ROLE OF CENTRAL BANKS IN MAINTAINING FINANCIAL STABILITY AND CONTROLLING INFLATION

A Dissertation Submitted to the Office of the Dean, Faculty of Management in partial fulfillment of the requirements for the Master of Business Studies (MBS)

By

Saroj Nepal

Campus Roll No.: 855/076

Exam Symbol No.: 24063/20

T.U. Regd. No.: 7-3-39-1765-2019

Shanker Dev Campus

Group: Finance

Kathmandu, Nepal

June, 2025

CERTIFICATION OF AUTHORSHIP

I hereby declare that this study entitled **"Role of Central Banks in Maintaining Financial Stability and Controlling Inflation"** is my own work and to the best of my knowledge and belief, it contains no material previously published or written by another person nor material which to a substantial extent has been accepted for the award of any other degree of a university or other institution of higher learning, except where due acknowledgement is made in the acknowledgements.

……

Saroj Nepal

June, 2025

REPORT OF RESEARCH COMMITTEE

Mr. Saroj Nepal has defended research proposal entitled **"Role of Central Banks in Maintaining Financial Stability and Controlling Inflation"** successfully. The research committee has registered the dissertation for further progress. It is recommended to carry out the work as per suggestions and guidance of supervisor Arun Neupane and submit the dissertation for evaluation and viva voce examination.

.....
Arun Neupane
Dissertation Supervisor

Dissertation Proposal Defended Date:
.....

Dissertation Submitted Date :
.....

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Head, Research Department

Dissertation Viva-voce Date:
.....

APPROVAL SHEET

We have examined the dissertation entitled **"Role of Central Banks in Maintaining Financial Stability and Controlling Inflation"** presented by Saroj Nepal, for the degree of Master of Business Studies (MBS). We hereby certify that the dissertation is acceptable for the award of degree.

.....
Arun Neupane
Dissertation Supervisor

.....
Internal Examiner

.....
Internal Expert

.....
External Expert

.....
Asso. Prof. Dr. Sajeeb Kumar Shrestha
Chairperson, Research Committee

.....
Asso. Prof. Dr. Kapil Khanal
Campus Chief

ACKNOWLEDGEMENT

First of all, I would like to express my sincere gratitude to my supervisor Arun Neupane sir for his continuous guidance, reviews, critiques and support throughout the entire period of my study and research. Special thank goes to the respectful Campus Chief of Shanker Dev Campus Asso. Prof. Dr. Kapil Khanal and Asso. Prof. Dr. Sajeeb Kumar Shrestha Head of Research Committee, for their moral and academic support.

I am also thankful to the various authors of different studies which I have referred during this study.

At last, but not least, I would like to thank my parents for providing their unfailing support and continuous encouragement throughout my years of study and throughout the process of research. This accomplishment would not have been possible without them.

Thank You.

Saroj Nepal

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURE

ABBREVIATIONS

BM	Broad Money
CPI	Consumer Price Index
GDPD	GDP deflator
GE	Government Expenditure
NI	National Income

ABSTRACT

Inflation and financial stability are the focus of this study on the function of central banks. The dependent variables chosen for this study are economic growth and inflation. Broad money, GDP deflator, consumer price index, national income, and government expenditure are the independent variables that have been chosen. Secondary data covering the years 2013–14 through 2022–23 formed the basis of the study. The data originated from a Ministry of Finance economic survey report. In order to address the core concerns related to the function of central banks in regulating inflation and preserving financial stability, this study has utilized a descriptive research design in addition to a causal comparative research design.

The study revealed that economic growth is favorably influenced by GDP deflator. It suggests that rise in GDP deflator results in higher economic development. Still, GDP deflator lowers the inflation rate. It suggests that the GDP deflator increases causes the inflation rate to drop. On the other hand, consumer price index helps to control inflation and promotes economic development. Higher the consumer price index, more would be the inflation and economic growth. Likewise, national income influences inflation and economic development favorably. It shows that inflation and economic growth would be more in line with greater national wealth. Government spending also favorably correlates with inflation and economic growth. It suggests that inflation and economic growth would be more in line with government expenditure greater than otherwise. Broad money also helps to control inflation and promote economic development. It suggests that rise in broad money results in rise in inflation and economic growth.

Keywords: GDP deflator, Consumer Price Index, National Income, Broad Money Economic Growth and Inflation

CHAPTER I

INTRODUCTION

1.1 Background of Study

A financial crisis makes an institution's quality even more crucial (Klomp & de Haan, 2014). High quality of institution countries should be able to create strategies to handle negative shocks more skillfully than those of low institutional quality. The financial system based on banks guides resources to production channels resulting in facilitating the process of the economic development and offers information regarding the investment possibilities. Because of its potential to enable value exchange, stability of the financial sector in an economy is a major driver of economic development (Swamy, 2014). By means of their operations, they enable more effective movement of money from surplus families to deficit households, hence fostering economic growth and development (Ratnovski, 2013). Commercial banks must aggressively investigate the operational environment and create pertinent plans that would lower the degree of their vulnerability to events likely to influence their financial stability. According to Uhde and Heimeshoff (2009), a financial stability of any nation is a major determinant of visiting the world through increased international business, where the strength of completion in the market has resulted in fascinating governments to consider the conclusion of international trade agreements. These agreements will boost economic activity, but this activity will rely on how the soundness of the national financial system helps to ease the contracting procedure in commercial agreements. Profitable banking sectors help economies to resist negative shocks and support the stability of the financial system (Athanasoglou *et al.*, 2005).

The growth of an economy depends much on the stability of the banking industry. Mobilizing deposits from surplus units to deficit units in the form of loan and advances to several sectors including agriculture, industry, personal and governments is the main purpose of banks (Tiwari *et al.*, 2013). One can define financial stability as the lack of too great volatility and stress or crises, thereby characterizing stability. Stated differently, it is a situation whereby the financial system-comprising financial intermediaries, markets and market infrastructure can sustain shocks and the disintegration of financial imbalances. It thereby reduces the probability of severe enough disturbances in the financial intermediation process that would greatly affect the allocation of savings to attractive investment prospects (Boyd & de Nicolo,

2005). Gan (2004) defined the stability of prices on all commercial and financial activities contribute to financial stability in the country in all process and is working to rise employment and sustainable development in the country, where the countries are working to adjust and balance job supply and demand for cash in the market and the most important tool of monetary policy is to determine the credit limits to deposits to maintain depositors' money and the same time to be a flexible policy to stimulate the economy. This issue reflects the expansion in the national economy, but to go to the world punctuated by the hazards of the country must work to be avoided or mitigated with the need to understand the mechanism of the economic cycle and the nature of the economy if it is open or closed economy or where it significantly contributes to financial stability and access to global markets. Kato and Hagendorff (2010) stated the financial stability comes through relative stability of the indicators of monetary and fiscal policy. Since the sector is robust to a variety of single and combined shocks, Altaee *et al.* (2013) looked at the stability of the banking system underlying an efficient bank monitoring mechanism. To keep their financial situation, financial institutions started diversifying their income streams to fees and commission-based incomes; inflation has made investors increasingly sensitive to interest rates.

Given the globalization and economic complexity of today, monetary policy is becoming more and more crucial in handling various financial and economic problems. Maintaining price stability and sustainable economic growth depends much on the central bank, the implementer of monetary policy. The primary difficulty central banks face is how they could control inflation and boost economic development without sacrificing macroeconomic stability. With an eye toward efficient measures to control inflation and support sustainable economic development, this paper attempts to analyze in this context the vital part monetary policy plays in overcoming financial and economic issues. By means of a strong awareness of the function of monetary policy, this study is projected to offer insightful analysis for legislators, economic practitioners, and other stakeholders in guiding suitable economic policies (Welsh *et al.*, 2024). Recent world financial and economic events have revealed growing complexity, which forces governments to create suitable plans for controlling macroeconomic stability. A turning moment that underlined the need of central banks and monetary policy in preserving the stability of the worldwide financial system was the global financial crisis of 2008. The crisis also begs fresh issues regarding the efficiency of several monetary policy tools in handling fresh and developing economic problems (Ismamudi *et al.*, 2023).

The financial and economic difficulties Indonesia faces are no less important, meanwhile. Both internal and outside causes have caused the nation to go through several times of economic turbulence (Natan & Mahastanti, 2022). Of the several economic difficulties, monetary policy mostly concentrates on inflation and economic development. While economic growth too high without accompanying price stability may produce economic imbalances that could be negative, high inflation can diminish people's purchasing power and damage economic development (Habibi & Zakiah, 2023).

Manandhar *et al.* (2014) observed in Nepal that bank profitability in terms of return on assets and return on equity was favorably correlated with inflation and gross domestic productivity. Comparably, Neupane (2013) discovered a favorable link between profitability and capital adequacy. Reduced asset quality or non-performing loans of significant value could cause bank collapses and slow down the economy (Adhikary, 2006.). Furthermore, Dahal *et al.* (2015) discovered that while inflation and gross domestic product growth rate benefit the return on assets, both have a negative effect on the return on equity.

1.2 Problem Statement

Many central banks have realized over the last 30 years that private citizens' and markets' expectations are more important than the present trajectory of interest rates in determining the effectiveness of their policies (Woodford, 2004; & Bernanke, 2007). In this regard, predictions on inflation and the trajectory of nominal interest rates are significant. Predictions about the future policies and actions of central banks are a key factor in shaping public expectations about inflation and interest rates. Here, faith in central banks and their decisions has grown to a critical mass. Because of this realization, central banks have changed their ways, becoming more transparent and engaging in constant forward policy signaling to inform market participants and individuals about the expected future course of monetary policy. They have also taken measures to increase the level of trust the public has in them and to raise awareness of their goals and tactics.

Inflation expectations are shaped by information about monetary policy goals, according to research by Van der Cruijsen *et al.* (2015). The confidence in the central bank and inflation expectations were examined by Christelis *et al.* (2016) in contrast. According to the research, the public's inflation forecasts are unaffected by either broad or specialist economic knowledge. In addition, their survey data is the first to show that trust influences people's

quantitative inflation expectations. Higher levels of trust help stabilize inflation expectations in households and decrease ambiguity about its actions, according to the study. During the pandemic, Nadiva *et al.* (2021) looked at how the CPI affected inflation in Indonesia. Inflation is negatively and insignificantly affected by the consumer price index, according to the study. The econometric study of the consumer price index on a number of important economic variables was also examined by Yusuff *et al.* (2020). Economic parameters including total monetary liabilities, imports, exports, and government expenditure strongly impact the consumer price index, according to the study. The effectiveness of monetary policy when the exchange rate and consumer price index were controlled for was also studied by Jamil (2022). Only monetary policy, according to the study, can alter the trajectory of the CPI and exchange rate. According to the research, a monetary exchange rate and consumer price index system allows the central bank to stabilize a number of macroeconomic indicators and disturbances.

Using a metafrontier approach, Hajihassaniasl (2020) looked at how emerging nations' GDP affected the technical efficiency of their agricultural sectors. Findings indicated that countries' per capita income influenced the technological gap ratios, since the production gap was 4% in high-income nations and 86.1% in low-income ones. The impact of government spending, domestic investment, and foreign investment on the expansion of the primary sector in central Kalimantan's economy was also examined by Magdalena and Suhatman (2020). Government spending, domestic investment, and international investment all have a favorable and substantial impact on the primary sector's economic growth, according to the study. Although there is some evidence that government spending has a positive and substantial impact on primary sector economic growth, neither domestic nor foreign investment has shown any such effect.

The impact of Nigeria's money supply on inflation was investigated by Amassoma *et al.* (2018). Perhaps because the nation is experiencing a recession, the study discovered that the money supply had no impact on inflation in the long or short term. In a similar vein, Hussain and Zafar (2018) investigated the connections between monetary expansion, price increases, government spending, and GDP growth. The research demonstrated the presence of two cointegration vectors: one connecting the expansion of the economy to the other variables, and another connecting the money supply to the other variables. A considerable association between real government expenditure and economic growth, as well as between inflation and

economic growth, was suggested by the long term coefficients. Money supply and economic growth do not have a statistically meaningful link in the long run. In a similar vein, Sultana *et al.* (2019) looked into the correlation between inflation and the money supply in Bangladesh. The study found that while the money supply may not have much of an impact on short-term inflation in Bangladesh, it can have a considerable impact on long-term inflation. Also, Omodero (2019) looked at how the money supply affected GDP growth: A look at Ghana and Nigeria side by side. According to the research, broad money supply (M2) has a small negative effect on RGDP in Nigeria, but a large positive effect in Ghana.

In their 2025 study, Ahmed *et al.* analyzed the tactics, difficulties, and worldwide case views of central banks in handling inflation and financial crises. Results indicated that policy lags, market volatility, and geopolitical uncertainty can be mitigated through analytical methods and the proactive approach of central banks toward inflation stabilization. In a similar vein, Mishra (2024) examined the relationship between central banks' monetary policies and the stability of the financial system. This research sheds light on how central banks are adapting to maintain financial system stability in the face of fluctuating economic and market situations. In a similar vein, Wahyudin (2025) evaluated the function of monetary policy in handling monetary and fiscal issues: efficient methods for controlling growth and inflation. Findings from the study point to the importance of monetary policy in containing inflation, especially when it comes to interest rate adjustments and money supply regulation.

Regardless, the aforementioned facts are true in Nepal as in other nations. But there are no such results for Nepal based on more current data. This study has been done to provide evidence in favor of one side or the other. Therefore, the function of central banks in regulating inflation and preserving financial stability is the primary emphasis of this research. Thus, the following topics are addressed in the context of Nepal through this study:

1. What is the structure and pattern of GDP deflator, consumer price index, national income, government expenditure, broad money, economic growth and inflation? How have they changed over the period of time?

2. What is the relationship of GDP deflator, consumer price index, national income, government expenditure and broad money with economic growth and inflation?

3. What is the impact of GDP deflator, consumer price index, national income, government expenditure and broad money on economic growth and inflation?

