

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

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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.
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 $t = 1960, \dots, 2023$ for country $j = 1, \dots, 11$.

- ▶ 6 out of the 11 countries experienced hyperinflation (more than one in Argentina and Brazil).

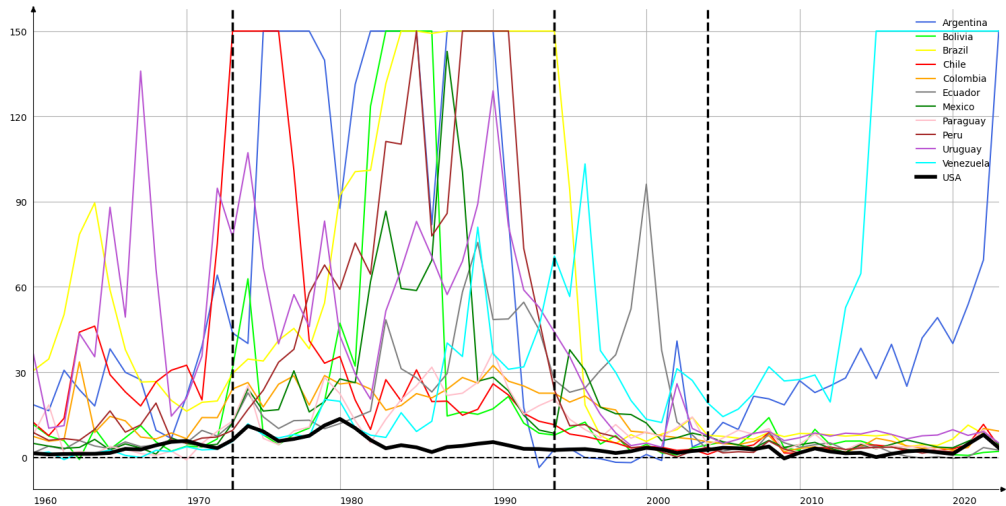
Chile	1974	600 %
Bolivia	1985	11,700 %
Argentina	1989	4,900 %
Peru	1990	7,500 %
Brazil	1994	2,200 %
Venezuela	2018	63,400 %

- ▶ Thus, we plot

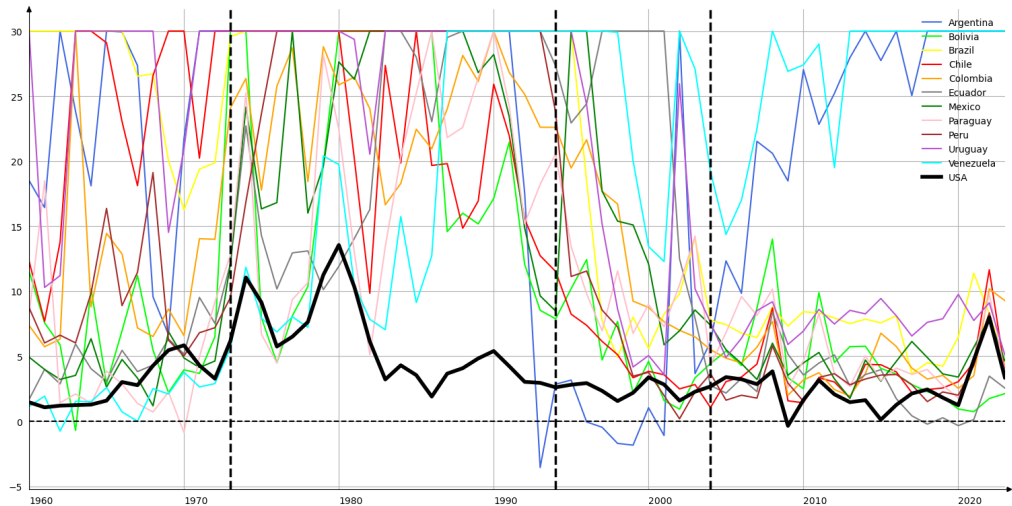
$$\Pi_{t,j}^* = \min\{\Pi_{t,j}, \kappa\}$$

- ▶ I will use $\kappa = 150\%$ and $\kappa = 30\%$.

