Getting Global Monetary Policy on Track: The Case of Latin America

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Getting Global Monetary Policy on Track: The Case of Latin America

1. How to get back and stay on track.

2. How to reduce the inflation rate without slowing down economic growth.

3. Lessons from Latin-America, 1960-2023.

- A brief history of Latin-American inflation since 1960 to 2019 (South-America plus Mexico).

- Stages:

  1. Managing chronic "moderate" inflation. 1960-1973.
  2. Hyperinflation and Stabilization. 1974-1994.
  3. The Conquest of Inflation. 1994-2004.
  4. A Lesson Learned (only two failed). 2004-2019.

- Focus on the 2019 - 2023 period for the countries that passed.

► Main Conclusion:

  1. For those that passed (9 out of eleven), maybe monetary policy never got off track.
  2. Several cases where inflation was reduced without output losses.

► Object we study:

$$\Pi_{j,t}$$

► Yearly inflation rate in period $t = 1960, \ldots, 2023$ for country $j = 1, \ldots, 11$.

- ▶ 6 out of the 11 countries experienced hyperinflation (more than one in Argentina and Brazil).
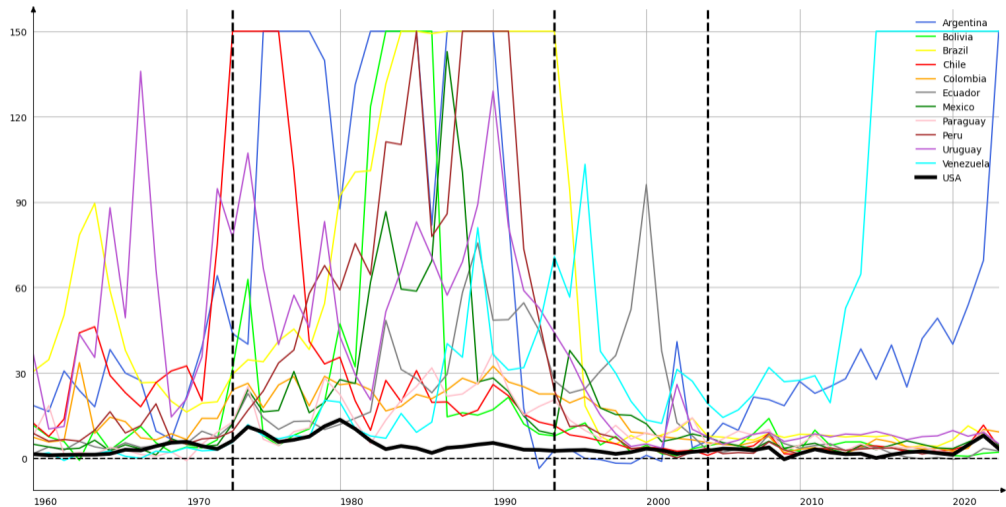
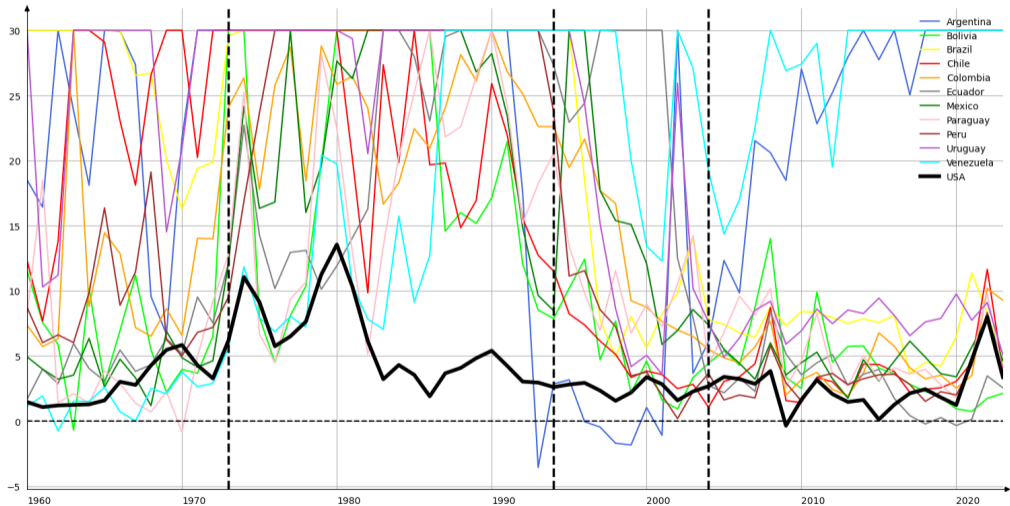|		
Chile	1974	600 %
Bolivia	1985	11,700 %
Argentina	1989	4,900 %
Peru	1990	7,500 %
Brazil	1994	2,200 %
Venezuela	2018	63,400 %

