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# **How to maintain and keep low and stable inflation in Argentina**

*Master's Thesis*

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I declare on my honor that I have developed and written the enclosed Master Thesis completely by myself, and have not used sources or means without declaration in the text. Any thoughts from others or literal quotations are clearly marked.

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**Abstract:**

This study is titled “How to maintain and keep low and stable inflation in Argentina” and its main purpose is to evaluate possible solutions to the inflation crisis in Argentina. The work will specifically look at the monetary history of Argentina until the most recent days, then it will examine causes of Argentinian inflation and present possible solutions to it. Finally, it will examine them and come up with the best theoretical plan.

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# Introduction

Argentina is a country well known for its inflation problems during the last decades. The country experienced all kinds of inflation from low and stable rates to hyperinflation. For years' economists in Argentina report very high rates of inflation. Ex-president Cristina Kirchner government controlled the peso through the Central Bank, even if it is formally independent. The exchange rate does not correspond with the reality for a long time. The currency devaluation went above than expected. This brings back the old fears of hyperinflation and economists and politicians try to find the best cure. About 40% had increased their prices last year and for 2015 the IMF expects a 25% increase (Knoema, 2015).

As the second largest economy in Latin America, Argentina plays an important role in the regional development, relations with trading partners and the hyperinflation led to country's recession several times. The inflation phenomenon is a critical one for Argentina's economy and should be taken in consideration. This work will examine those possible theoretical proposals and find the most economically wise and politically doable. The purpose of this thesis is to overview Argentina's inflation background and to offer possible solutions to this problematic.

Theoretical part of this work will consist of two parts. First part will theories of inflation and about possible causes and solutions. Second part will focus on literature about the monetary history of Argentina.

Then it will proceed to the empirical part where it will show the most known, up to date and relevant solutions. With the help of the previous part it will examine the causes of Argentinian inflation. Then it will present the possible solutions made in relevant sources and finally evaluate them. The outcome of this part will be the most sensible theoretical plan how to maintain low and stable inflation in Argentina.

# **1. Inflation: theoretical overview**

## ***1.1. Definition and types of inflation***

When investigating inflation, it should be noted that different researchers tend to apply different approaches to the investigation of this phenomenon. As a result, different definitions of inflation exist in the scientific literature. Most commonly, inflation is referred to as a steady increase in the level of prices for goods, works and services within a particular jurisdiction's economy (Hall 1982, p. 7). Some researchers also add to this definition that inflation is an economic phenomenon entailing growing prices, and thus decreasing purchasing power of the respective jurisdiction's population (Solow and Taylor 1999, p. 15).

High levels of inflation are tightly interconnected with problems inherent of the respective economy's economic development, and therefore this economic phenomenon requires particular attention on the part of the national authorities involved in the economic and monetary regulation. Namely, central banks of countries are the main bodies responsible for the supervision of inflation and regulation of the monetary mass for the purpose of avoiding its excessive growth, and thus significant decrease in the living standards of the population (Sheshinski and Weiss 1993, pp. 27-28).

As inflation is a multifaceted phenomenon, based on its particular aspects investigated by the researchers, different classifications of inflation may exist. The most prominent types and forms of inflation as classified in the scientific literature are as follows:

### **Based on the speed of propagation of inflation tendencies in the economy:**

#### ***Creeping inflation***

This type of inflation is the slowest and least dangerous for the economy. Under it, prices rise at an average of 2% every year, and therefore such increase in the level of prices doesn't significantly harm the population, and moreover, can be used by the government as a stimulus for higher proceeds from exports.



### *Walking inflation*

This type of inflation assumes a higher pace of price growth evaluated at around 5% every year. Walking inflation requires to be effectively addressed by the monetary authorities, otherwise it might transform into running inflation.

### *Running inflation*

Running inflation assumes that prices in a jurisdiction's economy grow at a level of around 10% every year. This type of inflation is characterized by low levels of controllability, and the great development of the price growth pace.

### *Hyperinflation*

This type of inflation assumes that prices grow at a pace of at least over 15% every year, and up to thousands of percent per annum. Hyperinflation testifies the devastating condition of the national economy, and requires critical measures for being addressed (Hall 1982, pp. 46-51).

### *By field of existence:*

Comprehensive inflation.

This type of inflation is characterized by a situation where prices growth in all fields of the economy, and may testify cyclical negative effects in the respective state's economic development;

### *Sporadic inflation*

Under this type of inflation, prices grow only in particular fields of the economy, i.e. such growth is rather sporadic (Bernanke, 1999, pp. 41-42).

### **By the level of government intervention:**

#### *Open inflation*

Under this type of inflation, the government takes no action to reverse the negative effects of inflation, and therefore the growth in the level of prices should be regulated by the mechanisms of the free market.

### *Repressed inflation*

Under this type of inflation, the government intervenes in the situation with the growing prices using its economic and monetary regulation mechanisms, with the aim of suppressing inflation (Rossi 2001, p. 36).

### **By the factor causing the growth in prices:**

#### *Currency inflation*

This type of inflation is characterized by the excessive money supply as compared with the total of goods, works and services produced within an economy;

#### *Credit inflation*

This type of inflation occurs when a jurisdiction's government promotes credit expansion, while the mass of money available in the economy remains largely the same (Dornbusch 1991, pp. 70-71).

Having investigated the key basics of inflation, in the next chapter, I would like to focus on the most prominent theories of inflation.

## **1.2. Theories of inflation describing its causes**

Theories of inflation are those currents of economic thought which tend to have their own tools and methods destined to investigate inflation in its different aspects. In the scientific literature, there are many approaches to the understanding of the causes and effects of inflation. The most prominent theories dealing with this economic phenomenon are as follows:

### **Keynesian theory**

The theory developed by John Maynard Keynes and his followers tends to investigate inflation in its three main forms classified according to the factors causing the growing prices within a jurisdiction's economy. Thus, Keynes believes that inflation can be divided into demand-pull, cost-push, and built-in inflation. Demand-pull inflation is provoked by the growing expenditures on the part of the government, corporate sector and households, and thus by the growing market demand. Such inflation is believed to be effective for promoting

economic growth and raising foreign investment. As demand-pull inflation grows as soon as demand grows, any factor affecting the level of demand may in the long run bring to the more rapid price growth. To the contrary, cost-push inflation is the type of inflation provoked by the decreased aggregate supply. Finally, built-in inflation is associated with the economic subjects' expectations regarding inflation, and their desire to keep the pace of their revenues' growth on the same level as the level of price growth (Cottarelli and Szapáry 1998, pp. 102-105).

The adepts of the Keynesian theory of inflation also focus much on the economic phenomenon of unemployment and its interconnection with price growth. Namely, according to the tool called the Phillips curve, Keynesian economic theoreticians argue that inflation at low levels is desirable for minimizing the actual level of unemployment within a particular economy (Frisch 1983, pp. 127-128).

### **Austrian school**

The adepts of the Austrian school's theory describing inflation and its roots such as Mises and Hayek believe that the only key factor affecting the intense development of inflation tendencies is the increased supply of money in a particular country's national economy, namely when such increased money supply isn't preconditioned by the growing demand for money on the part of the respective state's economic actors. Austrian economists argue that inflation occurs in the form of a lag between the growing money supply and the increased prices for goods, works and services. In contrast to the proponents of the Keynesian theory, the Austrian school adepts affirm that mild inflation cannot be effectively used for regulating employment, and in the long run leads to economic recession (Thornton and Ekelund 2004, pp. 63-64).

### **Monetarist theory**

The proponents of the monetarist theory, namely its founder Milton Friedman, stress that the key factors affecting inflation always lie in the monetary plain, and aren't preconditioned by any economic factors. Generally speaking, the monetarists argue that any surplus in money supply at a particular given moment time within a jurisdiction's national economy would undoubtedly lead to increased consumer prices. Thus, the money supply and

expenditures of the government, households and the corporate sector predefine how intensively inflation would develop (Bernanke, 1999, pp. 111-112).

The monetarists introduce the definition of money velocity, i.e. the speed at which money circulates from certain economic actors to other ones, thus ensuring monetary circulation in the economy. In the short-term perspective, the actual relationship between money velocity and expenditures may vary, however, as the monetarists argue, in the mid-to-long term perspective, if the government doesn't excessively intervene in monetary regulation, the ultimate level of growth in money supply is equal to the level of growth in prices (Thornton and Ekelund 2004, pp. 65-66).

It should also be noted that the proponents of the monetarist theory argue that the fiscal policy and taxation mechanisms implemented by the government of any state cannot be helpful for addressing inflation due to the fact that this phenomenon is purely monetary. Therefore, the monetarists affirm that only monetary policies and the regulation of money supply should be used as levers for limiting inflation (Solow and Taylor 1999, pp. 34-35).

### **Rational expectations theory**

According to the proponents of the rational expectations theory, all individuals, corporations and the government seek maximizing their ultimate benefits generated through their activities, and therefore they rationally foresee their expectations of the future economic outcomes. As a result, the activities of such economic actors are preconditioned not only by the effects of the short-term factors as argued by the proponents of other theories, but also of how they expect mid- and long-term factors to develop their influence in the future (Sheshinski and Weiss 1993, pp. 193-194).

Thus, when foreseeing the condition of prices in their jurisdiction's national economy, actors tend to anticipate the highest level of inflation, i.e. the worst-case scenario. This is done by them for the purpose of minimizing their ultimate losses, and thus maximizing the economic benefits generated. Therefore, taking into account the aforesaid, economic actors supervise the announcements of the monetary authorities, and depending on the soft or hard policies implemented by the central banks, such announcements ignite or, to the contrary, mitigate the inflation expectations of economic actors, which in the long run contributes to decreased inflation (Frisch 1983, pp. 182-184).

Thus, as can be seen from the information above, different theories tend to explain the origins of inflation and the development of inflation processes, and each of them has its advantages and limitations.

Having investigated the main causes of inflation as explained by theoreticians, in the next chapter, I would like to focus more on the positive and negative effects of inflation.

### **1.3. Effects of inflation**

As a complex economic and monetary phenomenon, inflation has many differently vectored consequences, including both positive and negative effects which should be considered more in detail in order to understand the role of inflation for the development of national economies.

#### **Negative effects of inflation:**

##### *Decrease in the actual income earned by all economic actors*

As a result of the growing prices and devaluation of the national currency, the economic actors within the respective state feel their purchasing power decrease due to the inability to purchase the same amount of products, works or services at the previous prices. This inevitably leads to the deteriorating standards of the population's living, namely in the long-term perspective, if those effects are not eliminated through effective government policies (Cottarelli and Szapáry 1993, pp. 70-71);

##### *Depreciation of the population's savings*

As individuals and entities tend to cumulate part of their monetary funds in excess of their actual expenditures, inflation lowers the value of those funds similarly to the mechanism described above for the decreased income generated by economic actors;

##### *Decreased employment*

In case of high levels of inflation, the real wages of the population tend to drop as described above, which leads to the decreased supply of labor as a result of the lack of wish to work for decreased remuneration among the population. This might lead to the bankruptcy of enterprises, and thus negative structural effects for the entire national economy (Sheshinski and Weiss 1993, pp. 102-103);

#### *Destabilization of the national economy*

Inflation deteriorates the anticipations of economic actors, and makes them base their decisions on how they foresee the subsequent development of the monetary and economic tendencies in the country. As a result, they may act irrationally, bringing further negative effects to the economic sector (Cottarelli and Szapáry 1993, p. 71);

#### *Destabilization of the financial sector and money circulation*

As money devalues, it loses its accumulation function. At the same time, banks tend not to provide long-term loans, while depositors tend to withdraw their funds from banks. As a result, the entire national economy loses its financial leverage used for boosting its development (Hahn 1983, p. 88);

#### *Impaired investment climate*

Inflation also plays an important negative role in terms of the attraction of foreign investment, which is particularly important in the conditions of intense globalization tendencies. As the overall economic environment is less predictable in the state under inflation, investors tend to refrain from investing great amounts of funds which become risky assets, and this significantly limits the state's opportunities for the subsequent economic development (Sheshinski and Weiss 1993, p. 103).

#### **Positive effects of inflation:**

##### *Greater control over unemployment*

At low levels of inflation, it can be used for boosting greater employment. This is achieved thanks to the fact that inflation regulates the labor market by adjusting the levels of nominal and real wages. As a result, greater employment in the short-term perspective allows avoiding excessive public expenditures, and may help boost greater economic development (Dornbusch 1991, pp. 124-125);

### *Adjustment of relative prices*

By using inflation as a tool of monetary policy, the state may initiate the adjustment of relative prices within their economy, namely by eliminating the disproportions without proceeding to the use of deflation which may in many cases bring harmful effects;

### *Boosted foreign trade*

Inflation on low levels contributes to the greater proceeds generated by exporters of products and services abroad. Companies which get their profits from abroad in foreign currencies convert them into the national currency, and get greater amounts of funds as a result of the national currency's devaluation under the impact of inflation (Rossi 2001, pp. 80-81).

### *Adjustment of interest rates*

Moderate inflation makes individuals leave part of their savings untouched, without depositing them in banks. As a result, the nominal and real interest rates tend to reach an equilibrium, which is definitely positive for the development of the financial sector, and thus for loans available to the real economic sector at more beneficial conditions (Thornton and Ekelund 2004, p. 40).

Therefore, when controlled by the state, inflation can become an important tool of monetary regulation. However, in case it is excessive, it would bring major adverse effects to the economy. In the next chapter, measures which might be implemented by the state for mitigating inflation will be investigated.

## **1.4. Possible solutions to inflation**

There are several number of tools and methods which may be used by the state for reducing inflation. Among such solutions, the most prominent ones are as follows:

### **Increased interest rates**

Increased interest rates at which banks borrow funds from the respective jurisdiction's central banks mean that such financial institutions are forced to subsequently increase their lending rates for individual and corporate customers in order to preserve their financial

effectiveness. Due to the increased lending rates, part of the population and companies tend to reduce their expenditures. As a result, this leads to contracted money supply in the national economy, and thus to reduced inflation (Hall 1982, pp. 149-150).

### **Increased reserve requirements**

The reserve requirements are the minimum requirements set by central banks for financial institutions and organizations to hold certain amounts of their assets unused. Such measures are implemented in order to contract the actual money supply which banks can distribute in the market. As a result of the growing reserve requirements, banks and other lending institutions have smaller funds to be provided to their customers in the form of loans. Thus, just as in the previous example, the contracted mass of money in the national economy contributes to reduced inflation (Cottarelli and Szapáry 1998, pp. 86-87).

### **Reduced money supply**

Money supply can be contracted through other monetary policies as well. For instance, the respective jurisdiction's government may apply methods aimed at promoting smaller money supply such as increased interest rates on bonds. Foreign investors interested in higher benefits generated from bonds tend to purchase them more actively, thus increasing the inflow of funds in the national economy, and as the demand for the national currency rises, its exchange rate tends to fall. Thus, the amount of products which can be purchased within the state at the same price increases, and inflation falls. Alternatively, the state may claim the payment of all debts by its debtors, with the same effects for the level of prices (Cottarelli and Szapáry 1998, pp. 87-88).

### **Increased tax rates**

Increased tax rates can be used as another effective mechanism for fighting inflation. However, most often, its effects can be positive in the short-term perspective, and overall, the government should proceed very carefully with the tax rates, as excessive rates can lead to negative consequences. This method ensures the greater proceeds to the state budget, thus optimizing the structure of government expenditures, and allowing contracting the overall money supply in the national economy (Dornbusch 1991, pp. 121-122).



### **Limited wages**

In cases where inflation is largely caused by the growing wages in the country, the government may reduce the overall level wages, thus blocking the main factor provoking inflation. At state-owned enterprises, this is done through direct orders of the competent bodies, while in the corporate sector, such measures can be implemented in the form of either imperative or optional higher wage limits to be followed by the employers. Although this method may be effective when inflation is caused by excessive money supply, it may also bring to negative consequences, as they may raise counteraction on the part of hired employees, namely through trade unions (Bernanke, 1999, pp. 73-74).

### **Fixed exchange rates**

Fixing the exchange rate of the national currency against other currencies can be another effective way of reducing inflation in the short-term period. Thus, when the growing exchange rate of the national currency is blocked through such fixing, it leads to the contraction of inflation, as no deviations can be seen in the purchase power of the national currency, and the population tends to have better expectations. However, maintaining such policies during a long time is difficult and requires substantial resources. On the other hand, any negative fluctuations in the exchange rates of the respective foreign currencies may lead to new coils of inflation (Solow and Taylor 1999, p. 41).

Thus, it can be stated that inflation can be fought in different ways, and therefore it is up to the particular state's authorities to select the best combination of monetary and economic policies in order to eliminate the excessive inflation.

Having investigated the key theoretical aspects related to inflation, I would like now to proceed to the analysis of the monetary history of Argentina.

