

Disaggregated Cost Pass-Through Based Econometric Inflation-Forecasting Model for Hungary

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This paper presents one of the inflation forecasting models used by the Magyar Nemzeti Bank in its recent inflation forecasts.

The model attempts to integrate all the properties of the former models considered by the author as being advantageous and desirable into a unified framework. Thus, this model is based on disaggregated econometric estimates using Bayesian approach, complemented by expert assumptions. The model explains the prices of marketed goods using their cost factors, capturing an assumed process whereby costs gradually pass through into consumer prices. Among other cost factors the foreign prices denominated in domestic currency have a crucial role in determining domestic consumer prices of traded goods in the model. It is the empirical estimation of this slow cost-price and exchange rate pass-through that provides the uniqueness of the model in terms of economic and econometric theory.