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On the Drivers of Inflation in Sub-Saharan Africa^{*}

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Abstract

The perception that inflation dynamics in Sub-Saharan Africa (SSA) are driven by supply shocks implies a limited role for monetary policy in influencing inflation in the short run. SSA's rapid growth, its integration with the global economy, changes in the policy frameworks, among others, in the last decade suggest that the drivers of inflation may have changed. We quantitatively analyse inflation dynamics in SSA using a Global VAR model, which incorporates linkages among economies, as well as the role of regional and global demand and inflationary spillovers. We find that in the past 25 years, the main drivers of inflation have been domestic supply shocks and shocks to the exchange rate and monetary variables; but that, in recent years, the contribution of these shocks to inflation has fallen. Domestic demand pressures as well as global shocks, and particularly shocks to output, however, have played a larger role in driving inflation over the last decade. This implies a greater role of monetary policy as some SSA countries modernize their monetary policy frameworks.

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