## **2. Monetary history of Argentina**

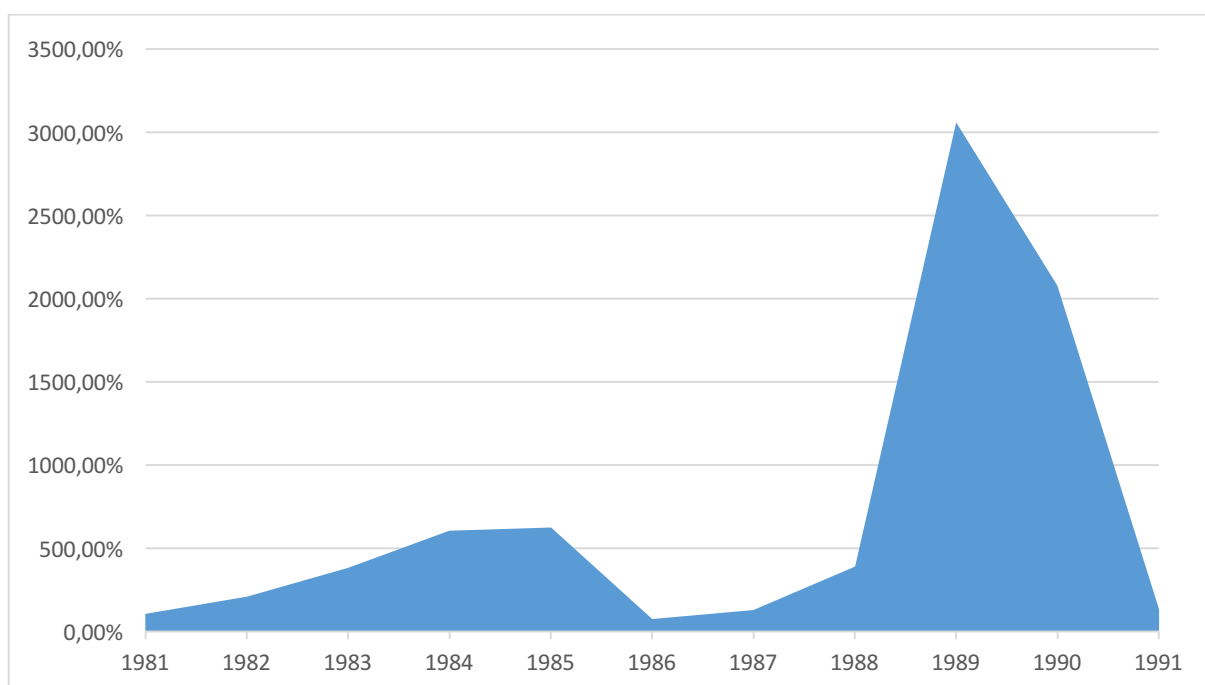
### ***2.1. Argentina's monetary development in the 1960-1980's***

In the period from the 1960's to 1970's, the Argentine economy remained rather weak, without any major foreign economic activity. The country's demand was rather low as compared with its gross domestic product, namely being at a level of 5 to 8% of the GDP, with foreign debt accounting for only slightly over than 20% of Argentina's total indebtedness. The market of Argentina was closed, and therefore the borrowings mainly came from the country's domestic economic actors, thus significantly narrowing the opportunities for the state to boost its development (Edwards 2008, pp. 82-84).

In the 1970's, the deficits of the Argentine budget started growing. The country entered a state of protracted economic stagnation. In 1975, the debt-to-GDP ratio started rapidly growing, and the first hyperinflation occurred in the country, bringing great harm to the purchasing power of the Argentine population (Della Paolera and Taylor 2003, pp. 69-70).

In 1977, with the growing debt crisis, the Argentine government initiated economic reforms destined to liberalize the country's domestic market for promoting greater interest on the part of foreign investors. In the financial sector, the government eliminated any regulation of the interest rates, thus making them fluctuate under the impact of the free market factors. Also, the government started guaranteeing deposit insurances, and providing exchange rate guarantees. This opened access to international capital markets, but in the long run created favorable preconditions for the rapid growth of inflation (Cohen 2012, pp. 37-39)

In the early 1980's, a great economic and financial crisis started from Argentina's banking sector, and rapidly expanded to all sectors of the country's economy. Hyperinflation unchained and started rapidly growing. In addition to the aforementioned factors, this was also favored by the growing government expenditures, growth in the level of aggregate wages, and chronic economic problems existing in the country. Moreover, the political situation contributed as well to the growing inflation, as Argentina led hostilities against the United Kingdom over the Falkland Islands, and in the long run lost that struggle (Gómez 2015, pp. 103-104).



**Figure 1 Dynamics of inflation (GDP deflator) in Argentina in 1981-1991 (World Bank 2015)**

As can be seen from Figure 1 above, if the inflation rate made up 106.4% in 1981, already by 1985, this value grew up to 625.8% per annum. After the dropdown to 74.5-127.1% in 1987-1988, inflation reached unprecedented heights in the subsequent years, amounting to 3,057.6% per annum in 1989 (World Bank 2015).

Against the background of the growing prices and deteriorating living standards, the country held the denomination of its national currency in 1983 in the proportion of 10,000:1. Nevertheless, that didn't anyhow help restore the stability of the peso, and as can be seen from the chart above, the trend of hyperinflation persisted. The situation got even worse, as the International Monetary Fund refused to provide any financial assistance to Argentina. In 1985, another denomination occurred (Miller 2010, p. 82).

In the long run, as the measures undertaken by the government didn't yield any positive effects, mass riots occurred in Argentina, as people went to the streets protesting against the devastated condition of the Argentine economy and the rapid decrease in their purchasing power due to the unstoppable inflation (Baer & Fleisher, 2011, pp. 206-207).

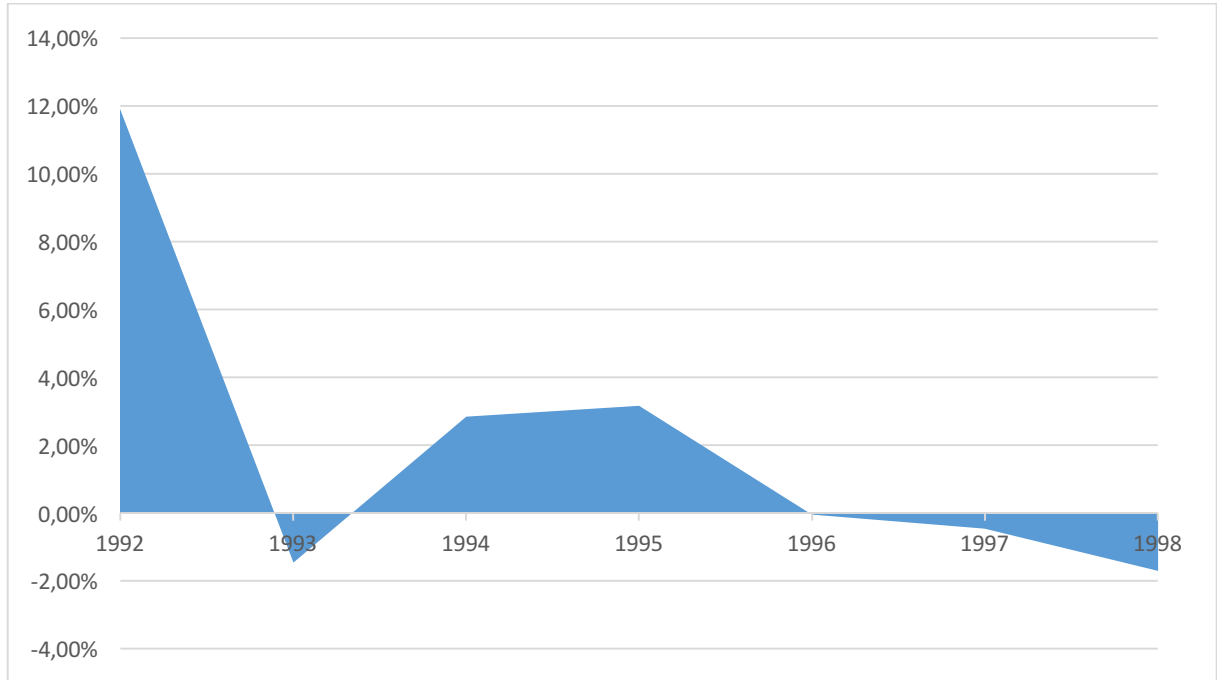
As a result, reforms became indispensable for not only restoring the economic condition of Argentina, but also for preventing any development of social unrest. The new

reforms were undertaken with after the Presidential elections held in 1989, and they will be investigated in the next chapter.

## ***2.2. Economic reforms in the late 1980-1990's***

Starting from 1980's, the government focused much on reducing the public expenditures, and at the same time on liberalizing the market. This was implemented in the conditions of hyperinflation and the great economic stagnation. As many public enterprises collapsed, large-scale privatization unchained (Miller 2010, p. 84).

In 1991, for the first time, the free foreign trade was proclaimed in Argentina. This was destined to boost the country's economic growth through incoming proceeds for exports. However, against the background of the growing inflation and devaluation of Argentina's national currency, in 1992, another denomination occurred at the rate of 10,000:1. However, this time, in addition to running the denomination, the government implemented monetary reforms aimed at preventing the subsequent development of inflation. Thus, the peso was fixed to the US dollar at the same level by the government. At the same time, the Argentine monetary authorities implemented a restriction under which the money supply in the economy contracted, and was tied to the amount of hard-currency reserves held by the Argentine Central Bank (Della Paolera and Taylor 2003, pp. 184-185).

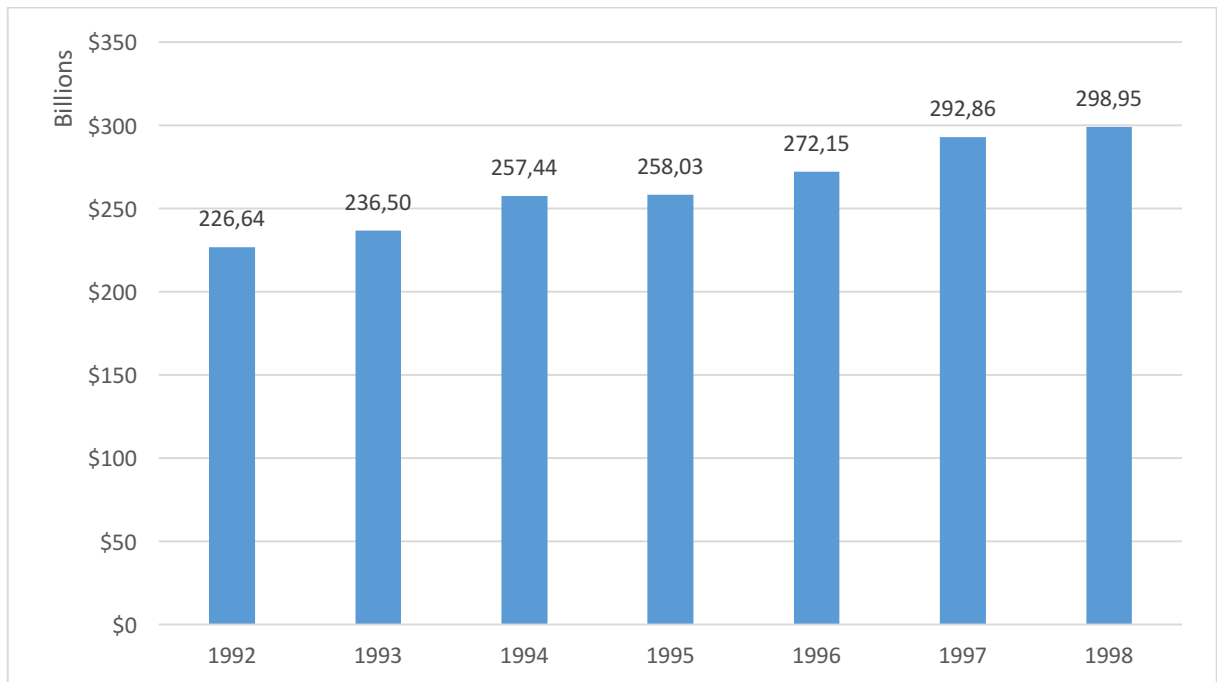


**Figure 2 Dynamics of inflation (GDP deflator) in Argentina in 1992-1998 (World Bank 2015)**

As can be seen from Figure 2 above, the aforementioned measures helped significantly improve the situation with inflation in Argentina. Thus, in 1992 inflation dropped by over 90% as compared with 1991, and amounted to 11.9%. In the subsequent years, inflation further dropped, and even deflation ensued.

With the decreased level of inflation, the inflow of foreign capital in the Argentine economy started rapidly growing. This contributed to the exit from recession, and boosted the subsequent liberalization of the Argentine market. The exchange rate of the peso remained stable. However, in 1994, unemployment started growing with the new wave of economic stagnation. The government undertook measures for counteracting those negative events, and increased the reserve requirements imposed on bank institutions. At the same time, foreign financial groups were allowed to enter the Argentine market freely, acquiring the local financial institutions. As a result, sanitation of the financial system occurred, which created preconditions for the subsequent stabilization of prices (Gómez 2015, pp. 128-129).

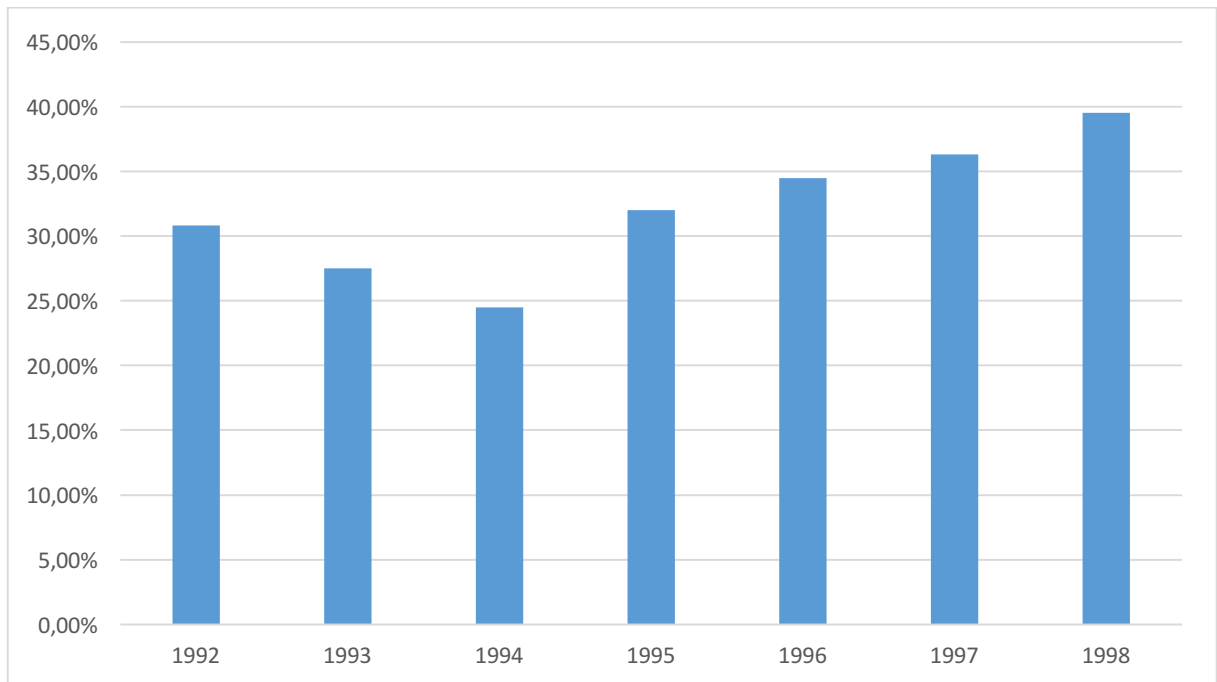
As can be seen from Figure 2, the new monetary policies implemented by the Argentine government led to the deflation tendencies in 1996-1998.



**Figure 3 Dynamics of Argentina's GDP by PPP in 1992-1998 (World Bank 2015)**

The great liberalization of foreign trade contributed to Argentina's constantly growing proceeds from exports. As a result, the country gained significant resources for boosting its economic development. Against the background of stable inflation, Argentina's GDP started growing.

As can be seen from Figure 3 above, in the period from 1992 to 1998, Argentina's GDP was constantly growing. Thus, in 1998, its value amounted to USD 298.95 billion, which figure was almost 31% higher as compared with Argentina's GDP in 1992. This testified that, despite some negative effects, the Argentine economy still developed, and effective monetary policies contributed to such positive development.



**Figure 4 Dynamics external debt stocks (as a percentage of GNI) in 1992-1998 (World Bank 2015)**

However, as the country's budget expenditures were rapidly growing, Argentina require external funding. The extended cooperation with the International Monetary Fund allowed the country's government financing its economic activities, but significantly increased the level of public debt. As can be seen in Figure 4 above, in 1998, the external debt-to-GNI ratio reached its highest value of 39.5%, which was 15.1 percentage points higher as compared with 1994.

Although the monetary policies implemented by the Argentine government throughout most of the 1990's allowed achieving positive economic effects, it also made the country's monetary field fragile, which saw its reflection in the great downfall during the 1999-2002 economic crisis which will be investigated more in detail in the next chapter.

### ***2.3. 1999-2002 Argentine economic crisis and the subsequent years***

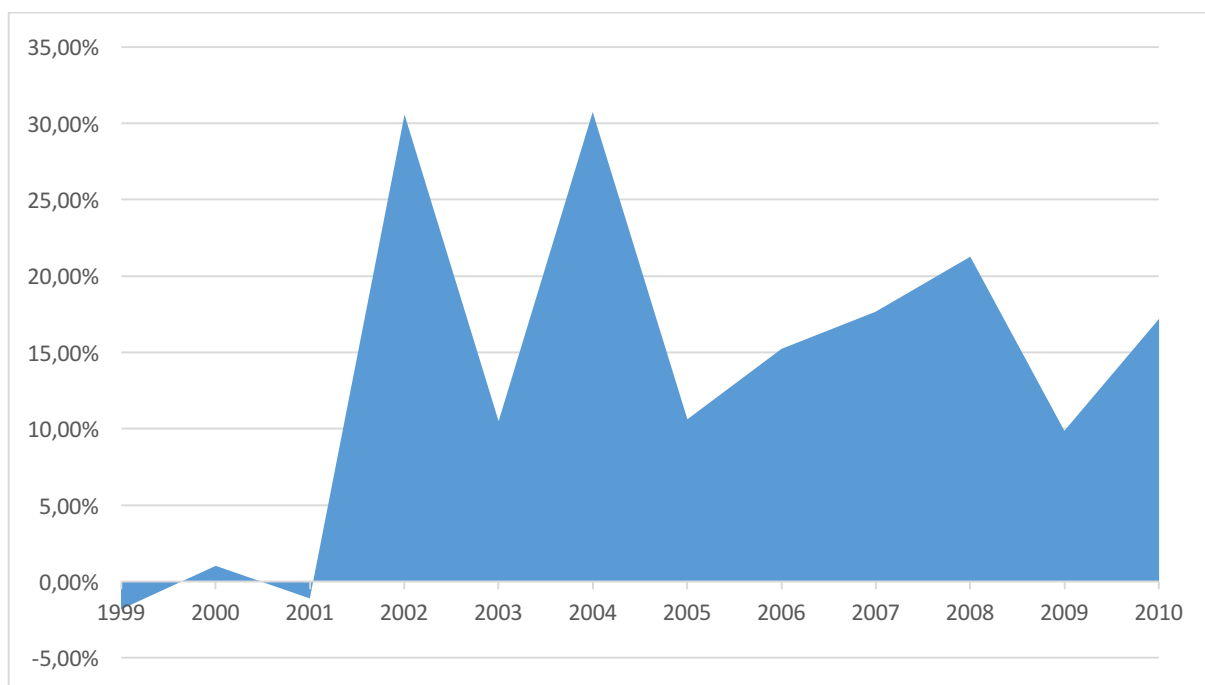
After the period of monetary stability and economic growth in the mid-1990's, the new wave of economic downfall started in Argentina in 1999. This monetary and economic crisis was preconditioned by a great number of factors. Namely, one of the greatest contributors to the unchained inflation processes was the devaluation of the United States dollar, the currency

to which the Argentine peso was tied. As the price of dollar sharply fell, the peso's value started rapidly dropping as well. At the same time, the great economic crisis in Brazil, Argentina's key trade partner, was another important argument in favor of the economic problems in the state (Cohen 2012, pp. 107-108).