1.3 Objectives of the Study

The major objective of this study is to examine the role of central banks in maintaining financial stability and controlling inflation. Specifically, the study aims to:

1. To assess the structure and pattern of GDP deflator, consumer price index, national income, government expenditure and broad money.
2. To determine the relationship of GDP deflator, consumer price index, national income, government expenditure and broad money with economic growth and inflation.
3. To examine the impact of GDP deflator, consumer price index, national income, government expenditure and broad money on economic growth and inflation.

1.4 Rationale of the Study

The importance of this study is in the possibilities it may open up for further investigation. For example, this research can pave the way for studies that examine similar topics, like how central banks promote economic growth by regulating inflation and how they ensure financial stability.

1. Academic contribution: Additions to the current knowledge on the function of central banks in regulating inflation and preserving financial stability can be made by this study.
2. Practical relevance: The findings of this study can be useful to policymakers, bank management, and stakeholders.
3. Economic development: The study can also contribute to the overall economic development of the country by providing insights into the role of central banks in maintaining financial stability and controlling inflation.
4. Potential for future research: Future research in relevant areas, such as central banks' responsibilities in preserving financial stability and encouraging economic growth through inflation control, may be prompted by this work.

This study is important because it has the ability to influence policy decisions and enhance the country's economy, both of which can lead to overall growth and development in the economy. By investigating how central banks keep the economy stable and inflation under control, our research hopes to close that knowledge gap. In particular, the study will examine

the connections between several economic variables such as GDP deflator, CPI, national income, government expenditure, broad money, and inflation and economic growth. Everyone from academics and politicians to regulators and practitioners in the economic sectors can benefit from this study's findings. It also sheds light on the role of central banks in regulating inflation and keeping financial markets stable.

1.5 Limitations of the Study

There are some limitations in this study which are pointed out below:

1. Only secondary data is considered for the study purpose.
2. Other industries could not benefit from this study's results.
3. In the investigation, only a few statistical methods were utilized. The reliability of the results could be compromised if the researchers did not employ more advanced and scientific methods.
4. No attempts are made to examine the reliability of the available secondary data since they are officially released by the bank itself. Thus, the consistency of finding and conclusions are dependent upon the secondary data and information.

CHAPTER II

LITERATURE REVIEW

The conceptual framework, empirical review, and discussion of some theoretical and empirical literature on central banks' roles in regulating inflation and preserving financial stability are presented in this chapter. By comparing and contrasting studies conducted in wealthy and developing nations, this chapter sheds light on the relevant literature. The interrelationships between the independent and dependent variables are laid forth in the conceptual framework. The conceptual framework is the backbone of the investigation. Lastly, this chapter contains the concluding remarks that highlight the research deficit that was identified after reviewing the literature.

2.1 Theoretical Review

Theoretical foundations of central banking

The concept of central banking has evolved with the main objectives being monetary stability, inflation control, and stable financial systems. The major theoretical model concerning the conduct of CB operations is the monetarist view, which maintains that inflation is primarily a monetary event (Cote, 2024). This view specifically focuses on how monetary policy is used to influence money supply as a way of controlling inflation to promote macroeconomic balance. During the later periods, Keynesian theories that relied on aggregate demand management with cyclical policies also came into focus especially when the economy was in a down turn (Abbas *et al.*, 2022). Modern central banking theory also features the Taylor Rule pioneered by John Taylor. It provides a benchmark on how most CBs should set their nominal interest rates considering inflation and output gaps (Bhansali, 2021). This rule has been instrumental in the design of inflation-targeting frameworks in most countries, particularly in the developed world. Inflation targeting as a favorite monetary policy regime emerged in the 1990s, and the first countries to adopt it were New Zealand, the UK, and Canada with hopes of improved policy transparency and credibility (Mishkin & Kiley, 2025). Theoretical models have shifted their focus to forward-looking behavior and expectations management, prompting CBs to use forward guidance as a key tool for communication and influencing market expectations (Woodford, 2005).

Inflation control mechanisms

Inflation is usually managed by central banks using monetary policy instruments like interest rate setting, open market operations, and reserve requirements. Changing the policy interest rate, either by raising or lowering it, is the most typical tool for influencing inflation and economic activity. A theoretical framework for interest rate determination that takes into account gaps in output and departures from inflation targets is the Taylor Rule (Taylor, 1993). After its introduction in the 1990s, inflation targeting gained widespread support. For the central bank to be more credible and open, it must commit to a clear inflation target. An anchoring effect on inflation expectations and a subsequent contribution to macroeconomic stability are both attributed to inflation targeting by Bernanke *et al.* (1999).

Financial stability and central banks

Central banks are responsible for ensuring price stability as well as the stability of the financial system. When the banking system, stock markets, and other market infrastructures are stable, they can withstand shocks and distribute resources effectively (Schinasi, 2004). This is an area where central banks really shone during the 2007-2008 global financial crisis. The response from numerous central banks has been to broaden its responsibilities to encompass macro prudential regulation, the monitoring and reduction of systemic risks (Claessens, 2015). Stress testing and countercyclical capital buffers are two instruments that central banks use to keep an eye on and lessen the impact of potential financial risks.

Central bank independence and credibility

The effectiveness of central banks in achieving price and financial stability also depends on their independence from political interference. This is based on theory and pertains to the time inconsistency problem, which states that politicians may prioritize short-term profits over long-term stability (Kydland & Prescott, 1977). An independent central bank is more likely to maintain a credible commitment to low inflation, thus stabilizing expectations and reducing inflationary pressures (Rogoff, 1985). Empirical studies support the view that central bank independence correlates with lower inflation rates without harming economic growth (Cukierman *et al.*, 1992).

2.2 Conceptual Review

Abstracts, ideas, and concepts are all part of the conceptual review that is included in this section. In terms of widely read reports, articles, studies, and write-ups, the reviews were analyzed. Exciting new research that is relevant to the current investigation has been briefly reviewed in this section. Abstract: This literature study draws on a variety of sources to examine the function of central banks in preserving price stability and monetary policy. The study employs a conceptual review to locate relevant concepts, define them, and draw connections between them (Mohamad *et al.*, 2011).

Public spending and GDP growth: a literature study conducted by Nyasha and Nicholas (2019). Finding out how government spending affects GDP growth is the primary goal of the research. While several studies have looked at the correlation between government spending and GDP growth, no one has been able to definitively say that more government spending is beneficial for the economy. As we assess the available empirical evidence from the 1980s to the present day, this study takes on paramount relevance due to the absence of agreement on the outcomes of earlier empirical discoveries. Based on their findings, this study categorized research on how government spending affects GDP growth. A good impact, a negative impact, and no influence category emerged. Subsequently, we analyzed each pertinent paper and determined which result was more common in the current body of research. It is not obvious how government expenditure affects economic growth, according to the examined research. The results can be both good and bad, and some studies have even shown no effect at all. While there was no clear conclusion on the effect of government spending on GDP growth, the evidence points in the direction of a positive effect. Based on a thorough evaluation of prior empirical evidence across different nations since the 1980s, the study sheds light on the connection between government spending and economic development.

Developed and developing nations' inflation rates and income inequality were studied by Siami-Namini and Hudson (2019). The study drew on yearly data from a variety of sources, including the World Bank data portal, Eurostat, the International Monetary Fund (IMF), and the websites of the respective central banks, to examine a sample of 24 developing countries (DCs) and 66 least developed countries (LDCs) from 1990 to 2014. Following Amornthum's (2004) recommendation, a generic method is used to differentiate between the long-run and short-run effects of inflation. Inflation and income inequality were found to have a nonlinear

relationship in the study, however the pattern varied between the groups of developing countries and least developed countries.

Research by Dudzeviciute *et al.* (2018) examined the relationship between EU member states' government spending and GDP growth. More accurate estimates of the connection between EU government spending and GDP growth from 1995 to 2015 are the goal of the study. There were multiple steps to the process. Using descriptive statistics was the initial step in evaluating the dynamics of government spending and economic growth indicators over a twenty-year period. In order to determine the connections between GEs and GDP growth, correlation analysis was used. The final step involved using Granger causality tests to model the link and estimate the causality between GE and economic growth. The scope of this research has been limited to broad GE and GDP growth. The key disadvantage of the research is that the paper does not investigate the breakdowns of general GE based on the activities they support. Regardless of the caveat, one could argue that the study reveals important connections between EU nations. Policymakers might benefit from these ideas. The government can use spending to boost growth in countries where GE leads to economic growth in a one-way causal relationship. In countries where GDP is directly proportional to GE, policymakers should make sure that resources are handled well and used efficiently to speed up economic growth. Government spending and economic growth are significantly related in eight EU nations, according to the study.

By comparing the economies of Nigeria and Ghana, Omodero (2019) determined how the money supply affects GDP growth. The primary goal of this research is to identify the ways in which the money supply mechanisms in Nigeria and Ghana affect economic growth, both collectively and individually. This research makes use of Ordinary Least Squares regression analysis using data collected between 2009 and 2018. The results show that whilst broad money supply (M2) has a little negative effect on RGDP in Nigeria, it has a large positive effect in Ghana. Credit to private sectors (CPS) has a negligible positive effect on RGDP in both Ghana and Nigeria, whereas the broad money supply (M3) has a substantial negative effect on RGDP in Ghana. Among other things, the study recommends that the two countries' central banks devise policies to better steer the economy, with a focus on M2 and CPS because of the crucial roles they played in the expansion that increased output and employment.

The effect of the money supply on a number of Nigerian macroeconomic indicators was studied by George *et al.* (2018). The study's stated goals are to(1) determine the effect of the money supply (both narrow and broad), inflation rate, and exchange rate on real GDP in Nigeria, and(2) determine the effect of the money supply (both narrow and broad), exchange rate, and inflation rate on the consumer price index. For this retrospective analysis, researchers resorted to descriptive statistics and an ex post facto research strategy. Two tread-like models were constructed to accomplish the study's aims. We utilized the Augmented Dickey Fuller test to stabilize the data in order to avoid false results. We used the ordinary least square method to find the values and directions of the model variables. Inflation and real GDP are positively and significantly affected by a little money supply, according to the study, while both variables are unaffected by a large money supply. In addition, the empirical data demonstrated that the exchange rate does not significantly affect inflation or real GDP. In contrast, real GDP in Nigeria is negatively and statistically insignificantly affected by inflation rate.

The asymmetry between the expansion of the money supply and GDP growth in Nigeria was examined by Aigheyisi and Edore (2019). This research looked at the uneven impact of broad money expansion on Nigeria's GDP growth using the Shin-Greenwood-Yin nonlinear autoregressive distributed lag (NARDL) method of cointegrating and error correcting models. The analysis is based on annual time series data that cover the years 1981–2016. In the short run, the study discovered an asymmetry link between the variables. Specifically, it was discovered that a positive change in broad money growth had a positive and substantial impact on economic growth, while a negative change had a negative, larger, and more significant impact on growth. Positive changes in broad money growth did not significantly affect long-term economic growth, according to the study. In the long term, economic growth is positively and substantially impacted by a decline in broad money growth. Moreover, the study found that whereas inflation has a negative effect on growth in both the short and long term, an increase in government financial consumption expenditure has a favorable effect on growth in both.

Research by Aiyelabegan et al. (2020) looked at how the money supply affected GDP growth. Between 2004 and 2017, the research examined the money supply's impact on Nigeria's economic growth and the challenges encountered by the country's monetary policymakers. The statistics for 2018 were culled from the bulletin of the Central Bank of

Nigeria (CBN). This study aims to empirically examine the relationship between money supply and other monetary factors and economic growth in Nigeria. Ordinary Least Square (OLS) is the statistical method employed in this analysis. To ensure that OLS assumptions are met, the data was subjected to a battery of tests, including the Normality test, Multicollinearity, Homoscedasticity, and Autocorrelation. The results of the test showed that the autocorrelation in the error term was rectified using the Cochran-Orcutt approach, and that all the assumptions were true. Findings show that in the model, real GDP is affected by the monetary variables Liquidity Ratio (LR) and Board Money Supply (BMS), but not by the Cash Ratio (CR).

Researchers Sulikova *et al.* (2019) looked at how wide money affects GDP growth. Using a threshold model for panel data, we look at the effect on 17 different nations. We implement multiple options, such as the single and double threshold models, to guarantee the results' robustness. In the end, we find that expanding the money supply can only help economies flourish if governments are able to keep inflation within a certain target range, which our model estimates to be somewhere around 2% over the long term. If a country's inflation rate is more than 3.3%, the model estimates show that it should not expand its money supply because doing so could have a detrimental impact on output.

2.3 Empirical Review

The empirical review, which comprises tests, observations, and other forms of verifiable evidence, is included in this part. In terms of frequently accessed reports, articles, studies, and write-ups, the reviews were analyzed. Exciting new research that is relevant to the current investigation has been briefly reviewed in this section. The function of central banks in regulating inflation and preserving financial stability is reviewed based on the many sources.

2.2.1 Empirical Review at International Context

The effects of the CPI, FDI, bank credit, and labor force on Indonesia's economic growth were examined by Lamah *et al.* (2021). Additionally, the study examines the effects of the following on GDP: the consumer price index, foreign direct investment (FDI), bank credit, and the labor force. Data for gross domestic product (GDP), foreign direct investment (FDI), bank credit, consumer price index (CPI), and labor force participation rate are used as samples in this analysis. The data is available for fourteen years running from 2005 to 2019.

ECM software with e-views for data analysis. Conclusions drawn from the data analysis and discussion so far are as follows: (1) the Consumer Price Index (CPI) has no effect on GDP in the short or long term; (2) FDI has an effect on GDP in the short and long term; (3) bank credit (BC) has no effect on GDP in the short or long term; and (4) labor force (LB) has no effect on GDP in the short or long term.

Research by Okpabi *et al.* (2021) examined the relationship between GDP growth and government spending in Nigeria. The study also looks at how government spending affected GDP growth in Nigeria from 1984 to 2015 so that we can reevaluate the claim that public spending boosts GDP growth made by the Keynesians and the Endogenous Growth Models. Johansen co-integration and the Error Correction Model were utilized in the study. To back up the claims made by the Keynesians and the Endogenous Growth Models, the empirical data demonstrated that public spending, both recurrent and capital, significantly boosts economic growth in the long run while having a negligible negative effect on the Nigerian economy in the short run. Consequently, the study concluded that the Nigerian government should reallocate funds to prioritize spending on essential areas like healthcare, electricity, education, and infrastructure in order to make the most of their budget.

