

Assessing Inflation Persistence: Micro Evidence on an Inflation Targeting Economy

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Abstract

The paper provides an empirical analysis of inflation persistence in an inflation targeting country, the Czech Republic, using 412 detailed product-level consumer price indexes underlying the consumer basket over the period from 1994:M1 to 2005:M12. Subject to various sensitivity tests, our results suggest that raw goods and non-durables, followed by services, display smaller inflation persistence than durables and processed goods. Inflation seems to be somewhat less persistent after the adoption of inflation targeting in 1998. There is also evidence for aggregation bias, that is, aggregate inflation is found to be more persistent than the underlying detailed components. Price dispersion, as a proxy for the degree of competition, is found to be *negatively* related to inflation persistence, suggesting that competition is not conducive to reducing persistence.

Keywords: inflation dynamics, persistence, inflation targeting.

JEL Codes: D40, E31.

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Abstrakt

Tento článek poskytuje empirickou analýzu inflační persistence v jedné ze zemí cílících inflaci, České republice, použitím 412 detailních individuálních cenových indexů ve spotřebním koši v období 1994:M1 a 2005:M12. Po provedené citlivostní analýze, výsledky naznačují, že surové a netrvanlivé zboží, následované službami, vykazují menší inflační persistenci než zpracované a trvanlivé zboží. Inflace se zdá být méně persistentní po zavedení inflačního cílování v roce 1998. Dále je patrná agregovaná vychýlenost, což znamená, že agregátní inflace je více persistentní než průměr persistencí inflace na úrovni jednotlivých položek. Cenová disperze, jakožto proxy pro míru konkurence, je negativně závislá na inflační persistenci, což naznačuje, že konkurence persistenci nesnižuje.