The crisis further deepened in the years 2000-2001 as the banking system of Argentina started showing signs of deep recession, and many financial institutions collapsed. Capital outflows from the state started growing every month, and this provoked the subsequent coils of economic downfall in Argentina. As the International Monetary Fund refused to provide any further bailout packages to the Argentine government in December 2001, the great withdrawal of funds from the banking system occurred. In the conditions of political tensions and lack of good expectations about the future, social unrests occurred (Miller 2010, pp. 92-93).

The year 2002 became the peak year of the economic crisis. In order to prevent the ultimate collapse of the national economy, the government of the state was forced to undertake radical measures. Thus, Argentina announced its partial default on foreign liabilities, and imposed significant restrictions on the banking system. Namely, deposits of the population and corporate sector were partially frozen in an attempt to prevent their further outflow from the banking system. However, inflation greatly boosted as a result of lack of comprehensive monetary policies implemented during this period (Edwards 2011, pp. 238-240).



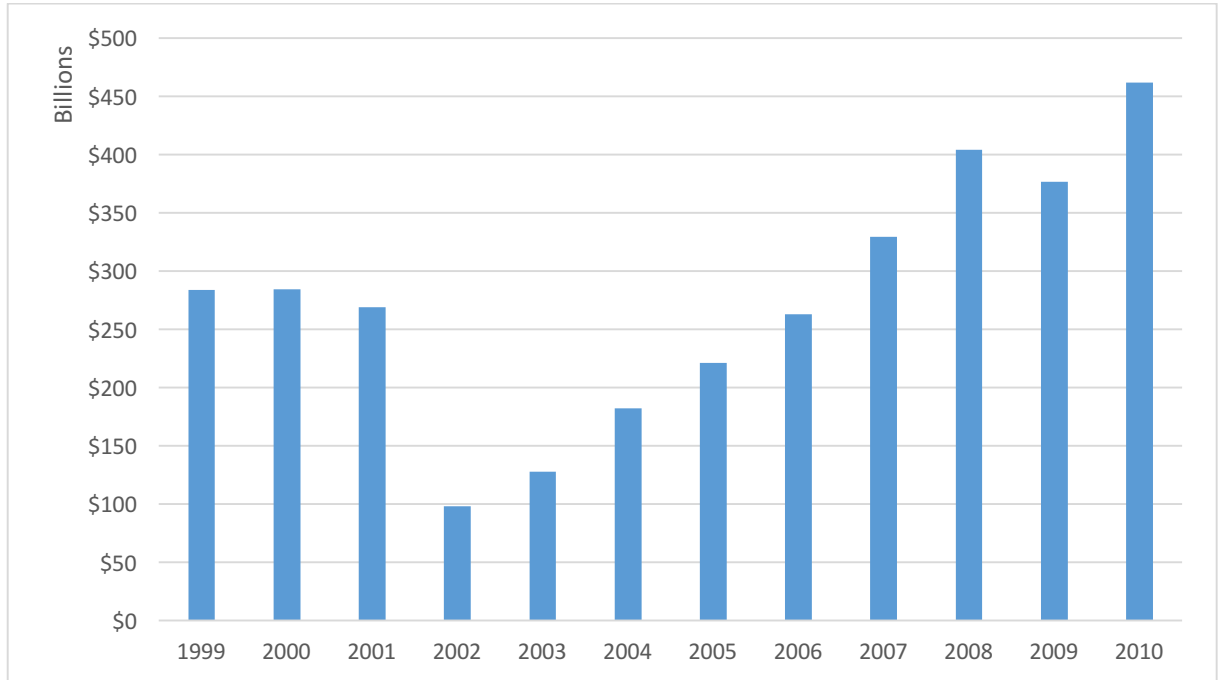


**Figure 5 Dynamics of inflation (GDP deflator) in Argentina in 1999-2010 (World Bank 2015)**

As can be seen from Figure 5 above, while the Argentine government had been able to constrain inflation in the first years of the crisis, its peak which occurred in 2002 led to the instantaneous growth of inflation up to a level of over 30%, which meant the new coils of hyperinflation after years of price stability.

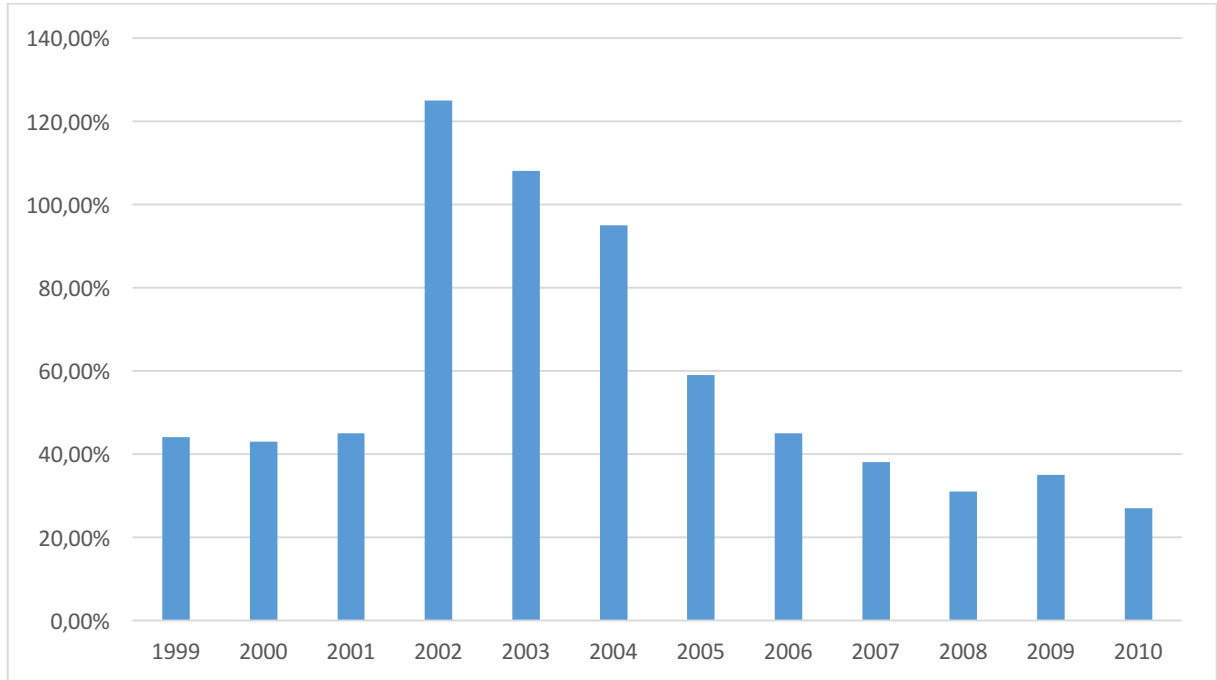
The government responded by officially prohibiting the convertibility of the peso, a drastic monetary measure which meant that the population became unable to exchange the peso into other currencies. This measure was destined to stop the great inflation by eliminating the population's ever-growing demand for foreign currencies causing the devaluation of the national currency (Miller 2010, p. 101).

In 2004, price controls were implemented in different economic sectors. This helped decrease inflation to the levels of 10 to 21% in the subsequent years. In 2006, Argentina re-entered the foreign debt market, and already in the next years, the government started publishing official inflation estimates which were destined to attenuate the negative expectations among the population. Economic growth boosted, but again dropped with the 2008 global financial and economic crisis (Baer & Fleisher, 2011, pp. 38-39).



**Figure 6 Dynamics of Argentina's GDP by PPP (in current USD billion) in 1999-2010 (World Bank 2015)**

Figure 6 above reflects how Argentina's GDP changed in the period from 1999 to 2010. As can be seen from the chart, the years 1999 to 2002 were marked by the constant downfall of the Argentine GDP, as it fell by almost 64% in four years. The second downfall occurred in 2009.



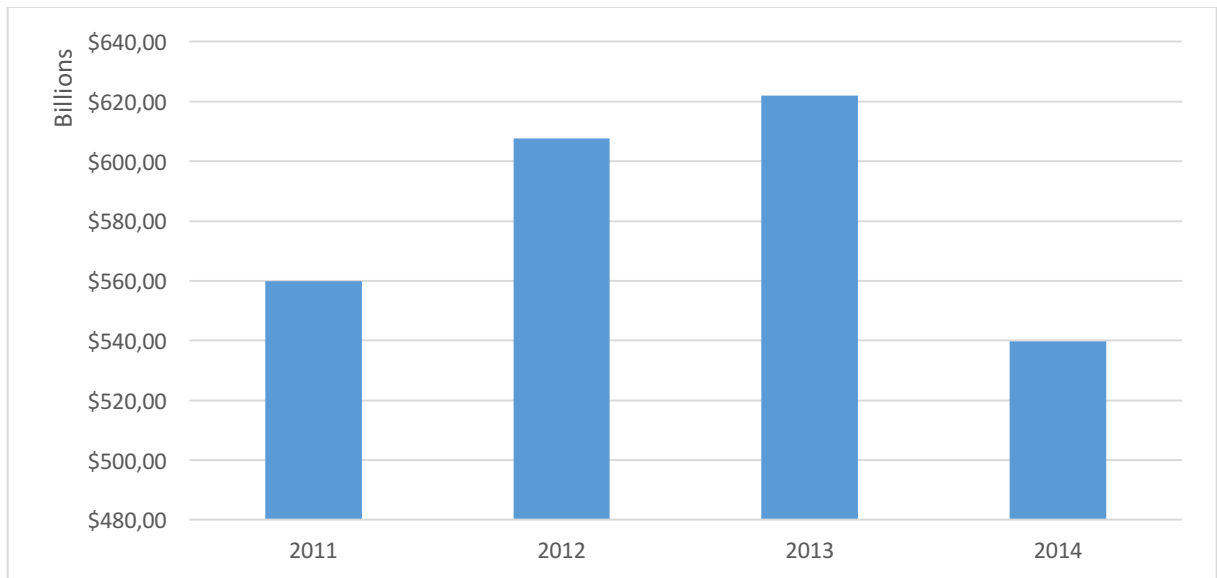
**Figure 7 Dynamics external debt stocks (as a percentage of GNI) in 1999-2010 (World Bank 2015)**

As Figure 7 above illustrates, another major consequence of the 1999-2001 economic crisis was the fact that the public debt of the Argentine government drastically grew in 2002, overcoming the figure of 120% of the country's GDP, as Argentina was raising foreign loans for addressing its economic issues. A similar situation occurred in 2009, however with less significant effects.

The events described above formed the preconditions for the current trends in the development of the Argentine economic and monetary field as soon as the country restored after the 2008 global financial and economic crisis.

## 2.4. Recent trends

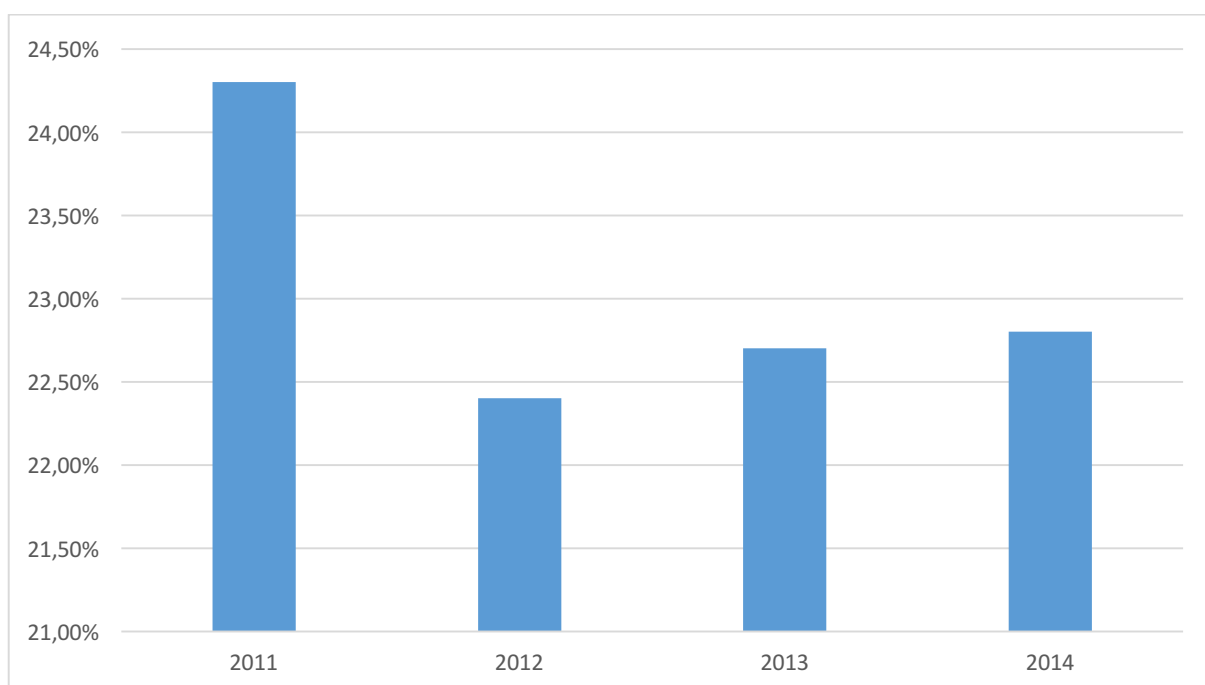
In the years after 2010, the national economy of Argentina started growing after the recovery from the global financial and economic crisis.



**Figure 8 Dynamics of Argentina's GDP by PPP (in current USD billion) in 1999-2010 (World Bank 2015)**

As can be seen in Figure 8 above, Argentina's GDP grew from USD 559.85 billion in 2011 to 607.71 billion in 2012, and subsequently to 622.06 billion in 2013, i.e. by over 11% in two years.

The Argentine economy started showing signs of overheating, and the prices started growing in the state against the background of growing wages and very rapidly growing expenditures on the part of both the government and the corporate sector (Gómez 2015, pp. 181-182).



**Figure 9 Dynamics external debt stocks (as a percentage of GNI) in 2011-2014 (World Bank 2015)**

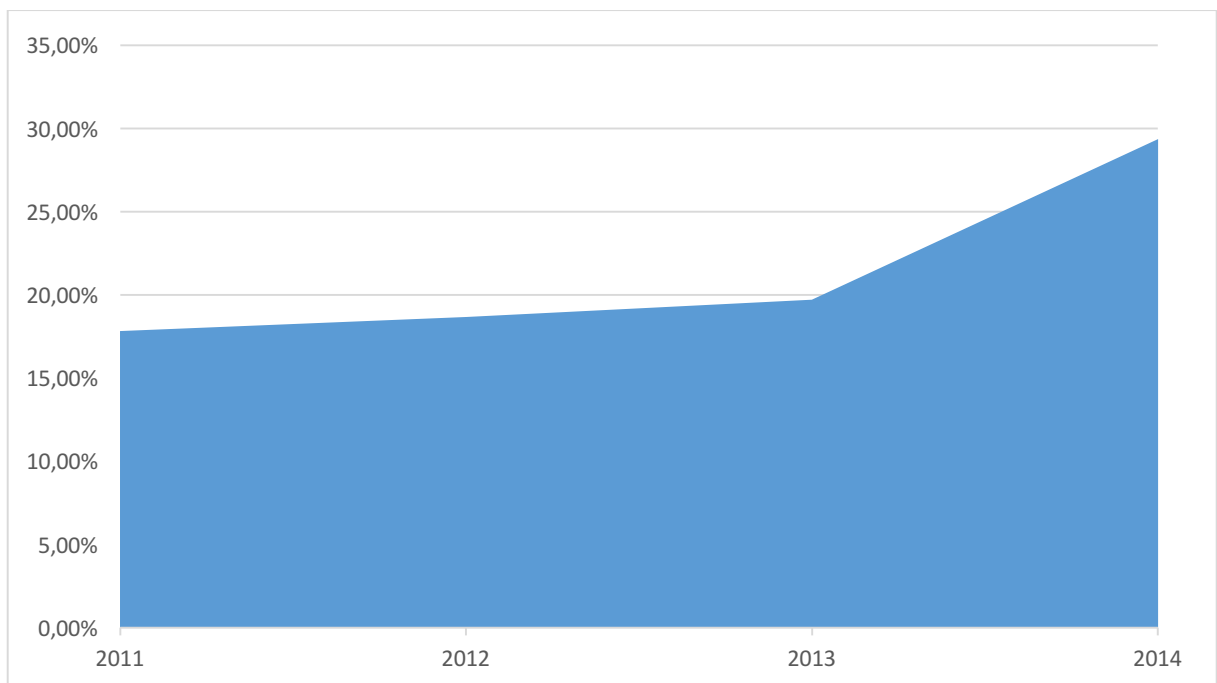
Against the background of the aforementioned processes, the external debt of Argentina as shown in Figure 9 above, remained nearly at the same level, varying from 22.4 to 24.3% of the country's GNI. Argentina was refused external funding due to the negative economic condition in the state and lack of guarantees about the subsequent effective growth (Gómez 2015, p. 182).

