Money and Banking Conference

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Good morning. Today I will be closing this year's edition of the long-established Money and Banking Conference of the BCRA. It is the responsibility of central banks as monetary authorities—and in our case also as foreign exchange and financial regulators—to contribute to scientific progress and the study and research on economic issues.

We have been holding this conference as part of other undertakings, such as the Ensayos Económicos (Economic Essays) Journal, the seminars organized by the Economic Research Office, the "Dr. Raúl Prebisch" Awards, and the research agreements we have signed with the Conicet.

Now that the worst of the pandemic is behind us, we have been able to host this conference in a hybrid format.

It is always an honor to welcome participants from the academic field, international organizations and, especially today, colleagues from other central banks in the region. Indeed, plurality strengthens our capacity as public officials.

I am grateful to Roger Edwin and Julio for painting the picture of the past events we have gone through, and in particular, for sharing in detail how they have faced such difficult situations.

I promise to be brief. I will talk about inflation and growth. Recently, I have caught the attention of our colleagues, especially from international organizations, with my thoughts on the relationship between inflation and growth.

I have stated that, in the end, the solution to inflation is growth. Let me elaborate on this line of thought.

We may possibly agree that inflation is basically a phenomenon that involves an imbalance between supply and demand, among other factors. This is why we say that inflation is a multi-causal phenomenon. In fact, it is affected by devaluation shocks, struggle over wealth distribution, disruptions in the prices of commodities, inertial phenomena or a bimonetary economy as in the case of Argentina.

Inflation usually occurs when an economy undergoes growth constraints that prevent supply from keeping pace with demand. In developed economies, especially in the United States, this limit goes hand in hand with the labor market.

This is not the case in peripheral economies where labor supply is often high. In Argentina, constraints have generally found footing in the external sector and in the supply of energy. Since the early 1950s, Argentina has been enduring these types of constraints under several forms while, at the same time, the persistent inflationary phenomenon was making its entrance.

Indeed, income distribution among other economic drivers and sectors is under the veil of relative prices. Certainly enough, income distribution is not only set by the market. The institutional and political ability of different economic players to preserve real income also plays a key role.

Before the outbreak of the pandemic, the ability of governments and central banks to encourage demand was questioned. In the aftermath of the pandemic, the debate focuses on how to correlate inflationary processes with the values that policies deem acceptable.

Although sweeping generalization is unfair, it is true that central banks have the ability to act on demand rather than supply, or at least they are more effective in acting on one side rather than the other.

Short-term anti-inflation policies traditionally focus on two actions: the tightening of demand under recessionary or delayed growth until the constraints that prevent it are overcome, and the opening of the economy by offsetting the supply imbalance with imports.

These two mechanisms are restricted in countries such as Argentina, where the levels of unemployment, poverty and inequality are high. In addition, some countries have no access to external credit to support higher levels of imports.

In such circumstances, persistent growth postponement or acute recession can have severe social consequences. Thus, it is mandatory to gradually slowdown inflation without exerting severe adverse effects on demand.

This situation may have spread to economies where inequality has increased.

It is not a question of playing down the importance of traditional measures. Rather, it is vital to contextualize them and understand that in certain countries they are difficult, if not impossible, to implement.

As I said, there are countries that can restrict demand in order to vertically contain inflationary processes until growth constraints are overcome—whether they come from the labor market, the external sector or the energy sector. In other countries where slowdown is gradual, growth constraints that limit the expansion of demand should be removed in the short-, medium-, and long-term.

Argentina began to encounter inflationary problems in the late 1940s, early 1950s, just when the external and energy sectors emerged as constraints.

Interestingly, there were no labor market constraints and, in any case, they were overcome by internal and external migration.

Until the 1990s, Argentina did not witness a double-digit unemployment rate. Since 1996, the unemployment rate stood at about 15%. In 2002 and 2003, it exceeded 22%. These unemployment levels brought about an extensive deflationary period that ranged from 1998 to 2002. The one-digit reduction in unemployment was only achieved almost a decade later.

The great challenge of demand-driven anti-inflation policies is that the market or the institutions, or both, find a way to solve the supply constraints that limit growth and create imbalance between supply and demand. If they rise to the challenge, the economy may recover sustained growth with stability to overcome poverty or inequality.

However, it is also true that pulling demand when growth constraints persist may lead to long-term inflation.

In the case of Argentina, as I said, we cannot neglect the role of devaluation shocks and commodity prices in inflation acceleration, especially when players have institutional mechanisms to prevent the loss of real income.

In a context of a fragile social fabric, with external constraints exacerbated by bimonetarism, the inflation acceleration caused by the foreign exchange and external shocks of both the pandemic and the war had to be tackled with additional regulations.

The fight against inflation, while far from being easy, has proved to be complex. After the acceleration of inflation posted in July, it is expected to follow a downward trend to reach the 60% target set for next year.

Going back to growth constraints, we have reason to be optimistic. Not only because exports have exceeded the 60,000 million threshold reported over the past decade–and reaching about 90,000 million this year–but also because of the potential unlocked by the hydrocarbons sector that will overcome a negative balance of about USD10,000 million this year, reaching a markedly positive balance as transport infrastructure becomes available. But this is not the only reason, industrial exports will exceed USD20,000 million this year. And in the near future we will also draw on exports of lithium and other metals.

We are experiencing a difficult, complex and changing situation, but growth is the path to take, with greater stability that allows us to reduce poverty and inequality.

Next year, we hope to share with you our 2023 Money and Banking Conference as an entirely in-person event.

Thank you