Abstract

Many countries in the world experience demographic transition – significant decrease of fertility rates and increase share of the old population. The pace and characteristics of demographic shifts however are individual for each country. At the same time these countries face low inflation rates or even deflation. In this thesis I demonstrate how demographic changes are correlated with low inflation rates. I estimated two different models – VAR and FEM for panel data using two samples of developing countries. The primary argument of using two separate groups for estimating the same problem is robustness check, whether all three imposed hypotheses will hold in any sample of the population. These hypotheses are - first, deflation is positively correlated with increased share of the old population, second, low inflation in developing economies has structural pattern due to demographic changes and third, deflation can be forecastable if it is driven by demographic trends. Despite the heterogeneity of the results from PVAR and FEM, a negative impact of aging population on inflation has been proved. Also estimation results support our two hypotheses that low inflation if it is partially driven by aging structure changes, has structural rather than cyclical characteristics and is predictable. Contribution of this thesis is investigation the impact of age structure on inflation in developing countries since the rest of the existent studies examine the same impact using advanced countries example.

Keywords	Deflation, aging population, developing countries, Panel data, negative impact.
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