Due to the negative economic tendencies, the Argentine government was forced to implement the regime of fiscal austerity in 2012. Namely, in order to prevent the rapid pace of inflation, the monetary authorities of Argentina focused on the contraction of the money supply in the state. For this purpose, the government cut the subsidies previously provided to utility service providers throughout the 2000's for reimbursing their losses. Those cuts were extended not only to high-income, but also to low-income households (Cohen 2012, p. 110).

Next, as the government evaluated that the average level of wages was 5% higher as compared to their actual market levels due to the speculative activities of the trade unions. Therefore, the government initiated the re-conclusion of the collective agreements with employees in different branches of the economic sector, and ultimately cut the upper limit of the employees' salaries to their estimated market level (Gómez 2015, pp. 193-194).

Another step in the Argentine government's monetary policy during this period was aimed to prevent the subsequent devaluation of the Argentine peso. Thus, the government again used the limitation of convertibility, and eliminated the free opportunity of purchasing the US dollar for all manufacturers using imported goods in their work. All requests and applications for purchasing foreign currencies were from now considered manually by the government, and according to the official data, over 50% of all such applications were in the long run denied by the Argentine public authorities (Gómez 2015, p. 194).

After the implementation of restrictions on importers, the Argentine government saw the black market of foreign exchange rapidly develop, as the peso devalued quickly against the US dollar, and the lag between the two currencies as officially shown by the Central Bank was in practice much wider. The Central Bank started great intervention in the financial market in 2012 in order to continue artificially maintaining the peso's exchange rate, but those events ultimately failed in the long run. As a result, the great outflows of capital from the country unchained, and the investment attractiveness of Argentina drastically fell (Gómez 2015, p. 196).



**Figure 10 Dynamics of inflation (GDP deflator) in Argentina in 2011-2014 (World Bank 2015)**

Figure 10 above illustrates that the Argentine government's attempts to block inflation using various monetary and economic methods in 2011-2014 were in the long run indeed in effective. Within three years, the inflation rate grew from 17.8% to 29.34%, i.e. by over 58% in aggregate.

Thus, it can be stated that the economic and monetary situation in Argentina is much unstable, and the government's actions in the subsequent years will largely predefine how effectively the country will be able to pursue its development.

In December 2015, the installed foreign controls in 2011 (informally known as "Cepo Cambiario") which were a barrier for buying and selling foreign currencies, especially US Dollars, were lifted by newly elected president Mauricio Macri. The removal of foreign controls created a single value for foreign currency. This step triggered an immediate 26.5 percent peso devaluation, the price for imported goods increased and a pressure on inflation was put which was above 20 percent at the end of December (Marsh, 2015). President Macri believes that a combination of business attractiveness environment policies and government austerity will be a solution for stabilization of the inflation rate and the encouragement of FDI inflow will help Argentina to grow quickly and create new job opportunities.

### **3. Causes of inflation in Argentina**

#### ***3.1. Historical causes of inflation***

When investigating the causes and consequences of inflation in Argentina, it is first of all worth paying attention to the analysis of the reasons that preconditioned the first coils of hyperinflation in the 1970's, as since then, the Argentine economy has been surviving a number of financial and economic crises, and despite some rather short periods of economic stability, the country's economy has had two-digit inflation figures, and the devaluation of the peso is significantly harming the purchasing power of the Argentine population, and thus the overall level of the living standards in the state. Thus, it is worth understanding the causes of the high inflation from the very beginning of the development of those negative effects.

As it has already been stated earlier, the economic crisis in Argentina in the 1970's was preconditioned by the great stagnation of the Argentine economy in the late 1960's, and the growing budget deficits testifying the state's inability to effectively fund its economic activities. For the purpose of struggling against the negative effects in the economy, the so-called Gelbard Stabilization Plan was developed and implemented by the Argentine government. This plan was first of all aimed to ensure the improved situation in the real economic sector through boosted domestic production, and the improved situation in the financial sector through the government's active interventions and restrictions imposed on players (Lin 2013, p. 37).

However, this stabilization plan turned out to be absolutely ineffective: devaluation continued in the state against the protracted stagnation of the economy. As a result of a series of speculative attacks in the financial market, turmoil occurred in the financial sector of Argentina, and the Central Bank of the state was forced to intervene with its foreign exchange reserves. However, all such interventions didn't yield any major positive results, and therefore, from May 1973 to March 1975 (the period during which the Gelbard plan was implemented, up to the start of the great turmoil), the total loss of Argentina's foreign exchange reserves made up as much as 56%, and the cumulative level of inflation reached a figure of 628% (Kaminsky et al. 2009, pp. 3-4).

Therefore, in this case the main cause of inflation in Argentina was the lack of effective governmental mechanisms of control over the market, and the excessive amounts of foreign



exchange reserves burnt by the authorities for running the interventions in the country's financial market. This provoked panic among the population, which started seeking exchanging the funds available in the national currency into the US dollar, which further devalued the Argentine currency. Also, a great role was played here by the speculative operations of major financial market actors which greatly preconditioned Argentina's sharp financial and economic downfall (Kaminsky et al. 2009, p. 4).

In those circumstances, the government was replaced, and the new Minister of Economy Celestino Rodrigo started implementing reforms aimed to reverse the existing negative trends in the market, namely in terms of the devaluation of the peso. Under Rodrigo, the government started implementing policies which are now commonly referred to as the Rodrigazo. In contrast to the expectations of the government, they only led to further coils of inflation, and therefore it worth particularly investigating those economic reforms initiated in 1975 more in detail.

Within the framework of the Rodrigazo, the government made a bet on several key economic directions for the purpose of resuscitating the Argentine economy and combating the unstoppable growth of inflation. The key elements of the Rodrigazo can be listed as follows:

1. Involvement of great loan funds from third-party countries and financial institutions with the aim of covering the budget deficit and financing the country's economic activities;
2. Deliberate devaluation of the peso exchange rate previously artificially constrained;
3. Increased prices for the population, namely as regards the prices for utilities, public transport, and fuel;
4. Increase in nominal wages;
5. Limitation of the peso's convertibility with the aim of preventing the great demand for the US dollar, and thus for leaving the people's savings in the national currency (Desai 2014, pp. 221-223).

All of the aforesaid measures in the long run brought to major adverse effects for the Argentine national currency, and thus for the level of inflation in the state.

Thus, first of all, the government started actively raising foreign debt in the conditions where the country didn't have enough funds to be able to repay it. However, most importantly,

despite the stated aims of using the loans raised for restructuring the national economy, most funds provided by creditors were used by the Argentine government for covering its liabilities under social programs, in the first turn payments to retirees, unemployed, disabled persons, etc. As a result, the funds provided by creditors were “swallowed” by social needs, and didn’t create any opportunities of restoring the economy for subsequently repaying all such debts (Baer & Fleisher, 2011, pp. 101-102).

Next, the deliberate devaluation of the peso amounted to 150%, and this was believed by the government to equalize the Central Bank’s course with the one existing in the market. This was believed to stabilize the devaluation of the peso with the simultaneous development of the economy. For the purpose of preventing the drastic downfall in the purchasing power of the population, the government increased the level of nominal wages by 45%. However, the prices for products continued growing, thus negating any increase in nominal wages and leading to the great decrease in the population’s real income. For instance, the prices for utilities and public transport grew twice, while the prices for oil for both the population and the corporate sector grew by as much as 180%. This was believed to raise the budget proceeds for the state, however the new prices were unaffordable for many, and only further worsened the economic activity in Argentina (Kaminsky et al. 2009, pp. 4-5).

Finally, the limitation of convertibility implemented by Rodrigo not only entailed the population’s and companies’ inability to hedge their losses related to foreign exchange fluctuations (thus leading to further decreasing purchasing power, and thus social standards of the population), but also provoked the great social discontent and major strikes against the government.

In the long run, the 1975 Rodrigazo reforms didn’t lead to any positive effects for the Argentine economy, and therefore for covering its liabilities to third-party creditors (budget loans) and the population (increased nominal wages), the Central Bank was forced to use monetary emission. The growing money supply in the state not backed by any growth in the real economy provoked the ever-growing inflation, and all the unsuccessful reforms greatly contributed to its development. Also, it should be understood here that Argentina’s inability to meet its liabilities to the third-party creditors in the long run led to the country’s deteriorated relations with the International Monetary Fund, and the IMF’s subsequent refusals to provide further loans to the Argentine government (Horowitz and Heo 2001, pp. 86-87).

As it has already been shown earlier in the paper, in the subsequent years, the Argentine government was able to implement some reforms aimed at market liberalization which allowed constraining the rapid growth of inflation. However, the new wave of crisis, and thus inflation occurred already in the 1980's.

After the crisis in the banking sector which occurred in February 1981, the great outburst of the crisis further unchained already in 1982. The bankruptcy of many banks and other financial institutions contributed to the growing inflation in Argentina. The government failed to effectively address the issues which emerged. Thus, the first step undertaken by the government was the provision of refinancing to banking institutions, which required the use of great amounts of foreign exchange reserves (Miller 2010, p. 55).

Next, the government implemented insurance programs for borrowers among the population holding their debts denominated in foreign currencies. This factor was a major contributor to the growing inflation in the subsequent periods, and was in fact rather a populist decision destined to prevent the great social discontent among the population. As inflation continued, the debts denominated in foreign currencies started rapidly growing, and the state in fact covered the losses borne by the holders of such debts using its own resources, which only further weakened the peso's strength.

Another measure which showed the government inability to effectively address the crisis events and control the growing inflation was the many changes in the levels of interest rates. At first, the government imposed the maximum interest rates: this measure was aimed to stop inflation through the increased lending rates set by commercial banks for the population and the corporate sector. However, in the conditions of stagnation, the gradual collapse of the financial sector, and the pauperization of the population, the increased interest rates only further contributed to the deterioration of the situation, without anyhow addressing the issue of inflation. Thus, the government was forced to abandon the new rates, and restore the old ones. Thereafter, the system of dual rates was implemented (Kaminsky et al. 2009, pp. 5-6). The 1982 Falklands War which occurred against the United Kingdom against the background of Argentina's economic stagnation was another major contributor to the growing inflation in the country. The war required substantial funding which the country didn't have, and therefore, the Central Bank was again forced to start issuing large amounts of money. This inadvertently

increased the money supply in the Argentine economy, and provoked the further increasing pace of inflation (Della Paolera and Taylor 2003, pp. 71-72).

After the great devaluation of the peso, the government denominated it, and implemented the floating regime. However, only in the first half of 1985, inflation grew by as much as 300%, and the government introduced the new currency called the austral. The austral was firmly tied to the US dollar. This contributed to certain stability in terms of inflation up to the year 1986. Thereafter, the disproportions of the market became too important to be ignored by the Argentine authorities, and the government was forced to intervene with further greater amounts of funds for the purpose of maintaining the stability of the financial market. During the first three quarters of the year 1987, the interventions of the Central Bank burnt as much as 60% of the country's total foreign exchange reserves. This contributed to the drastically growing rates of inflation, and at the same time to the government's exhausted opportunities to maintain the market indicators under effective control (Kaminsky et al. 2009, pp. 5-6).

During this period, Argentina was unable to repay its 300-million dollar debts to the United States, Mexico and Brazil, and was forced to negotiate the restructuring of its liabilities for prorogating the deadlines for repayment. This also occurred against the background of economic crises in Brazil in Mexico, Argentina's major trading partners. As a result, the two countries significantly lowered their imports from Argentina, and the state's budget deficit grew. The continued monetary emission contributed to the subsequent increase in inflation, and also became one of the main reasons due to which Argentina was refused any new bailout plans by the International Monetary Fund (Kehoe 2003, pp. 21-22).

In 1988 and 1989, two plans were developed and implemented by the Argentine government with the aim of addressing the situation. Namely, those plans were the so-called BB Plan and Primavera Plan. The first one imposed significant price controls and dual foreign exchange rates. This provoked the great outflow of investments from Argentina, and thus deprived the country of substantial funds. The government was forced to abandon those measures. However, the situation further deteriorated, and for the purpose of avoiding the ultimate collapse of the banking system, under the Primavera Plan, the deposits of the population were partially frozen and converted into bonds. Those public bonds lost 30% of their value in the first day, and the investors continued fleeing from the Argentine market. Mass riots occurred, and the total lack of control over the situation together with the drastic outflow

of investors greatly preconditioned the rapid development of inflation coils (Kaminsky et al. 2009, pp. 5-6).

In the early 1990's, the economic reforms run in Argentina with the aim of liberalizing the domestic market brought major positive effects to the country. At the same time, the 1990 Brady Plan implemented by the US for Latin American countries which led to the decreasing interest rates in Argentina contributed to the great inflows of foreign capital. The new peso introduced for substituting the austral showed sufficient stability, and the situation remained good until 1994.

In this year, the American authorities tightened their credit policies, thus reducing the amounts of funds provided to Latin American states through foreign development and technical assistance. Interest rates started increasing in the fragile market where the Argentine economy was not yet ready to cope with any major external shocks. Investors started converting their funds held in Argentina from the peso into the US dollar, while the population started massively withdrawing their deposits from the Argentine banking system. This drastically increased the money supply of the peso in the Argentine economy, and therefore contributed to its great devaluation, and therefore to the growing prices and inflation. However, the government was able to contain the growth of inflation at less than a dozen percent per year up until the late 1990's (Della Paolera and Taylor 2003, pp. 192-193).

In 1999, the great financial and economic crisis started in Argentina, lasting up until the year 2002. The crisis provoked the great inflation due to several key reasons. First of all, in 1999, the value of the US dollar survived a great downfall in the international financial market. As the peso was pegged to the US dollar, inflation unchained right away at proportional rates. Next, the situation even further worsened with the great crisis in Brazil, and thus the falling current account balance figures of Argentina (O'Connell 2009, p. 5).

Due to the growing budget deficits, the government was forced to resort to new loans from third-party creditors, without being able to effectively cover the existing liabilities. Therefore, part of the debts were covered through monetary emission, while for other liabilities, the government sought restructuring. In cases where the creditors didn't consent to the restructuring schemes offered by the Argentine government, the country's authorities used the compulsory placement of public bonds at banks, which increased the fragility of the

banking sector, and contributed to the outflow of investor funds, and thus to further growing inflation (Kehoe 2003, p. 24).

In those circumstances, the government again used measures which had already contributed to the growing inflation rates in previous periods, and to major social discontent reflected in violent mass riots, with people flooding the streets of Argentine cities. Thus, in 2001, the government froze all deposits on bank accounts, and restricted convertibility with dual rates: the one established for the public field at the level of 1.4 dollar-to-peso ratio, and the free market rate for all household and corporate sector transactions. However, those measures again only further boosted the outflow of investor funds from the economy, and in the long run, the government was forced to abolish the dual-rate regime, seeing the peso's exchange rate fall to 1.8 pesos per dollar in February, and to 4 pesos per dollar in June 2002 (Kaminsky et al. 2009, pp. 6-7).

During the 2008 global financial and economic crisis, the inflation tendencies in Argentina, just as the country's economic recession were primarily caused by the deteriorating conjuncture of the financial market, and thereafter of the real economic sector, and the rapid outflow of funds from the country's national economy. However, the inflation rate growth figures were not drastic against the trends already existing in the Argentine economy, and the continued raising of funds from international financial institutions helped preventing the possible negative issues associated with the country's inability to repay its debts (Gómez 2015, p. 220).

Thus, the analysis above testifies that several conclusions can be drawn with regard to the historical roots of Argentina's great inflations. First of all, those are ineffective internal policies, as the Argentine government made major errors in different time periods, which only contributed to greater inflation. Another key reason is Argentina's great dependence on third-party loans without which the country is rather unable to effectively finance its economic development. Finally, Argentina is much dependent on its neighbors due to the close economic ties with them, and is much vulnerable to external shocks coming from the global economic environment.

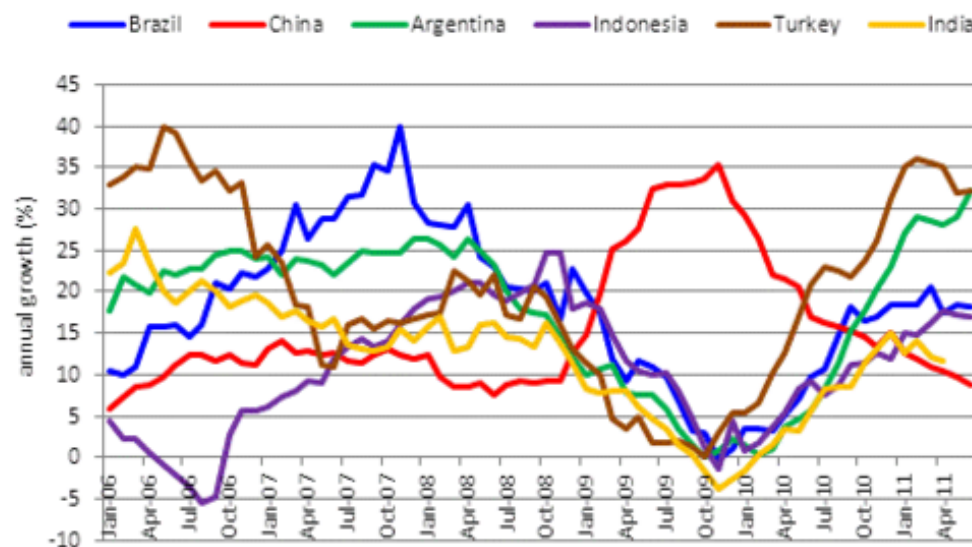
In the next chapter, I would like to investigate more in detail the reasons which have preconditioned the current situation with inflation in Argentina taking into account the findings

related to the country's historical policies implemented in the field of resolution of the inflation issue.

### **3.2. Causes of the current situation with inflation**

After the 2008 global financial and economic crisis, Argentina was able to effectively restructure its debts to third-party creditors using various financial derivatives to substitute the bonds under which repayment was impossible. The country's economy started growing, mostly driven by the great foreign demand for Argentine products against the recession and high prices in Western Europe and the United States. This economic boom which ensued after the great economic downturn associated with the global crisis was inherent of many developing economies, particularly in Latin America, where comparable growth pace was demonstrated by Brazil, and to a lesser extent, by some other economies such as Mexico.