Samuel and Oruta (2021) conducted a disaggregated analysis of government expenditure and economic growth in Nigeria. Additionally, the study looks at the impact of different parts of government spending on GDP growth in Nigeria from 1981 to 2020. Secondary sources provided the data used in the analysis. The granger causality test and error correction model were utilized in the investigation. In the near run, the model showed that government spending on things like health care, education, and agriculture has a negligible negative effect on GDP growth. Regular spending on paying off debt and building roads and other infrastructure had a favorable and small effect on GDP growth. There was a negative and statistically significant relationship between government spending on social services and GDP growth when it came to capital expenditures. On the other hand, Nigeria's GDP grew marginally and positively in response to government spending on economic services. There was a long-term effect on GDP growth from all of the components of government spending.

The effect of government spending on GDP growth in Nigeria from 1970 to 2019 was studied by Aluthge *et al.* (2021). An ARDL (Autoregressive Distributed Lag) model was used in the investigation. This research takes structural breaks in the unit root test and the co-integration analysis into consideration to guarantee that the results are robust. The study's main

conclusions are that, compared to recurrent expenditure, capital expenditure significantly and positively affects economic growth in the short and long term, while recurrent expenditure has no such effect. Based on the findings, the government should allocate a larger portion of capital expenditures to important initiatives that improve the lives of its citizens. Additionally, the government should reallocate funds with care to constructive endeavors that will boost human growth in the nation, thereby improving the spending patterns of recurring expenditure.

Tegegne (2021) examined how the expansion of the money supply affected the expansion of the Ethiopian economy. This research also looks at how the money supply affects Ethiopia's real GDP. The analysis relied on data collected from the National Bank of Ethiopia's Annual Report for the period of 2002–2017. After running the numbers through a causality test and a vector autoregressive model, we find that broad money supply positively affects real GDP growth in Ethiopia, and this effect is statistically significant at the 5% level. There is no long-run association ship going from broader money supply to real GDP, according to the Johansen cointegration test. Monetary policymakers were led to believe that short-term changes in the level of the country's broad money supply would have a substantial and beneficial effect on real GDP.

Financial deepening in Indonesia was examined by Khomariyah *et al.* (2022) from 2000 to 2020 in relation to inflation, interest rate, exchange rate, and national income. For the years 2000–2020, the research also analyzes the impact of national income, interest rates, currency exchange rates, and inflation on financial deepening in Indonesia. Quarterly time-series data from 2000–2020 is the basis of the study. Findings from an Ordinary Least Square (OLS) regression analysis with four independent variables (inflation, interest rates, currency exchange rates, and national income) and one dependent variable (financial deepening) reveal that neither inflation nor interest rates had a significant impact on financial deepening, according to the validity test of the effect of the independent variables. Financial deepening was also substantially impacted by the national income (NI) and currency exchange rate (EXCH) variables.

When it comes to China's trade deficit, Pan *et al.* (2022) looked at how factors like GDP growth, oil prices, CPI, and industrial production all have different impacts. The purpose of this research is to analyze the trade imbalance for the People's Republic of China's economy and the unequal impact of GDP growth, industrial production, the CPI (consumer price

index), and oil prices. We have used quarterly data from 1995Q1 to 2021Q4 and the Toda-Yamamoto causality and non-linear ARDL approach to examine the outcomes. The presence of non-linear co-integration and unidirectional causation among the variables being discussed are confirmed by the estimated results. When it comes to long-term asymmetry, however, bound test analysis shows that the trade deficit (TD), industrial output (IP), oil price, GDP growth, and GDP growth are all related, but the consumer price index (CPI) is not. In addition, long-term asymmetrical results show that the trade deficit grows (decreases) in response to changes in industrial production, oil prices, and GDP growth rates. Links between the trade deficit and the explanatory variables in the People's Republic of China are a long-run phenomenon, as all variables have a negligible impact in the short run, even though short-run asymmetrical results show a similar tendency to the long run. Therefore, in order to lower the trade deficit, policies should aim for uniform GDP development, boost industrial-sector production with advanced tech, and switch from oil-using to green tech energy sources.

In their 2022 study, Razia and Omarya looked at how the broad money supply (M2) affected GDP per capita growth in Palestine. To examine the impact of the money supply on GDP per capita, the study employed the autoregressive distributed lag model (ARDL), the cointegration technique, and the error correction model. Gross Fixed Capital Formation (GFCF), the rate of inflation (INF), broad money supply (M2), and gross domestic product (GDP) per capita establish the model. The findings indicate that in the short term, GDP growth is positively affected by changes in the money supply, total capital creation, and inflation rate. Nonetheless, long-term economic growth is unaffected by any of these factors. In order to combat inflation and promote economic growth, Uddin and Rahman (2022) shown that developing countries should keep inflation rates in the single digits. Time series data collected quarterly from 2010 (Q1) through 2022 (Q3) formed the basis of the study. We used EViews ver. 10 to analyze the data. Four statistical tests were used to evaluate the model: ADF, Johansen cointegration, VECM estimation, and Granger causality. We used a number of statistical methods to check for stationarity, long-term correlations, and causal links in the model. The ADF test demonstrated that, after accounting for the initial difference, GDP, HICP, and PPI all stay constant. Another piece of evidence that these variables have been related for some time is the Johansen cointegration test.

The effect of the BI rate, the exchange rate, and inflation on broad money in Indonesia was studied by Hesniati *et al.* (2022). Using 120 data points collected over the past decade (2011–

2020), this study aims to build a model and investigate the impact of macroeconomic variables on the growth of broad money (M2). These variables include the BI rate, exchange rate, and inflation. This study employed quantitative research methods utilizing SPSS software for data processing. Over the period from 2011 to 2020, the results demonstrated that the quantity of money circulating in Indonesia is significantly impacted by the simultaneous variables of BI rate, exchange rate, and inflation. Furthermore, wide money (M2) is inversely related to inflation and the BI rate. At the same time, M2 is greatly influenced positively by the exchange rate.

Using an Ardl method, Poku *et al.* (2022) examined how government spending affected GDP growth in Ghana. Researchers and policymakers alike are still debating the nature of the link between government spending and GDP growth from decades ago. Using ARDL econometric modeling and data from 1970 to 2016, we analyze how government expenditure affected GDP growth in Ghana. There is a positive correlation between government spending and short-term economic growth, according to the empirical results. Gross capital formation and foreign direct investment were also found to have a positive and statistically significant effect on economic growth, both in the short and long term. Having said that, a strong inverse correlation between population expansion and GDP growth was found. Does the role of corruption control matter in relation to government expenditure and economic growth? This is the question that Nguyen and Bui (2022) set out to answer. The effect of government spending on GDP growth is the primary research objective of this study. The statistics were gathered from sixteen Asian EMDEs (Emerging Markets and Developing Economies) between 2002 and 2019. The research models were estimated using the generalized method of moments (GMM) and the threshold model. Government spending and anti-corruption efforts dampen economic expansion, according to the estimate results. An intriguing finding of this study is that government expenditure and corruption control can cooperate to mitigate the detrimental effects of corruption and economic growth. Evidence from Vanuatu was the subject of an investigation by Chen *et al.* (2022) into the connection between public spending and GDP growth. The study analyzed the impact of tax revenues, non-tax revenues, and budget deficits and surpluses on economic growth as a function of government expenditure. Second, the role of different types of government spending on GDP growth was also considered. Finally, the analysis looked for weak fiscal exogeneity in the investment process. Economic growth in Vanuatu is influenced by fiscal variables and investment, according to the study. Specifically, when funded by tax revenues,

government expenditure has a negative impact on long-run economic growth. However, whether funded by non-tax revenues or the budget surplus or deficit, it has a positive effect. According to the study, out of all the spending compositions, the ones that affect long-term economic growth the most are those that deal with education, health, wages and salaries, agriculture, and interest payments.

From 1985 to 2020, Gachugu and Luseno (2023) examined the impact of Kenya's money supply as a percentage of GDP on economic growth. The study also uses money supply as a proxy for financial deepening to evaluate the relationship between financial deepening and economic development. A measure of economic growth, GDP statistics were utilized. Theories of financial deepening and financial intermediation provided the theoretical foundation for the research. A historical research design was utilized in the study. The research employed a bVAR, or bivariate autoregressive model. Use of descriptive and inferential statistics was employed in the data analysis process. The results show that an increase of one unit in the money supply relative to GDP will lead to a long-term slowdown of 0.3215 unit in GDP growth. The reason behind this is that increasing the money supply ultimately hurts the economy. The nature of the relationship between financial deepening and economic growth is a matter of debate, and there have been few studies conducted on the topic in recent years. Additionally, there are no universal conclusions regarding this relationship. According to the research, increasing the money supply slows down Kenya's economy over the long term. The research concludes that the government should implement stricter monetary policy, which could mean reducing the pace of open market operations like the floating of infrastructure bonds.

The Gambia's economic development, exchange rate, money supply, and inflation were all studied by Jawo *et al.* (2023). A key worry for all nations is the volatility of price movements. One of the main reasons why a country's economic growth can fluctuate is because of changes in the value of its currency and the cost of goods and services. For that reason, this study used the ARDL model to look at the Gambia from 1985 to 2021 and see if inflation is caused by the real effective exchange rate, economic growth, or the money supply. With the exception of the real effective exchange rate and money supply, which are significant at the 5% level in the long run, all variables were found to impact inflation either favorably or negatively in the short run, with a significance threshold of 1% for each. Our dependent and independent variables' relationships were stable according to the recursive

cumulative total, but they were unstable according to the square recursive cumulative sum, which may have been caused by an external shock to production or a rise in the amount of public obligations. The research suggests that the Gambia's central bank should switch from monetary targeting to inflation targeting in order to keep prices stable and economic growth steady, and that the government should exercise caution when taking on more public debt. Nevertheless, before to executing the policy, the Gambia Central Bank ought to do a comprehensive evaluation of the economy.

Cibotariu (2023) examined the impact of inflation on economic growth and the methods used to measure and analyze it. Building a thorough econometric model to investigate the relationship between inflation and economic growth was central to the study's effort to clarify and demystify key ideas. Particularly highlighted in the research are the Consumer Price Index (CPI), the Producer Price Index (PPI), and the GDP growth rate, all of which are important economic indicators. The research also took fiscal and monetary policy into account when looking at ways to control inflation and promote economic growth. This investigation helps fill gaps in our knowledge of economic dynamics and provides economists and policymakers with useful information for developing sound economic policies. The research demonstrated that the correlation between CPI and GDP can change as a function of both economic climate and inflation rate.

The impact of the rupee's value relative to other currencies, M3 money supply, and oil prices on India's inflation rate was studied by Sharma and Dahiya (2023). Maintaining a low and stable inflation rate is the primary objective of every administration. But unchecked inflation poses a danger to the economy. Understanding the elements that impact inflation rates is, thus, crucial. Secondary data sources were used in order to compile the following statistics for India: CPI, inflation, currency rate, and money supply. Analyzed data is processed using the vector autocorrelation model (VECM). Furthermore, the normality of the variable relationships was checked using the Lagrange multiplier test and the Jarque-Bera test. Evidence suggested a correlation between inflation and currency rates in the near term. Both parties are unhappy with the relationship in the end. The VECM is unable to prove long-term causation between the two events because it lacks one of the requirements. None of the broad money lagged values are interesting, according to the results.

From 1970 to 2020, Musa and Ismail (2023) looked at how government spending affected GDP growth in Nigeria. Long-term estimates of the variables' relationships were derived

using ordinary least squares (OLS). Statistical analysis reveals a positive and statistically significant relationship between the log of GDP and its initial lag. According to the findings, there is a positive correlation between the gross domestic product (GDP) and both the log of RGE and the log of the first lag of RGE. The log of capital government expenditure (CGE) and the (LGDP) are positively correlated, but the log of first (CGE) is negatively correlated. There is an inverse association between LGDP and federal domestic debt (LFGDD), but a positive relationship between the logs of the first lag and federal domestic debt (LFGDD). At 0.698968, the R2 determination coefficient checks out. The results show that 70% of the variance in the (LGDP) may be explained by explanatory factors.

The effect of government spending on GDP growth in several South African states was studied by Buthelezi (2023). While government spending has been fluctuating but rising at a slower rate, economic growth has fallen short of the 5% policy target set out in Vision 2030, the National Development Plan. The paper utilizes Markov-switching dynamic regression and Vector-error correction (VEC) using data spanning from 1994 to 2021. This article is important because it analyzes the effects of government spending on various levels of economic growth in South Africa, both in the short and long term. Findings contradict the Keynesian theory that increased government spending would lead to a stronger economy; this is the case in South Africa. Government spending slows economic growth by 0.009% and 0.30% in the two lower economic states, respectively. In state 1, the economy is projected to remain for one year, but in state 2, it is projected to remain for thirteen years. There was a negative correlation between government spending shocks and GDP growth.

The effect of government spending on GDP growth in Nigeria from 1970 to 2019 was studied by Chandana *et al.* (2024). An ARDL (Autoregressive Distributed Lag) model was used in the investigation. This research takes structural breaks in the unit root test and the co-integration analysis into consideration to guarantee that the results are robust. The study's main conclusions are that, compared to recurrent expenditure, capital expenditure significantly and positively affects economic growth in the short and long term, while recurrent expenditure has no such effect. Based on the findings, the government should allocate a larger portion of capital expenditures to important initiatives that improve the lives of its citizens. Additionally, the government should reallocate funds with care to constructive endeavors that will boost human growth in the nation, thereby improving the spending patterns of recurring expenditure.

