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CASE Ukraine

Core Inflation: Estimates for Ukraine

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Conceptual Issue of Core Inflation

The ideal measure of core inflation should:

- *account for the long-term trend movements in prices that reflect the state of demand in the economy*
- *and discard various one-off shocks coming from the supply side*

$$CPI = \text{core inflation} + \text{noise}$$

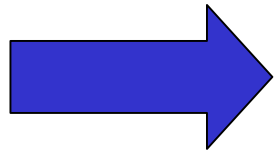
$$\underline{\text{core inflation} = CPI - \text{noise}}$$

Calculations for Ukraine

- *Monthly CPI information (mom inflation) for the period of 1997:1-2004:9*
- *Annual consumer price index (yoy inflation) for the period of 1997:12-2004:9*
- *Sample includes 82 observations and consumer basket is disaggregated for 85 items for each moment of time*

Methodologies

- *Ordinary trimmed means*
- *Means trimmed according to the distance from the center of the distribution*
- *Means trimmed according to price stability*
- *Variance weighted means*
- *Exclusion-based means*



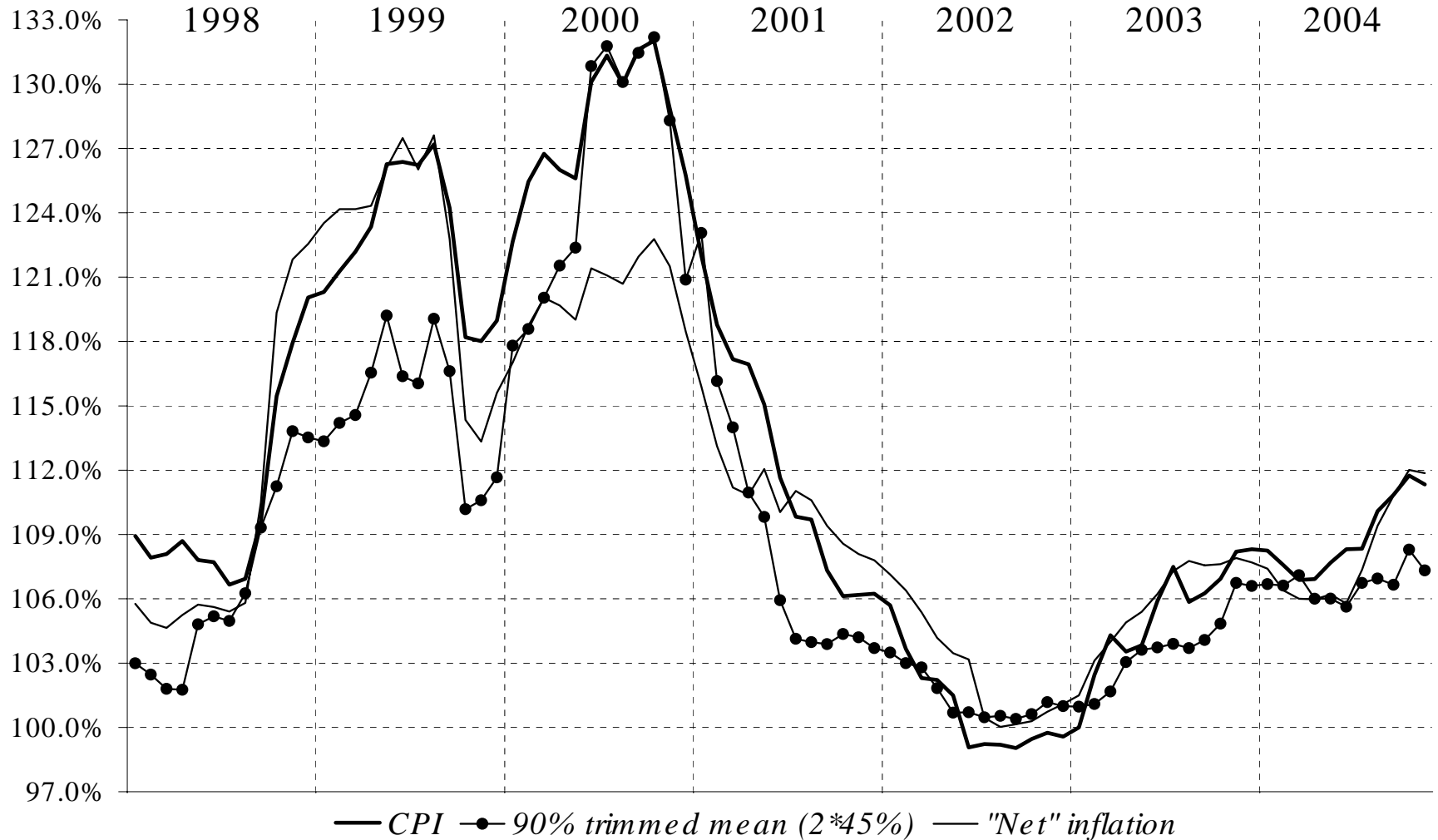
15706 series

Characteristics of the Optimal Series

The “best” series will

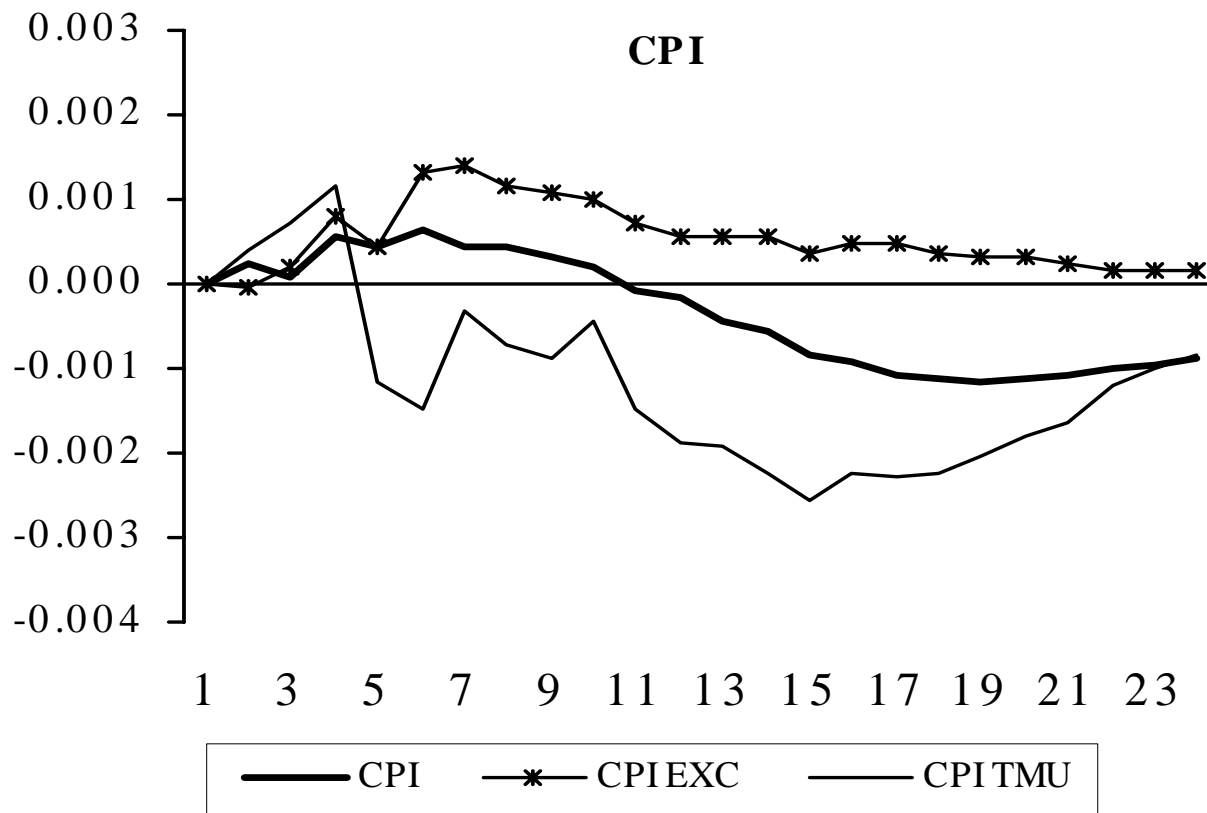
- be unbiased
- have the attraction property
- be exogenous with respect to the CPI
- track the trend inflation well
- be stable in terms of both levels and first differences