As a result of the rapid growth in economic development, a credit boom occurred in Argentina, and the overall level of credit rapidly surpassed the GDP indicator, which became critical already by the year 2011. The interest rate differentials of Argentina became particularly high as compared with advanced economies, and the great growth in the country's credit and asset values undermined the stability in its financial market (Schmidt 2011).



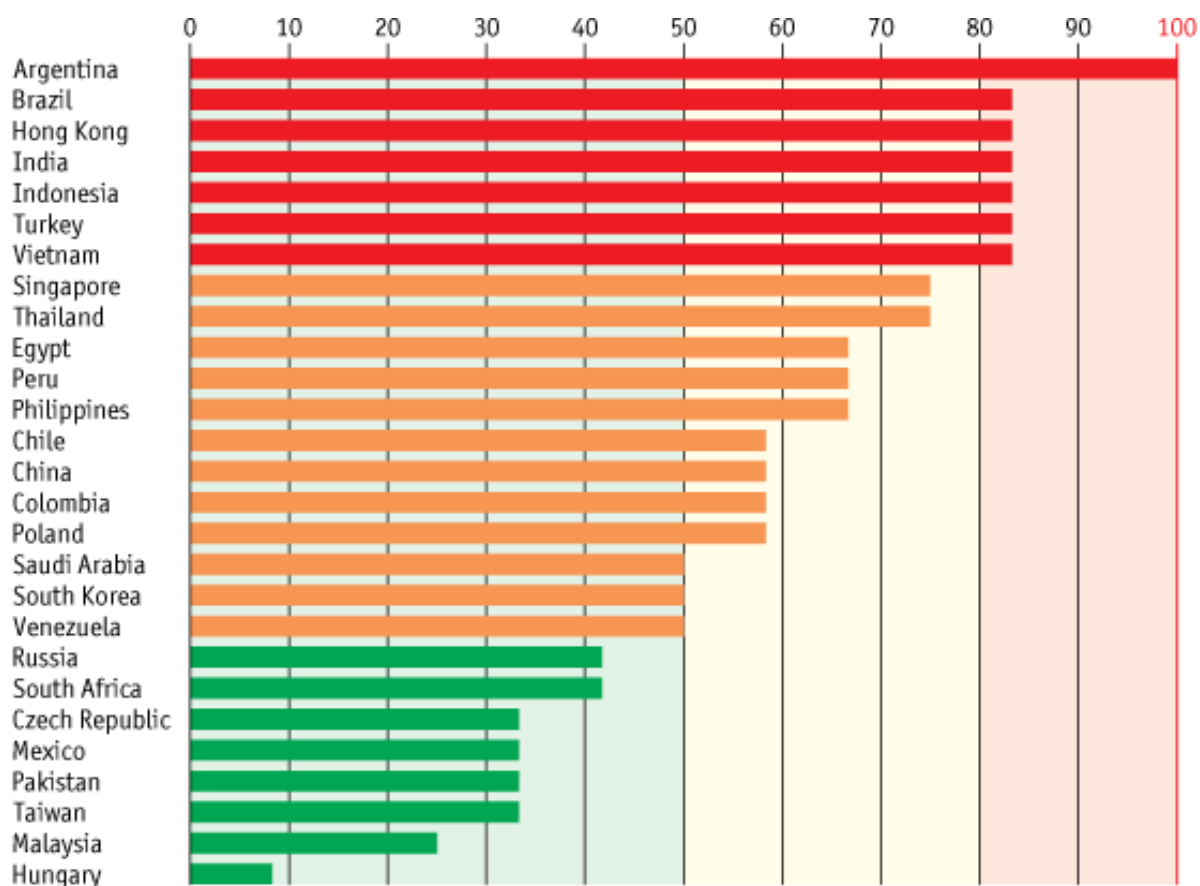
**Figure 11 Dynamics of credit growth in Argentina and selected developing economies in 2006-2009**  
(Schmidt 2011)

Figure 11 above demonstrates how drastically credit growth occurred in Argentina in 2009-2011 as opposed to lower GDP growth shown earlier in this paper. As a result of the aforesaid processes, inflationary expectations uncurbed, and this showed the definite overheating of the Argentine economy.

Previously to confirming the fact of the overheating, the Argentine government continued publishing significantly lowered inflation figures in the public statistics, and counted the budgets for the subsequent years at a yearly level of inflation amounting to 8%, while the actual inflation already surpassed 15%. The economic development of the country was now much more boosted by internal demand than by foreign demand for Argentine products and services. This meant the constantly and rapidly growing expenditures of the Argentine budget, households and the corporate sector. Taking into account the tendencies described above, a conclusion can be drawn that despite the visible development of the Argentine economy, it was unsustainable, and therefore in the long run, the economic model followed by Argentina cracked (England 2011).

This is the most radical difference due to which the inflation in Argentina caused by the 2011 crisis which still remains high as of today differs from the inflation crises which occurred in the past years. If previously, it had been caused by economic stagnation under which the Argentine government was unable to develop effective economic policies for addressing the existing issues, this time it was provoked by the great growth of the Argentine economy, and by its overheating (Lin 2013, p. 16).





**Figure 12 Argentina's economic overheating in 2011 (The Economist 2011)**

According to an estimate (as shown in Figure 12 above) run by the Economist Magazine in 2011, Argentina showed the greatest overheating among all global economies, gaining the maximum 100 points across six key indicators taken as a basis for evaluating the overheating degree, namely prices, GDP, unemployment, interest rates, credit growth, and current accounts. This further proves the preconditions in the Argentine economy which largely predefined the development of the high inflation in the country. The real economic sector developed at a pace significantly lower than the nominal growth figures, and this created the base for subsequent growth in the inflation rates.

However, in those conditions, the development of inflation was caused not only by external factors, but also by the government's ineffective policies. Thus, the government again committed several key errors which unchained the subsequent growth in inflation. For instance, in the conditions of the great economic growth and increased budget proceeds, the government

started massively subsidizing the energy sector, thus diverting any investment from it, and removing any reason for the local households and entities to reduce their consumption of energy or implement energy-saving technologies aimed at ensuring lower use of energy resources in production. By the end of 2011, the country's energy sector which had greatly contributed to the positive foreign trade balance of Argentina already showed great deficit. Therefore, this situation not only provoked an outflow of investment, but also caused deteriorated financial results of Argentina in foreign trade, and the country's smaller budget proceeds. The income generated by the boosted economy was again burnt for social programs instead of structural investments (England 2011).

One of the greatest factors contributing to the growing inflationary pressures in Argentina was the growing domestic demand against the background of economic overheating, and thus the growing monetary aggregates of money supply. In the structure of expenditures, a great shift was observed toward the domination of household demand, which grew from the seven-year average level of slightly over 62% to over 69% of the GDP value. The monetary aggregates grew by over 33% in 2011 as compared to 2009, and this testified the great increase in the money supply in Argentina. As a result, due to the excessive amount of money supply in the economy, inflation started further growing, and the peso started further devaluating. This conclusion is particularly true taking into account the fact that during this period, money supply grew significantly higher than the average yearly GDP growth, and this was connected as well with the overheating of the Argentine economy. The lending provided to households grew by as much as 52%, without being backed by any substantial growth in real wages (in contrast to nominal wages which started growing under the same purchasing power of the population, which is another sign of inflation). All those factors in the long run fueled inflation, thus posing the Argentine economic and financial sector under further growing pressures (Bradbury 2012, pp. 2-6).

The outflow of investment contributed to the growing inflation as well. Namely, this occurred not only due to the deteriorating situation with inflation, but also due to the fact that in the long run, it was revealed that the Argentine government had long been concealing the actual inflation figures, publishing unreliable statistics where inflation was shown twice or three times lower than its actual figures. As a result of the outflow of investment funds, the

supply of the foreign currencies in Argentina diminished, which contributed to the rapid devaluation of the peso (University of Pennsylvania 2011).

Another important activity which contributed to the growth of inflation which remains high in Argentina as of today was the government-led interventions in the foreign exchange market and the exhaustion of Argentina's foreign exchange reserves. Such exhaustion occurred as a result of the aforesaid interventions doubled by the great use of funds available for social programs, and the direction of national reserves for the repayment of previous loans raised from the IMF and other foreign counterparties. In order to mitigate the aforesaid consequences for the foreign exchange reserves, the Argentine government resorted to securities purchases, however those measures in the long run turned out to be ineffective (Bradbury 2012, pp. 6-7).

In 2012, the fiscal austerity regime was initiated and implemented by the Argentine government with the aim of addressing the economic problems existing in the state, namely the great level of inflation. However, as the inflation levels in 2013-2014 (as shown previously in this paper) demonstrated further growth, those measures didn't help constrain inflation. Therefore, they should be investigated more in detail.

Namely, one of the first measures implemented by the government was the cancellation of subsidies for the energy sector. This contributed to a great contraction in government expenditures, thus minimizing the existing deficits. However, as the utilities and energy companies became deprived of a major part of their funds obtained through government financing, they increased the rates and fares charged from the households, public entities and the corporate sector with the aim of covering their lost profits. Those rates achieved unprecedented increase figures of 300%, which entailed significant discontent amount the population, as the actual level of real wages earned by the Argentine population grew at a drastically lower pace. This caused a deep crisis in the relations between the state and the employees, and made trade unions organize large-scale strikes (Pettinger 2012).

At the same time, the nominal wages as stipulated in collective working agreements were increased by the government by 18%, in contrast to the trade unions' requirement to increase the aforesaid nominal wages by at least 25% for covering the devaluation of the peso. On the one hand, this limitation of the nominal wage growth threshold was destined to constrain inflation through austere limitation of additional monetary emission, but on the other hand, as the population's purchasing power dropped, another substantial outflow of funds

occurred from the deposits held by the Argentine population in the country's banking system. As a result, this unchained new inflationary expectations, and moreover, deteriorated the condition of Argentina's financial sector, which further contributed to the onward inflation (Brauen 2015).

In order to stop the great and rapid exhaustion of foreign exchange reserves, the government implemented measures for reducing the imports in the state. Namely, on the one hand, the government limited the amounts of US dollars which could be purchased by importers in the inter-bank market for financing their purchases of materials, goods and services from foreign counterparties, and on the other hand, another limitation was introduced: importers were subject to the mandatory regulation under which they were forced to export the goods or services for an amount of at least the value they imported. The sales of foreign currencies to importers were put under manual control. Despite the government's expectations that such measures would in the long run help constrain inflation, they soon turned out to be ineffective. First of all, this was preconditioned by the fact that such measures testified the government's far greater intervention in the market, and thus deteriorated the conditions of doing business in the state. As a result, this only further boosted the existing tendency toward the rapid outflow of capitals, and investors started fleeing even more actively from the state. Moreover, many companies were forced to stop their business activities, being unable to cope with the growing inflation. Thus, the Argentine government lost a great part of its budget proceeds, and was forced to use additional monetary emission for servicing the existing debts. This inadvertently provoked further greater inflation (Newbery 2015).

A major negative outcome of the tightened monetary policies implemented within the framework of the Argentine 2012 financial austerity plan was the fact that the country again tried to artificially maintain the peso-dollar exchange rate at the existing levels, despite the fact that the actual value of the peso was constantly falling. This led to the emergence of the black market where foreign currencies were traded at prices below the ones set by the government. Thus, instead of exchanging funds within the banking system and generating additional budget proceeds for the government through taxation, people started actively using the black market for minimizing their foreign exchange losses. As a result, this contributed to an even greater outflow of investor funds from the Argentine national economy, and particularly from the banking sector (Brauen 2015).

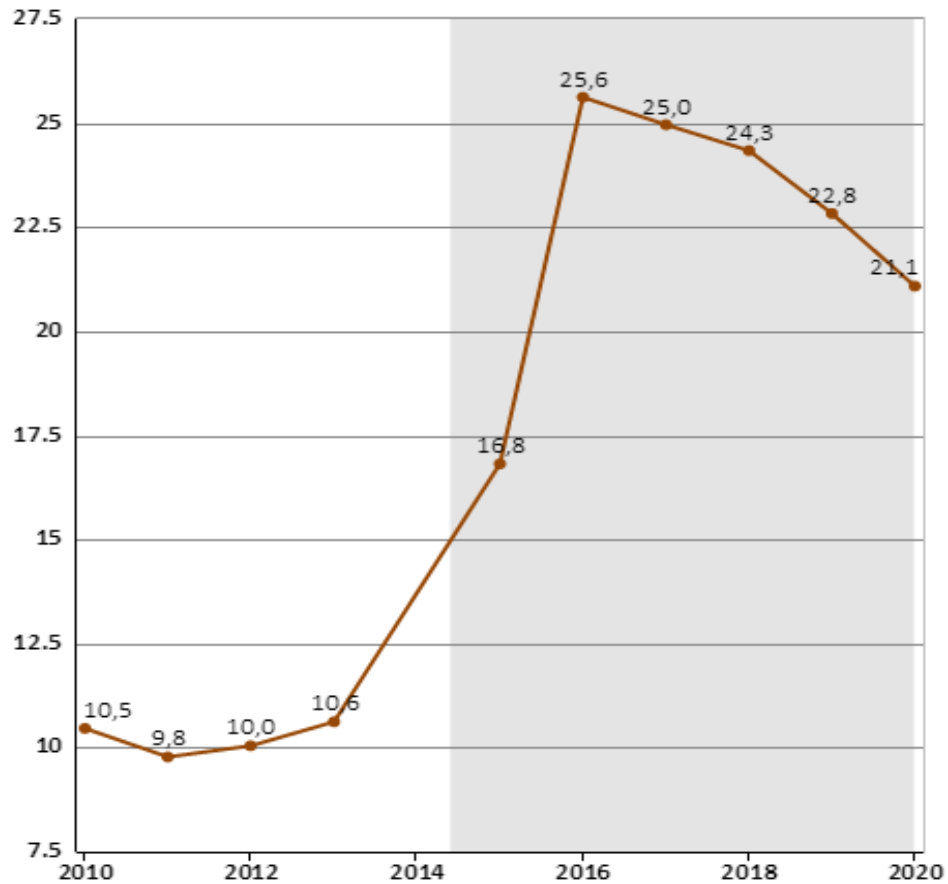
As a result of the aforesaid preconditions, inflation subsequently grew in the years 2013-2014. This was doubled by the government's continued policies toward the underestimation of the economic problems existing in the state. Thus, for the 2014 budget, another great underestimation of the inflation rate was stipulated in the public budget project, which raised great objections on the part of the political opposition, and further promoted the outflow of capitals (Garcia-Navarro 2015).

Thus, the findings of the analysis within the framework of this chapter testify that the two key reasons which preconditioned the hyperinflation in Argentina in the 2010's had emerged due to the great overheating of the Argentine national economy and financial sector recovering from the 2008 financial and economic crisis, and were subsequently doubled by the ineffective government policies in the field of monetary and economic regulation, and by the weakened confidence on the part of investors leading to a major capital outflow.

Taking into account the aforesaid findings, in the next chapter, forecasts will be presented with regard to the possible changes in the inflation tendencies in Argentina in the subsequent years.

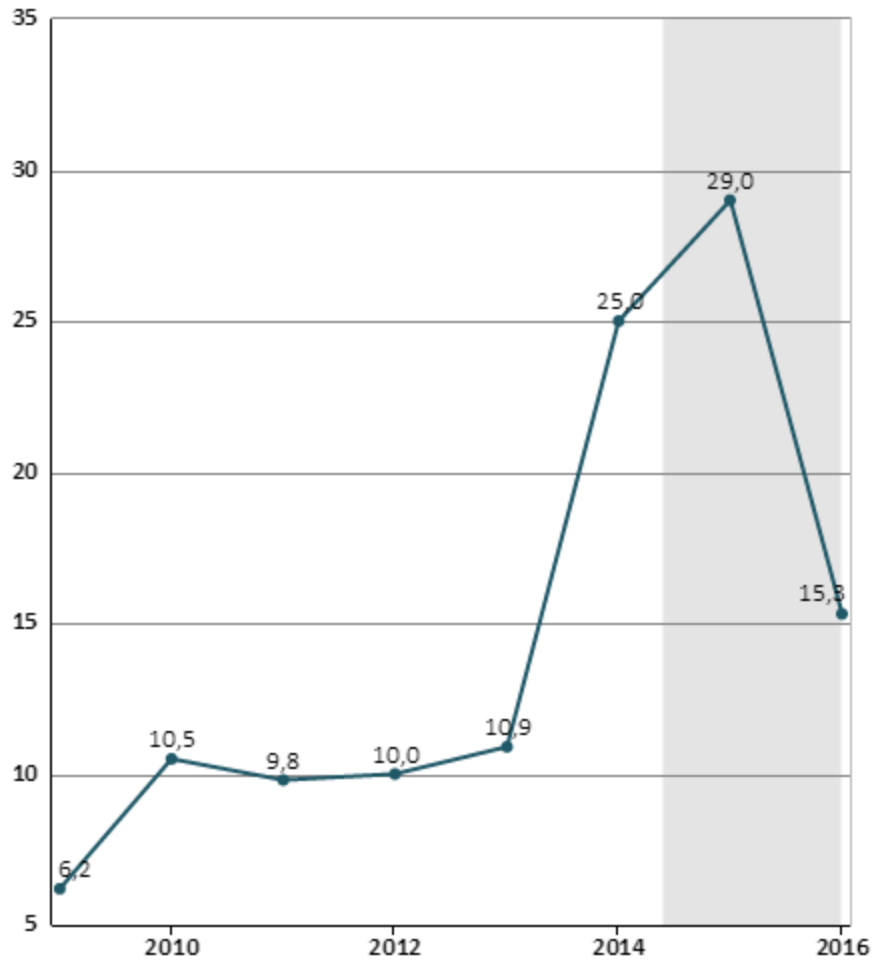
### ***3.3. Possible changes in inflation in the future***

Investigating the possible trends in the development of the inflation tendencies in Argentina in the near future is a key prerequisite for revealing which measures could be undertaken by the country's authorities for the purpose of struggling against those tendencies, and for evaluating which of those measures would prospectively grant the greatest benefits to the country. Therefore, for this purpose, I would like to investigate some of the key forecasts developed by international organizations and expert groups regarding the possible scenarios with the inflation trends in Argentina.



