

The Dynamics of inflation in Latin America: some stylized facts

Economic Development Division
ECLAC

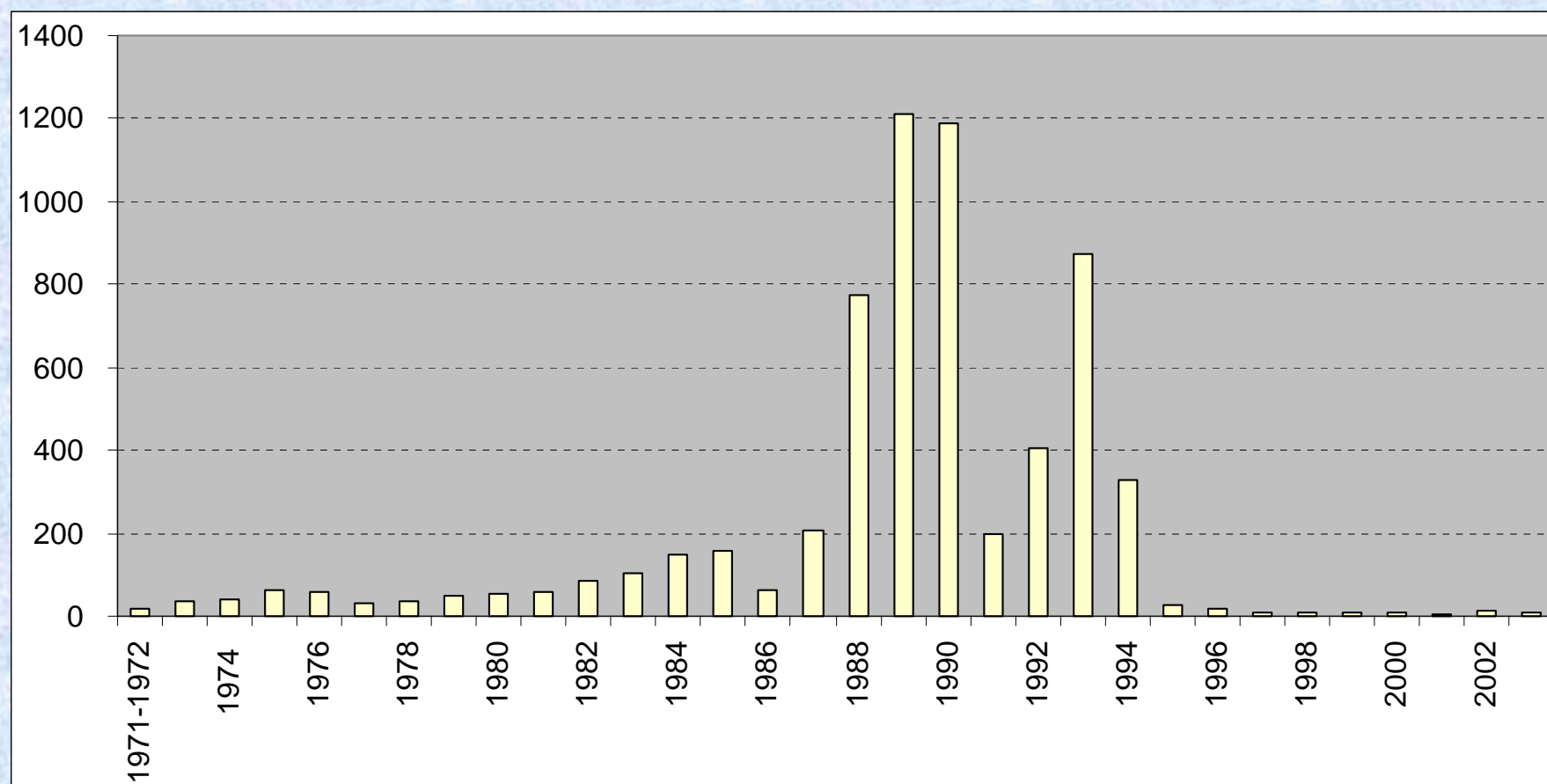
Some initial remarks

- Inflation rates in Latin America have been decreasing substantially. However the evolution of prices of goods and services included in CPI diverge significantly within and between countries and periods, and for some groups of goods and services their magnitude is significantly higher than the average.
- Strong devaluations have not, in the great majority of countries, translated into persistent high inflation rates.