Uddin (2024) investigated the impact of money supply on national income: An empirical analysis of Bangladesh. The study delved into the intricate connection between money supply and the level of national income in Bangladesh. This study investigates the determinants of per capita GDP in a sample of 2006-2022 for 17 years. Utilizing a multiple regression model, the study examines various macroeconomic factors including inflation rate, GDP growth, real interest rate (RIR), broad money supply (M2), money supply (M3), and narrow money supply (M1). The model exhibits a commendable level of explanatory power, with an R-squared value, indicating that the included variables can explain the variability in per capita GDP. Notably, real interest rates demonstrate a significant negative relationship with per capita GDP, suggesting that higher real interest rates are associated with lower national income levels. However, the study finds limited statistical significance in the relationship between per capita GDP and the various money supply measures (M1, M2, and M3). This suggested that other aspects beyond the money supply may play an added dominant hero in shaping national income levels in the context of Bangladesh.

The effect of the money supply on the inflation rate in Nigeria was investigated by Daniel (2024). The purpose of this research is to provide light on how the money supply affects inflation in Nigeria. In this study, we aimed to shed light on the effects of these changes in the money supply on the country's inflation rate, which is an important economic link. This research was conducted using yearly time series data from the CBN Statistical Bulletin, which covers the years 1990 to 2022. A model of analysis called the Autoregressive Distributed Lag (ARDL) was used. While different indices of the money supply have different effects on inflation, the empirical results show that all of the money supply components add up. When it comes to predicting Nigeria's inflation rate, the broad money supply and exchange rate show a negative association, albeit it's not very significant. Conversely, inflation is positively affected by interest rates.

The effect of government spending on GDP growth in Ghana was studied by Mensah and Adukpo (2025). The purpose of the research was to identify and evaluate the impact of capital and recurring government spending on GDP growth. This study takes gross domestic product (GDP) as its dependent variable and uses government recurrent and capital spending as its independent variables. Time series data spanning 1972–2021, inclusive, are used for the analysis. If the time series variable has a unit root and is not stationary, then the test is called a unit root test. A 1% rise in GCE leads to a 0.26% increase in GDP, as seen by the data,

which suggest that capital government spending (GCE) significantly impacts GDP growth ($p < 0.01$). However, recurrent government spending (RGE) has a positive relationship with GDP (coefficient = 0.05581; $p = 0.2664$), but this relationship is not statistically significant. According to the Granger causality test, capital spending and economic growth have a bidirectional link, while recurrent expenditure has a unidirectional causation with economic growth.

In their 2025 study, Çollaku and Hajdini looked at the evidence from Kosovo to determine the causal relationship between the harmonised consumer price index, the producer price index, and GDP. Starting from the premise that CPI and PPI affect GDP, the economic growth indicator for a nation, and vice versa, the study empirically examines the significance of the relationship between the two. As a developing nation, Kosovo was also the focus of the study's analysis of these key macroeconomic indicators' development trajectory. There is a statistically significant reciprocal relationship between the consumer price index and GDP, according to the data. On the other hand, PPI-GDP and PPI-HCPI do not affect each other.

The evolution of a deep learning-based model for predicting GDP per capita was examined by Chen *et al.* (2025): Including consumer goods index and unemployment rate. The necessity for precise economic forecasting has grown in the twenty-first century due to the world economy's growing complexity and unpredictability. Policies, business plans, and investment choices are all heavily influenced by per capita GDP, a vital measure of living standards, economic development, and productivity. Predicting GDP per capita is difficult since it depends on so many different economic and social variables. The nonlinear relationships and volatility in economic data cannot be fully captured by traditional methods like regression, statistical analysis, and time-series models. To overcome these shortcomings, this research builds a deep learning-based model for predicting GDP per capita, adding important macroeconomic indicators like the CPI and UR to improve forecasting precision. Incorporating various combinations of CPI and UR, five different deep-learning regression models RNN, LSTM, GRU, TCN, and Transformer were used in this work on both real and placebo datasets. The results showed that deep learning models outperformed conventional models in predicting economic data by successfully capturing complicated, nonlinear interactions. In terms of R-squared and error levels across many metrics (MSE, RMSE, and MSLE), the Transformer model regularly outperforms the others, suggesting that it is better able to capture complex economic patterns. Reliable GDP projections that help economic

decision-making, resource allocation, and strategic planning were provided by the deep learning models, particularly the Transformer, according to the findings. These models are valuable tools for policymakers and corporate leaders.

Table 1

Summary and Empirical Review at International Context

S.N.	Authors	Objective	Variables	Data analysis and methodology	Findings
1.	Lamah *et al.* (2021)	To analyze "the impact of consumer price index on GDP, to analyze the impact of Foreign Direct Investment (FDI) on GDP, to analyze the impact of bank credit on GDP, to analyze the impact of Labor Force on GDP"	"Consumer price index, foreign direct investment, bank credit and labor force. Economic growth is dependent variable."	ECM with e-views programs used to analyze the data.	The major finding of the study was Consumer "Price Index (CPI) has no impact on GDP in short term and long term, Foreign Direct Investment (FDI) has an impact on GDP in short term and long term, Bank Credit (BC) has no impact on GDP in short term and long term, Labor Force (LB) has no impact on GDP in short term and long term."
2.	Okpabi *et al.* (2021)	To examine "the impact of government expenditure on economic growth in Nigeria for the period, 1984-2015."	Government expenditure. Economic growth is the dependent variable.	Johansen co-integration and Error Correction Model.	"The empirical results showed that public (recurrent and capital) expenditure has significant positive impact on the growth of the economy in the long run and an insignificant negative impact on the Nigerian economy in the short run, reinforcing the Keynesian and

					Endogenous Growth Models that public expenditure stimulates economic growth in Nigeria when seen in the long run."
3.	Samuel and Oruta (2021)	To examine the effect of various components of government expenditures on economic growth in Nigeria for periods between 1981 and 2020.	Government expenditure. Economic growth is the dependent variable.	Error correction model and granger causality test was used.	"The study revealed that government capital expenditures on economic services indicated a positive and insignificant impact on economic growth in Nigeria."
4.	Aluthge *et al*. (2021)	To assess the impact of government expenditure on economic growth in Nigeria, 1970-2019.	Government expenditure. Economic growth is the dependent variable.	Autoregressive Distributed Lag (ARDL) model was used.	"The study concluded that Government should also improve the spending patterns of recurrent expenditure through careful reallocation of resources toward productive activities that would enhance human development in the country."
5.	Tegegne (2021)	"To examine the impact of money supply on Real GDP of Ethiopia."	"Broad money supply, real GDP. Economic growth is dependent variable."	Vector Autoregressive model and causality test was used.	"The study stated that there is no long run association ship running from broader money supply to real GDP."
6.	Khomariyah *et al.* (2022)	To analyze the "factors that influence inflation, interest rates, currency	"Inflation, interest rates, currency exchange rates, and national	Ordinary Least Square method was used.	The study "shows that the validity test of the independent variables' effect

		exchange rates, and national income on financial deepening in Indonesia for the period 2000-2020."	income. Financial deepening is dependent variable."		produced inflation (INF) and interest rate (IR) variables with no significant effect on financial deepening."
7.	Pan *et al.* (2022)	To scrutinize the asymmetrical "influence of economic growth, industrial production, CPI (consumer price index) and oil price on the trade deficit for the People's Republic of China's economy."	Economic growth, industrial production, CPI "(consumer price index) and oil price on the trade. Trade deficit is dependent variable."	Correlation, and regression model was used.	The study stated that long-run asymmetrical association "among TD (trade deficit), IP (industrial production), oil price, and GDP growth, but not the CPI (consumer price index)."
8.	Razia and Omarya (2022)	To examine "the impact of the broad money supply (M2) on economic growth per capita in Palestine."	Broad money supply and Inflation. Economic growth is dependent variable.	Autoregressive distributed lag model (ARDL) was used.	"The results show that the money supply, the total capital formation, and the inflation rate have a positive impact on the economic growth in the short run."
9.	Uddin and Rahman (2022)	To examine "the issue of inflation by maintaining the inflation rate in single digits."	Inflation rate, gross domestic product and consumer price index.	"The model was examined using the ADF test, Johansen cointegration test, VECM estimation, and Granger causality test."	The results of the "ADF test specifically showed that GDP, HICP, and PPI remain stationary when the initial difference is considered."
10.	Hesniati *et al.* (2022)	To assess the effect of "BI rate, exchange rate and inflation on the broad money (M2)."	BI rate, exchange rate, inflation and broad money (M2).	"Quantitative research using SPSS software as a data processing tool."	"The results showed that the variable BI rate, exchange rate, and inflation simultaneously have a significant effect on the amount of money circulating in

					Indonesia."
11.	Poku *et al.* (2022)	"To analyze the relationship between public sector expenditure and economic growth."	Population growth, government expenditure and economic growth.	ARDL econometric estimation technique has been used.	"The study showed that gross capital formation and foreign direct investment showed a significant positive relationship with economic growth in both the short-run and long-run."
12.	Nguyen and Bui (2022)	To analyze "the role of corruption control in the impact of government expenditure on economic growth."	Government expenditure, corruption control and economic growth.	"Generalized method of moments (GMM) and threshold model were used to estimate research models."	"The study showed that government expenditure and corruption control have a negative impact on economic growth."
13.	Chen *et al.* (2022)	To examine "the effects of government expenditure on economic growth when government expenditure is financed by tax revenues, non-tax revenues, and budget deficit/surplus."	Tax revenues, non-tax revenues, budget deficit/surplus and economic growth.	"Quantitative research using SPSS software as a data processing tool."	The study observed that "fiscal factors and investment have causal effects on economic growth in Vanuatu. More specifically, government expenditure negatively influences long-run economic growth when financed by tax revenues, but positively influences long-run economic growth when financed by other sources such as non-tax revenues and budget surplus/deficit."
14.	Gachugu and Luseno (2023)	To assess the relationship between	Financial deepening and economic	Bivariate Autoregressive model (bVAR) was	The study recommends that the government

		financial deepening and economic growth using money supply as a financial deepening proxy.	growth using money supply as a financial deepening proxy.	used in the study.	should tighten the monetary policy, which could either be through slowing down the open market operation activities such as floating of infrastructure bonds.
15.	Jawo *et al.* (2023)	To examine the relationship between inflation, exchange rate, money supply and economic growth in The Gambia	Inflation, exchange rate, money supply. Economic growth is dependent variable.	Correlation, and regression model was used.	The study recommends the Gambian government to be caution in taking increase amount of public debts and also the central bank of the Gambia to move from monetary targeting to inflation targeting so as to maintain economic growth and price stability.
16.	Cibotariu (2023)	To demystify and elucidate concepts, particularly examining how inflation and economic growth are interlinked through the development of a comprehensive econometric model.	Consumer Price Index (CPI), Producer Price Index (PPI) and the growth rate of Gross Domestic Product (GDP).	Autoregressive distributed lag model (ARDL) was used.	The study showed that relationship between CPI and GDP can vary depending on economic conditions and the level of inflation.
17.	Sharma and Dahiya (2023)	To assess "the effect of currency exchange rate, broad money (M3) and oil prices on inflation in India."	"Consumer price index, inflation rate, exchange rate and money supply."	"Vector autocorrelation model (VECM) is used for data analysis. In addition, Lagrange multiplier test and Jarque-Bera test were used to determine whether the relationships of	"The results showed a short run relationship between inflation and exchange rates. In the long run, there is a poor relationship between the two."

				the variables are normal."	
18.	Musa and Ismail (2023)	To examine the impact of government expenditure on economic growth in Nigeria.	Gross domestic product and capital government expenditure	"Lagrange multiplier test and Jarque-Bera test were used to determine whether the relationships of the variables are normal."	"The findings show a positive link between the Log of Gross Domestic Products (LGDP's) log and its initial lag, which is statistically significant."
19.	Buthelezi (2023)	To "examine the impact of government expenditure on economic growth."	"Government expenditure and economic growth."	The study used "Vector-error correction (VEC) and Markov-switching dynamic regression."	"The study found that more government expenditure in South Africa hasn't resulted in the nation's economy growing, which is at odds with the Keynesian viewpoint."
20.	Chandana *et al*. (2024)	To assess "the impact of government expenditure on economic growth in Nigeria."	"Government expenditure and economic growth."	The study employed Autoregressive Distributed Lag (ARDL) model.	"The key findings of the study are that capital expenditure has positive and significant impact on economic growth both in the short run and long run while recurrent expenditure does not have significant impact on economic growth both in the short run and long run."
21.	Uddin (2024)	The study delved into the intricate connection between money supply and the level of national income in Bangladesh	Inflation rate, GDP growth, real interest rate (RIR), broad money supply (M2), money supply (M3), and narrow money supply	Regression analysis has been used.	Real interest rates demonstrate a significant negative relationship with per capita GDP, suggesting that higher real

			(M1).		interest rates are associated with lower national income levels.
22.	Daniel (2024)	"To explain the relationship between the money supply and inflation rate in the Nigeria's economy."	Money supply, interest rate and inflation.	"The Autoregressive Distributed Lag (ARDL) model of analysis was employed."	"The empirical findings revealed that the various components of the money supply collectively contribute to the inflation rate, while the individual indicators of the money supply exhibit distinct consequences."
23.	Mensah and Adukpo (2025)	To analyse "the effect of government recurrent and capital expenditure on economic growth."	Government recurrent, capital expenditure and gross domestic product.	"A unit root test is conducted to determine whether the time series variable is non-stationary and possesses a unit root."	The study revealed that "capital government expenditure (GCE) has an important effect on GDP growth with a coefficient of 0.26160 ($p < 0.01$) meaning that a 1% increase in GCE results in a 0.26% increase in GDP."
24.	Çollaku and Hajdini (2025)	To examine "the causal relationship between harmonized consumer price index, producer price index and gross domestic product."	"Consumer price index (CPI), producer price index (PPI) and gross domestic product (GDP)."	"The Autoregressive Distributed Lag (ARDL) model of analysis was employed."	The results show that "the consumer price index and GDP have a reciprocal relationship, and this result is statistically significant."
25.	Chen *et al.* (2025)	To assess the government policy-making, corporate strategy, and investor decisions.	Per capita GDP, consumer goods index and unemployment rate.	"Traditional methods such as statistical analysis, regression, and time-series models have used."	The study stated that "per capita GDP poses significant challenges due to its sensitivity to various economic and social factors."

