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Forecasting inflation in Latin America with core measures

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Abstract

We explore the ability of core inflation to predict headline CPI annual inflation for a sample of eight developing economies in Latin America over the period January 1995–May 2017. Our in-sample and out-of-sample results are roughly consistent in providing robust evidence of predictability in four of the countries in our sample. Mixed evidence is found for the other four countries. The bulk of the out-of-sample evidence of predictability concentrates on the short horizons of one and six months. In contrast, at the longest horizon of 24 months, we only find out-of-sample evidence of predictability for two countries: Chile and Colombia, with robust results only for the latter. This is both important and challenging, given that the monetary authorities in our sample of developing countries are currently implementing or are taking steps toward the future implementation of inflation targeting regimes, which are based heavily on long-run inflation forecasts. © 2019 International Institute of Forecasters

Author Keywords

Core inflation; Developing countries; Forecasting; Inflation; Monetary policy; Time series

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