- Today, the acceptance of the inflation rate as a very important objective to economic authorities is widespread among the region. But the priority that the authorities place on a very low inflation versus other economic objectives is a matter of debate.
- The relation between the prices of tradeable and non tradeables has not always evolved favoring tradeable goods. Additionally this evolution differs along time and between countries.

Contrast of inflation rates. The seventies and the eighties vs. the nineties

Latin America and the Caribbean: annual inflation rate
December to December, in %



Latin America and the Caribbean: Annual inflation rates

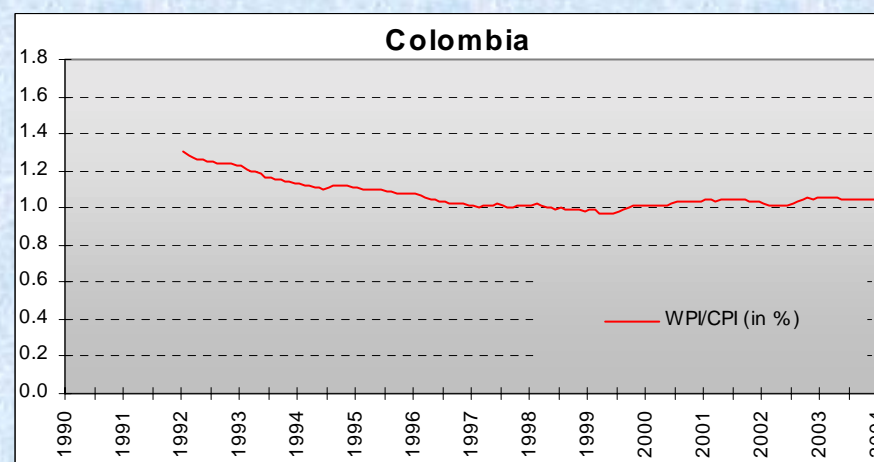
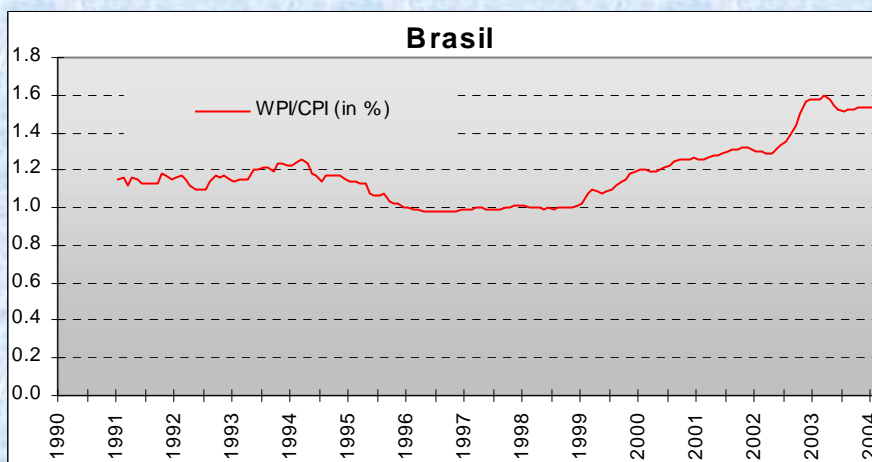
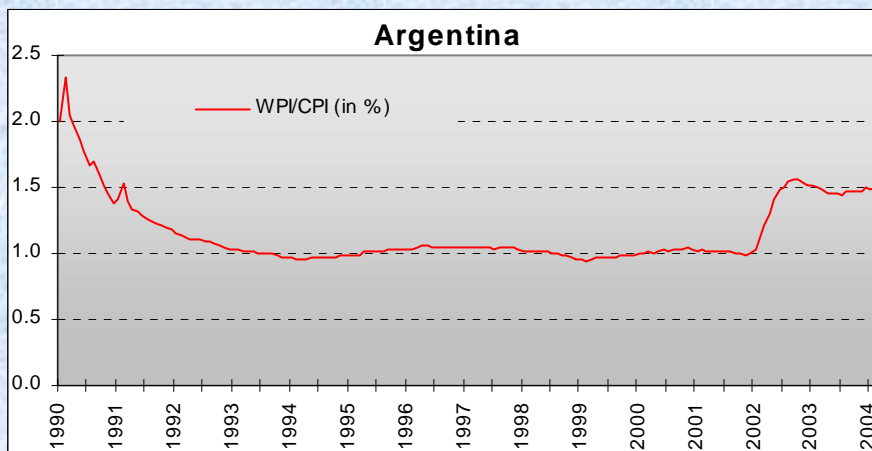
December to December, selected years, in %