2.2.2 Empirical Review at National Context

Using the ordinary least squares (OLS) method, Neupane (1992) compared the monetarist and structuralist perspectives on inflation in Nepal from 1965 to 1988. According to the study's results, monetary policy is a powerful tool for keeping inflation under control. Inflation may be better managed if the money supply were to grow in tandem with GDP.

The main causes of inflation in Nepal were studied by the Institute for Sustainable Development in 1994. The elements that contribute most to inflation in Nepalese economy, according to this study, are the following: the money supply, currency rate, real output, government expenditure, overseas prices (especially Indian prices), and expectation factors. Also contributing to inflation escalation are market-oriented economic policies, poor market conditions, and infrastructure bottlenecks. The study also found that domestic prices in Nepal climb by more than 8% when prices in India rise by 10%.

The question of whether salary increases constitute the primary causes of cost-Estimates are made across the country for a variety of significant variables, including price equations that include several forms of frequently available money salaries, and data from 1978–79 to 1995–96. It was discovered that the wages of agricultural laborers in Terai and carpenters in Kathmandu are important wage factors that influence the movement of national prices. The Granger Bivariate Causality Test was used to examine the relationship between money wages and the rate of inflation. The results showed that the rate of inflation had a unilateral causation effect on the wages of masonry workers in Kathmandu and agricultural laborers in Terai, and the industrial laborer's wage had the reverse effect on the rate of inflation. A small money supply (M1) has an effect on real GDP, according to the research.

Using panel data spanning 1980–2004, Pradhan *et al.* (2008) examined 195 observations to determine the impact of worker remittance inflow on financial development in 39 developing nations. Two methods, one using fixed effects and the other using random effects, are used to estimate a conventional growth model. Due to statistical tests rejecting the random effects model, the study concluded that the fixed-effects method provided a significant overall match. Inflows of remittances boost economic expansion. More precise statistics on remittance inflow would likely show an even stronger impact of remittance inflow on growth, since the study employed official estimates of remittance inflow, which tend to understate real amounts significantly.

From 1975 to 2011, Paudyal (2014) looked at how the macroeconomic variable affected inflation in Nepal, both immediately and over the long run. Indian prices, the budget deficit, the broad money supply, the exchange rate, and the real gross domestic product are the variables that are taken into consideration. Inflation in Nepal is likely influenced by the variables listed above, according to the Wickens-Breusch Single Equation Error Correction model's regression results. In the medium term, however, inflation is caused solely by changes in the budget deficit, money supply, and Indian prices. This finding accords with the theories of Keynesianism's inflationary gap and monetarists' money natters, as well as the supply-constraints approach to inflation.

Table 2

Summary and Empirical Review at National Context

S.N.	Authors	Objective	Variables	Data analysis and methodology	Major Finding
1.	Neupane (1992)	To examine the "monetarist (closed economy) and structuralism approaches to the inflation process in Nepal."	Inflation and GDP growth.	OLS technique was used.	"Monetary policy is an important instrument to control inflation. An increase in money supply along with growth of GDP could help to control inflation."
2.	ISD (1994)	To investigate the major sources of inflation in Nepal.	"Money supply, international prices (particularly Indian Prices), exchange rate, real output, and government expenditure."	Mean, standard deviation, correlation and regression analysis was used.	"Money supply, international prices (particularly Indian Prices), exchange rate, real output, government expenditure and expectation factor are the major sources of inflation in Nepalese economy. The study also concludes that a ten percent increase in Indian prices causes a more that eight percent rise in domestic price level in Nepal."
3.	Mathema (1998)	To determine the inflation with special reference to wages in Nepal	Money wages and rate of inflation.	Granger Bivariate Causality Test was used.	The study found that narrow money supply (M1) impact on real GDP.

4.	Pradhan *et al.* (2008)	To analyze the effect of worker's remittance inflow on financial development in a sample of 39 developing countries using panel data from 1980-2004.	Remittance inflow and economic growth.	"A standard growth model is estimated using both fixed-effects and random effects approaches."	To address "the impact of remittance inflow on financial development and poverty alleviation finds that remittance inflow has a small, positive impact on growth."
5.	Paudyal (2014)	To analyze the "short term and long-term effects of the macroeconomic variable on the inflation in Nepal during 1975-2011."	"Budget deficit, Indian prices, broad money supply, exchange rate and real gross domestic product."	Correction model was used.	Budget deficit, "Indian prices, broad money supply, exchange rate and real gross domestic product are the determinants of inflation in Nepal. However, only budget deficit, money supply, and Indian prices causes inflation in the short run."

2.4 Research Gap

Looking at what is known about central banks' functions in regulating inflation and keeping the economy stable, most research have relied on time series or cross-sectional data. Nonetheless, traditional regression analysis was used in this work to determine if the data were more appropriately fitted to a random-effect or fixed-effect model. The variables that influence the expansion and contraction of the economy, as well as inflation, are the primary determinants of financial stability. Numerous theoretical models outlining the considerations that a central bank should make in order to prevent inflation and keep the economy stable have been devised by academics and researchers. Policymakers must use their best judgment when deciding how central banks should be tasked with regulating inflation and preserving financial stability.

Most empirical research to far have concentrated on industrialized nations. Both developed and emerging economies have been the focus of a great deal of research on the factors that influence financial stability. There is sufficient material to conduct additional investigations, notwithstanding the small number of studies conducted in the setting of Nepal. Research in

developing economies, such as Nepal's, is still in its infancy, therefore we don't know how applicable the findings are to this context. Therefore, the purpose of this research is to determine how central banks can best control inflation and keep the financial system stable.

It is not possible to generalize the results from other nations to the Nepalese central bank. Consequently, a case study focusing on Nepal is necessary. Research on the topic of financial stability and inflation control is sparse, although studies on the role of central banks in these areas are more numerous. Nepal is one of those countries that does not perform comprehensive studies. This paper fills a significant knowledge vacuum by proposing a framework to analyze the function of central banks in achieving and sustaining price stability and economic growth, with a focus on Nepal.

CHAPTER III

RESEARCH METHODOLOGY

Research technique outlines general strategy related to the investigation. It offers a simple framework around which the research is based. It is a science of learning how research should be done. Study technique should be initially discussed before introducing the analysis and data interpretation. Without methodology, one runs the danger of drawing erroneous results that will be misinterpreted. This chapter is meant for the accomplishment of the goal mentioned in the first chapter.

3.1 Research Design

By combining descriptive and causal comparative research methods, this study seeks to address the core concerns surrounding the function of central banks in regulating inflation and preserving financial stability. In order to get to the bottom of the important questions surrounding the factors influencing financial stability and inflation rate, this study will use a descriptive research approach. The truth and reality are laid forth in it.

A causal comparative research strategy, which seeks to establish a connection between a dependent and independent variable, was also employed in the study. Findings from this study indicate a chain reaction between a number of relevant characteristics and sound financial management. The same logic applies to the choice of this design for determining the nature, extent, and direction of the relationships between the study's financial stability variables. This research delves deeper into the interplay between GDP deflator, CPI, GDP, national income, government spending, broad money, GDP growth, and inflation from 2013-14 to 2022-23.

3.2 Population Sample and Sampling Design

In order to examine the interrelationship between financial stability and controlling inflation, this study includes macroeconomic factors whose respective data are collected from the economic survey report for the period of 2013/14 to 2022/23.

3.3 Type and Sources of Data

1. Type of data

The data type used for the study is secondary data.

2. Sources of data

The required data are collected form the economic survey report for the period of 2013/14 to 2022/23.

3.4 Data Processing Procedure

The first step was to compile a spreadsheet with data retrieved from economic survey reports. Next, the data was input into the spreadsheet in order to calculate the financial ratios and generate the required figures for this study. Data processing tools such as Microsoft Excel, Microsoft Word, and others have been utilized for this objective.

3.5 Data Analysis Tools and Technique

The logical conclusion can be drawn from secondary data acquired from numerous sources, but only if the right tools and approaches are used. The data has been analyzed using the following statistical tools.

3.5.1 Statistical tools

In order to analyze data that has been obtained from various sources, statistical methods are utilized. To examine the data, statisticians use a wide variety of statistical tools. The data in this study was analyzed using the following statistical tools.

1. Arithmetic mean

The arithmetic mean is the value that results from adding up all the numbers in a series and then dividing the sum by the total volume of items. When doing statistical analyses, the arithmetic mean is an invaluable tool. If you want to know what the average is, the simplest and most common way to do it is with the arithmetic mean. To do this, just add up all the numbers in a set and divide the result by the total number of numbers in the series.

$\bar{X} = \Sigma \times / N$

Where,

$\bar{X} =$ Arithmetic Mean

$\sum X$ = Sum of Elements

N = Number of Observations

2. Standard Deviation

"The standard deviation is a statistic that measures the dispersion of a dataset relative to its mean and is calculated as the square root of the variance. It is calculated as the square root of variance by determining the variation between each data point relative to the mean. If the data points are further from the mean, there is higher deviation within the data set; thus, the more spread out the data, the higher the standard deviation."

3. Coefficient of correlation

As a statistical metric, the correlation coefficient determines how closely the two variables move in respect to one another. For gauging the strength of a linear relationship between two variables, it is a helpful statistical tool. "Karl person's coefficient of correlation" is the gold standard for determining the degree of association between any two variables. "If the values of the variables are directly proportional then the correlation is said to be positive. On the other hand, if the values of the variables are inversely proportional, then the correlation is said to be negative. The correlation coefficient always remains within the limit of +1 to -1. The correlation coefficients (r) between two variables X and Y can be obtained by using following formula."

r = $N\Sigma XY - \Sigma X, Y / \sqrt{N\Sigma X^2 - (\Sigma X)^2} \sqrt{N\Sigma Y^2 - (\Sigma Y)^2}$

Where,

r = the correlation coefficient between two variables of X and Y Proprieties

a) It lies between -1 and +1

b) If r = +1, then there is perfect positive correlation.

c) If r = -1, then there is perfect negative correlation.

d) If r = 0, then there is no correlation.

e) If r = 0.7 to 0.99 (or- 0.7 to -0.99) then there is high degree positive or negative correlation.

4. Multiple Regression Analysis

Multiple linear regressions is "most common form of linear regression is used to explain the relationship between one continuous dependent variable and two or more independent variables. The independent variables san be continuous or categorical. Multiple linear regression (MLR), also known simply as multiple regression, is a statistical technique that uses several explanatory variables to predict the outcome of a response variable. The goal of multiple linear regression (MLR) is to model the linear relationship between the explanatory (independent) variables and response (dependent) variable. In essence, multiple regressions is the extension of ordinary least-squares (OLS) regression that involves more than one explanatory variable."

$y_i = \beta_0 + \beta 1 xi1 + \beta 2 xi2 + ... + \beta p xip$

Where, for i = n observation

yi =dependent variable

xi =explanatory variables

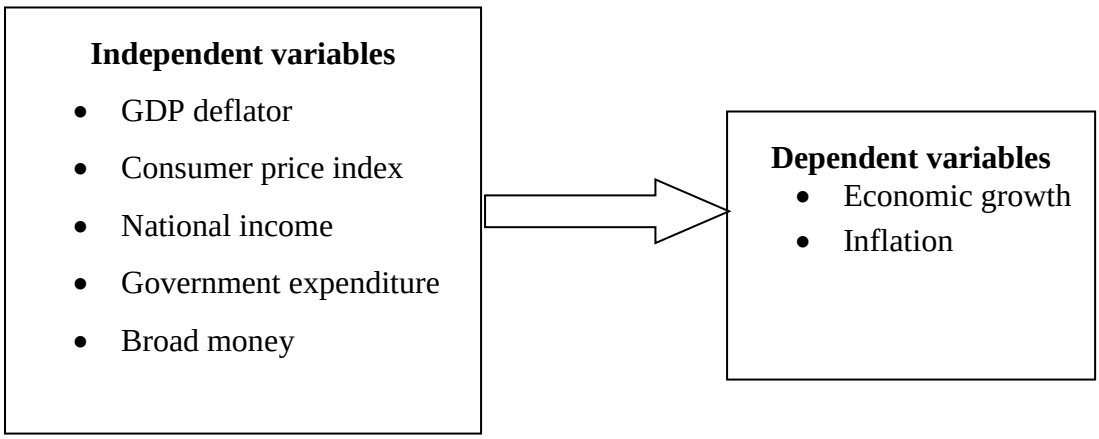
β0 =y-intercept (constant term)

βp =slope coefficients for each explanatory variable

3.6 Research Framework

The study's conceptual approach aims to shed light on the function of central banks in preserving financial stability and reining in inflation by providing a methodical account of the relationship between independent and dependent variables. The research problem's scope and objectives can be better articulated with its aid. In order to describe the primary focus and scope in terms of variables considered, the following conceptual framework is developed

based on the study objective and the literature review. Figure 3.1 displays the conceptual frameworks that explain the study's dependent and independent variables.



Source: (Perera *et al.*, 2013)

Figure 1 *Research framework*

3.7 Method of Analysis

This research employed certain statistical tools. The primary objective of data analysis in this study is to investigate the predictive capacity of particular variables in elucidating the function of central banks in preserving financial stability and regulating inflation. The data analysis is conducted based on the existing data patterns. The correlation among various factors pertinent to the study issue will be elucidated through the application of statistical methods. The computed results are organized under various sections for clarity and subsequently compared to interpret the findings. This study employed simple correlation and regression analysis to examine the impact of independent variables on the dependent variable. Computer data analysis tools SPSS and Excel are employed to evaluate the data. Certain observations exhibiting heteroscedasticity are omitted during data processing to get relevant results.

3.8 Definitions of the Variables

3.6.1 Dependent Variables

Economic growth

Economic growth is "an increase in the production of economic goods and services in one period of time compared with a previous period. It can be measured in nominal or real (adjusted to remove inflation) terms. Traditionally, aggregate economic growth is measured in terms of gross national product (GNP) or gross domestic product (GDP), although alternative metrics are sometimes used."

Inflation

"Inflation is the rate of increase in prices over a given period of time. Inflation is typically a broad measure, such as the overall increase in prices or the increase in the cost of living in a country."

