

Guido Sandleris: The ongoing need for tight monetary policy to fight Argentinian inflation

Speech by Mr Guido Sandleris, Governor of the Central Bank of Argentina, at a press conference, Buenos Aires, 13 June 2019.

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Good afternoon. Thank you all for coming.

A few minutes ago, the National Institute of Statistics and Censuses (INDEC) released the inflation figure for May. I believe it is a good opportunity to share some thoughts about it, as we did in the last three months.

Inflation went down in May once again. Headline inflation was 3.1%, down 0.3 percentage points against April, whereas core inflation was 3.2%, down 0.6 percentage points. These figures are still very high, though. They are far from an acceptable level.

I am convinced that inflation will go on decreasing if we stick to the tight monetary policy we have conducted so far. In fact, we expect June's inflation will be lower than May's figure.

The inflation reduction process is slow and, as I have said many times, it is not linear. Let me explain why inflation drops slowly despite the fact that we have met our target of zero growth in the monetary base since we launched the scheme more than 8 months ago.

First, in Argentina, the exchange rate pass-through to prices and indexation are significant, after over a decade of high inflation. That is why the great depreciation in 2018 caused inflation to shoot up, which persisted over time. Something similar happened in March 2019, though to a lesser extent.

Second, most increases in fares and utility rates occurred in the first months of the year, which fueled inflation further. Although these factors were identified, the way in which they were combined and fueled by sectorial shocks resulted in a higher than expected inflation rate, which in turn demanded extra effort from monetary policy.

Inflation will continue falling because the current macroeconomic conditions are finally conducive to this. We have recovered the basic macroeconomic equilibrium: fiscal balance, competitive foreign exchange rate and undistorted relative prices. We will continue conducting a tight monetary policy on these grounds.

Reaching a one-digit annual inflation rate will take time and effort. Perseverance is key to this process. As I have already told you on previous occasions, we must take into consideration the experience of Argentina's neighbors that reported high inflation rates for decades. They put their fiscal accounts in order, adopted consistent monetary policies and managed to control inflation.

I was saying that our monetary policy has to be tight. This is absolutely necessary for various reasons. First, because inflation is still high. Second, because we have to combat the forces of inertia of our history. But also because monetary policy should take into account the current context of uncertainty, with the top two world powers having engaged in a trade dispute. The upcoming presidential election in Argentina is another source of uncertainty.

This endogenous rate reflects the current uncertainty. Let me briefly refer to the slight decrease in the interest rate on liquidity bills (LELIQs) in the past few days. Such a drop should not be mistaken as a loosening of monetary policy. It is explained by the drop in inflation and in expected inflation in recent months.

However, the real interest rate continues and will continue to be positive. The real interest rate has been positive for nearly 9 months, a historical exception that should, actually, be the rule. Our tight monetary scheme guarantees this result. In fact, as the LELIQ rate decreased in the past few days, the real rate slightly increased. This is the endogenous dynamic of the interest rate in the current context of uncertainty.

High interest rates carry a cost for many sectors in the short term. However, the alternative carries a higher cost in the current context. This monetary policy protects us from uncertainty, whether domestic or external, and will bring about lasting benefits for society as a whole.