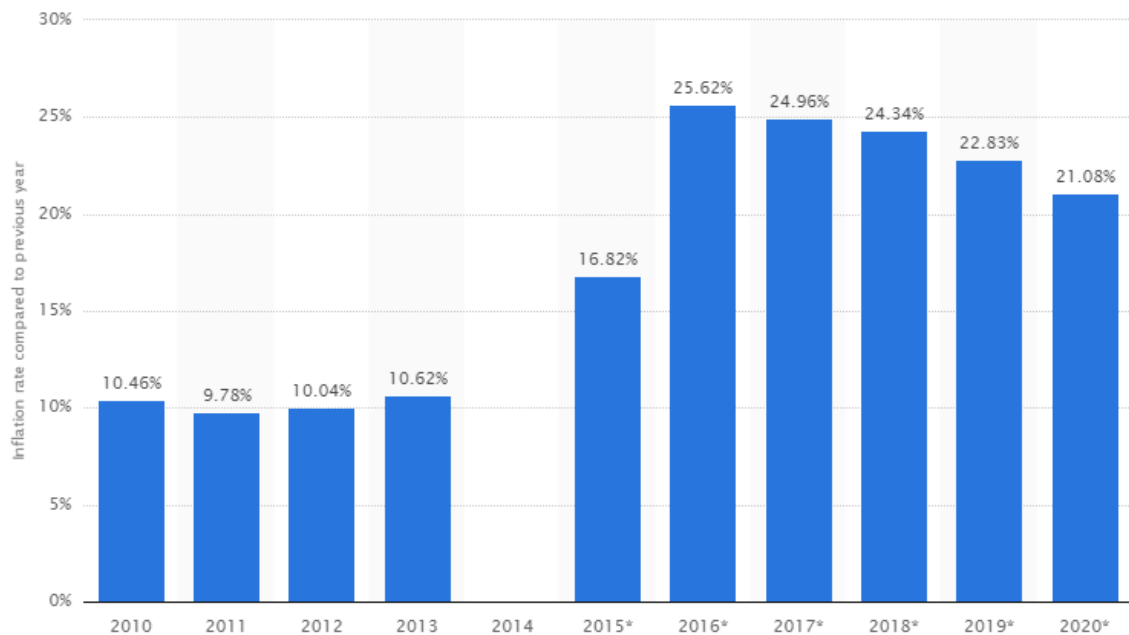
**Figure 13 Forecasted growth of inflation in Argentina in 2015-2020, in %  
(International Monetary Fund forecast) (Knoema 2015)**

Figure 13 above illustrates the expected dynamics of inflation in Argentina as evaluated by the International Monetary Fund. As can be seen from the chart inflation is expected to grow to as much as 16.8 per annum in 2015, and would thereafter be expected to reach its peak value of 25.6% in 2016. In the subsequent years, the trends are expected to become reverse by the IMF, and the rate of inflation is expected to constantly drop, however always remaining at a level above 20%, which means that, despite some positive tendencies expected after the year 2016, Argentina is still expected to remain in a state of hyperinflation.



**Figure 14 Forecasted growth of inflation in Argentina in 2015-2016, in %  
(United Nations forecast) (Knoema 2015)**

Figure 14 above depicts the expectations regarding inflation in Argentina as developed by the United Nations. As can be seen from the chart, the expectations of the UN differ from the ones of the International Monetary Fund. Thus, in contrast to the IMF, the UN specialists expect the year 2015 to be the peak value for inflation in Argentina (this peak being even 3.4 percentage points higher than in the IMF forecasts for 2016). However, the UN expects the inflation rate in Argentina to drastically drop already in 2016, down to 15.3%. Therefore, the difference between the forecasts developed for Argentina's inflation in 2016 by the IMF and the UN differ by almost 10 p.p. However, the UN doesn't provide any further forecasts for the years beyond 2016, and therefore further comparison with the IMF forecasts is impossible.



**Figure 15 Forecasted growth of inflation in Argentina in 2015-2020, in %  
(expert estimates) (Statista 2015)**

Figure 15 above illustrates the expected inflation growth dynamics in Argentina in 2015-2020 as developed by economic expert groups. As can be seen from the chart, the illustrated dynamics are similar to the expectations of the International Monetary Fund, except that here, the peak level of inflation is expected to occur in 2016 (just like in the forecasts of the UN, but with a value lower by almost 3.4 p.p.). Thereafter, the inflation rate is expected to be dropping up until the year 2020, but still always remaining as high as over 20%.



	2014	2015p	2016p	2017- 2021p
United States	1.6	0.1	1.4	1.9
China	2.1	1.7	1.8	3.0
Japan	2.7	0.9	1.0	1.9
United Kingdom	1.5	0.1	1.5	2.0
Eurozone	0.5	0.1	1.1	1.4
France	0.6	0.2	1.1	1.2
Germany	0.8	0.2	1.3	1.7
Argentina	-	20.0	25.0	-
Brazil	6.3	8.5	6.5	4.8
Canada	1.9	1.0	1.6	2.1
Mexico	4.0	2.8	3.2	3.1

**Figure 16 Forecasted growth of inflation in Argentina and selected economies in 2015-2021, in %  
(PwC expert estimates) (PricewaterhouseCoopers 2015)**

As can be seen from Figure 16 above, the experts of PricewaterhouseCoopers, one of the world's major audit firms, believe that the inflation rate in Argentina would amount to 20% in 2015, and would thereafter grow to 25% in 2016. However, the company's experts refrain from making any forecasts for the years beyond 2016 (even though their report features forecasts for inflation in all countries investigated for those years). This is due to the fact that the situation in Argentina is very unstable, and in the conditions where inflation is subject to a great number of internal and external factors, and the economy is much fragile, the actual outcome might significantly differ from the forecasts made under various econometric models (PricewaterhouseCoopers 2015).

Therefore, it can be stated that various international organizations and experts in the field of economics tend to provide somehow similar and correlating forecasts as regards the expected trends in inflation in Argentina in the subsequent years. Therefore, it can be stated that, with a high degree of probability, hyperinflation would persist in the country in the years to come, at least by 2020. However, there is room for improvement, and the country's authorities should focus on the development and implementation of wise monetary and economic policies with the aim of ensuring the most effective control over inflation, the attenuation of its effects for the economy and the population, and the subsequent stabilization of the inflation rates in the country for ensuring its effective economic growth.

## **4. Possible solutions to the inflation issue in Argentina**

In this chapter of the research, the focus will be put on the investigation of the possible solution to Argentina's issue with the high level of inflation. Namely, based on the findings drawn regarding the factors which predefine the Argentine government's inability to effectively struggle against inflationary pressures, and taking into account the information revealed on the historical errors committed by the Argentine government when dealing with the inflation issue, I am going to develop three packages of recommendations for the Argentine authorities to improve the country's situation with inflation, and to be able to further effectively control the dynamics of inflation.

Namely, my three recommended solutions for improving Argentina's situation with inflation will focus on different aspects of national issues helpful for stopping the growth of prices. Recommended solution 1 will focus primarily on Argentina's investment climate, while recommended solutions 2 and 3 will put an emphasis on the Argentine government's monetary policies, and fiscal and the foreign exchange rate policies, respectively. It should be understood here that each of the recommended solutions would imply measures in all those fields, as it is impossible to effectively control inflation by targeting only part of the problem. However, in each of those solutions a strategic focus will be put on one particular field of policies in order to generate the most effective results.

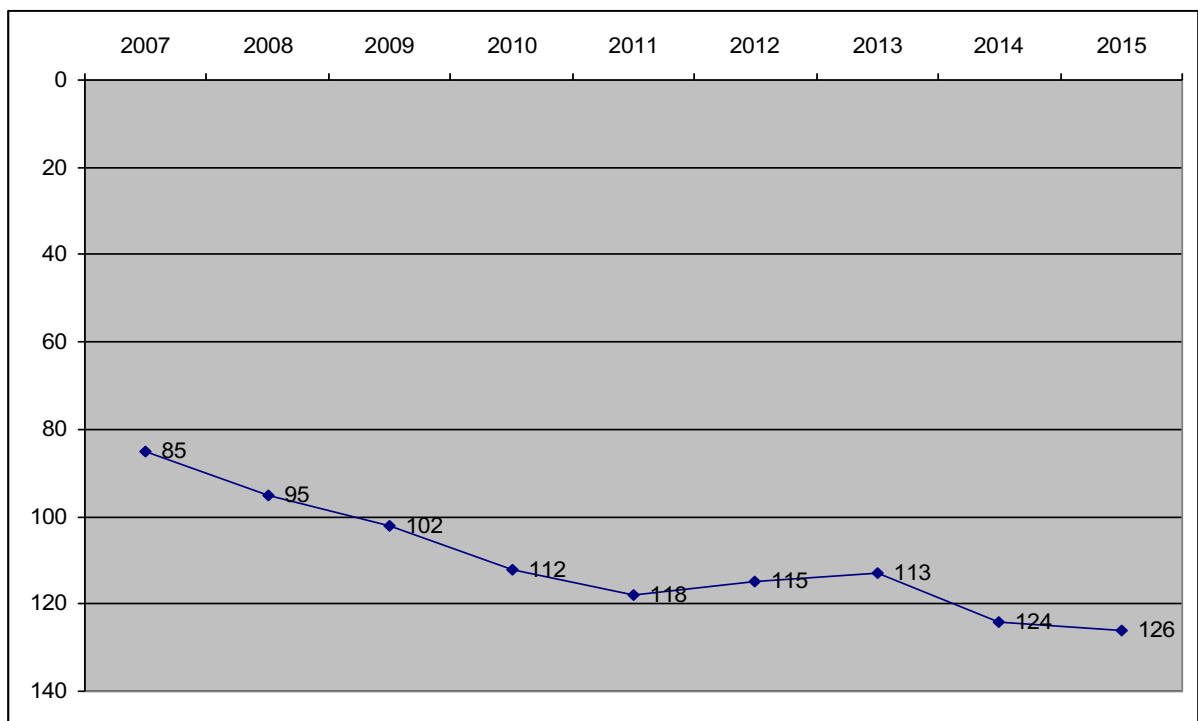
The justification of the aforesaid measures should provide different strategic alternatives for the Argentine government to combat inflation and ensure the price stability in the country.

### ***4.1. Recommended solution 1: focus on investment climate***

The first strategic solution recommended for Argentina to control and reduce the existing inflationary pressures, and thus tensions on the country's overall economic and monetary stability assumes that Argentina should focus on the improvement of the state's investment climate with the aim of promoting the inflows of funds in the Argentine national economy. On the one hand, the increased supply of foreign currency in the country's economy should contribute to the decreasing exchange rate pressures, and thus to the stabilization of the Argentine peso's exchange rate value against key international currencies such as the US

dollar. On the other hand, the improvement of the investment climate in Argentina should contribute to the country's overall better economic situation, and thus create opportunities to stimulate additional budget proceeds for funding government expenditures without resorting to additional monetary emission inevitably leading to further coils of inflation.

The choice of the strategic focus on Argentina's investment climate is due to the fact that, as previously shown in this research ([Chapter 2.4](#), [Chapter 3.1 p. 29](#) and [Chapter 3.2 p. 35](#)), this component has remained one of the major negative factors affecting the level of the country's consumer price index in recent years. Namely, as testified earlier in this research, due to the lack of effective conditions for the promotion of sustainable foreign investment in Argentina's national economy, any significant internal or external shocks caused great outflow of investor funds from the country, and as a result, this contributed greatly to the development of hyperinflation. Therefore, by addressing the issue with the investment climate, Argentina could contribute at once to the resolution of its inflation issue, and to the creation of preconditions for boosted economic development, and thus long-term economic benefits for the state.



**Figure 17 Argentina's positions in the Ease of Doing Business Index ranking in 2007-2015**  
(World Bank Group 2015)

Figure 17 above illustrates how Argentina's position in the Ease of Doing Business Index ranking prepared by the World Bank Group has progressed in recent years. Namely, as can be seen from the chart, Argentina currently holds only the 126<sup>th</sup> position around the globe in terms of ease of doing business, i.e. the indicator which actually reflects the country's investment attractiveness for foreign investors. Not only the country's position is very low, thus testifying its unattractiveness for foreign investors, but it has also dropped in recent years. Thus, if Argentina had been 85<sup>th</sup> on the global scale in terms of investment attractiveness in 2007, the country lost over 40 positions in the rating within only 8 years. Therefore, this further proves the assumption that the situation with Argentina's investment climate is very weak as of today, and this inadvertently affects the level of inflation in the country.

The great involvement of investors in the national economy of Argentina is prevented by two main groups of factors: on the one hand, foreign investors aren't interested in funding business operations in Argentina due to the great penetration of bureaucratic procedures, flawed free competition, great level of corruption, lack of effective regulations protecting their interests in the country, and other factors evaluated by the World Bank Group within the framework of the Ease of Doing Business ranking. On the other hand, the economic and political instability in the country, lack of effective regulatory base governing all fields of the investors' relationships with the local authorities and business counterparties, and other important factors of the business environment make the investment in Argentine unattractive, as the risks of failing not only to generate profits, but also to lose the funds invested are excessively high. In its turn, this contributes to the overall instability of the domestic market, and to the lack of the local population's confidence in Argentina's financial system.

The first step which should be undertaken by the Argentine government in order to raise the country's investment attractiveness is to eliminate, or at least minimize the penetration of corruption in the field of business activities. For this purpose, strict control over the officials is required. The government should implement a thorough monitoring system which would allow not only the public authorities, but also representatives of social activists performing the supervision of all officials' activities on all levels. Any request of bribes should be punished most severely, in order to prevent the use of corrupt practices. All economic activities should be made most transparent in order for the foreign investors to feel themselves protected in

Argentina, and in order for them to know that all their economic activities in the country are regulated only in the official and legal field.

Next, the Argentine authorities should make improvements to the country's legislative base with the aim of further increasing the transparency of the government's relations with foreign investors. First and foremost, the government should aim to guarantee the foreign investors' greatest protection against any possible risks of losses or damages. This could be achieved in various ways. On the one hand, the government could provide its own financial guarantees in case of large infrastructural projects funded by foreign investors together with the Argentine budget. This would ensure the formal recognition of mutual liabilities between the investors and the local authorities, and thus would provide foreign corporations and governments with greater confidence in the ultimate financial success of their fund placements in the Argentine economy.

On the other hand, the government should explicitly stipulate the liabilities of the local counterparties when acting with investors' funds, and should ensure the implementation of government-led control, supervision, and audit of all entities involved in the use of foreign investors' funds. This would allow preventing any frauds on initial stages on the one hand, and would also allow revealing any difficulties in the implementation of particular projects on the stages where such issues can still be effectively addressed. All in all, this should contribute as well to foreign investors' greater predisposition to the provision of funds to the Argentine economy.

Another important step to be done within the framework of regulatory improvements is the reduction of bureaucratic procedures, permits and licenses required for foreign investors to run their activities in Argentina. Namely, the Argentine government should seek maximum liberalization in the field of doing business for foreign entities, as this is a key precondition for generating foreign investors' greater interest in the Argentine national economy.

However, the aforesaid measure wouldn't be sufficient for significantly increasing the inflow of foreign investors' funds in the Argentine economy, as they would only improve the regulatory framework, but not the economic stability in the country. Therefore, the second package of actions should be aimed at achieving the maximum improvement of Argentina's economic and financial stability in order to attract foreign investors.

Thus, as foreign investors work with different currencies, the step which should be undertaken by the Argentine government in the field of general economic policies in the first turn is the changes in the exchange rate regulation mechanisms implemented as of today.

First of all, I believe that Argentina should cancel the fixed pegging of the peso's exchange rate to the US dollar, and introduce the free fluctuation of the national currency. As has been shown in this research, all Argentine government's attempts to artificially tie the peso to the US dollar in the long run proved to be ineffective, even despite bringing some positive effects in the short-term perspective. Furthermore, the steps aimed to ensure the aforesaid pegging during the 2012 financial sanitation regime led to the rapid growth of the black foreign currency market. Argentina has an artificial regime in which there are official and unofficial exchange rates, and the government's attempts to maintain any balance by intervening in the forex market with foreign currency reserves do not bring any positive effects.

Therefore, in my opinion, the abolition of the peso's exchange rate pegged to the US dollar would allow balancing the situation existing in the market. Thus, in case of the implementation of the aforesaid measure, the official exchange rate of the peso would definitely drop against the US dollar, and this might lead to further increased pieces, particularly in the short-term perspective, as regards the goods and services imported from abroad. However, the equalization of the official exchange rate with the free market exchange rate would allow eliminating any and all black market operations. As a result, there would be no illegal operations with foreign exchange, and all exchange operations would be performed by the population via the official banking institutions or foreign exchange outlets. This would increase the inflow of foreign currency in the banking system, which would provide it with greater stability. At the same time, the government would obtain greater opportunities of more effective interventions in the forex market (which should be done only in those cases where sharp negative tendencies exist, otherwise the government should aim to achieve the maximum liberalization of the operations with foreign currencies).

For the investors, such step would minimize or eliminate at all the risks associated with the inability to foresee the government's actions as regards the foreign exchange rates. Therefore, being provided with lesser turbulence in their market operations, the foreign investors would be likely to have greater confidence in the placement of funds in Argentina

(even despite the great risks of fluctuations of the peso, such fluctuations could be foreseen, as they would be predefined by market factors, and not by the government's decisions.

In order to promote foreign investors' interest in the Argentine national economy, the country's government should also undertake actions to provide competitive and attractive projects for such foreign investors to provide funding for. For instance, those could be infrastructural objects associated with the field of transport such as the creation of airports, highways or railways. Such projects are potentially much prospective as they are always aimed for the long-term perspective, and therefore ensure firm partnership ties between the local economic sector and the foreign investors. The objects created within such projects could be thereafter transferred to the investors' ownership on concession terms for decades, or even remain in the ownership of such investors, if we speak only of the goal to fight against inflation.