	1971-1972	1975	1980	1985	1990	1995	2000	2003
Latin America and the Caribbean	17.3	60.9	56.1	159.4	1188.5	26.0	9.0	8.5
Argentina	51.1	340.3	87.6	385.4	1343.9	1.6	-0.7	3.7
Barbados	10.2	12.3	16.1	2.4	3.4	2.8	3.8	2.2
Bolivia	13.0	6.0	23.9	8170.5	18.0	12.6	3.4	3.9
Brazil	16.0	29.4	95.3	239.1	1585.2	22.4	6.0	9.3
Chile	79.3	340.7	31.2	26.4	27.3	8.2	4.5	1.1
Colombia	15.2	15.3	26.5	21.8	32.4	19.5	8.8	6.5
Costa Rica	4.0	21.5	17.8	10.9	27.3	22.6	10.2	9.9
Ecuador	6.8	13.2	14.5	24.4	49.5	22.8	91.0	6.1
El Salvador	2.3	15.1	18.6	31.9	19.3	11.4	4.3	2.6
Guatemala	0.7	13.0	9.1	27.9	59.6	8.6	5.1	5.9
Haití	10.3	17.8	15.6	17.4	26.1	24.8	19.0	41.5
Honduras	4.1	5.9	11.5	4.2	36.4	26.8	10.1	6.8
Jamaica	0.0	14.7	28.6	23.3	29.8	25.6	6.1	14.1
México	2.2	16.0	29.8	63.7	29.9	52.0	9.0	4.0
Nicaragua	0.0	0.0	24.8	334.3	13490.2	11.1	9.9	6.6
Panamá	3.9	1.8	14.4	0.4	0.8	0.8	0.7	1.5
Paraguay	7.9	8.6	8.9	23.1	44.0	10.5	8.6	9.3
Perú	6.0	25.5	59.7	158.3	7646.8	10.2	3.7	2.5
Dominican Republic	9.3	16.5	4.6	30.9	79.9	9.2	9.0	42.7
Trinidad and Tobago	6.5	13.4	16.6	6.5	9.5	3.8	5.6	3.0
Uruguay	62.5	66.8	42.8	83.2	128.9	35.4	5.1	10.2
Venezuela	3.2	8.0	19.6	7.3	36.5	56.6	13.4	27.1