3.6.2 Independent Variables

GDP deflator

"GDP deflator (implicit price deflator) is a measure of the money price of all new, domestically produced, final goods and services in an economy in a year relative to the real value of them. It can be used as a measure of the value of money. GDP deflator is measured as nominal GDP divided by real GDP, expressed as a percentage."

Consumer price index

"The consumer price index (CPI) is the instrument to measure inflation. It is used to estimate the average variation between two given periods in the prices of products consumed by households. It is a composite measurement of trends in the prices of products, at constant quality. Consumer price index is measured as value of basket in current year divided by value of basket in prior year."

National income

"National income is referred to as the total monetary value of all services and goods that are produced by a nation during a period of time. In other words, it is the sum of all the factor income that is generated during a production year. National income serves as an indicator of the nation's economic activity. National income is measured as sum of consumer expenditure, government expenditure, and investment expenditure and net exports."

Broad money

Broad money is a "category for measuring the amount of money circulating in an economy. It is defined as the most inclusive method of calculating a given country's money supply, and includes narrow money along with other assets that can be easily converted into cash to buy goods and services."

CHAPTER IV

REULTS AND DISCUSION

This chapter provides an overview of the various data and variables used in the study, including GDP deflator, CPI, national income, government expenditure, broad money, economic growth, and inflation. After that, the data is evaluated, tabulated, and finally interpreted. Presented here are the study's methodical and organized findings, gleaned from an examination of secondary data and addressing a range of concerns related to the function of central banks in preserving economic stability and reining in inflation.

In order to derive an interpretation from the insights gained, the analytical method focuses on logically separating data and variables. Examining and making sense of the study's findings is the goal of this section. This has been accomplished by making use of a number of the statistical methods discussed in Chapter 3. There are five parts to this chapter. This chapter is organized as follows: first, data structure and pattern analysis; second, descriptive statistics; third, correlation analysis; fourth, step-wise regression analysis; and last, some concluding remarks regarding the results obtained from secondary data.

4.1 Structure and Pattern Analysis

The pattern and structure of dependent variables are examined in this section. It focuses on the ten-year period between 2013-14 and 2022-23, focusing on the structure and pattern of economic growth and inflation. Displayed alongside the structure are the average value and standard deviation for each year.

4.1.1 Structure and Pattern of Economic Growth (EG)

The economic growth "has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table" 3.

Table 3

Structure and pattern of economic growth (EG) for the period of 2013/14 to 2022/23

Year	Economic growth
2013/14	5.5
2014/15	3.4
2015/16	0.4
2016/17	9
2017/18	7.6
2018/19	6.7
2019/20	-2.4
2020/21	4.2
2021/22	5.8
2022/23	4.4
Mean	4.46
S.D.	3.38

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 3 indicates the trend of economic growth ranging from 2013/14 to 2022/23. The economic growth is seen fluctuating over the year. The economic growth is highest in 2016/17 (9 percent) and lowest in 2019/20 (-2.4 percent). The mean value of economic growth is 4.46 percent with standard deviation of 3.38 percent.

4.1.2 Structure and pattern of inflation (INF)

The inflation has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table 4.2.

Table 4

Structure and pattern of inflation (INF) for the period of 2013/14 to 2022/23

Year	Inflation
2013/14	8.36
2014/15	7.2
2015/16	9.9
2016/17	4.5
2017/18	4.2
2018/19	4.6
2019/20	6.2
2020/21	3.6
2021/22	5.4
2022/23	7.93
Mean	6.19
S.D.	2.09

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 4 indicates the trend of inflation ranging from 2013/14 to 2022/23. The inflation is seen fluctuating over the year. The inflation is highest in 2015/16 (9.9 percent) and lowest in 2020/21 (3.6 percent). The mean value of inflation is 6.19 percent with standard deviation of 2.09 percent.

4.2 Structure and Pattern of GDP Deflator, Consumer Price Index, National Income, Government Expenditure, and Broad Money

This section analyzes the structure and pattern of independent variables. More specifically, it deals with the structure and pattern of GDP deflator, consumer price index, national income, government expenditure, and broad money from 2013/14 to 2022/23 for the period of 10 years. The structure has been shown year wise along with average value and standard deviation.

4.2.1 Structure and pattern of GDP deflator (GDPD)

The GDP deflator has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table 5.

Table 5

Structure and pattern of GDP deflator (GDPD) for the period of 2013/14 to 2022/23

Year	GDP deflator
2013/14	124.64
2014/15	130.13
2015/16	110.00
2016/17	150.96
2017/18	157.54
2018/19	168.93
2019/20	170.24
2020/21	181.75
2021/22	195.07
2022/23	208.88
Mean	159.81
S.D.	31.63

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 5 indicates the trend of GDP deflator ranging from 2013/14 to 2022/23. The GDP deflator is seen fluctuating over the year. The GDP deflator is highest in 2022/23 (208.88

percent) and lowest in 2015/16 (110.00 percent). The mean value of GDP deflator is 159.81 percent with standard deviation of 31.63 percent.

4.2.2 Structure and pattern of consumer price index (CPI)

The consumer price index has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table 6.

Table 6

Structure and pattern of consumer price index (CPI) for the period of 2013/14 to 2022/23

Year	Consumer price index
2013/14	93.3
2014/15	100
2015/16	109.9
2016/17	114.8
2017/18	119.6
2018/19	125.1
2019/20	132.8
2020/21	137.8
2021/22	146.3
2022/23	157.6
Mean	123.72
S.D.	20.32

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 6 indicates the trend of consumer price index ranging from 2013/14 to 2022/23. The consumer price index is seen fluctuating over the year. The consumer price index is highest in 2022/23 (Rs. 157.6 billion) and lowest in 2013/14 (Rs. 93.3 billion). The mean value of consumer price index is Rs. 123.72 billion with standard deviation of Rs. 20.32 billion.

4.2.3 Structure and pattern of national income (NI)

The national income has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table 7.

Table 7

Structure and pattern of national income (NI) for the period of 2013/14 to 2022/23

Year	National income
2013/14	1069
2014/15	1139
2015/16	1164
2016/17	1337
2017/18	1479
2018/19	1527
2019/20	1475
2020/21	1598
2021/22	1724
2022/23	1752
Mean	1426.40
S.D.	241.86

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 7 indicates the trend of national income ranging from 2013/14 to 2022/23. The national income is seen fluctuating over the year. The national income is highest in 2022/23 (Rs. 1752 billion) and lowest in 2013/14 (Rs. 1069 billion). The mean value of national income is Rs. 1426.40 billion with standard deviation of Rs. 241.86 billion.

4.2.4 Structure and pattern of government expenditure (GE)

The government expenditure has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table 8.

Table 8

Structure and pattern of government expenditure (GE) for the period of 2013/14 to 2022/23

Year	Government expenditure
2013/14	21.1
2014/15	21.93
2015/16	23.01
2016/17	27.21
2017/18	31.46
2018/19	28.78
2019/20	27.87
2020/21	79.7
2021/22	17.96
2022/23	15.51
Mean	29.45
S.D.	18.35

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 8 indicates the trend of government expenditure ranging from 2013/14 to 2022/23. The government expenditure is seen fluctuating over the year. The government expenditure is highest in 2020/21 (79.7 percent) and lowest in 2022/23 (15.51 percent). The mean value of government expenditure is 29.45 percent with standard deviation of 18.35 percent.

4.2.5 Structure and pattern of broad money (BM)

The broad money has been computed from the year 2013/14 to 2022/23. The computed variable is presented in the Table 9.

Table 9

Structure and pattern of broad money (BM) for the period of 2013/14 to 2022/23

Year	Broad money
2013/14	19.1
2014/15	19.9
2015/16	19.5
2016/17	15.5
2017/18	19.4
2018/19	15.8
2019/20	18.1
2020/21	21.8
2021/22	6.8
2022/23	11.4
Mean	16.73
S.D.	4.56

Source: Economic Survey Published (2013/14 to 2022/23) by Ministry of Finance

Table 9 indicates the trend of broad money ranging from 2013/14 to 2022/23. The broad money is seen fluctuating over the year. The broad money is highest in 2020/21 (21.8 percent) and lowest in 2022/23 (6.8 percent). The mean value of broad money is 16.73 percent with standard deviation of 4.56 percent.

4.3 Correlation Analysis

"Correlation is a term that refers to the strength of a relationship between two variables. A strong, or high, correlation means that two or more variables have a strong relationship with each other, while a weak or low correlation means that the variables are hardly related. Correlation analysis is the process of studying the strength of that relationship with available statistical data. In this study, the Pearson Correlation is used to analyze the data. The

Pearson's coefficient as shown in the below table is used to verify the existence or non-existence of linear correlation between and among the quantitative variables for the period of 2013/14 to 2022/23."

Table 10

Correlation analysis

Variables	*EG*	*IR*	*GDPD*	*CPI*	*NI*	*GE*	*BM*
EG	*1*						
IR	*-0.502*	*1*					
GDPD	*0.143*	*-0.480*	*1*				
CPI	*0.062*	*0.301*	*0.938***	*1*			
NI	*0.134*	*0.499*	*0.966***	*0.964***	*1*		
GE	*0.006*	*0.563*	*0.161*	*0.144*	*0.192*	*1*	
BM	*0.253*	*0.027*	*-0.620*	*-0.610*	*-0.612*	*0.515*	*1*

*. Correlation is significant at the 0.05 level.

**. Correlation is significant at the 0.01 level.

Table 10 shows that "GDP deflator has a positive relationship with economic growth. It indicates that increase in GDP deflator leads to increase in economic growth. Similarly, consumer price index has a positive relationship with economic growth. It indicates that higher the consumer price index, higher would be the economic growth. Likewise, national income has a positive relationship with economic growth. It indicates that higher the national income, higher would be the economic growth. In addition, government expenditure has a positive relationship with economic growth. It indicates that higher the government expenditure, higher would be the economic growth. Furthermore, broad money has a positive relationship with economic growth. It indicates that increase in broad money leads to increase in economic growth. Similarly, GDP deflator has a negative relationship with inflation rate. It indicates that increase in GDP deflator leads to decrease in inflation rate. Similarly, consumer price index has a positive relationship with inflation rate. It indicates that higher the consumer price index, higher would be the inflation rate. Likewise, national income has a positive relationship with inflation rate. It indicates that higher the national income, higher would be the inflation rate. In addition, government expenditure has a positive relationship with inflation rate. It indicates that higher the government expenditure, higher would be the inflation rate. Furthermore, broad money has a positive relationship with inflation rate. It indicates that increase in broad money leads to increase in inflation rate."

4.4 Regression Analysis

"Having indicated the Pearson's correlation coefficients, the regression analysis has been carried out and the results are presented in Table 11. More specifically, the estimated regression results of dependent and independent variables. The regression results of GDP deflator, consumer price index, national income, government expenditure, and broad money on economic growth has been presented in Table" 11.

Table 11

Regression analysis of economic growth

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	21.649	16.389		1.321	0.257
	GDPD	0.033	0.124	0.305	0.264	0.805
	CPI	0.458	0.189	2.748	2.426	0.072
	NI	0.029	0.022	2.037	1.285	0.268
	GE	0.054	0.097	0.294	0.560	0.605
	BM	0.478	0.482	0.645	0.992	0.378

Source: SPSS output

Table 11 shows "that the beta coefficients for GDP deflator are positive with economic growth. It indicates that GDP deflator has a positive impact on economic growth. Similarly, the beta coefficients for consumer price index are positive with economic growth. It indicates that consumer price index has a positive impact on economic growth. Likewise, the beta coefficients for national income are positive with economic growth. It indicates that national income has a positive impact on economic growth. Further, the beta coefficients for government expenditure are positive with economic growth. It indicates that government expenditure has a positive impact on economic growth. In addition, the beta coefficients for broad money are positive with economic growth. It indicates that broad money has a positive impact on economic growth."

The regression results of GDP deflator, consumer price index, national income, government expenditure, and broad money on economic growth have been presented in Table 12.

Table 12

Regression analysis of inflation rate

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.693	6.515		1.488	0.211
	GDPD	-0.023	0.049	-0.343	-0.461	0.669
	CPI	0.241	0.075	2.346	3.212	0.033
	NI	0.020	0.009	2.324	2.273	0.085
	GE	0.048	0.039	0.420	1.242	0.282
	BM	0.018	0.192	0.039	0.094	0.930

Source: SPSS output

Table 12 shows "that the beta coefficients for GDP deflator are negative with inflation rate. It indicates that GDP deflator has a negative impact on inflation rate. Similarly, the beta coefficients for consumer price index are positive with inflation rate. It indicates that consumer price index has a positive impact on inflation rate. Likewise, the beta coefficients for national income are positive with inflation rate. It indicates that national income has a positive impact on inflation rate. Further, the beta coefficients for government expenditure are positive with inflation rate. It indicates that government expenditure has a positive impact on inflation rate. In addition, the beta coefficients for broad money are positive with inflation rate. It indicates that broad money has a positive impact on inflation rate."

4.5 Major findings

Here are the key takeaways from the study, derived from the data analysis:

1. The economic growth is seen fluctuating over the year. The economic growth is highest in 2016/17 (9 percent) and lowest in 2019/20 (-2.4 percent). The mean value of economic growth is 4.46 percent with standard deviation of 3.38 percent.
2. The inflation is seen fluctuating over the year. The inflation is highest in 2015/16 (9.9 percent) and lowest in 2020/21 (3.6 percent). The mean value of inflation is 6.19 percent with standard deviation of 2.09 percent.
3. The GDP deflator is seen fluctuating over the year. The GDP deflator is highest in 2022/23 (208.88 percent) and lowest in 2015/16 (110.00 percent). The mean value of GDP deflator is 159.81 percent with standard deviation of 31.63 percent.

