

Forecasting Inflation in Russia by Dynamic Model Averaging

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This study applies the method of Dynamic Model Averaging (Raftery, Kárný, and Ettlér, 2010; Koop and Korobilis, 2012) to forecast CPI inflation in Russia. This method can be viewed as a version of the Bayesian Model Averaging method augmented with a few shortcuts that yield a substantial gain in computational burden. Out of sample, the DMA forecast proves to outperform a naïve random walk forecast, a conventional benchmark for inflation, at horizons up to 6 months. The most informative predictors of future inflation appear to be a current rate of inflation, PPI, monetary aggregates, and USD/RUB exchange rate.