A non-linear approach to inflation – economic growth relationship: a study for Latin America

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Abstract

There is broad consensus about the adverse effect of high interest rates on economic growth; however, there is no plain agreement about the effect of moderated inflation rates. This work re-examines the relationship between inflation and growth in a sample of nine countries of Latin America, by using new econometric techniques, appropriated for evaluation and inference of non-linear relations. The findings of this research confirm the existence of a non-linear relation between both variables, finding that inflation rates that are over 17%, produce a contraction in the rate of growth of the product, although have a positive effect when they do not exceed this level. Nonetheless, the broad confidence interval, found for the breaking point, suggests caution at the moment of making recommendations of economic policy. Inflation rates greater than 9%, depending on a country, could have adverse effects on growth. Significantly, in contrast to previous works, the results found, remain robust with the elimination of extreme observations.

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