$$\Pi_t^* = \min\{\Pi_t, 150\}$$

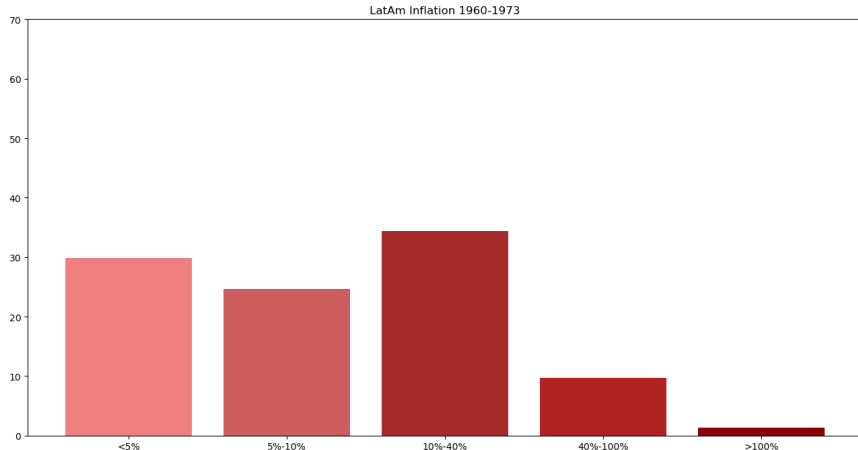


$$\Pi_t^* = \min\{\Pi_t, 30\}$$

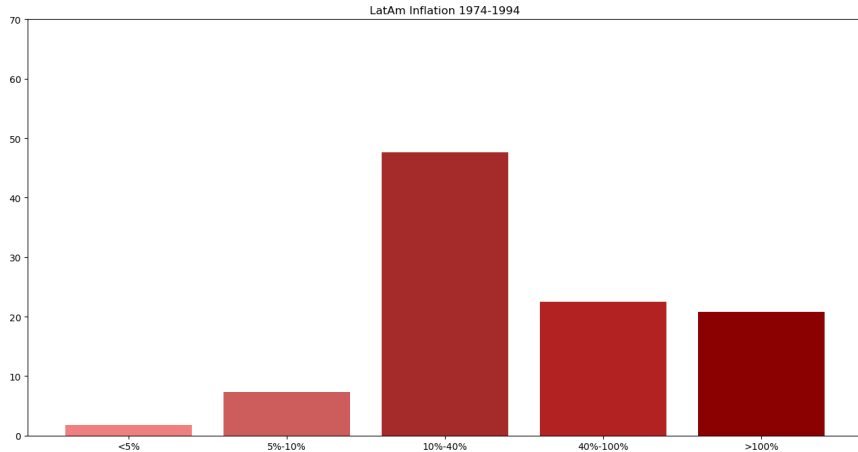


- ▶ We now show frequency distributions for $\Pi_{t,j}$ for the four periods identified before.

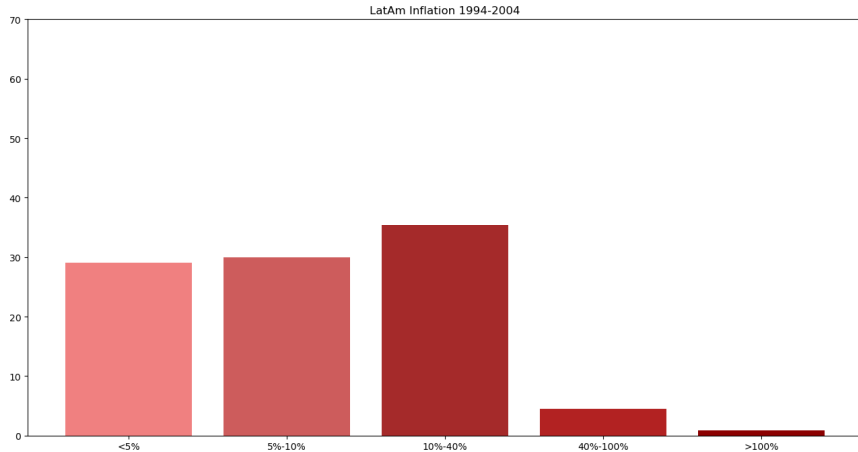
1960-1973: Managing chronic “moderate” inflation