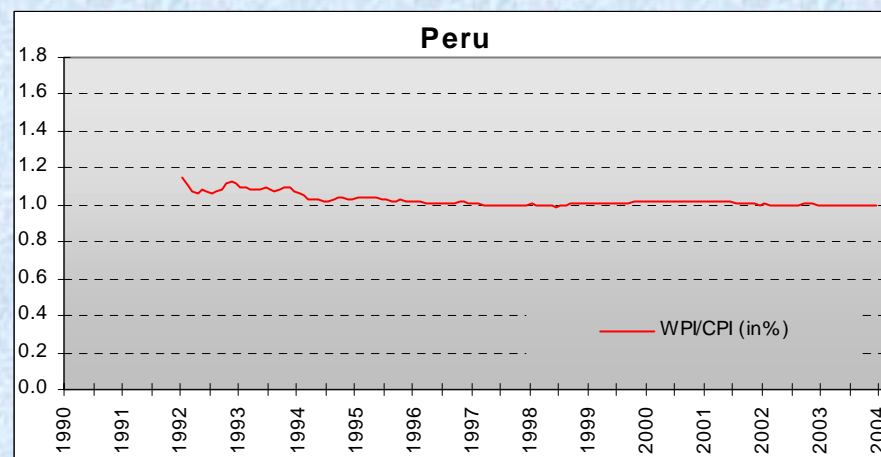
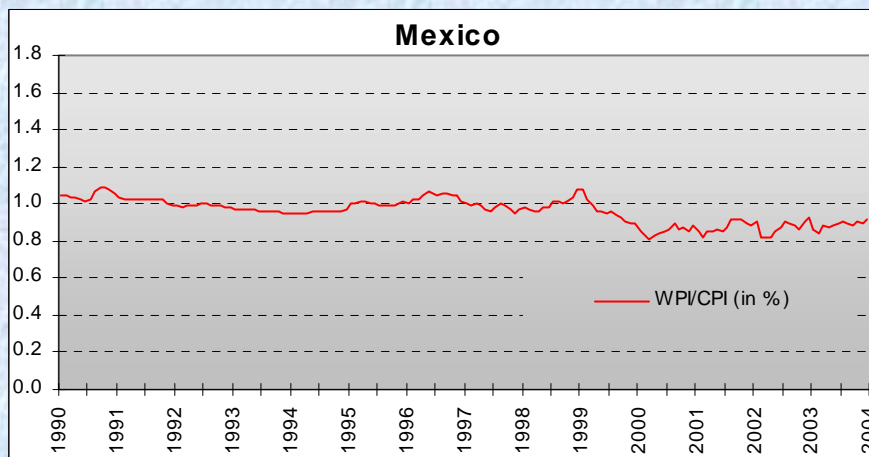
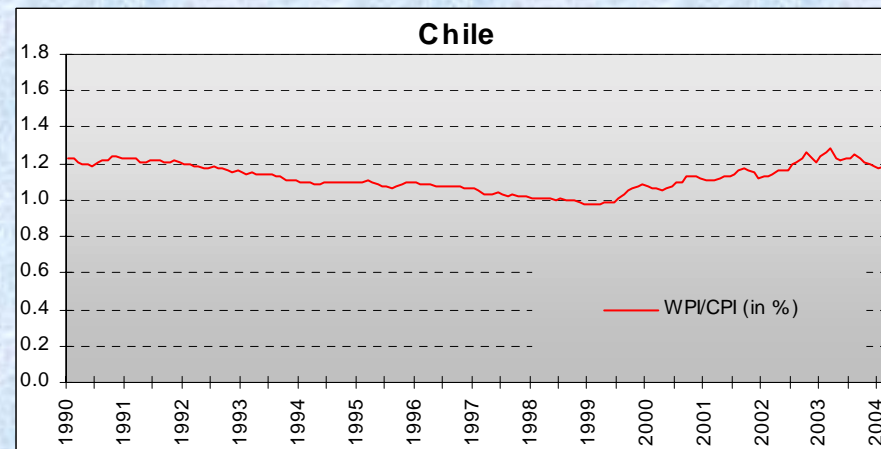
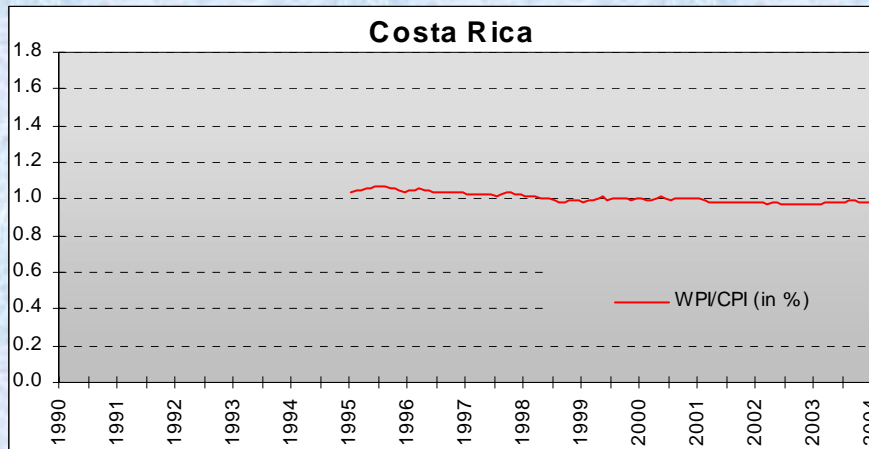
What happened inside Consumer Prices Indexes?