Optimal core inflation indicators and CPI



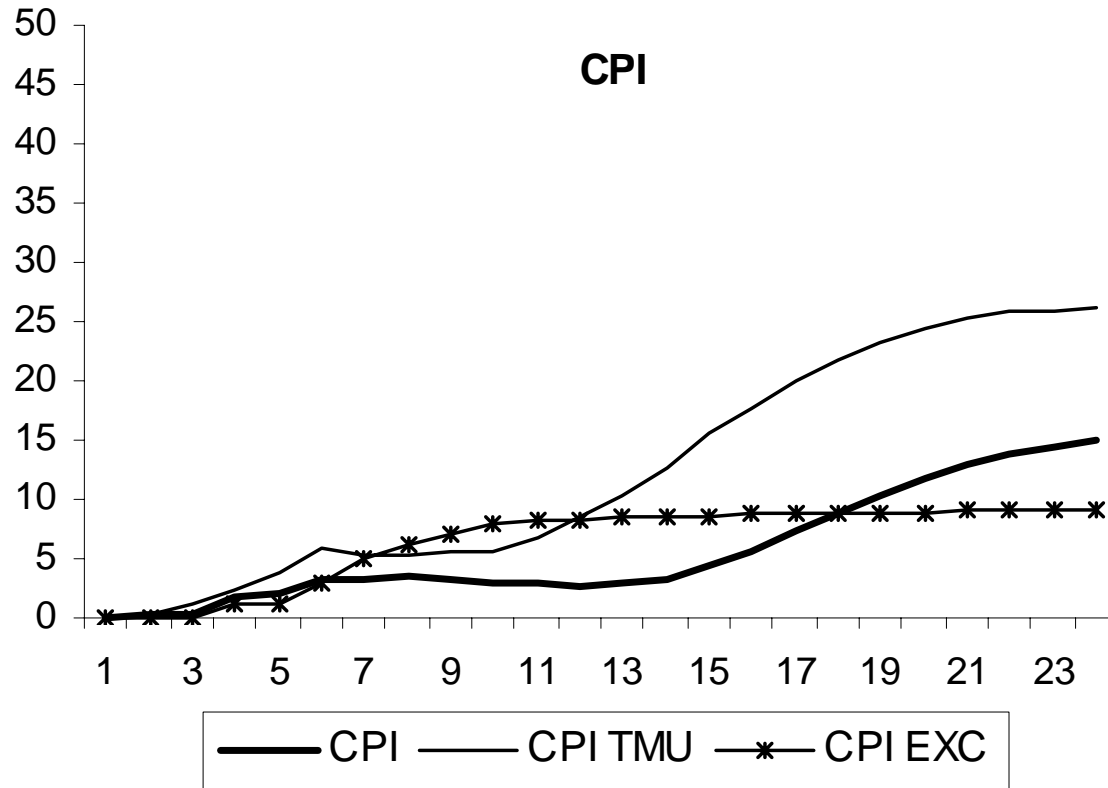
Core CPI indicators in VAR models 1

Response of inflation indicators to unexpected monetary policy shock



Core CPI indicators in VAR models 1

Variance decomposition functions



Current inflation tendencies in Ukraine