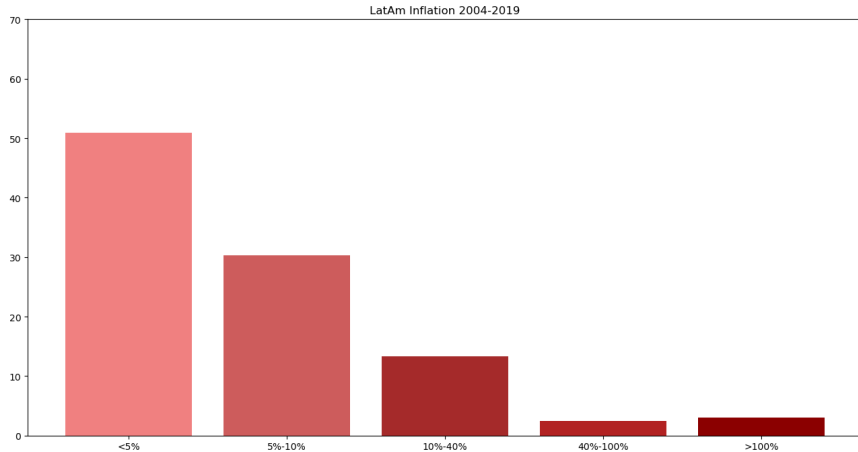
1974-1994: Hyperinflation and Stabilization



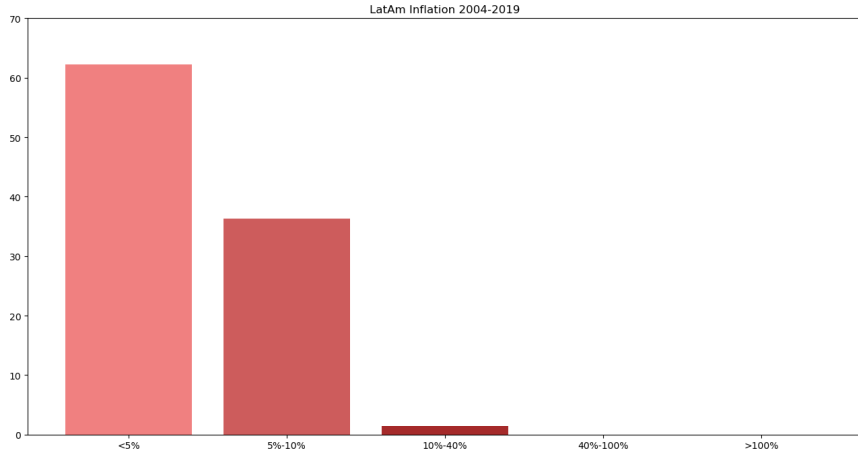
1994-2004: The Conquest of Inflation



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



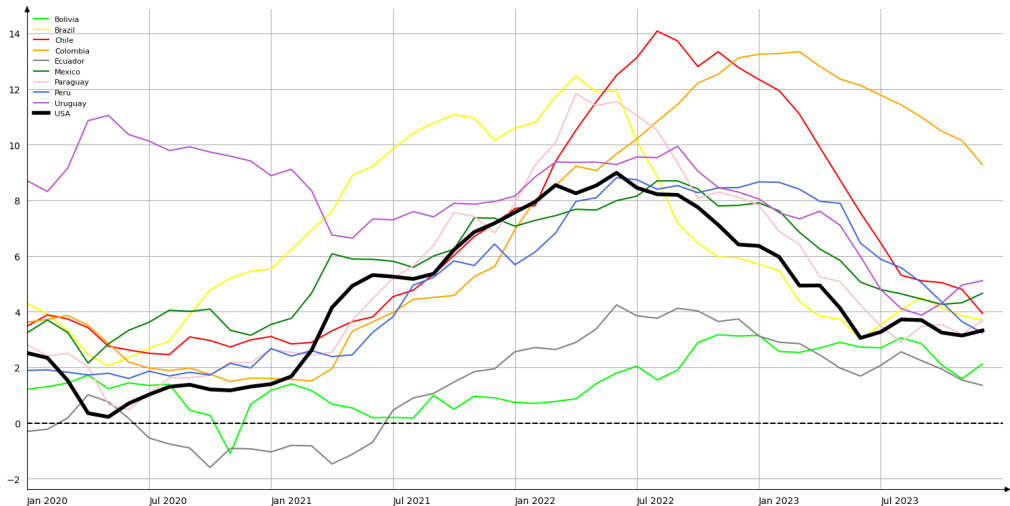
2004-2019: A Lesson Learned (excluding Argentina and Venezuela)



The Recent Years 2020-2023:

Look only at those that passed.

