• Nice paper!
• It packs a lot of useful information in a few pages.
• A central conclusion is that **AR inflation results from trying to live beyond the country’s means**, 
  • **And**
    – **Bad luck**, e.g., Volcker 1982 interest-rate bomb, and
    – **Policy errors**, e.g., paying unsustainably high interest rates on banks’ reserves to keep a lid on skyrocketing inflation.
LOOKING AT OTHER SIDES OF THE PRISM
• INFLATION BOUTS: Time Inconsistency Fingerprints?
• ARG INFLATION: More Sensitive to Deficit than LATAM?
• FISCAL DEFICIT: What Deficit?
• LOW SAVING RATE: Behind Time Inconsistency Crises?
INFLATION BOUTS

Time Inconsistency Fingerprints?
ARGENTINA: Inflation 1900-1973

Source: Ferreres
ARGENTINA: Inflation 1973-2004

Source: Ferreres
LS D(Inflation) C D(Inflation(-2))
1903-2004

Dependent Variable: D(INFLATION)
Method: Least Squares
Date: 08/19/18   Time: 23:46
Sample (adjusted): 1904 2004
Included observations: 101 after adjustments

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
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</thead>
<tbody>
<tr>
<td>C</td>
<td>0.19627</td>
<td>32.57892</td>
<td>0.006024</td>
<td>0.9952</td>
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<tr>
<td>D(INFLATION(-2))</td>
<td>-0.454386</td>
<td>0.089529</td>
<td>-5.075268</td>
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<tr>
<td>R-squared</td>
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<td>Mean dependent var</td>
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<td>Adjusted R-squared</td>
<td>0.19845</td>
<td>S.D. dependent var</td>
<td>365.706</td>
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<td>S.E. of regression</td>
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<td>Akaike info criterion</td>
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<td></td>
<td></td>
<td>Schwarz</td>
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<td>Sum squared resid</td>
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<td>criterion</td>
<td></td>
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<td>Log likelihood</td>
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<td>Hannan-Quinn criter.</td>
<td>14.4609</td>
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<tr>
<td>F-statistic</td>
<td>25.75835</td>
<td>Durbin-Watson stat</td>
<td>2.080882</td>
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<tr>
<td>Prob(F-statistic)</td>
<td>0.000002</td>
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</tbody>
</table>

Source: Ferreres
ARGENTINA: Fiscal Deficit and Inflation 1961-1987

Correlation = 43%

Source: Ferreres
ARGENTINA INFLATION

More Sensitive to Deficit than Latam?
General Government Net Lending (+), Borrowing (-)

Source: WEO
INFLATION

ARG & BRAZIL 2017

<table>
<thead>
<tr>
<th></th>
<th>ARGENTINA</th>
<th>BRAZIL</th>
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</thead>
<tbody>
<tr>
<td>Inflation</td>
<td>25.7%</td>
<td>3.4%</td>
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<tr>
<td>Govt Expenditure</td>
<td>40.5%</td>
<td>37.9%</td>
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<tr>
<td>Fiscal Balance</td>
<td>-6.5%</td>
<td>-7.8%</td>
</tr>
<tr>
<td>Current Acct</td>
<td>-4.8%</td>
<td>-0.5%</td>
</tr>
</tbody>
</table>

Source: WEO
FISCAL DEFICIT:
What Deficit?
In 1970-1990, total fiscal deficit becomes increasingly dominated by financial factors.

This phenomenon sharply exacerbates during the 1980s Debt Crisis, which ended up in 1989 hyperinflation.

To be true, this reinforces the view that large Fiscal Deficit may cause high inflation,

but fiscal deficit is partly determined by factors that were outside the control of Argentina.
ARGENTINA: PRIMARY AND FISCAL DEFICITS (% of GDP)

Source: Ferreres

beginning of Austral Plan
ARGENTINA: FINANCIAL DEFICIT (% of GDP)

Source: Ferreres
LOW SAVING RATE

Behind Time Inconsistency Crises?
• **ARG is a low saver** in a low-saving region.

• Thus, ARG is likely to be more **dependent on foreign capital flows**,  
  — which are more sensitive to **liquidity** than “fundamentals.”

• Moreover, liquidity crises get exacerbated by policies that militate against transparency,
  — like **arbitrary price/exchange rate/capital controls** (common staple in ARG history !)
NATIONAL SAVING (% of GDP)

Source: WEO
ARGENTINA: Fiscal Deficit, again!

ARGENTINA SAVING RATES

Source: WEO
PRIVATE SAVING IS ALSO LOW!

(% of GDP)

Source: WEO
CHILE MENDS ITS PROFLIGATE WAYS?

SAVING (%GDP, WEO)

Source: WEO
The Case of Argentina

Comment by Guillermo Calvo
August 24, 2018