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

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The views expressed herein are those of the authors and not necessarily those of the Federal Reserve Bank of Minneapolis or the Federal Reserve System.

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1. How to get back and stay on track.

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

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

**Stages:**


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 $\kappa = 30\%$. 
$\Pi^*_t = \min\{\Pi_t, 150\}$
Π_t^* = \min\{Π_t, 30\}
We now show frequency distributions for $\Pi_{t,j}$ for the four periods identified before.
1960-1973: Managing chronic "moderate" inflation
1974-1994: Hyperinflation and Stabilization
2004-2019: A Lesson Learned (only two failed)
2004-2019: A Lesson Learned (excluding Argentina and Venezuela)
The Recent Years 2020-2023:

Look only at those that passed.
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.

\[ \Pi_{t,j} - \Pi_{t,j}^{Tar} \]
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 $\Pi_{t,j} - i_{t,j}^{Policy}$
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:

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2. Several cases where inflation was reduced without output losses.