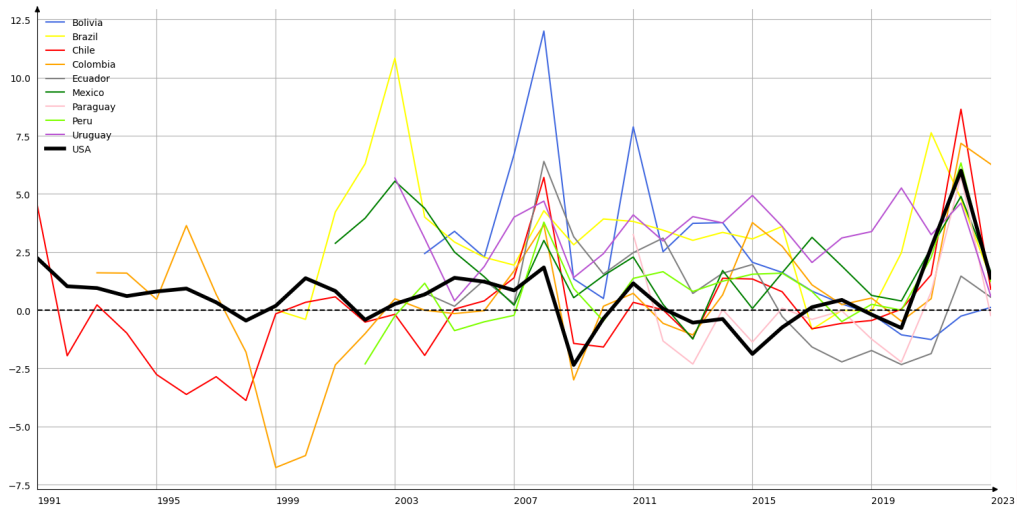
Monthly Inflation



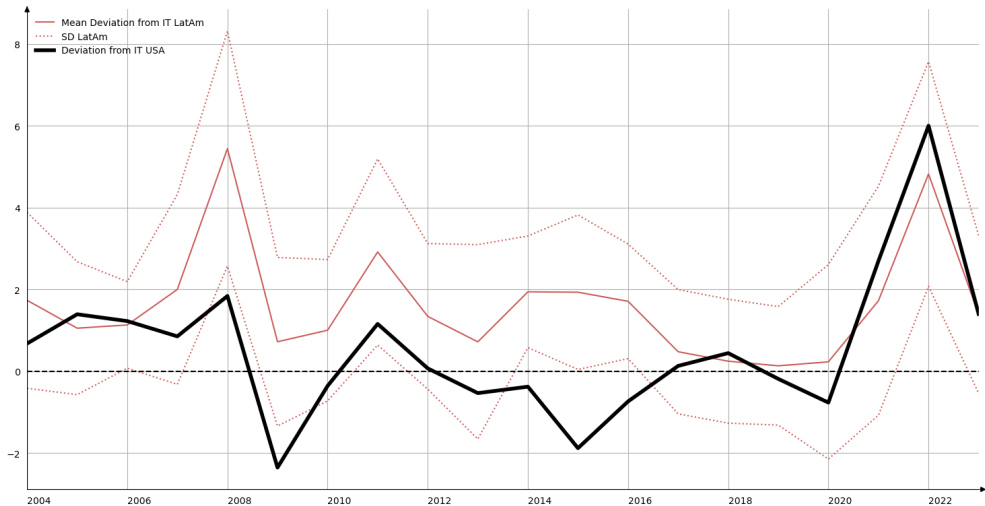
- ▶ Only seven of the nine countries have explicit inflation targets. They varied over time and are typically higher than in the USA.
- ▶ In 2023, the highest was Uruguay (4.5%) and the lowest was Peru (2%).
- ▶ For Bolivia and Ecuador we chose 2%, the lowest in the sample and the same as the one in 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

