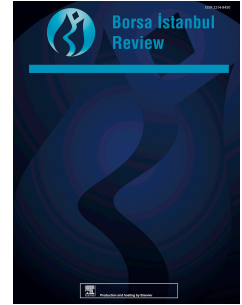


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Deficits and Inflation; Are Monetary and Financial Institutions Worthy to Consider or Not?

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**Deficits and Inflation; Are Monetary and Financial Institutions Worthy to Consider or Not?****Tahira Ishaq and Hassan M Mohsin<sup>1</sup>****Abstract**

Institutions are important to analyze the relationship between deficits and inflation. This study examines whether deficits are inflationary or not in the presence of dependent central bank and fragile financial markets. A panel dataset has been used for eleven Asian countries from 1981 to 2010. Estimation results from system GMM show that deficits are inflationary for selected sample, while inflationary pressure of budget deficits is particularly stronger when financial markets are not fully developed and central banks are not free to follow their goals and objectives.

**Keywords:** Fiscal deficits, Inflation; Institutions, Central bank independence, Financial Markets Development.

**JEL classification:** H60, E31, E50

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