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In This Issue

Research Summaries

Measuring Inflation

Mick Silver

Price indices serve as measures of inflation, deflators for national accounts aggregates, and the basis for escalation payments. Good economic analysis requires a proper understanding of deficiencies in the practice of compiling these measures. Research by IMF economists has contributed to our understanding of what is good practice and to the price index manuals (ILO and others, 2004a and 2004b). These manuals set out internationally accepted standards for measuring inflation that are promulgated in the IMF Statistics Department's training, technical assistance, and report on standards and codes (ROSC) data missions.

Sources of bias in consumer price indices (CPIs) are well researched. Most recently, IMF staff economists have focused on the accounting for changes in product quality and on the aggregation formula—areas found by Boskin and others (1996) to be the most important sources of bias in the U.S. CPI.

A *first issue* of CPI measurement is the accounting for changes in product quality. National statistical offices measure price changes using the matched-models method. The offices collect details and prices of a representative selection of items in a price reference period and collect their matched prices in *(continued on page 2)*

Strengthening PRGF Programs Through PSIA

David Coady

The introduction of the Poverty Reduction and Growth Facility (PRGF) in 1999 reflected a desire to make pro-poor growth considerations central to the design of IMF-supported programs in low-income countries. Since the introduction of the PRGF, empirical research on the impact of these programs on poverty and growth has accelerated. In addition, the Poverty and Social Impact Analysis (PSIA) Group was created in the IMF's Fiscal Affairs Department in July 2004 to facilitate the absorption of policy insights from PSIAs into the design of PRGFs on a more systematic basis. This article provides a brief summary of recent IMF research on this topic.

As is obvious from its name, the Poverty Reduction and Growth Facility pursues two goals. The underlying premise is that growth without poverty reduction—one might say growth without equity—is simply not acceptable. The importance of growth as a means to reduce poverty is widely recognized. What is less well understood is what policies can best promote *(continued on page 4)*