclusion and social equity policies are crucial for the persistence of global inflation. Ignoring these two factors can have a detrimental impact on global inflation. The study has several policy recommendations. One, it is recommended that policymakers in all countries should determine the appropriate level of social inclusion and social equity policy interventions that are not inflationary in nature. Policymakers should exercise caution in their social inclusion and social equity policy interventions especially when such interventions require significant fiscal spending which may be inflationary. They should use fiscal tools that do not exacerbate inflation when undertaking social inclusion and social equity policy interventions. Two, it is recommended that policymakers in all countries should understand the significant role of strong public sector management and institutions in influencing global inflation since it has been established in this study that there is a passthrough from strong public sector management and institutions to low global inflation. A good place to start is for policymakers to introduce reforms that bring strong discipline in the management of public sector institutions. This will help to minimize fiscal risks, mitigate reckless budgetary spending and reduce the persistence of global inflation.

The limitation of the study is that the effect of CPIFs on global inflation was not examined at the country and regional levels. Rather, the effect of CPIFs on global inflation was examined at the global level using the world average data as obtained from the World Bank's world development indicators database. Examining the effect of CPIFs on global inflation at the country level may offer additional insights which are not captured in this study. Another limitation of the study is that the use of global averages to measure CPIFs and macroeconomic indicators, although innovative, raises concerns about generalisation of the findings. This is because global averages obscure regional heterogeneity, temporal shocks (e.g. COVID-19,

Ukraine war), and distributional asymmetries. Therefore, policymakers should exercise caution when drawing country-specific inferences based on insights gained from an analysis of global averages. Future research can extend this study by investigating the effect of CPIFs on global inflation using country-level data. Future research can also extend this study by investigating the effect of CPIFs on global inflation at the regional level. Finally, future research can extend this study by examining other institutional factors that may affect global inflation which are not captured in this study. Future studies can also consider using the world-average world governance indicators as alternative proxies to capture country policy and institutional frameworks when such data becomes available.

Reference

Adjemian, M. K., Arita, S., Meyer, S., & Salin, D. (2024). Factors affecting recent food price inflation in the United States. *Applied Economic Perspectives and Policy*, *46*(2), 648-676.

Ben Romdhane, Y., Kammoun, S., & Loukil, S. (2024). The impact of Fintech on inflation and unemployment: the case of Asia. *Arab Gulf Journal of Scientific Research*, *42*(1), 161-181.

Bun, M. J., & Harrison, T. D. (2019). OLS and IV estimation of regression models including endogenous interaction terms. *Econometric Reviews*, *38*(7), 814-827.

Campolmi, A., & Faia, E. (2011). Labor market institutions and inflation volatility in the euro area. *Journal of Economic Dynamics and Control*, *35*(5), 793-812.

Cho, D., & Kim, H. (2024). Inflation target adjustments: Does an improvement in institutional or economic preconditions matter?. *International Finance*.

De Alwis, T., Dewasiri, N. J., & Sood, K. (2023). Persistent fiscal deficit as a determinant of inflation in Sri Lanka: an ARDL approach. In *Digital transformation, strategic resilience, cyber security and risk management* (pp. 27-51). Emerald Publishing Limited.

Elkamel, H. (2019). The effect of corruption, seigniorage and borrowing on inflation. *PSU Research Review*, *3*(1), 1-15.

Fox, J. (2015). *Applied regression analysis and generalized linear models*. Sage publications.

Ha, J., Kose, M. A., Ohnsorge, F., & Yilmazkuday, H. (2024). What explains global inflation. *IMF Economic Review*, 1-34.

Hemmati, M., Tabrizy, S. S., & Tarverdi, Y. (2023). Inflation in Iran: an empirical assessment of the key determinants. *Journal of Economic Studies*, *50*(8), 1710-1729.

Krause, S., & Méndez, F. (2008). Institutions, arrangements and preferences for inflation stability: Evidence and lessons from a panel data analysis. *Journal of Macroeconomics*, *30*(1), 282-307.

Kinlaw, W., Kritzman, M., Metcalfe, M., & Turkington, D. (2023). The determinants of inflation. *Journal of investment management*, *21*(3), 29-41.

Köse, N., & Ünal, E. (2024). The effects of the oil price and temperature on food inflation in Latin America. *Environment, Development and Sustainability*, *26*(2), 3269-3295.

Kučerová, Z., Pakši, D., & Koňařík, V. (2024). Macroeconomic fundamentals and attention: What drives european consumers' inflation expectations?. *Economic Systems*, *48*(1), 101153.

Kuma, B., & Gata, G. (2023). Factors affecting food price inflation in Ethiopia: An autoregressive distributed lag approach. *Journal of Agriculture and Food Research*, *12*, 100548.

Olaoye, O. O., Omokanmi, O. J., Tabash, M. I., Olofinlade, S. O., & Ojelade, M. O. (2024). Soaring inflation in sub-Saharan Africa: A fiscal root?. *Quality & Quantity*, *58*(1), 987-1009.

Ozili, P. K., & Arun, T. (2023). Spillover of COVID-19: impact on the Global Economy. In *Managing inflation and supply chain disruptions in the global economy* (pp. 41-61). IGI Global.

Sek, S. K. (2023). A new look at asymmetric effect of oil price changes on inflation: Evidence from Malaysia. *Energy & Environment*, *34*(5), 1524-1547.

Sill, K. (2005). Do budget deficits cause inflation. *Business Review*, *31*(3), 26-33.

Van Lelyveld, I. P. P. (2000). *Inflation, institutions, and preferences*. [Sl: sn].

Wagner, M., & Hong, S. H. (2016). Cointegrating polynomial regressions: fully modified OLS estimation and inference. *Econometric Theory*, *32*(5), 1289-1315.

Weil, P. (1987). Permanent budget deficits and inflation. *Journal of Monetary Economics*, *20*(2), 393-410.