4. The consumer price index is seen fluctuating over the year. The consumer price index is highest in 2022/23 (Rs. 157.6 billion) and lowest in 2013/14 (Rs. 93.3 billion). The mean value of consumer price index is Rs. 123.72 billion with standard deviation of Rs. 20.32 billion.
5. The national income is seen fluctuating over the year. The national income is highest in 2022/23 (Rs. 1752 billion) and lowest in 2013/14 (Rs. 1069 billion). The mean value of national income is Rs. 1426.40 billion with standard deviation of Rs. 241.86 billion.
6. The government expenditure is seen fluctuating over the year. The government expenditure is highest in 2020/21 (79.7 percent) and lowest in 2022/23 (15.51 percent). The mean value of government expenditure is 29.45 percent with standard deviation of 18.35 percent.
7. The broad money is seen fluctuating over the year. The broad money is highest in 2020/21 (21.8 percent) and lowest in 2022/23 (6.8 percent). The mean value of broad money is 16.73 percent with standard deviation of 4.56 percent.
8. The correlation analysis shows that GDP deflator has a positive relationship with economic growth. It indicates that increase in GDP deflator leads to increase in economic growth. In contrast, GDP deflator has a negative relationship with inflation rate. It indicates that increase in GDP deflator leads to decrease in inflation rate.
9. Similarly, "consumer price index has a positive relationship with economic growth and inflation rate. It indicates that higher the consumer price index, higher would be the economic growth and inflation rate."
10. Likewise, national income has a "positive relationship with economic growth and inflation rate. It indicates that higher the national income, higher would be the economic growth and inflation rate."
11. In addition, "government expenditure has a positive relationship with economic growth and inflation rate. It indicates that higher the government expenditure, higher would be the economic growth and inflation rate."
12. Furthermore, "broad money has a positive relationship with economic growth and inflation rate. It indicates that increase in broad money leads to increase in economic growth and inflation rate."
13. The regression analysis "shows that the beta coefficients for GDP deflator are positive with economic growth. It indicates that GDP deflator has a positive impact on economic growth."

14. Similarly, "the beta coefficients for consumer price index are positive with economic growth and inflation rate. It indicates that consumer price index has a positive impact on economic growth and inflation rate."
15. Likewise, "the beta coefficients for national income are positive with economic growth and inflation rate. It indicates that national income has a positive impact on economic growth and inflation rate."
16. Further, "the beta coefficients for government expenditure are positive with economic growth and inflation rate. It indicates that government expenditure has a positive impact on economic growth and inflation rate."
17. In addition, "the beta coefficients for broad money are positive with economic growth and inflation rate. It indicates that broad money has a positive impact on economic growth and inflation rate."

4.6 Discussions

The results show a favorable link between GDP deflator and economic development. It shows that quicker economic development follows from a larger GDP deflator. The findings of this study match those of Aluthge *et al.* (20211). By contrast, the connection between GDP deflator and inflation rate is negative. It reveals that inflation declines when the GDP deflator rises. This discovery is consistent with the outcomes of Khomariyah *et al.* (2022). The consumer price index likewise shows a favorable correlation with inflation and economic growth. Faster inflation and economic growth shown by a rise in the consumer price index Lamah *et al.* (2021) produce findings that contradict this finding. National income is likewise favorably connected with GDP growth and inflation rate. This result implies that lower inflation and faster economic development resulting from a greater GDP would be outcomes. Hajihassaniasl (2020) likewise arrived at the same end. Additionally significantly correlated with GDP growth and inflation is government expenditure. Spending more money would hasten inflation as well as economic growth. Amassoma *et al.*'s findings line up with this 2018 revelation. Furthermore positively correlated with both GDP growth and inflation is broad money. It shows that economic development accelerates and inflation results from monetary expansion. This outcome is accurate unlike what Amassoma *et al.* discovered (2018). Unfortunately, the small sample size of the study makes the data statistically meaningless and results in its incapacity to identify real effects. When data variability is

considerable, it might be difficult to find consistent trends—even in the presence of an impact.

Without a steady financial sector, an economy cannot develop. Through loans and advances, banks mostly assist the agricultural, industrial, personal, and governmental sectors by turning surplus units' deposits into deficit units. A financial system is stable in the absence of excessive volatility, stress, or crisis characterizing elements. Then, financial stability is a condition of being able to withstand shocks and the unwinding of financial imbalances; it comprises markets, financial intermediaries, and market structure. It so lowers the likelihood of financial intermediation process interruptions strong enough to significantly impede the distribution of savings to profitable investment opportunities.

Maintaining steady prices across all financial and commercial operations helps keep the nation's finances in control, which in turn increases employment and facilitates long-term economic development. Setting credit limits on deposits is the main instrument of monetary policy since it maintains people's money safe and offers a flexible means of boost the economy. The question of financial stability reflects the national economic development, which is guaranteed by quite constant indicators of monetary and fiscal policy. But one must grasp the economic cycle and the nature of the economy more especially, whether it is an open or closed economy to access worldwide markets and avoid economic hazards.

CHAPTER V

SUMMARY AND CONCLUSION

The main results of the research are emphasized in this chapter together with a synopsis of the whole work. Furthermore covered in separate part of this chapter are the key conclusions, which are followed by some implications about the function of central banks in preserving financial stability and inflation management.

5.1 Summary

During financial crisis, the quality of institutions becomes really important (Klomp and de Haan, 2014). High quality of institution countries should be able to create strategies to handle negative shocks more skillfully than those of low institutional quality. The financial system based on banks guides resources to production channels resulting in facilitating the process of the economic development and offers information regarding the investment possibilities. Because of its potential to enable value exchange, stability of the financial sector in an economy is a major driver of economic development (Swamy, 2014). By means of their operations, they enable more effective movement of money from surplus families to deficit households, hence fostering economic growth and development (Ratnovski, 2013). Commercial banks must aggressively investigate the operational environment and create pertinent plans that would lower the degree of their vulnerability to events likely to influence their financial stability. According to Uhde and Heimeshoff (2009), a financial stability of any nation is a major determinant of visiting the world through increased international business, where the strength of completion in the market has resulted in fascinating governments to consider the conclusion of international trade agreements. These agreements will boost economic activity, but this activity will rely on how the soundness of the national financial system helps to ease the contracting procedure in commercial agreements. Profitable banking sectors help economies to resist negative shocks and support the stability of the financial system (Athanasoglou *et al.*, 2005).

Many central banks have come to see over the past three decades that their capacity to influence private citizens' and markets' expectations essentially determines the efficacy of their policies, not just the current path of interest rates (Woodford, 2004; Bernanke, 2007). In this regard, the expectations that count are those regarding inflation and the direction nominal

interest rates will travel. Consequently, public expectations of central banks' future policies and actions determine inflation and interest rate expectations in turn. In this sense, openness and confidence in central banks' policies and activities have become rather crucial. This insight has led central banks to drastically change their policies by implementing a constant forward policy signaling and more openness in order to let market players and private citizens know the anticipated future route of monetary policy. They have also put plans in place to increase public knowledge of their goals and policies and so strengthen the public confidence in them.

Investigating the part central banks play in preserving financial stability and inflation management is the main goal of this paper. The study intends specifically to ascertain the structure and pattern of GDP deflator, consumer price index, national income, government expenditure and broad money; to ascertain the structure and pattern of economic growth and inflation; and to evaluate the link between GDP deflator, consumer price index, national income, government expenditure and broad money with economic growth and inflation.

Descriptive research design and causal comparative research design have been used in this paper to address the basic problems related to the function of central banks in preserving financial stability and inflation management. The study is based on secondary data, which are gathered for ten years from 2013/14 to 2022/23. The secondary statistics come from reports on the economic surveys released by the Ministry of Finance. Using a multi-step regression analysis, one examines the relationship between dependent and independent variables. More especially, GDP deflator, consumer price index, national income, government expenditure, and broad money are regarded as independent variables; economic growth and inflation rate are regarded as the dependent variables.

5.2 Conclusion

An economy can't grow without a stable banking industry. Banks primarily serve the agricultural, industrial, personal, and governmental sectors by converting surplus units' deposits into deficit units through loans and advances. Stability in the absence of extreme volatility, stress, or crisis characterizes a financial system. Financial stability, then, is a state of being able to endure shocks and the unwinding of financial imbalances; it includes financial intermediaries, markets, and market infrastructure. Therefore, it reduces the possibility of financial intermediation process interruptions severe enough to drastically

hinder the allocation of savings to lucrative investment possibilities. Equally important for long-term economic growth are the responsibilities of central banks in preserving financial stability and reining in inflation. Central banks play an important role in preventing economic crises and preserving confidence in the financial system through their regulation of financial institutions, successful monetary policies, and lending-of-last-resort programs. Price stability, safeguarded by their ability to manipulate interest rates and the money supply, protects consumers' purchasing power and encourages investment.

The main takeaway from this research is that GDP deflator correlates positively with GDP growth. It proves that a higher GDP deflator results in faster economic expansion. On the other hand, the link between inflation rate and GDP deflator is negative. It shows that as the GDP deflator goes up, inflation goes down. Similarly, inflation and economic growth are positively correlated with the consumer price index. An increase in the consumer price index is indicative of faster economic growth and inflation. Similarly, GDP growth and inflation rate are positively correlated with national income. This finding suggests that a higher GDP would lead to faster economic growth and lower inflation. Government spending also correlates positively with GDP growth and inflation. Both economic growth and inflation would be accelerated if the government spent more money. Broad money also correlates positively with both GDP growth and inflation. It proves that a rise in the money supply causes inflation and economic growth to accelerate.

5.3 Implications

The study highlighted several key factors influencing financial stability and inflation control. It found a positive impact of the consumer price index (CPI) on financial stability and controlling inflation, suggesting that to enhance stability, the central bank should consider managing and possibly increasing the CPI within a sustainable range. Similarly, the study observed that national income positively affects financial stability and inflation control, implying that the central bank should focus on strategies that boost net income. Government expenditure was also shown to have a favorable impact, indicating that increasing such expenditure can support stability and inflation control. Additionally, broad money demonstrated a positive effect, suggesting that expanding the money supply could contribute to economic stability when managed effectively.

Central banks employ interest rates and open market operations as primary tools to manage inflation. While tightening monetary policy during periods of high inflation can help stabilize prices, it may also lead to slower economic growth. Furthermore, "central banks play a vital role in regulating the banking sector to ensure financial institutions operate safely." Weak oversight in this area can result in systemic risks and financial crises. Operational independence is crucial for central banks, as political interference can hinder their ability to make objective, long-term decisions that support financial stability and price control.

The rise of financial technologies, including crypto currencies and digital payment systems, requires central banks to adapt their regulatory and policy frameworks to maintain stability and control inflation effectively. By using various monetary policy tools, central banks help ensure macroeconomic stability. Stable inflation fosters investor confidence, encourages consumption and investment, and ultimately promotes economic growth. Strengthening institutional credibility through transparent and predictable actions helps anchor inflation expectations, reduce market volatility, and build public trust.

At the times of financial crises, central banks act as the first line of defense. Their ability to serve as a lender of last resort and to implement monetary easing can prevent institutional collapses and contain systemic risks. However, central banks cannot work in isolation; coordination with fiscal authorities is often necessary to ensure that policy measures are complementary and do not send conflicting signals to the market. Moreover, with the rapid growth of fintech and digital currencies, central banks must stay agile, updating regulatory frameworks to address emerging risks and safeguard financial stability.

REFERENCES

Abbass, K., Begum, H., Alam, A. F., Awang, A. H., Abdelsalam, M. K., Egdair, I. M. M., & Wahid, R. (2022). Fresh insight through a Keynesian theory approach to investigate the economic impact of the COVID-19 pandemic in Pakistan. Sustainability, 14(3), 1054.

Adhikary, B. K. (2006). Nonperforming loans in the banking sector of Bangladesh: Realities and challenges. *Bangladesh Institute of Bank Management*, *4*(26), 75-95.

Ahmed, M., Maqsood, H., Ali, M., & Mahmood, S. (2025). The role of central banks in managing inflation and financial crises: strategies, challenges, and global case perspectives. *Academia International Journal for Social Sciences*, *4*(1), 575-596.

Aigheyisi, O. S., & Edore, J. O. (2019). Asymmetric effects of money supply growth on economic growth in Nigeria. *Euro Economica*, *38*(2), 282-295.

Aiyelabegan, A. B., Adeoye, A. O., & Suleiman, S. (2020). Estimating the effect of money supply on economy growth. *Journal of Women in Technical Education and Employment*, *1*(2), 8-12.

Altaee, H. H. A., Talo, I. M. A., & Adam, M. H. M. (2013). Testing the financial stability of banks in GCC countries: Pre and post financial crisis. *International Journal of Business and Social Research*, *3*(4), 93-105.

Aluthge, C., Jibir, A., & Abdu, M. (2021). Impact of government expenditure on economic growth in Nigeria, 1970-2019. *Journal of Applied Statistics*, *12*(1), 139-174.

Amassoma, D., Sunday, K., & Onyedikachi, E. E. (2018). The influence of money supply on inflation in Nigeria. *Journal of Economics and Management*, *3*(1), 5-23.

Athanasoglou, P. P., Brissimis, S., & Delis, M. (2005). Bank- specific, industry- specific and macroeconomic determinants of bank profitability. *Bank of Greece*, *7*(3), 5-37.

Beck, T., Levine, R., & Loayza, N. (2000). Finance and the sources of growth. *Journal of Financial Economics*, *58*(1-2), 261-300.

Bernanke, B. S., Laubach, T., Mishkin, F. S., & Posen, A. S. (1999). *Inflation targeting: Lessons from the international experience*. Princeton University Press.

Bhansali, V. (2021). *The incredible upside-down fixed-income market: negative interest rates and their implications.* CFA Institute Research Foundation.

Boyd, J. H., & De Nicolo, G. (2005). The theory of bank risk taking and competition revisited. *The Journal of Finance, 60*(3), 1329-1343.

Buthelezi, E. M. (2023). Impact of government expenditure on economic growth in different states in South Africa. *Cogent Economics and Finance*, *11*(1), 1-17.

Chandana, A., Adamu, J., & Musa, A. (2024). Impact of government expenditure on economic growth in Nigeria, 1970-2019. *CBN Journal of Applied Statistics (JAS)*, *11*(2), 139-174.

