

IMF WORKING PAPER

This is a working paper and the author would welcome any comments on the present text. Citations should refer to an unpublished manuscript, mentioning the author and the date of issuance by the International Monetary Fund. The views expressed are those of the author and do not necessarily represent those of the Fund.

MASTER FILES  
ROOM C-130  
001

August 9, 1988

WP/88/68

Subject: Empirical Analysis of High-Inflation Episodes  
in Argentina, Brazil, and Israel

CORRIGENDUM

The attached title page of WP/88/68 (7/22/88) has been printed on the appropriate masthead.

Att: (1)

WP/88/68

INTERNATIONAL MONETARY FUND

Corrected: 8/9/88

Research Department

Empirical Analysis of High-Inflation  
Episodes in Argentina, Brazil, and Israel

Prepared by Peter Montiel\*

Authorized for Distribution by Mohsin S. Khan

July 22, 1988

Abstract

Although accommodative policies and widespread indexation may account for the persistence of high inflation, they cannot explain changes in the inflation rate. This paper examines the causes of such changes for the high-inflation episodes immediately preceding the recent "heterodox" attempts at stabilization in Argentina, Brazil, and Israel. An attempt is made to distinguish between the "fiscal" and "balance of payments" views of the causes of high inflation by computing historical decompositions of these episodes based on vector autoregressions. In all three cases, the results indicate that nominal exchange rate shocks played the dominant role in triggering an acceleration of inflation.

JEL Classification Number:

131

---

\*I would like to thank Nissan Liviatan, Mohsin Khan, and Miguel Kiguel for their comments on an earlier draft, without implicating them for any remaining errors.

<u>Contents</u>	<u>Page</u>
I. Introduction	1
II. Causes of High Inflation	2
III. Empirical Methodology and Results	4
1. Methodology	6
2. Results	10
IV. Conclusions	19
Tables:	
1. Argentina: Composition of Forecast Error Variance for Inflation	11
2. Brazil: Composition of Forecast Error Variance for Inflation	12
3. Israel: Composition of Forecast Error Variance for Inflation	14
4. Argentina: Historical Decompositions of Inflation	15
5. Brazil: Historical Decompositions of Inflation	16
6. Israel: Historical Decompositions of Inflation	17
Figure:	
Fig. 1 - Quarterly Rate of Inflation in Argentina, Brazil and Israel	4a
Appendix	21
References	22