

Inflation inertia in Bolivia: a non-structural analysis

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ABSTRACT

In this work, we study the inflationary inertia in nonstructural perspective. Understanding this phenomenon is essential for the proper management of monetary policy, as persistent inflation is often more difficult to control, especially when unanticipated shocks hits the economy. To this end, and based on econometric techniques, we analyze the evolution of the inflation inertia for the period January 1987 – August 2013. Using time series models and considering the possibility of structural changes in regime during this period, the results lead us to conclude that inflationary inertia was significantly reduced in the post hyperinflation period. This reduction was enhanced with the deepening of the monetary regime through the enactment of the BCB Law. However, recent inflationary shocks that hit the economy in 2007 and 2010 showed that inflation can quickly go from a low rate to a high persistence rate and stay there for several months. Therefore, the Central Bank responds with anticipation and bluntness to avoid increasing inflation persistence and thus make it easier and less costly to control inflation.

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