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Examining Macroeconomics Determinants of Inflation Rate in Somalia

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Abstract : This study examined the macroeconomic factors that affect the inflation Rate in Somalia using quarterly time series data from 1991q1 to 2017q4 retired from World Development Indicators and SESRIC. It employed the vector error correction model (VECM) and Granger Causality method to measure the long-run and short-run causality of the GDP, inflation exchange rate, and unemployment. The study confirmed that there is one cointegration equation between GDP, exchange rate, inflation, and unemployment in Somalia. However, the VECM model's result indicates a long-run relationship among variables. The VEC Granger causality/Block Exogeneity Wald test result confirmed that all covariates are statistically significant at 5% and are Granger's cause of inflation in the short term. Finally, the impulse response result showed that inflation responds negatively to the shocks from the exchange rate and unemployment rate and positively to GDP and itself. Drawing from the empirical findings, the study makes several policy recommendations for both the monetary and Government sides.

Keywords : CPI, OP, exchange rate, inflation ADF, Johansen, PP, VECM, impulse, ECT
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