

An alternative core inflation indicator for the Bolivian economy: latent inflation

Mauricio Mora Barrenechea

Abstract

An alternative measure of core inflation that can contribute to better understand the evolution of inflation in Bolivia is proposed. For this purpose I build the indicator called latent inflation, which is understood as the part of the observed inflation that has no effect on real output in the medium and long term, under the hypothesis of neutrality of money. I used a structural VAR based on Quah and Vahey (1995) methodology and the dynamic constraints proposed by Blanchard and Quah (1989). The results showed that the observed inflation and latent inflation had a similar behavior in the period between 1995 and 2013, except in some cases where internal and/or external supply shocks were observed.

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