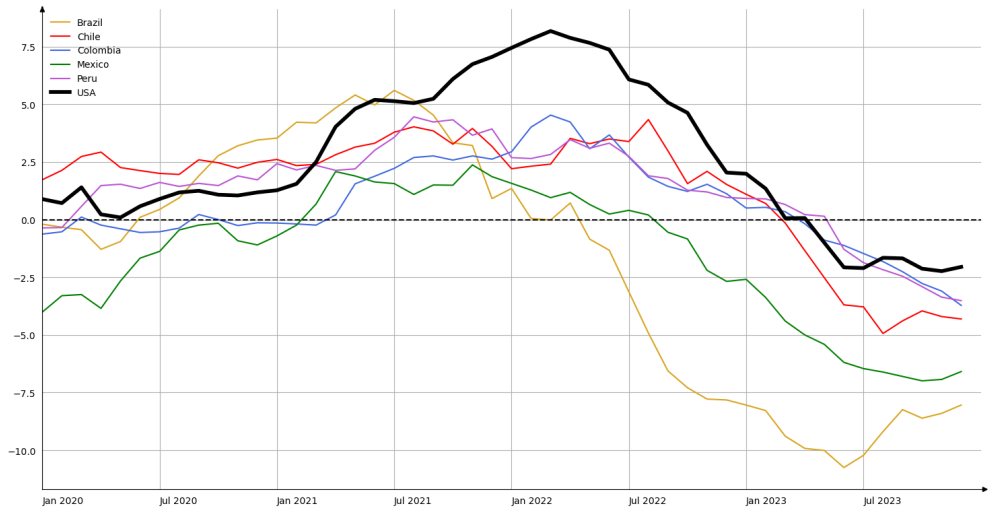


► Did monetary policy get off track?

► Plot the time series for

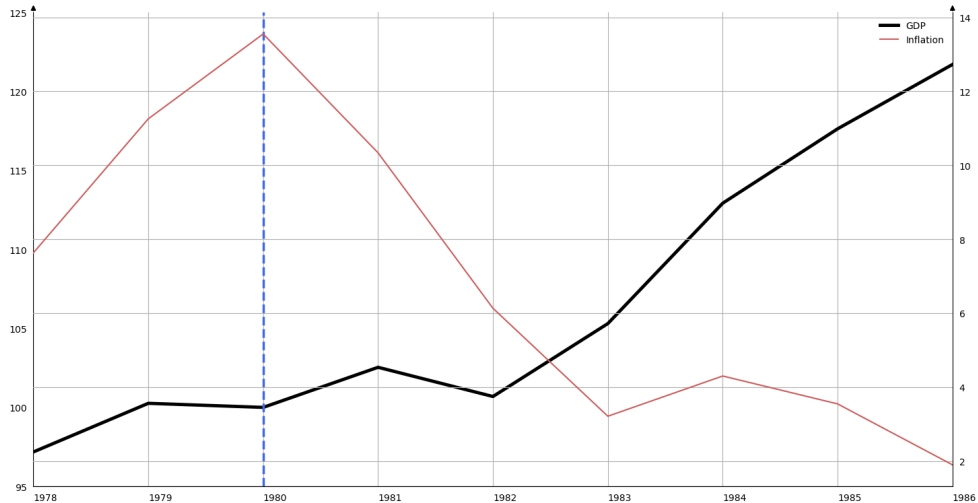
$$\Pi_{t,j} - i_{t,j}^{\text{Policy}}$$

Inflation - Interest rate

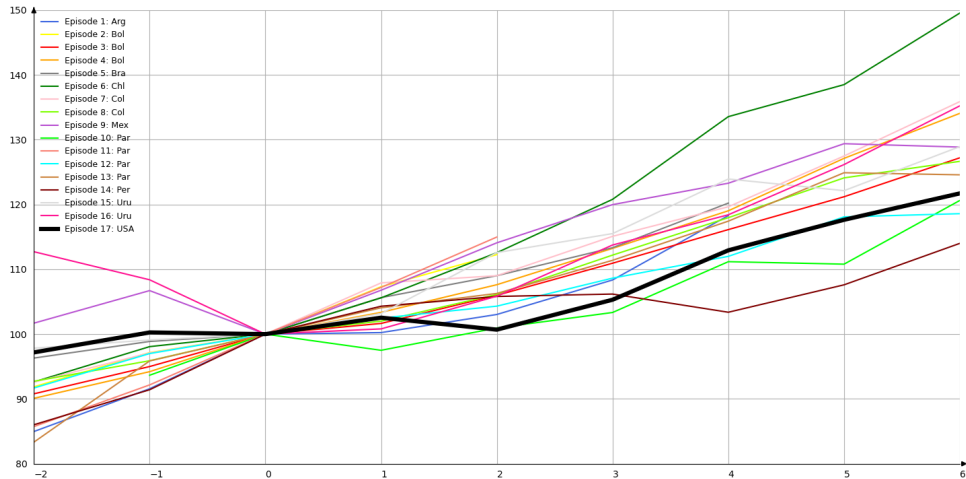


- ▶ Real effects of inflation stabilization.
- ▶ Search for episodes in LatAm history.
 - ▶ Inflation pick at values [13%, 150%]
 - ▶ Set the year of the highest inflation equal to zero.
 - ▶ Plot output from -2 to $+6$.
 - ▶ Set output at year zero equal to 100.

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.