

Evaluation of core inflation measures in Bolivia*

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ABSTRACT

Maintaining the stability of purchasing power of the local currency is the main goal of the central banks. Therefore, it is necessary to use alternative indicators, known as core inflation indicators, which more accurately reflect the behavior of level prices, given that the Consumer Price Index has certain limitations. In this document, in order to have several core inflation indicators that can be used by the Central Bank of Bolivia various methodologies are evaluated. For this purpose, the following evaluation criteria were considered: volatility, persistence, unbiasedness, and predictive capacity. We find that all these core measures have the necessary qualities to approximate inflation pressures that arise in the Bolivian economy on the demand side. Furthermore, no indicator is perfect so it is necessary to use more than one indicator.

JEL Classification: E31, E50, C10, C22, C32

Palabras clave: *Headline inflation, core inflation, evaluation*

* The conclusions, opinions and points of view expressed in this document do not necessarily represent those of the Central Bank of Bolivia or its authorities and are the sole responsibility of the authors. The contributions and comments made by Sandra Vasquez and Pablo Rocha in the preparation of this document are appreciated.

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