Another prospective tool to increase foreign investors' interest in the Argentine national economy is the creation of free economic zones in the Argentine territory. This could show the Argentine government's dedication to the promotion of foreign investment, and could provide foreign investors with additional stimuli to place their funds in projects in Argentina, as such free economic zones assume lower taxes and minimized bureaucratic procedures.

So, how will inflation behave, provided that the aforesaid recommendations are effectively taken into consideration and subsequently implemented by the Argentine government?

First of all, the improvement of the investment climate in Argentina would raise the country's positive image in the international arena, and would promote both foreign governments and corporations to cooperate with Argentina in the economic field, namely by providing investment in Argentine projects. The inflow of funds in Argentina's national economy within the framework of such projects would contribute to the country's boosted economic development, and thus to the more effective operation of the Argentine national economy in the context of the replenishment of Argentina's state budget through taxation of both corporations and persons for whom new jobs would be created. This would provide the Argentine government with greater opportunities of further regulation through monetary policies, and therefore would reduce the risks of inflation associated with the exchange rate fluctuations.

Another important positive achievement in this case would be the increased supply of foreign currencies in the country. This should contribute to the self-regulation of the exchange rate in the market, and therefore should further reduce the growth of inflation caused by the peso's decreasing foreign exchange rate.

The main drawback of this solution lies in the fact that the improvement of the investment climate in Argentina might take some very long time during which inflation might be further growing at a very rapid space. Moreover, the contribution of foreign investors to the development of the Argentine national economy might be doubtful in terms of their overall potential. I mean here that simply promoting foreign investment wouldn't be enough to eliminate the disproportions existing in the Argentine national economy, and therefore the country's government should simultaneously change its domestic economic policies with the aim of promoting the development of the corporate sector, namely the small and medium businesses.

Moreover, a major risk this case would still remain Argentina's great vulnerability to any negative effects of external factors beyond the government's control, including the economic and financial performance of its neighbors in Latin America such as Brazil or Mexico.

Nevertheless, in the long run, the implementation of the aforesaid recommendations for improving the situation with Argentina's inflation should bring positive effects in the long-term perspective. It should be noted here in particular that the increase in foreign investors' confidence in Argentina should also contribute to the greater stability of the national financial institutes, which is another key precondition for the Argentine government to effectively struggle against inflation. The strong basis for further economic development is a solid tool for being able to manage inflation in the long-term perspective.

## ***4.2. Recommended solution 2: focus on monetary policies***

The Argentine government's monetary policies implemented with the aim of struggling against inflation are critically important in any of the strategic alternatives or recommended solutions within the framework of this research as mentioned from theoretical point of view in [Chapter 1.2](#) regarding monetarist theory where I believe that Milton Friedman's affirmation about monetary policies and the regulation of money supply which should be used as levers



for limiting inflation is an important key factor in solving this issue (Solow and Taylor 1999, pp. 34-35). However, in this chapter, the focus will be put on them as the most important tool of regulation of and control over inflation. It should be noted here that the best effects can be achieved through the Argentine government's monetary policies only in case that the government at the same time promotes the development of Argentina's national economy, so that any actions undertaken in the monetary field could be backed by real economic achievements.

The first step which could be recommended for the Argentine government within the framework of the improvement of its monetary policies as regards the struggle against inflation is to discourage lending on the national scale. This measure is important from two key perspectives: on the one hand, it should contribute directly to the reduced inflation in Argentina through the contraction of the monetary mass circulating within the country's national economy; on the other hand, this step should contribute to the overall growing stability of the banking industry, and thus the financial sector of Argentina. This could be achieved through the reduction of the rate of non-repaid loans drawn from banks by both the population and commercial entities.

In order to reduce inflation by means of limited lending, the Argentine government should focus on the increase in the refinancing rate, i.e. the rate at which the Argentine Central Bank provides loans to commercial banks. The increased refinancing rate for banks would consequently lead to the growing interest rates on both deposits and loans provided by them to the population and the corporate sector of Argentina. In case of deposits, both the population and the corporate sector would be promoted to bring their funds to bank accounts due to the growing benefits they mainly passively obtain from banks. In contrast, in the case of loans, they would be de-stimulated, as the amounts of funds to be repaid by the borrowers would significantly increase.

As a result of the increased total amount of savings on deposits, the money supply freely circulating in the economy would contract, which would directly lead to decreased inflation. Moreover, the increased savings on deposits would contribute to decreased expenditures in the economy, one of the key driving factors of inflation, and would transform such expenditures into delayed expenses. As for the increased interest rates on loans, they

would contribute as well to the overall declining current expenditures in the Argentine national economy, and thus would contribute to the government's effective fight against inflation.

It should be noted here that the Argentine government has already undertaken attempts to increase the refinancing rate in order to reduce inflation as shown earlier in this paper ([Chapter 3.1](#)), and those measures didn't yield any significant positive results. In my opinion, the ultimate failures in those cases were preconditioned by factors other than the effectiveness of the policies with the refinancing rate. Thus, in my opinion, the main drawbacks lied in the lack of coordination between different policies, and lack of reforms in the real economic sector to support the drastically changing monetary policies implemented by the Argentine government. However, if the country's authorities are able to harmonize all their policies in the real economy and the financial sector, this will be likely to bring major positive results in terms of the fight against inflation, as increased rates indeed contribute to the contraction of the money supply in the economy – one of the key preconditions for reducing inflation.

However, provided that the Argentine government resorts to increase in the refinancing rate, and thus interest rates on loans in the entire banking system, it should be taken into account that this step would contribute to lowered investors' interest in the provision of funds for implementing projects in the country's territory due to the increased costs of raising loans. Therefore, prior to implementing this step, the government should thoroughly evaluate the market conjuncture, and apply the balanced increase for the purpose of contracting the money supply in the economy, without causing any major outflow of investment from the state on the part of both foreign and domestic investors.

Another important step within the framework of the aforesaid measures would be to increase the reserve ratio as mentioned in [Chapter 1.4](#), i.e. the mandatory rate for the amounts of funds to be kept by bank institutions on the Argentine Central Bank's account. This monetary measure would in fact act similarly to the increased refinancing rates. The Argentine commercial banks would be forced to divert part of the funds available to them to be held on the Central Bank's accounts. Those funds could otherwise be used by the commercial banks for funding their operations related to customer lending. Therefore, this would ensure contracted expenses on the domestic scale, as lending would be de-motivated. On the other hand, the withdrawal of part of funds from the banking sector through increased reserve ratio

would actually contract the money supply in the Argentine national economy, and this would directly contribute to decreasing inflation.

Other helpful steps which could contribute to the Argentine authorities' effective contraction of the money supply in the economy include the tightened credit margin requirements, regulation of consumer loans, and other selective credit control measures. All such steps would be aimed at promoting lesser expenditures on the part of the population and the corporate sector, thus contributing to the stabilization of inflation through reduced inflationary pressures.

Also, the Argentine government could resort to sales of securities in the open market in order to stabilize the situation with inflation. Thus, when the government enters the financial market with sales of government bonds, it gets an opportunity to collect the excess of monetary funds in the economy, i.e. those savings which individuals and entities could otherwise direct to their immediate expenditures. As a result, the government would be able to collect those savings, and contract the money supply in the Argentine economy, thus ensuring the preconditions for subsequently lowering inflation.

However, it should be noted here that effective sales of government bonds or any other public securities are possible only when the population and the corporate sector have great confidence in the government's fulfillment of its liabilities. As shown earlier in this research, as of today, the confidence of both foreign and domestic investors in the Argentine government is rather very low, which is preconditioned both by its ineffective actions in recent years, and by the lack of effective regulatory base for ensuring the guarantees of investors' effective activities in Argentina.

So, here, a key prerequisite for the Argentine government to be able to regulate the money supply in the economy through sales of securities in the open market is the effective reforms of the Argentine national economy as described in the previous chapter for the solution focusing on the improvement of the investment climate. The first and foremost reforms should include the minimization of corruption, and the development of a legislative base ensuring the promotion of the population's and companies' interaction with the government, without the fear of losing their funds.

The performance of open market operations could be particularly effective, if the Argentine government issued securities specifically for the bank and other financial institutions

running their activities in the country. Such securities should be offered to banks on attractive terms and conditions for the purpose of generating their greatest interest in purchasing them. When banks purchase public securities, they use the monetary funds which could otherwise be directed to lending operations. As a result, this further de-motivates great expenditures in Argentina's national economy, and leads to the overall contraction of the money supply, as the government in fact withdraws a major part of funds which would otherwise circulate.

I also believe that such operations in the open market should be combined with the Central Bank's money supply contraction policies as regards interest rates. The effective combination of all those measures would allow reaching the maximum synergic effects in the prevention of excessive expenditures in the Argentine economy, and thus would prevent any possible inflation due to overheating. However, the government should be careful here in order not to deteriorate the condition of the banking sector which is already weak as of today. Such policies should only aim to de-motivate lending, but not to bring harm to the banking system.

Another important monetary measure which could be implemented by the Argentine government for controlling and further reducing inflation is the demonetization of the Argentine national currency, which means its replacement by a new currency. However, I believe that the Argentine government should refrain from implementing this step, as its effectiveness for Argentina's struggle against inflation is much doubtful in my opinion.

Thus, as shown earlier in this research, Argentina once used the demonetization practice for replacing the peso by the austral, but in the long run the hyperinflation and the devaluation of the country's national currency continued at the same pace, without any major positive effects for the national economy and financial market of Argentina. The government was ultimately forced to run another demonetization, and to return the peso as Argentina's official currency. Therefore, those practices didn't lead to any positive changes in the situation with inflation in Argentina, which was mainly due to the fact that they didn't resolve the underlying problems causing inflationary pressures in the country, and weren't combined with other effective reforms in the field of economic relations.

Moreover, the research run within the framework of this thesis didn't reveal that there are any excessive amounts of black money in Argentina (in contrast to the black market of foreign exchange operations) – one of the main preconditions for demonetization. Therefore, in my opinion, the Argentine government shouldn't use demonetization as of today, and this

tool could only be used in the future, if the great negative tendencies with inflation persisted and continued growing.

The monetary measures described above could raise negative expectations among the population and the corporate sector of Argentina in the short-term perspective due to the limited lending opportunities, due to which prices might rise on the initial stage, thus leading to great social discontent. In order to prevent the devastating effect of those processes, the Argentine government could resort to price control, i.e. the establishment of maximum limits for the prices for different goods or services, in the first term for consumer products such as bread, meat, and other basic food products. Those measures would allow the Argentine government suppressing inflation in the short-term perspective. However, they should be abolished as soon as the new monetary policies are established and proven to be effective, as price control requires the use of budget funds, and moreover, is ineffective beyond the short term.

The monetary policies implemented by the government of Argentina for combating inflation should be combined with effective exchange rate policies and foreign exchange regulations. Thus, the recommendations here are the same as in the previous strategic solution in terms of the peso's artificial pegging to the US dollar: I believe that this measure should be eliminated at all. It doesn't bring any positive effects, and only gives birth to delayed threats which in the long run affect the Argentine economy and financial sector with even greater harmful effects. Therefore, I believe that the abolition of the regulated exchange rate of the Argentine national currency should become a major step to support the Argentine government's new monetary policies.

However, this doesn't mean that the Argentine government shouldn't use its tools and mechanisms available in the forex market through the Central Bank. Moreover, in contrast to the previous strategic solution, I believe that the Argentine government should focus specifically on forex interventions here, as the fluctuations of the exchange rate may become even greater in the conditions of the changing monetary policies and the abolished centralized regulated pegging of the peso to the US dollar.

The government should intervene in the interbank market in case that the fluctuations of the peso's exchange rate become particularly great and thus potentially harmful to the implementation of the reforms in national monetary policies. However, any and all monetary

interventions should be thoroughly evaluated for their positive effects, and should only be implemented in case when there are particular disproportions in the exchange rates. Thus, overall, all such interventions should bring harm to the free market exchange rate of the peso established under the market conjuncture.

However, simply reducing the money supply in the Argentine economy by discouraging expenses on the part of the population and the corporate sector wouldn't be enough to effectively reduce the inflationary pressures existing in Argentina's national economy. Thus, the government's expenses should be contracted as well for the purpose of reducing the overall inflation in the country. In this context, the existing budget deficit in Argentina, and the country's great dependence on foreign loans should be taken into account in particular when developing the respective policies.

Thus, the reduction of public expenditures in Argentina should be tied closely with the reduced monetary emission. As shown previously in this research ([Chapter 3.1](#)), the great amounts of monetary emission are one of the key factors contributing to the development of hyperinflation in Argentina where the Government and Central Bank should learn from the past mistakes. Due to the lack of macroeconomic stability in the state, Argentina has been refused loans by the International Monetary Fund several times, and thus being unable to cover its expenditures through loan funds, the Argentine government resorted to increased monetary emission. Such increased monetary emission inadvertently preconditioned new coils of inflation which caused particularly negative tendencies for the Argentine economy taking into consideration the fact that most such funds (both the ones provided under loans of international institutions and the ones generated by Argentina through monetary emissions) were directed to social needs such as the payments of wages to the public sector employees, payments of funds to retirees, and so on. Therefore, those funds were "swallowed" by the social expenditures of the Argentine government, and additional monetary emission was required in the subsequent periods as there were no preconditions created for the effective development of the Argentine economy in order to provide the government with funds to cover its expenditures.

Therefore, I believe that one of the key steps to be undertaken by the Argentine government to effectively suppress and further control inflation is the reduction of public expenditures. This reduction is required in order for the budget deficit of Argentina to contract, and thus in order to eliminate the need for the government to cover the aforesaid budget deficit

through monetary emission. The reduction of expenditures can be implemented using various methods and tools, including the contraction of funds devoted to social needs which constitute one of the greatest items of government expenditures. However, when implementing those measures, the Argentine government should preserve the social programs for the poorest population layers, otherwise the contraction of government expenditures could lead to social catastrophe. This key step could be deducted from Keynesian Theory demand-pull inflation mentioned in [Chapter 1.2](#).

Moreover, it should be taken into account here that any contraction of social programs would be likely to contribute to great social discontent. Therefore, when implementing such measures, the Argentine government should at the same time run effective reforms in the national economy with the aim of creating preconditions for long-term economic prosperity of Argentina, and the opportunity to renew the aforesaid social programs for the population in the future, as soon as the country is able to cover its budget expenses using own and loan funds without resorting to additional monetary emission.

Namely, I believe that the main steps should be undertaken by the Argentine government in the field of boosting the sectors where Argentina has strategic competitive advantages, and could become one of the regional leaders, namely the field of agriculture and the oil-and-gas sector. The country should implement projects together with foreign investors for ensuring the effective development of the aforesaid industries based on the use of up-to-date technologies. This would allow creating the preconditions for the Argentine national economy's development in the long-term perspective without significantly increasing the public expenditures.

In the case described above, the contracted public expenditures in the Argentine economy with the simultaneously contracted households' and the corporate sector's expenditures through limited lending would contribute to the reduced amount of the money supply in the Argentine national economy. On the one hand, this would contribute to reduced inflation, and on the other hand, this would also provide the Argentine Central Bank with greater opportunities of maneuver in its operations in the open market, thus creating more favorable preconditions for maintaining positive exchange rate dynamics without the direct control over the peso's value through its pegging to the US dollar.

The limits for the implementation of this strategic alternative differ from the ones described for the option with the focus on improved investment climate. Thus, in contrast to the long-term perspective at which the first strategic alternative aims, the implementation of the monetary policies described in this chapter can contribute to the effective containment of and control over inflation in the short and mid-term perspectives. However, it should be understood that any centralized regulation of the market, including through monetary policies, cannot contribute to the effective resolution of the inflation issue in the long-term perspective. Therefore, while containing the subsequent rise of inflation using monetary and foreign exchange rate policies, the Argentine government should at the same time focus on the long-term goals in the economic sector. Namely, I believe that the Argentine government should focus on the liberalization of the Argentine national economy, and the provision of effective preconditions for the subsequent development of the Argentine corporate sector. This would ensure effective grounds for the stabilization of the macroeconomic situation in the country, and together with the contraction of expenditures on all levels in the Argentine economy, this would allow ensuring the decreasing and much more controllable inflation in the long-term period, thus decreasing the inflationary pressures on Argentina's effective and uninterrupted development.

### ***4.3. Recommended solution 3: focus on fiscal policies and the foreign exchange rate***

Another important group of policies which a government may implement with the aim of contracting the money supply in the respective jurisdiction's economy, and thus with the aim of reducing the pace of inflation, is fiscal policies. The aim of fiscal policies in the context of the struggle against inflation is to increase the amount of funds withdrawn by the government from the population and the corporate sector through increased taxation rates, thus preventing them from any excessive expenditures in the market, and at the same time reducing the aggregate money supply. Therefore, the fiscal policies aimed at counteracting inflation should be contractionary, and not expansionary where the tax rates are to the contrary reduced.

However, prior to proceeding to any decrease in the rates of taxation, it is worth understanding the current level of taxes in the economy, and the expected outcomes of the increased tax rates, as excessive rates of taxes may only contribute to the growth of the black



market and tax evasion, thus only further igniting the pace of inflation. Therefore, in order to evaluate whether the contractionary taxation policies are available to Argentina, it is first of all worth investigating the current rates of the main taxes charged in the country.

