

Measuring Core Inflation for Lebanon

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Abstract

In recent years, food and energy prices have soared boosting inflation rates to highest level. For developing countries, the weight of these commodities in the Consumer Price Index (CPI) is relatively high and their prices are quite volatile. In this context, the paper presents a new inflation concept for Lebanon measured by the core inflation, which excludes food and energy prices, and is considered as a complementary indicator to the headline inflation. The current study lays out the results of two main statistical approaches suggested to compute Lebanese core inflation: the exclusion method and the volatility-weighted method. Accordingly, the concept and measurement of core inflation could be a useful monetary policy tool and has to be reconsidered by policymakers when monitoring inflation rates.

Key Words: Commodity prices volatility, exclusion-based measure, monetary policy, volatility-weighted measure.