Mercedes Marcó del Pont: The certainties and uncertainties in the world economy

Speech by Ms Mercedes Marcó del Pont, Governor of the Central Bank of Argentina, at the Money and Banking Conference 2010, Central Bank of Argentina, Buenos Aires, 2 September 2010.

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This 2010 Conference is very special to all Argentineans because this year is our country's Bicentennial and the 75th anniversary of the Central Bank. We are celebrating this Money Conference in the framework of a world economy with abundant uncertainties. During the early morning session, the possibility of developed countries entering a final, sustainable and balanced growth phase was discussed. There is also uncertainty as to what is going to happen to the weakest European economies that are implementing the fiscal consolidation and adjustment programs imposed on them to settle their debt issues, which most of us think will probably stress Europe's current structural issues.

There is also uncertainty in the international financial regulation arena and its new engineering. After the onset of the crisis when rock bottom was hit, there were some signs of a possible exit to the crisis with the emergence of positive indicators in a number of developed economies; now the most critical positions concerning a substantial reform of the international financial architecture are starting to fade away. The idea of making changes so that everything at the structural level remains the same seems to be consolidating.

There are many more uncertainties that could be discussed, but I would rather speak to you today about some certainties we have in developing countries, especially in Argentina. We have one clear certainty: for the first time in our short- and long-term history, countries in the region, in general, and Argentina, in particular, are going through this global crisis – one of most severe since the Great Depression – with very low economic and social costs, without having faced a cyclical and structural external sector crisis or been immersed in recession crises leading to job and wealth destruction. In fact, it was quite the opposite: as we faced this crisis, activity levels were preserved, macroeconomic imbalances, avoided and, at the same time, income levels were intended to be distributed, both in Argentina and in many countries in the region.

This is not by chance. It is the result of our countries' consistent economic models, which gave up old conventional theories that furthered our nations' underdevelopment, and drove attention back to domestic market growth supported by wage corrections and redistribution policies, where public investment acts as a source of wealth and social inclusion, and private investment was also encouraged. This is especially important in a country like Argentina which, after ten years of convertibility, was able to restore foreign exchange and monetary sovereignty.

The certainties developing countries have – there are many colleagues from Mercosur countries with whom we frequently meet –, enable us to realize there are many economic policy areas that we have recovered. As to central banking, these areas are related to certain instruments that are already part of our policy menu and are here to stay.

I will briefly refer to three of them. The first is intervention in the exchange market. With their specificities and different monetary regimes, developing countries now know they have to intervene in order to curb high currency volatility; in the case of Argentina, in order to sustain a competitive exchange rate that underpins national production and employment. There are certainties about the fundamental role of international reserve accumulation which has enabled many of us to intervene and thus better weather the negative impacts of the international crisis. There is also strong consensus on the negative impact of short-term financial capital flows. As quoted here today, in 1944, Raúl Prebisch said as regards hot money, i.e. the floating funds which have brought so many difficulties to our countries: it comes when we do not need it and leaves when it could be of use. This matter was discussed almost 60 years ago but today, with financial globalization, it is more current than ever. We know that short-term hot money weakens the processes of industrialization and production profile change in our countries, creating consumption and asset bubbles and, when it leaves the country, it causes a lot of damage.

It is very important that we defend and value these certainties because they have to be part of developing countries' agendas when we negotiate at the international level. So far, developed countries, which have other serious problems and are focused on them, are perhaps not worried about these heterodoxies and only allow us to refer to them temporarily. We should not rule out the possibility that when everything goes back to normal, when exit strategies are implemented, these mechanisms, already part of our public policies, may be dismantled. And these mechanisms give us autonomy in this globalized world.

I would like to mention that there is increased certainty or perhaps more discussion, both locally and globally, regarding the role of central banks and their responsibility, not only in maintaining monetary and financial stability, but also in ensuring that stability is consistent with economic growth and employment. We still have to make a huge effort and try to reconcile stability with growth, employment and equity. Much progress has been made in this discussion and that is what we want to foster from the Central Bank.

It may sound anecdotal, but I consider it relevant to mention that last week we at the Central Bank made the decision to change our Monetary Program. When making this decision, we were faithful to this view of economic problems: monetary variables cannot be independent of the real economy. Monetary affairs have to be consistent with a vigorously growing country that gradually distributes the fruits borne. This is one of the challenges: leaving behind those watertight compartments where monetary affairs are detached from the real economy. Perhaps conventional thinking, the monetarist system, is so embedded in Argentina that it makes it difficult to deal with the stability issues related to the challenges of a still developing country which has a long way to go as regards growth, income distribution, job recovery and upward wage correction. That was what we did: we adjusted the Monetary Program so as not to sterilize growth and for it to be consistent with these objective data of the Argentine economy. We aspire to break those watertight compartments and put the Central Bank of Argentina back at the core of macroeconomic coordination. The aim is to be in line with what has been done by successfully developed countries. We must work very hard to identify what these countries have done and keep doing to promote their development and protect their own interests rather that what they say they have done.

In this sense, it is by no means a small detail that this is the first time a president of Argentina has joined us in this Money Conference. For that reason, I would like to thank Mrs. President for honoring us with her presence today in a conference where we intend to have a discussion without conceptual categorizations, with a high degree of pragmatism and, most importantly, with the intellectual honesty needed to raise these issues. I am confident that throughout this Conference there will be very good ideas shedding light on the path we have walked in Argentina in recent years which engages us all in strengthening development and equity.

Thank you very much.