	Argentina	Brazil	Mexico
Corporate tax	35%	34%	30%
Personal income tax	35%	27.5%	30%
VAT	21%	19%	16%
Social security rate	44%	39.8%	9.23%

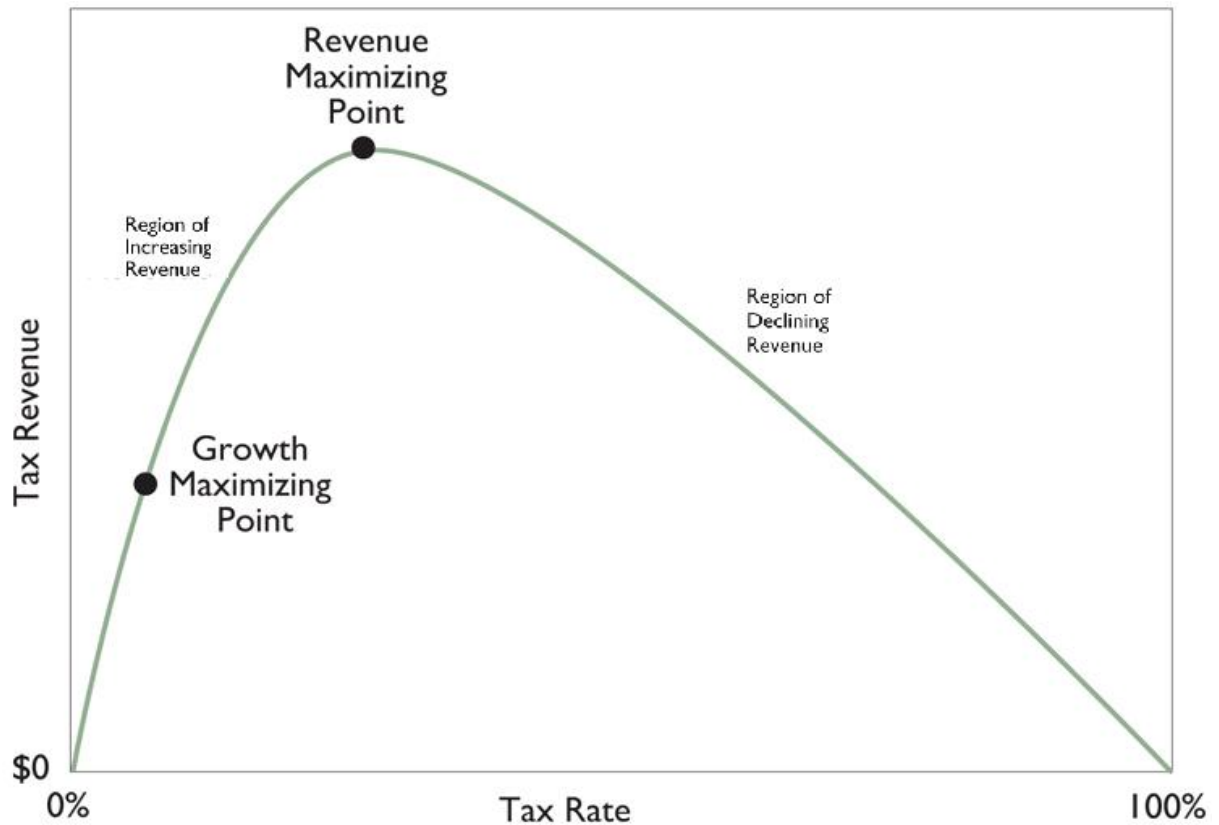
**Table 1 Comparison of tax rates in Argentina, Brazil, and Mexico, as of 2015**  
(Trading Economics 2015a, 2015b, 2015c)

Table 1 above show the main tax rates applied in Argentina, and in two other major economic players in the Latin American region, namely Brazil, and Mexico. It is particularly worth comparing the tax rates in Argentina to the ones in Brazil and Mexico taking into account the Argentine economy's great dependence on the dynamics of economic growth in Brazil and Mexico as shown earlier in this research.

Thus, as can be seen from Table 1, Argentina's taxation rates are higher across all main taxes as compared to both Brazil and Mexico. For instance, the tax charged on the income of corporations amounts to 35% in Argentina, while it is 1 percentage point lower in Brazil, and 5 p.p. lower in Mexico. This difference is even greater when investigating the personal income tax rate. In Argentina, it is equal to the corporate tax rate, and amounts to 35%, while the corporate tax rate in Brazil is 7.5 p.p. lower, and in Mexico – 5 p.p. lower, respectively. The basic VAT rate makes up 21% in Argentina, and 19% and 16% in Brazil and Mexico, respectively. Finally, the social security contributions are charged at an aggregate rate of 44% in Argentina, 39.8% in Brazil, and only 9.23% in Mexico.

Based on the findings of the above comparative analysis of the taxation rates applied in different Latin American countries, I believe that the levels of taxes in Argentina are already very high as of today. As a result, in my opinion, the implementation of contractionary tax policies for combating inflation in the country is inapplicable in the case of Argentina. Any

further increase in the level of taxes imposed on the income of either the population or the corporate sector might bring great social discontent, and moreover, I believe that it would only bring to further greater tax evasion, and wouldn't allow the Argentine government actually contracting the money supply in Argentina's national economy.



**Figure 18 The Laffer curve (Mitchell 2015)**

The above assumption can be confirmed by the illustration of the Laffer curve shown in Figure 18 above. At a certain tax rate, the maximization of budget proceeds from taxation is achieved by the state, but any subsequent increase in the rates of taxation only provokes the declining state revenues. For each country, the level of revenue maximizing tax rates differs, and the actual evaluation of the revenue maximizing point requires the involvement of government experts able to forecast any changes in the level of the state's income through changes in taxation.

Within the framework of this research, it is impossible to state precisely where the revenue maximizing point on the Laffer curve is located for Argentina, as such calculation

would require not only the processing of vast data arrays, but also the involvement of a great number of staff, use of powerful software, and significant time for analysis. However, based on the findings of my research within this paper, and the comparative analysis of the tax rates in Argentina and other Latin American countries, I believe that any further increase in the taxation rates, would contribute to smaller budget proceeds from taxation, and thus would only ignite further inflation in the Argentine economy, as the money supply in the country would increase.

Moreover, I believe that the current level of taxation in Argentina is already excessive as of today, and therefore, in contrast to the general practice of the contractionary fiscal policies for reducing inflation, in my opinion, if the Argentine government decreases the rates of taxes currently charged from the population and the corporate sector, this will be likely to contribute to greater budget proceeds, and thus reduced monetary supply in the economy. Furthermore, this would be likely to contribute to the elimination of the black market in the country, thus ensuring the stabilization of the macroeconomic situation in Argentina, and further reduction of inflation. Although the opportunity of reduction of the tax rates would require additional detailed investigation, I believe that the tax rates in Argentina should be reduced at least to the rates in Brazil for promoting economic development in the country.

Simultaneously with the liberalization of taxation in the country, the Argentine government could implement contractionary measures in other fields in order to counterbalance the possible negative effects for the budget associated with the decreased tax rates. For instance, such contractionary measures could be implemented in the field of foreign exchange regulations applied by the Central Bank to the actors in the Argentine domestic market.

In contrast to the two previous strategic alternatives focusing on the improvement of the investment climate or the implementation of more intensive monetary policies, I believe that in this case, the pegging of the Argentine peso to the US dollar should be preserved in order for Argentina's government to be able to effectively control inflation and the overall macroeconomic situation in the country against the background of changing taxation rates and mechanisms. However, I believe that such pegging of the peso to the US dollar should be grounded more firmly on the free market mechanisms. Thus, the government should devalue the national currency gradually, slightly above the level of the market exchange rate, in order

to minimize the negative effects of the devaluation for the population and the domestic corporations. At the same time, the lack of need to constantly maintain the exchange rate at the same level by uninterrupted major foreign currency interventions would allow the Argentine government contracting its expenditures, and thus preventing further coils of inflation.

This strategy with the balanced pegging of the peso's exchange rate to the US dollar would allow the government softening its policies in the field of wages. As shown earlier in this research, the Argentine government has several times tried to limit the upper soil of wages in order to reduce inflation, which in the long run caused great discontent on the part of the population, and issues with trade unions which claimed for increased wages for employees. In case of the implementation of the fluctuating pegging, in my opinion, market parameters, including average wages, would be likely to become more balanced under the free market conditions, and therefore there would be no need for artificial overregulation, which should contribute to the macroeconomic stabilization in Argentina, and to the overall improved situation with inflation.

At the same time, while fluctuating pegging exists, the Argentine government should further contribute to the contraction of foreign currency supply in the national economy. One of the best ways to be achieved here is to implement stricter foreign exchange regulations in the corporate sector. Thus, the Argentine government could implement mandatory sales of part of foreign currency proceeds by exporters in the interbank market. For instance, such rate might vary from 70% to 90%, depending on the particular expectations and evaluation of the government experts. The mandatory sales of exporters' currency proceeds would mean the government' greater ability to replenish its national reserves to be subsequently used in monetary interventions. Moreover, by using those USD proceeds (as most foreign trade operations are performed in USD, the Argentine government would be able to control inflation much more easily as regards the negative fluctuations of the peso's exchange rate. As a result, this would allow reducing the government's expenditures associated with the maintenance of the peso's pegging to the US dollar, and would optimize the performance of the chosen financial strategy.

At the same time, for the short-term perspective, the government could opt toward restricting the importers' activities for the purpose of achieving two aims at once: contracting the money supply in the economy on the one hand, and preventing the growing corporate

expenditures contributing to inflation, on the other side. This could be done by establishing strict requirements for the importers to buy foreign currencies.

It should be understood here that all importers require the availability of funds denominated in foreign currencies (most often the US dollar) in order to purchase goods or services from abroad. Such funds in foreign currencies are exchanged by the corporations in the open interbank market for the funds denominated in pesos available to such companies. Therefore, the government could apply restrictions to those operations in order to discourage expenditures on the part of the importers. For example, this could be achieved by the implementation of limits for purchases of foreign currency on a daily or monthly basis, so that companies could only buy a limited amount of funds calculated by the government. Alternatively, the Argentine Central Bank could introduce the regime of the manual evaluation of all applications for foreign currency purchases. This would allow the government's specialists regulating more effectively the overall money supply in the economy, and moreover, the ratio between the peso and foreign currency supplies, thus regulating more effectively any negative fluctuations of the exchange rate. Moreover, the government could also implement customs tariffs for imports in order to de-motivate expenditures of corporations which increase the money supply in the national economy.

However, I would like to note here in particular that although the aforesaid measures for regulating the foreign exchange rate can contribute greatly to the more controllable inflation through greater control over the money supply in the short-term perspective, the Argentine government shouldn't excessively rely upon them, as such measures are anyway administrative, and their implementation assumes the great regulation of the economy and suppression of the liberal market. Therefore, their greatest effects could be achieved in case that the government ran vast reforms in the Argentine national economy simultaneously with its intensified foreign exchange regulations, so that the aforesaid regulations would be eliminated or reduced as soon as positive tendencies would be observed in Argentina's sustainable economic development.

At the same time, I am persuaded that, based on the practice of the policies previously implemented by the Argentine government as described earlier in this research ([Chapter 2](#)), the aforesaid foreign exchange limitations should be sought to be minimized for the population. Namely, the freezing of the population's deposits as implemented within the framework of the

2012 financial sanitation regime in Argentina only provokes greater panic in society, and causes people to seek purchasing foreign currencies due to the negative expectation as regards the exchange rate of the peso. In its turn, this raises the inflationary pressures in the Argentine economy, thus provoking further destabilization of the economic situation in the country. In my opinion, the foreign exchange regulation for the population should be partially liberalized in order to attain the maximum positive effect in the struggle against inflation.

Thus, in my opinion, no practices of deposit freezing or forced conversion of deposits in foreign currencies into the peso should be applied by the Argentine government, as they are harmful for the country's economy, and the situation with inflation. To the contrary, any such limitations should be abolished. This would contribute to the population's greater confidence in the Argentine banking system, and thus would promote the population's desire to deposit their funds available as savings in the national banking system, thus converting current expenditures into delayed ones and reducing the money supply in the Argentine economy. Furthermore, the government could apply here increased refinancing rate with the aim of making the commercial banks increase their interest rates offered on deposits, thus only further promoting the population's greater interest in leaving the funds available in the national banking system.

At the same time, in order to be able to implement effective controls over inflation in terms of the regulation of the foreign exchange operations, the Argentine government could leave some less important limitations valid for the population's foreign exchange transactions. For instance, such limitations could include the maximum amounts of funds in foreign and national currencies to be withdrawn by the population from their bank accounts, maximum amounts of daily money transfers within the country and abroad, and so on. Such measures would be likely to contribute to the limitation of the population's expenditures with the economy, at the same time not bringing much harm to the population's readiness to maintain part of the savings on deposits in the banking system.

All in all, the combined limitations for expenditures on the part of the corporate sector, and the promotion of savings on deposits on the part of the population would allow the Argentine government to contract the money supply in the economy, at the same time discouraging excessive expenditures. This would bring down the inflation in the country, and would provide the government with opportunities of greater control over inflationary pressures.

At the same time, in addition to implementing the measures described above, the Argentine government should aim to improve the overall economic situation in the country in order to ensure its long-term macroeconomic stability, just as in the two previous strategic alternatives. Under the regime of regulatory restrictions of foreign exchange operations, the government would be forced to seek greater financial assistance on the part of foreign corporations, and namely should seek raising greater foreign loans. However, in order for such loans not to increase the pace of inflation through expanded money supply in the economy, the Argentine government should seek contracting the existing budget deficit by decreasing the public expenditures in various fields, including in the field of social support provided to the population and subsidies provided to the business sector. Such contraction of the public expenditures would create a macroeconomic background favorable for the effective reduction of and control over inflation in the long-term period, and would provide the government with greater opportunities to effectively boost Argentina's economic development.

The main limitation of this strategic solution recommended for the Argentine government to address the inflation issue is the great turbulence of the Argentine national economy and the political and macroeconomic environment in which it operates. Thus, the Argentine government should thoroughly evaluate whether it would indeed be beneficial to reduce the level of taxation in the state, and moreover, should create the effective preconditions for the total elimination of the black market. In its turn, this would require effective reforms of the country's administrative system, and the elimination of corruption on all levels. In the long run, in case that those negative effects are effectively managed, the government of Argentina will be likely to promote greater contributions to the state budget on the part of both the population and the corporate sector, even despite the overall reduced tax rates.

At the same time, when implementing foreign exchange regulations and strengthening them for the corporate sector, the Argentine government should remember that those measures could only be effective within the short-term perspective, namely for reducing the current rates of inflation or at least preventing them from further rapid growth. However, in the long-term perspective, those measures wouldn't be positive for the Argentine economy, as they would require more and more significant expenditures on the part of the state budget. Therefore, in addition to implementing the aforesaid policies in the fields of taxation and the foreign exchange regulations in the short-term perspective, the Argentine government should also

develop strategic plans for the effective development of the Argentine national economy, which is a key prerequisite for effectively maintaining and further reducing the inflation rate in the country, just as in the case of the two other strategic solutions to Argentina's inflation issue as described earlier in this paper.



## Conclusion

The investigation of the situation with inflation in Argentina proves that the country has been prone to significant inflationary pressures in recent decades. The hyperinflation existing in the Argentine economy brings major harm to the country's economic development, and preconditions the low social standards of the Argentine population's living. The endeavors of Argentina's government to struggle against inflation haven't yet brought any significant positive results due to a number of different reasons, including the lack of effective development of the real economic sector, insufficiency of the policies undertaken, strategic errors in state governance, and lack of confidence in Argentina on the part of foreign investors and creditors.

As of today, the struggle against inflation is one of the key tasks of the Argentine government followed by the country's authorities in the field of regulation of the national economy. Within the framework of this research, different strategic alternatives for Argentina to be able to successfully combat its hyperinflation have been evaluated, namely the solution with the top-priority focus on the improvement of the country's investment climate; the Argentine government's monetary policies; and fiscal policies combined with stricter foreign exchange regulations.

Each of the aforesaid strategic alternatives recommended to the Argentine government to effectively combat inflation has its inherent advantages and drawbacks, and relies upon different mechanisms and tools to be applied in order to reverse the negative tendencies with hyperinflation existing in the Argentine economy, and to subsequently effectively control any dynamics of the country's inflationary pressures.

Thus, the strategic alternative focusing on the improvement of Argentina's investment climate primarily promotes the reformation of Argentina's relations with foreign governments and corporate counterparties by improving the country's legislation for the purpose of promoting foreign investors' greater interest in the placement of funds in the country's national economy. According to this option of struggle against inflation, the bet is placed on the long-term perspective, and the creation of preconditions for Argentina's effective economic development. The economic growth in Argentina should precondition the contraction of the country's budget deficit in the long-term perspective, and thus should prevent any need for the

Central Bank to use additional non-backed monetary emission provoking further coils of hyperinflation in the state. The main drawback of this approach is the fact that it might be ineffective for reducing the negative effects of inflation in the short-term perspective, and might be difficult to implement taking into consideration Argentina's great vulnerability to any negative economic shocks.

The second strategic alternative offered to the Argentine government for combating inflation assumes that the Argentine authorities' focus should be put on the improvement of the country's monetary policies. Namely, the government could implement a complex of measures in the field of the Central Bank's monetary practices, namely increasing the refinancing rate and the reserve ratio for the commercial banks. This would allow contracting the money supply in the Argentine national economy, and moreover, would allow discouraging lending to the population and the corporate sector on the part of the banking institutions, thus contributing to reduced inflation. The main drawback of this strategic option is the fact that it might be ineffective beyond the short-term period, and therefore it should be anyway backed by effective structural reforms for attaining the desired results in the long-term perspective.

The third strategic alternative offered within the framework of this research assumes that the Argentine government should put the strategic focus on the improvement of its policies in the field of fiscal policies and foreign exchange rate regulations. Thus, the government should reduce the rates of the main taxes applied as of today for the purpose of combating the black market and increasing the proceeds to Argentina's state budget from the population and the corporate sector. At the same time, the government should apply contractionary measures in the forex market to corporations with the aim of discouraging corporate expenditures in the country's economy, and at the same time should promote the population's greater placement of funds on deposits in the banking system in order to reduce money supply. Similarly to the previous strategic option, this alternative is suitable only for the short-term period, and should be backed by effective economic reforms in order for Argentina to stabilize its situation with inflation in the long-term perspective.

In my opinion, based on the findings of the research, the best option for the Argentine government would be to apply the second strategic alternative focusing on the improvement of the country's monetary policies. This would allow achieving the most effective results in the fight against inflation in the short-term perspective. However, I also believe that some of the

tools offered within the two other strategic alternatives could be combined with the changes in monetary policies in order to obtain the greatest synergic effects. Thus, I believe that the reduction of taxes together with the improvement of the country's investment climate would help maximize the benefits of the anti-inflation policies for Argentina, and together with the country's optimized monetary policies, this would contribute to the effective control over inflation in the long-term perspective. In its turn, this would contribute to Argentina's sustainable economic development, and greater social stability.

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