

INFLATION RATE		
Economic Development	Macroeconomic performance	

1. INDICATOR

- (a) **Name:** Inflation rate
- (b) **Brief Definition:** The annual percentage increase of the cost of living as measured by the consumer price index. Consumer price indices are based on a representative basket of goods and services purchased by consumers in an economy. Composition and relative weights of the basket are reviewed periodically.
- (c) **Unit of Measurement:** Percentage point
- (d) **Placement in the CSD Indicator Set:** Economic Development/ Macroeconomic performance

2. POLICY RELEVANCE

- (a) **Purpose:** The indicator measures the change in prices of consumer goods and services acquired, used or paid for by households. The rate of inflation is one of the indicators monitored by the authorities to set monetary policy.
- (b) **Relevance to Sustainable/Unsustainable Development (theme/sub-theme):** High inflation is a sign of macroeconomic imbalances. It often reduces economic growth and future growth prospects, thereby reducing the means of implementation available for achieving sustainable development goals. However, no agreement exists on costs (or benefits) resulting from low or moderate inflation. Also low inflation by itself in the absence of other factors that contribute to a favorable investment climate does not guarantee high growth. High and unanticipated inflation increases uncertainty and leads to inter-and intra-temporal misallocation of resources as long as prices are not full flexible. Inflation, especially if unanticipated, has often unwanted distributional effects, as it reduces real income of fixed income earners and shifts wealth away from creditors to debtors. Moreover, high and accelerating inflation rates may be the consequence of financing of public deficits through seignorage (that is, through a transfer of real resources from the public to the central bank or government caused by the creation of notes, coins, and reserve money) due to an inability of the government to issue debt instruments or to collect taxes. In such cases, inflation is an indicator of unsustainable public finances.
- (c) **International Conventions and Agreements:** None.
- (d) **International Targets/Recommended Standards:** None

(e) **Linkages to Other Indicators:** The consumer price index is closely linked to whole sale price index, producers price index, food price index and gross domestic product (GDP) deflator. All these indicators measures inflation rate, the broadest being the GDP deflator.

3. METHODOLOGICAL DESCRIPTION

(a) **Underlying Definitions and Concepts:** The indicators measures changes over time in the general level of prices of goods and services that a reference population acquires, uses or pays for consumption. A consumer price index is estimated as a series of summary measures of the period-to-period proportional change in the prices of a fixed set of consumer goods and services of constant quantity and characteristics, acquired, used or paid for by the reference population. Each summary measure is constructed as a weighted average of a large number of elementary aggregate indices. Each of the elementary aggregate indices is estimated using a sample of prices for a defined set of goods and services obtained in, or by residents of, a specific region from a given set of outlets or other sources of consumption goods and services.

(b) **Measurement Methods:** The indicator is typically expressed as annual change in percentage points of the CPI. Alternatively, the indicator can be expressed by the value of the CPI.

(c) **Limitations of the Indicator:** Because there is no fixed method, each country has adopted their own method of compiling the consumer price index, depending on data availability, and their budget. For example, in some countries, the consumer price index refers only to cities and not to the whole country. In some cases it may refer to only a particular group such as the low- or high-income group. Further the number of items chosen to be included in the index and the regularity with which data are collected vary from country to country. Therefore, it is often very difficult to compare data across countries. One has to be extremely careful in using this indicator across countries, and exceptions should be footnoted clearly.

(d) **Status of Methodology:** The methodology is generally well developed.

(e) **Alternative Definitions/Indicators:** The deflator of the gross domestic product is an alternative, more broad-based indicator of inflation in the general economy. For the purpose of setting and monitoring monetary policy, some countries use a narrower measure, excluding certain items such as energy prices or unprocessed food process from the consumer price index.

4. ASSESSMENT OF DATA

(a) **Data Needed to Compile the Indicator:** Retail price data and national accounts data for GDP.

(b) **National and International Data Availability and Sources:** In most countries national statistical offices or central banks regularly collect data on consumer price indices.

Internationally, the International Monetary Fund (IMF) and the International Labor Organization (ILO) regularly publish time series data on consume price indices. The World Bank publishes inflation data from the IMF as well as inflation data based on the GDP deflator in its World Development Indicator series.

(c) Data References:

The World Development Indicators of the World Bank are available at

<http://go.worldbank.org/3JU2HA60D0>

IMF data on CPI is included in the International Financial Statistics as well as in the World Economic Outlook series, see <http://www.imf.org/external/data.htm>

ILO data is included in the LABORSTA series, see <http://laborsta.ilo.org/>

IMF and ILO data is also include din the United Nations Common Database, available at http://unstats.un.org/unsd/cdb/cdb_help/cdb_quick_start.asp

5. AGENCIES INVOLVED IN THE DEVELOPMENT OF THE INDICATOR

(a) Lead Agency: The lead agency is the World Bank. International data on this indicator is compiled by the statistical department of IMF.

(b) Other Contributing Organizations: UN Statistics Division, and ILO.

6. REFERENCES

(a) Readings:

International Monetary Fund, International Financial Statistics, various years.

World Bank, Word Development Indicators, various years.

(b) Internet sites:

World Bank: www.worldbank.org/data.

IMF: <http://www.imf.org/external/data.htm>

ILO: <http://laborsta.ilo.org/>

UNSD: http://unstats.un.org/unsd/cdb/cdb_help/cdb_quick_start.asp