

Headline and its Components Short-term Inflation Forecasting Model,

The Interpretations and Forecast Accuracy

ABSTRACT

This study investigates short-term inflation from 2 forecasting model, Autoregressive and Vector Autoregressive, in two main aspects, the persistence of inflation and the response and variation of inflation to the determinants. On the side of VAR, the variables including in model are world energy inflation, world food inflation, economic growth, and money variables i.e. interbank rate and exchange rate. The empirical results point that headline inflation has low degree of persistence. Meanwhile, the only significant determinants of short-run headline inflation is world energy prices through core and energy inflation, whereas the demand pressure and money variable play insignificant role. Although, the world food inflation and demand side pressure do not play significant role in determining inflation, inflation responds to the shock of them and they are the source inflation variation. On the side of money variables, they do not play significant role in determining short-run inflation and inflation variation. Moreover, the information of persistence of inflation and the determinants of inflation in AR and our VAR are useful for improving the forecast accuracy.