- There has not been stability regarding the evolution of relative prices
- Prices that are decreasing relative to overall inflation are mainly non-durable consumption goods. However, some tradeables's prices, as food, are rising in some countries.
- Prices of some services, such as education and health services, transportation and utilities are the ones with a greater increase. These items have a significant importance in the welfare of medium and poor strata.
- Changes in relative prices in the nineties have been specially intensive when a policy of fixed exchange rate became unsustainable and was followed by a strong devaluation. The question is if the new relative prices will become stable in time.

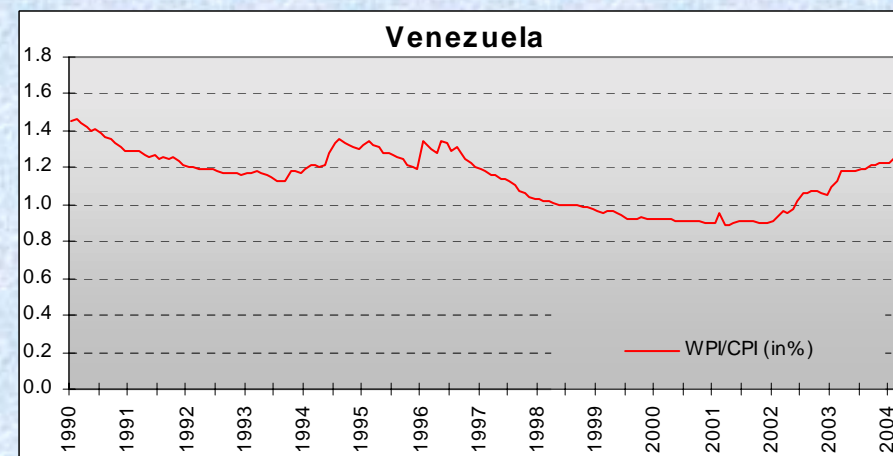
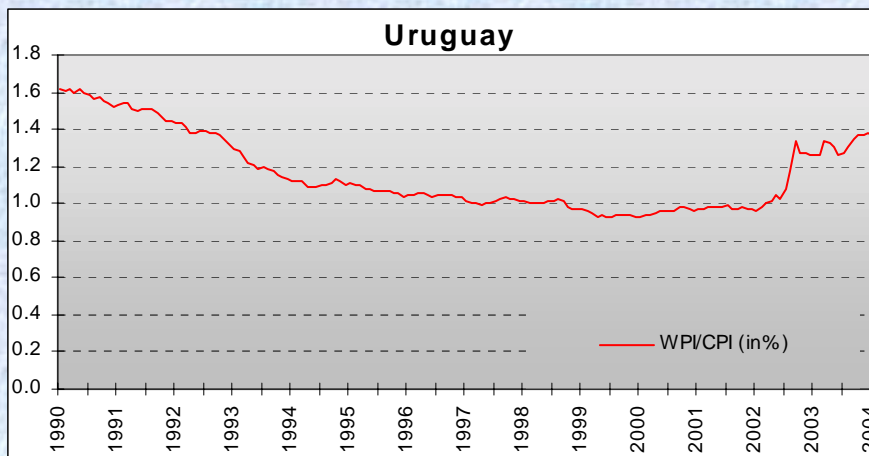
Selected countries: evolution of relative prices between tradeable and non-tradeable goods and services (Indexes 1998 = 100)