Chen, H., Singh, B., & Aru, W. S. (2022). Relationship between government expenditure and economic growth: evidence from Vanuatu. *Journal of the Asia Pacific Economy*, *27*(4), 640-659.

Chen, X. S., Kim, M. G., Lin, C. H., & Na, H. J. (2025). Development of per capita GDP forecasting model using deep learning: Including consumer goods index and unemployment rate. *Sustainability*, *17*(3), 1-29.

Christelis, D., Georgarakos, D., Jappelli, T., & Van Rooij, M. (2016). Trust in the central bank and inflation expectations. DNB Working Paper, 496, Amsterdam.

Cibotariu, I. S. (2023). Methods of measuring and analyzing inflation and its effect on economic growth. *Ovidius University Annals, Economic Sciences Series*, *23*(2), 36-45.

Claessens, S. (2015). An overview of macro prudential policy tools. *Annual Review of Financial Economics, 7,* 397-422.

Çollaku, L., & Hajdini, A. (2025). The causal relationship between harmonized consumer price index, producer price index and gross domestic product: Evidence from Kosovo. *Economic Alternatives,* (1), 166-189.

Cote, A. (2024). Inflation, expectations, and monetary policy. *Methods.* https://www.bankofcanada.ca/wp-content/uploads/2015/02/remarks-190215.

Cukierman, A., Webb, S. B., & Neyapti, B. (1992). Measuring the independence of central banks and its effect on policy outcomes. *The World Bank Economic Review*, *6*(3), 353-398.

Dahal, S., Timilsina, S. K. C., & Paudel, U. (2015). Impact of macro-economic factors on Nepalese firm performance. *Nepalese Journal of Finance, 2*(6), 52-63.

Daniel, J. (2024). Impact of money supply on inflation rate in Nigeria. *International Journal of Business Diplomacy and Economy, 3*(1), 204-215.

Dudzeviciute, G., Simelyte, A., & Liucvaitiene, A. (2018). Government expenditure and economic growth in the European Union countries. *International Journal of Social Economics*, *45*(2), 372-386.

Edwards, F. R., & Mishkin, F. S. (1995). The decline of traditional banking: Implications for financial stability and regulatory policy. *Economic Policy Review, 1*(2), 27-45.

Gachugu, P. W., & Luseno, K. A. (2023). Determining the effect of money supply as a ratio of GDP on economic growth in Kenya from 1985-2020. *Journal of Policy and Development Studies*, *2*(1), 95-105.

Gan J., (2004). Banking market structure and financial stability: Evidence from the Texas real estate crisis in the 1980s. *Journal of Financial Economics, 73*(3), 567-601.

George, C., Suoyai, E., Tema, L., & Boloekeye, M. (2018). Impact of money supply on some macroeconomic variables on the Nigerian economy. *Journal of Business Management and Economic Research*, *2*(5), 32-46.

Hajihassaniasl, S. (2020). The impact of national income on the technical efficiency of agriculture sector in developing countries (a metafrontier approach). *Scientific Papers Series Management, Economic Engineering in Agriculture and Rural Development, 20*(4), 245-254.

Hesniati, H., Koo, F., Fernando, F., Winardy, J., & Chuadra, W. D. (2022). The impact of BI rate, exchange rate, and inflation on broad money in Indonesia. *Jambura Equilibrium Journal, 4*(2), 58-63.

Hussain, M. I., & Zafar, T. (2018). The interrelationship between money supply, inflation, public expenditure and economic growth. *European Online Journal of Natural and Social Sciences, 7*(1), 1-24.

Institute for Sustainable development, ISD (1994), *Major sources of inflation in Nepal.* Institute of Sustainable Development, ISD (1994). Major sources of inflation in Nepal.

Jamil, M. N. (2022). Monetary policy performance under control of exchange rate and consumer price index. *Journal of Environmental Science and Economics, 1*(1), 28-35.

Jawo, A., Jebou, M., & Bayo, L. F. (2023). The relationship between Inflation, Exchange Rate, Money Supply and Economic Growth in The Gambia. *Technium Social Sciences Journal, 40*(3), 213-222.

Kato, P., & Hagendorff, J., (2010). Distance to default, subordinated debt, and distress indicators in the banking industry. *Accounting and Finance, 50*(4), 853-870.

Khomariyah, R. N., Setyowati, E., & Utomo, Y. P. (2022). Analysis of the effect of inflation, interest rate, exchange rate, and national income on financial deepening in Indonesia from 2000 to 2020. *Advances in Economics, Business and Management Research, 218*, 154-161.

Klomp, J., & De Haan, J. (2009). Central bank independence and financial instability. *Journal of Financial Stability, 5*(2), 321-338.

Klomp, J., & de Haan, J. (2014). Bank regulation, the quality of institutions, and banking risk in emerging and developing countries: An empirical analysis. *Emerging Markets Finance and Trade, 50*(6), 19-40.

Kydland, F. E., & Prescott, E. C. (1977). Rules rather than discretion: The inconsistency of optimal plans. *Journal of Political Economy, 85*(3), 473-491.

Lamah, A. I. A., Yanto, H., & Setyadharma, A. (2021). The impact of consumer price index, foreign direct investment, bank credit and labor force on economic growth in Indonesia. *Business and Economic Analysis Journal, 1*(2), 79-91.

Magdalena, S., & Suhatman, R. (2020). The effect of government expenditures, domestic investment, foreign investment to the economic growth of primary sector in central Kalimantan. *Budapest International Research and Critics Institute-Journal*, *3*(3), 1692-1703.

Manandhar, M., M. Baral, Khatri, B. N., Kawang, P., & Nepal, P. (2014). Determinants of Nepalese bank profitability. *Nepalese Journal of Finance, 1*(6), 52-63.

Mathema, S. R. (1998). Determinants of inflation with special reference to wages in Nepal. *NRB Economic Review, 10(6),* 1-18.

Mensah, N., & Adukpo, T. K. (2025). Impact of government expenditure on economic growth of Ghana. *Asian Journal of Economics, Business and Accounting*, *25*(3), 232-247.

Mishkin, F. S., & Kiley, M. (2025). The Evolution of Inflation Targeting from the 1990s to the 2020s: Developments and Challenges (No. w33585). National Bureau of Economic Research. https:doi.org/10.3386/w33585.

Mishra, H. K. (2024). Monetary policy and financial stability: Evaluating the role of central banks in preventing systemic risks. *Shodh Sagar Journal of Commerce and Economics*, *1*(1), 12-17.

Musa, I., & Ismail, Y. (2023). Impact of government expenditure on economic growth in Nigeria: 1970-2020. *International Journal of Management and Business Applied*, *2*(2), 94-107.

Nadiva, N., Eltivia, N., & Riwajanti, N. I. (2021). The effect of the consumer price index on inflation in Indonesia during the pandemic. *International Journal of Innovative Science and Research Technology*, *6*(12), 798-802.

Neupane, B. (2013). Efficiency and productivity of commercial banks in Nepal: A malmquist index approach. *Asian Journal Finance and Accounting*, *5*(2), 220-243.

Neupane, G. P. (1992). Causes of inflation in Nepal: An quantitative analysis. *NRB Economic Review*, 6(2*)*, 33-49.

Nguyen, M. L. T., & Bui, N. T. (2022). Government expenditure and economic growth: Does the role of corruption control matter? *Heliyon*, *8*(10), 1-8.

Nyasha, S., & Nicholas, N. M. (2019). The impact of public expenditure on economic growth: a review of international literature. *Folia Oeconomica Stetinensia, 19*(2), 82-101.

Okpabi, A. S., Ijuo, A. O., & Akiri, S. E. (2021). Government expenditure and economic growth in Nigeria. *Journal of Economics and Finance, 12*(1), 28-35.

Omodero, C. O. (2019). Effect of money supply on economic growth: A comparative study of Nigeria and Ghana. *International Journal of Social Science Studies, 7*(3), 16-23.

Pan, L., Amin, A., Zhu, N., Chandio, A. A., Naminse, E. Y., & Shah, A. H. (2022). Exploring the asymmetrical influence of economic growth, oil price, consumer price index and industrial production on the trade deficit in China. *Sustainability*, *14*(23), 15534.

Paudyal, S. B. (2014). Determinants of inflation in Nepal: An empirical assessment. *NRB Economic Review*, *26*(2), 61-82.

Perera, A., Ralston, D., & Wickramanayake, J. (2013). Central bank financial strength and inflation: Is there a robust link? *Journal of Financial Stability, 9*(3), 399-414.

Poku, K., Opoku, E., & Agyeiwaa Ennin, P. (2022). The influence of government expenditure on economic growth in Ghana: An ARDL approach. *Cogent Economics and Finance*, *10*(1), 1-16.

Pradhan, G., Upadhyay, M., & Upadhyaya, K. (2008). Remittances and economic growth in developing countries. *The European Journal of Development Research*, *20*(3), 497-506.

Ratnovski, L. (2013). Liquidity and transparency in bank risk management. *Journal of Financial Intermediation*, *22*(3), 422-439.

Razia, A., & Omarya, M. (2022). The impact of the broad money supply (M2) on economic growth per capita in Palestine. *International Journal of Business Ethics and Governance, 5*(2), 1-10.

Rogoff, K. (1985). The optimal degree of commitment to an intermediate monetary target. *The Quarterly Journal of Economics*, *100*(4), 1169-1189.

Samuel, U. D., & Oruta, I. L. (2021). Government expenditure and economic growth in Nigeria: A disaggregated analysis. *Path of Science*, *7*(11), 4022-4035.

Schinasi, G. J. (2004). Defining financial stability (IMF Working Paper No. 04/187). International Monetary Fund.

Sharma, S., & Dahiya, M. (2023). Analysis of the effect of currency exchange rate, broad money (M3) and oil prices on inflation in India. *International Journal of Economics and Financial Issues*, *13*(3), 158-168.

Siami-Namini, S., & Hudson, D. (2019). Inflation and income inequality in developed and developing countries. *Journal of Economic Studies*, *46*(3), 611-632.

Sulikova, V., Siniaakova, M., & Stiblarova, L. (2019). Does inflation affect the relationship between broad money and economic growth? A threshold model. *Ekonomický časopis, 67*(6), 569-586.

Sultana, N., Koli, R., & Firoj, M. (2019). Causal relationship of money supply and inflation: A study of Bangladesh. *Asian Economic and Financial Review*, *9*(1), 42-51.

Swamy, V. (2014). Testing the interrelatedness of banking stability measures. *Journal of Financial Economic Policy*, *6*(1), 25-45.

Taylor, J. B. (1993). Discretion versus policy rules in practice. *Carnegie-Rochester Conference Series on Public Policy*, 39, 195-214.

Tegegne, Y. E. (2021). Impact of broad money supply on economic growth of Ethiopia. *Research Journal of Finance and Accounting*, *12*(5), 20-45.

Tiwari, C. K., Sontakke, R., & Wardha, P. (2013). Nonperforming assets–A cause of concern for banks. *ASM's International E-Journal Ongoing Research in Management and IT*, *8*(3), 1-6.

Uddin, I., & Rahman, K. U. (2023). Impact of corruption, unemployment and inflation on economic growth evidence from developing countries. *Quality and Quantity*, *57*(3), 2759- 2779.

Uddin, S. (2024). The impact of money supply on national income: An empirical analysis of Bangladesh. *Mustard Journal De Ecobusin*, *1*(3), 122-133.

Uhde, A., & Heimeshoff, U. (2009). Consolidation in banking and financial stability in Europe: Empirical evidence. *Journal of Banking and Finance*, *33*(7), 1299-1311.

Vvan der Cruijsen, C., Jansen, D., & De Haan, J. (2015). How much does the public know about the ebbs' monetary policy? Evidence from a survey of Dutch households. *International Journal of Central Banking*, *12*(1), 169-218.

Wahyudin, A. (2025). The role of monetary policy in addressing economic and financial challenges: Effective strategies for managing inflation and growth. *Journal of Multi Currency*, *1*(1), 1-13.

Woodford, M. (2004). Inflation targeting and optimal monetary policy. *Federal Reserve Bank of St. Louis Economic Review*, *86*(4), 15-41.

Woodford, M. (2005). Central bank communication and policy effectiveness. NBER Working Paper.

Yusuff, A. Q., Ajayi, S. O., Akanbi, O. A., & Amusa, S. O. (2020). Econometric analysis of consumer price index on some major economic indicators. *International Journal of Applied Science and Mathematical Theory*, *6*(3), 19-25.

APPENDIX

Year	EG	IR	GDPD	CPI	NI	GE	BM
2013/14	4.4	7.93	208.88	157.6	1752	15.51	11.4
2014/15	5.8	5.4	195.07	146.3	1724	17.96	6.8
2015/16	4.2	3.6	181.75	137.6	1598	79.7	21.8
2016/17	-2.4	6.2	170.24	132.8	1475	27.87	18.1
2017/18	6.7	4.6	168.93	125.1	1527	28.78	15.8
2018/19	7.6	4.2	157.54	119.6	1479	31.46	19.4
2019/20	9.0	4.5	150.96	114.8	1337	27.21	15.5
2020/21	0.4	9.9	110.00	109.9	1164	23.01	19.5
2021/22	3.4	7.2	130.13	100	1139	21.93	19.9
2022/23	5.5	8.36	124.64	93.3	1069	21.1	19.1

PAPER NAME

ROLE OF CENTRAL BANKS IN MAINTAIN ING FINANCIAL STABILITY AND CONTR OLLING INFLATION

AUTHOR

Saroj Nepal

WORD COUNT

18124 Words

CHARACTER COUNT

101108 Characters

PAGE COUNT

58 Pages

FILE SIZE

112.2KB

SUBMISSION DATE

Jun 15, 2025 2:25 PM GMT+5:30

REPORT DATE

Jun 15, 2025 2:26 PM GMT+5:30

10% Overall Similarity

The combined total of all matches, including overlapping sources, for each database.

- 10% Internet database
- 5% Publications database
- Crossref database
- Crossref Posted Content database
- 0% Submitted Works database

Excluded from Similarity Report

- Bibliographic material
- Quoted material
- Small Matches (Less then 10 words)