- ▶ Thus, we plot

$$\Pi_{t,j}^* = \min\{\Pi_{t,j}, \kappa\}$$

- ▶ I will use $\kappa = 150\%$ and $\kappa = 30\%$.
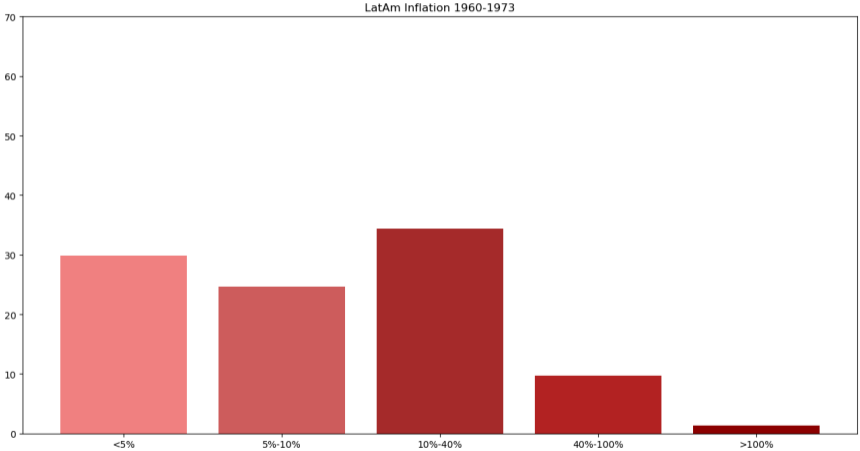
$$\Pi_t^* = \min\{\Pi_t, 150\}$$
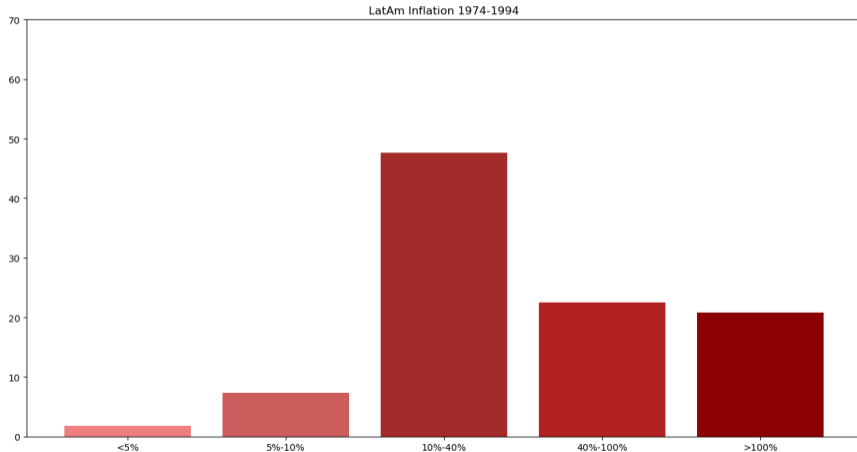
$$\Pi_t^* = \min\{\Pi_t, 30\}$$