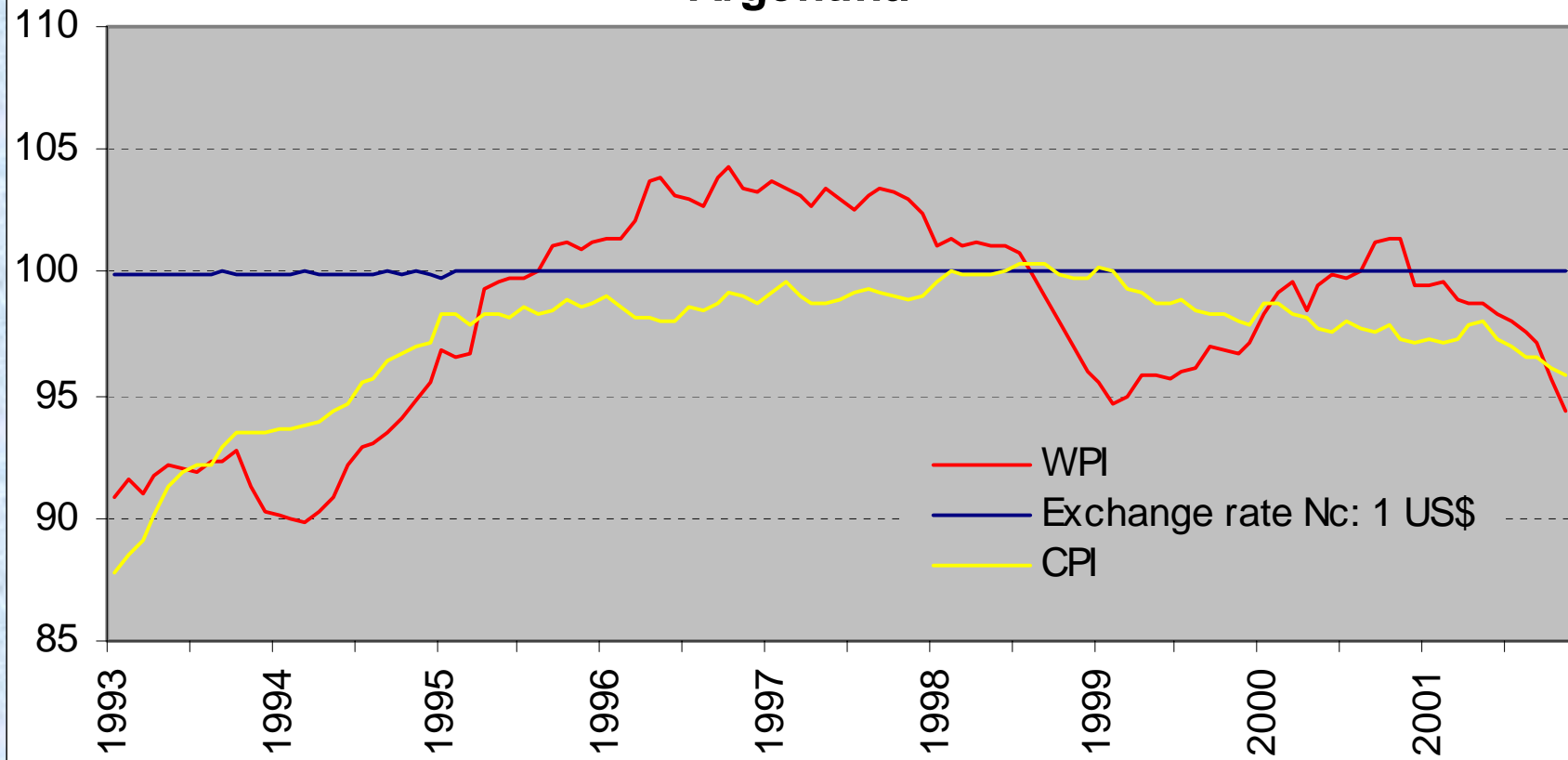
Selected countries: evolution of relative prices between tradeable and non-tradeable goods and services (Indexes 1998 = 100)



