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A Dynamic Factor Model for the Colombian Inflation

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We use a dynamic factor model proposed by Stock and Watson [1998, 1999, 2002a,b] to forecast Colombian inflation. The model includes 92 monthly series observed over the period 1999:01-2008:06. The results show that for short-run horizons, factor model forecasts significantly outperformed the auto-regressive benchmark model in terms of the root mean squared forecast error statistic.

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