

Lessons of Latin American Inflation for Iran

Adnan Mazarei

Peterson Institute for International Economics

IIEA

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Outline

- Lessons from Latin America
- Inflation in Iran, causes and consequences
- The failed attempt at inflation targeting
- Lessons for Iran

1. Lessons from Latin America

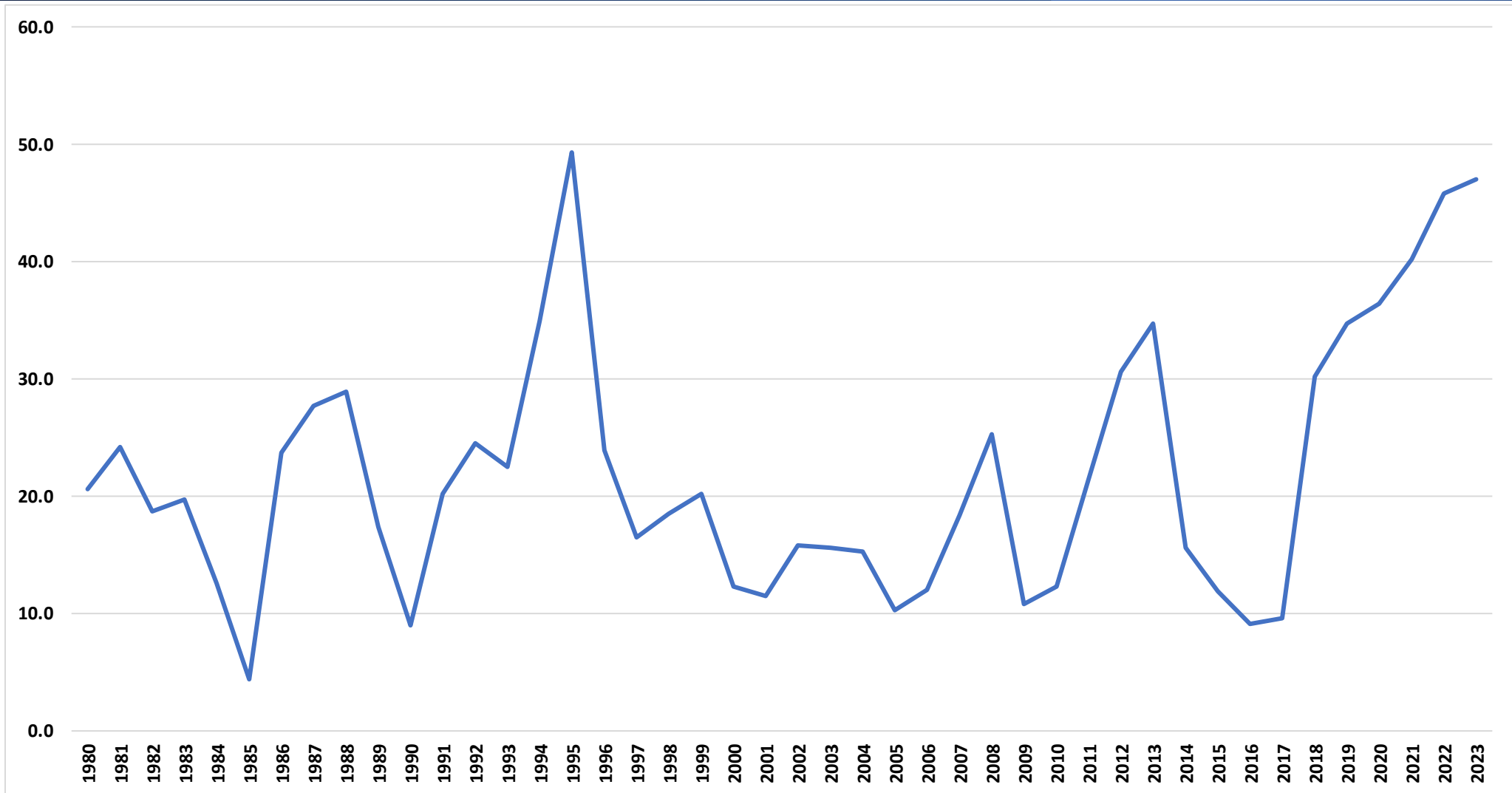
- **Ideas: Structuralist view of inflation**—real-side reasons, not monetary
- **Politics: Populism**—redistribution, lax monetary and fiscal policies, wage-price controls, indexation, debt and banking problems
- **Heterodox solutions**—fixed exchange rates, fiscal problems not addressed
- **Overcoming inflation**—inflation fatigue, recognition of role of monetary factors, fiscal control, flexible exchange rates, central bank independence, inflation targeting, deregulation
- **Outliers**—especially Argentina and Venezuela
- **Now**—many central banks have been ahead of the curve in raising rates to fight. Now they need to lower rates

2. Inflation in Iran

- A populist revolution in a rentier state, redistributionist
- Budget deficits/quasi-fiscal operations through banking system
- Sanctions, frozen foreign assets, exchange rate shocks
- Banking sector problems—rents through credit
- Corporations' need for working capital
- Hyperinflation avoided—diversification, some oil revenues, policy coordination, price/controls, financial repression, political repression
- Has contributed to the rise in poverty (28% in 2020, World Bank) and income maldistribution, asset price increases, corruption

Iran: Inflation—1980-2023

(source: IMF)



3. The Failed Attempt at Inflation Targeting (2020)

- **Preconditions not met**—sanctions, fiscal dominance, inflexible exchange rate, banking sector problems
- **Especially, no central bank independence**—not clear who can confer it
- **Result**—set inflation target, 22%, turned out much higher. The experiment ended quickly

Lessons for Iran

- Commonalities and differences between LatAm and Iran
 - Similarities: populism, weak institutions, fiscal dominance
 - Differences: sanctions and lack of hyperinflation in Iran, required conditions for IT not met in Iran
- Monetary policy tightened recently—liquidity growth and inflation lowered
- But, hard to lower inflation down considerably under the current political framework. Durable solution requires important changes in institutions and policies, removal of sanctions
- New central bank law likely to weaken central bank independence further