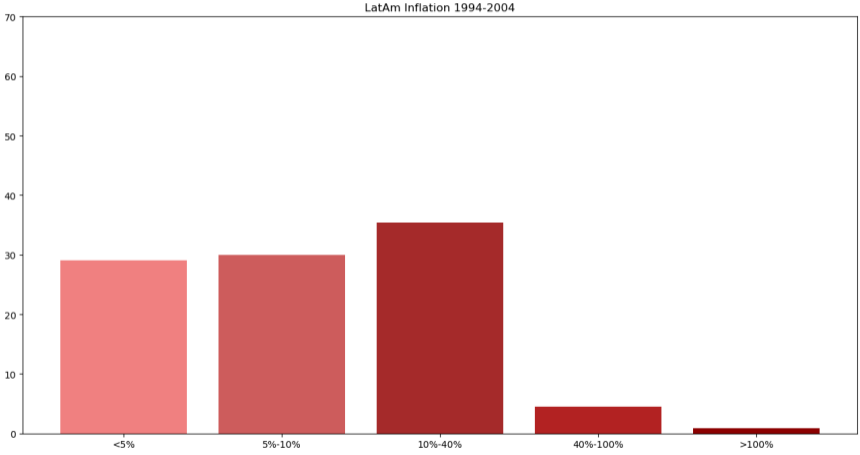▶ We now show frequency distributions for $\Pi_{t,j}$ for the four periods identified before.

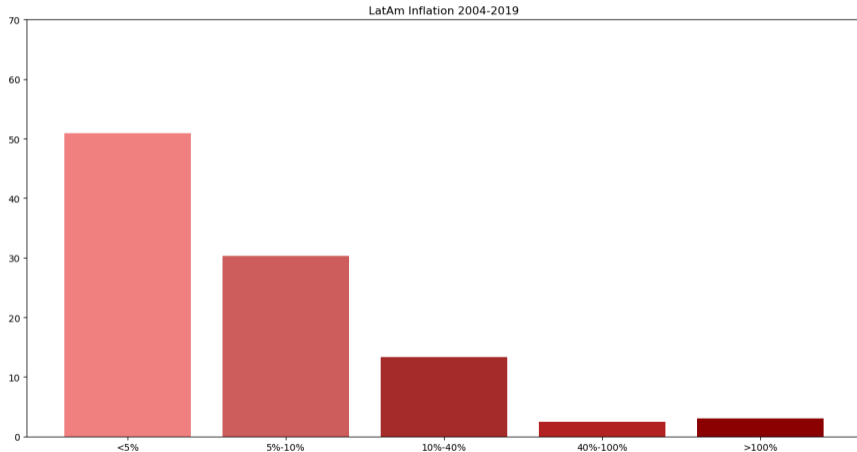# 1960-1973: Managing chronic "moderate" inflation

LatAm Inflation 1960-1973

1974-1994: Hyperinflation and Stabilization

LatAm Inflation 1974-1994

1994-2004: The Conquest of Inflation

LatAm Inflation 1994-2004

2004-2019: A Lesson Learned (only two failed)

LatAm Inflation 2004-2019

2004-2019: A Lesson Learned (excluding Argentina and Venezuela)

LatAm Inflation 2004-2019
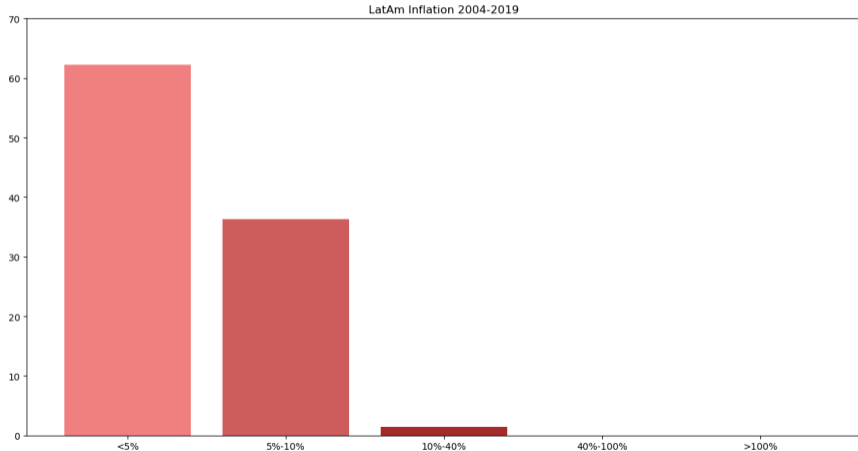
The Recent Years 2020-2023:

Look only at those that passed.

Monthly Inflation
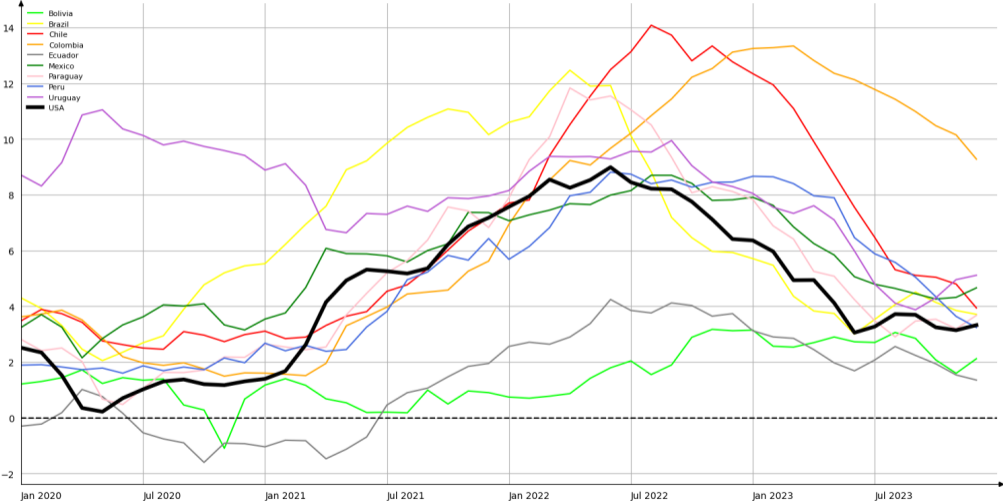
- ▶ Only seven of the nine countries have explicit inflation targets. They varied over time and are typically higher than in the USA.

- ▶ In 2023, the highest was Uruguay (4.5%) and the lowest was Peru (2%).

- ▶ For Bolivia and Ecuador we chose 2%, the lowest in the sample and the same as the one in the USA.

- ▶ We now then focus on the deviations from the target.