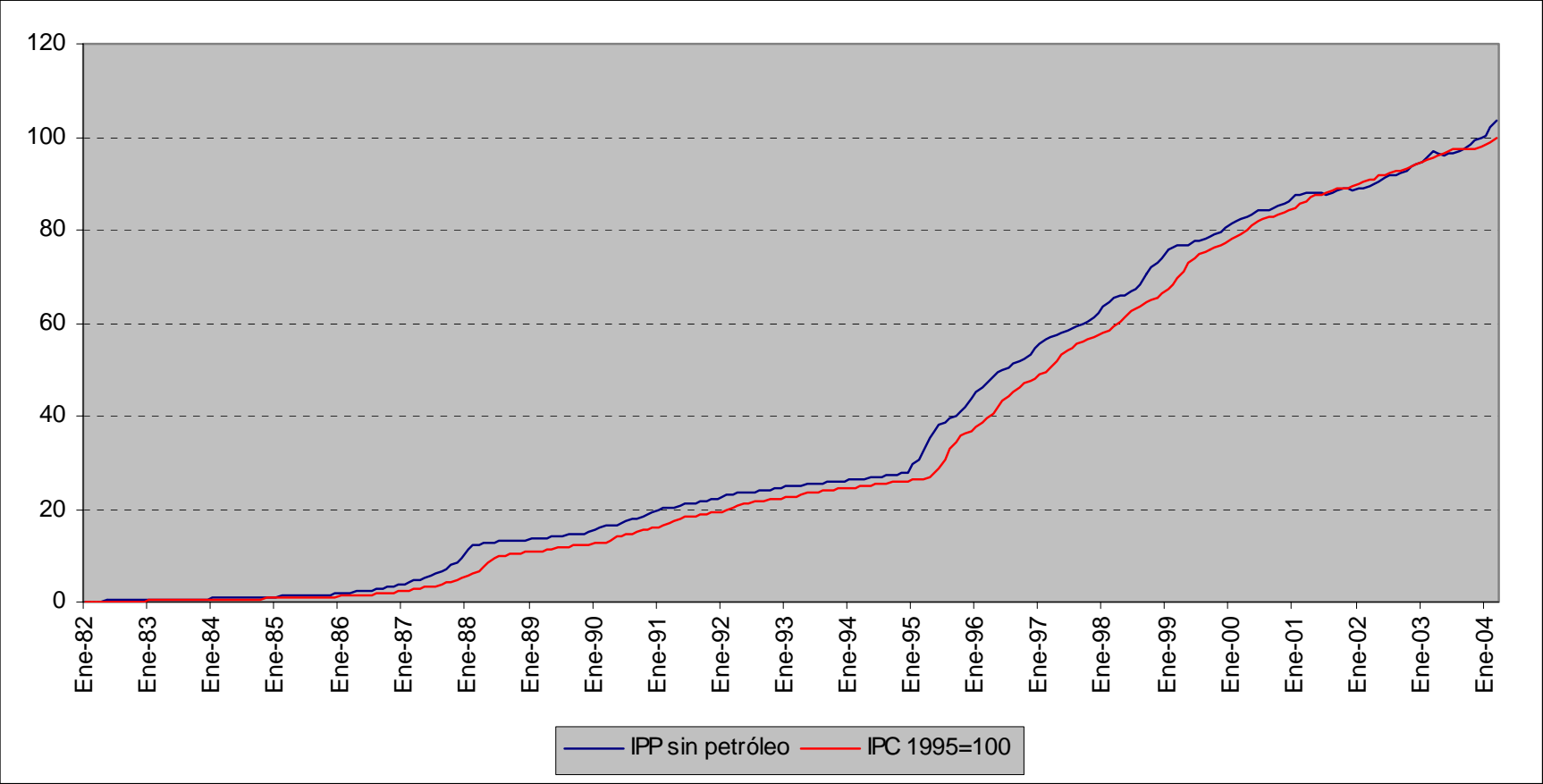
Selected countries: evolution of relative prices between tradeable and non-tradeable goods and services (Indexes 1998 = 100)



Argentina



Mexico



So, what's behind the evolution of relative prices of tradeable and non- tradeable goods and services? Some hypotheses.

- The end of indexation
- Openness of the economies and new international price structure
- Fiscal policy
- Devaluation of national currencies
- Capacity of the wholesalers to transmit to retailers and consumers their changes in prices in cases of slow demand growth in Latin American countries
- Economic policy

Final remarks

- Latin American countries have adopted in general terms the so called neo-liberal reforms. Nonetheless the economic policies have differed significantly in many aspects. In particular, exchange rate policies have been notably different between Latin American countries, which has had an important effect on the evolution of the inflation rate and the relative prices of the different economies.
- Relative prices of tradable and non tradable goods were not stable during time. In this sense, these did not act as a stable indicator for medium term decision making to both producers and consumers.

Final remarks

- In some countries, a correction of relative prices necessary to help solving a balance of payments crisis was possible, mainly due to a devaluation process of the national currency. However, this had different impacts on countries that experienced this changes in relative prices regarding its sustainability in time and its impact on their economic performance.
- Another important aspect is that in the nineties countries that had to devalue in a context of an unfavorable external situation were forced to carry out restrictive fiscal and monetary policies that produced a significant internal economic recession. Therefore internal inflationary pressures were low and new relative prices remained more stable in time.

Mexico