$$\Pi_{t,j} - \Pi_{t,j}^{\text{Tar}}$$

Deviations from IT 2004-2023 (excluding Argentina and Venezuela)
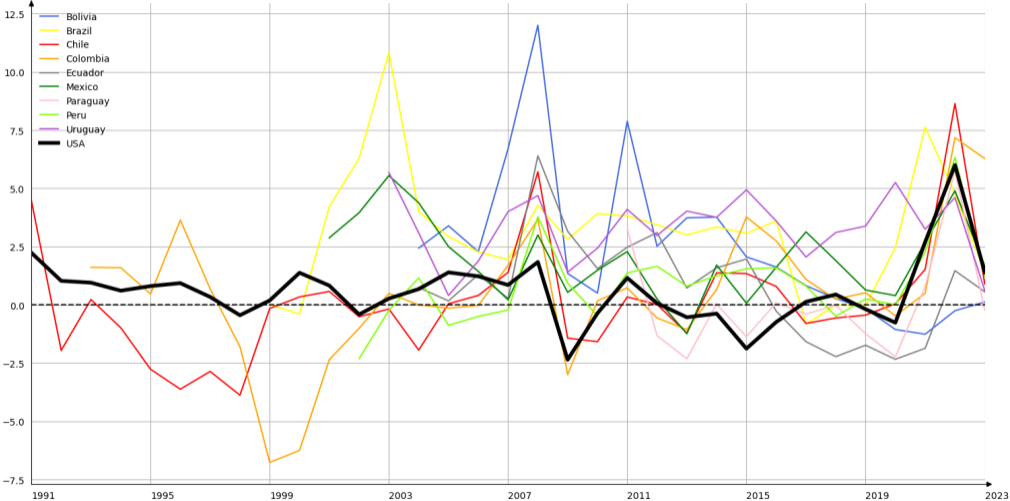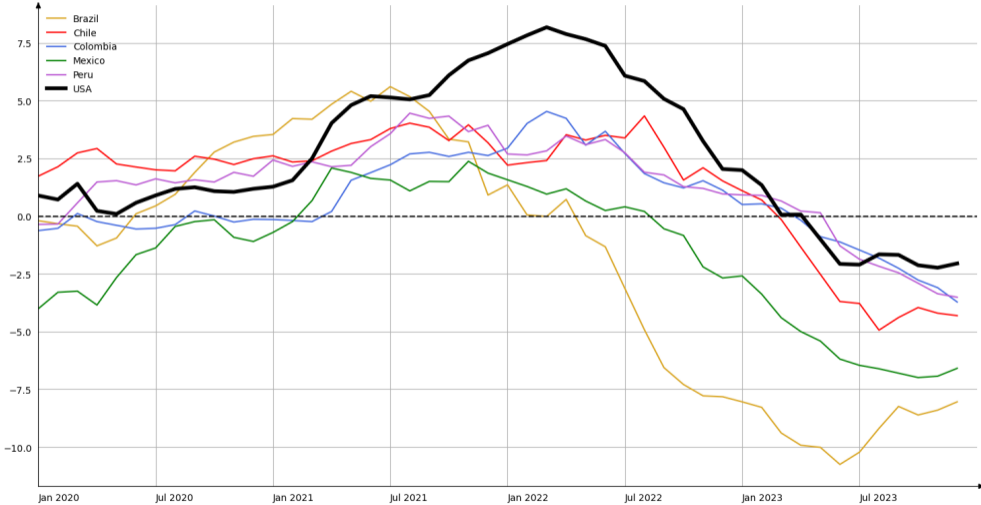
Average deviation from IT 2004-2023
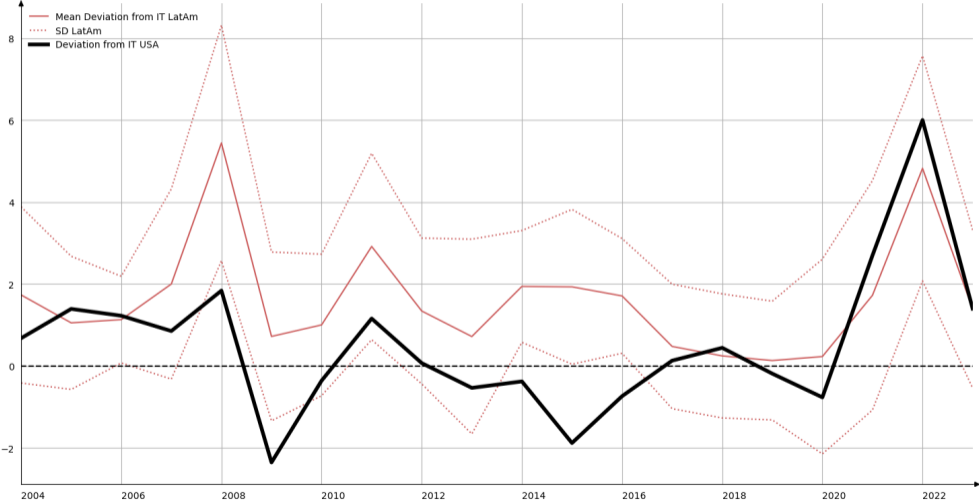
- Did monetary policy get off track?
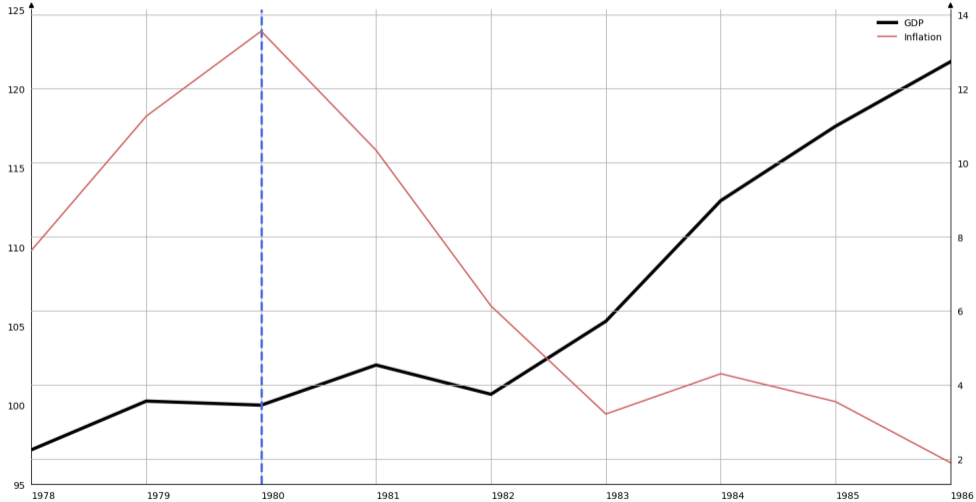
- Plot the time series for
$$\Pi_{t,j} - i_{t,j}^{\text{Policy}}$$
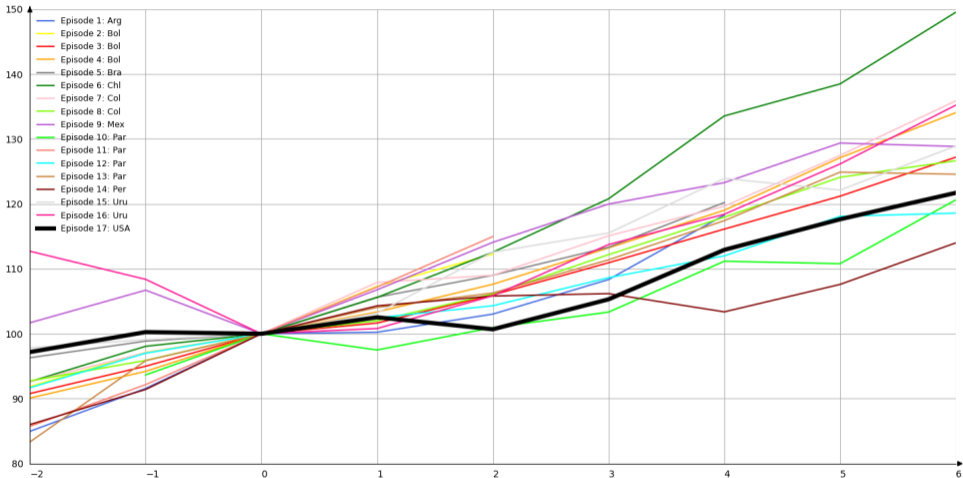
Inflation - Interest rate

- ▶ Real effects of inflation stabilization.

- ▶ Search for episodes in LatAm history.

  - ▶ Inflation pick at values [13%, 150%]
  - ▶ Set the year of the highest inflation equal to zero.
  - ▶ Plot output from −2 to +6.
  - ▶ Set output at year zero equal to 100.

Episode USA 1978-1986

GDP of all episodes

► Conclusions:

1. For those that passed (9 out of eleven), maybe monetary policy never got off track.
2. Several cases where inflation was reduced without output losses.