COMMENTS ON “EFFECTS OF INFLATION ON POVERTY IN MEXICO” (Carlo Alcaraz, Banco de México)

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MAIN FINDINGS OF THE PAPER

• Study of the effects of inflation on poverty in Mexico (1993-2009)
  • Share of households below the poverty line and poverty gap (distance). Data: labor income surveys, state-level GDP, inflation at cities
  • Non-observable heterogeneity: panel model with city fixed effects + other controls (state GDP, city-time trends)
  • Possible non-linear relation between inflation and poverty

• Results: significant effects of inflation on poverty in Mexico
  • A 10% increase in inflation rises poverty by 9.4% (11.8% poverty gap)
  • Non-linear model, inflation > 15% increasingly affects poverty
  • A 1% increase in (state) GDP reduces poverty by 1.4% (1.7% poverty gap)

• In line with the literature of pernicious effects of inflation on poverty as wages increase more slowly than prices
  • E. Cardoso (1992), W. Easterly and S. Fischer (2001), Ferreira et al. (2008)
  • Inflation is the tax of the poor: poorer families cannot hedge against inflation and prices of items consumed by them tend to grow faster
• **Identification strategy**
  
  • Compare the effects of the 1995 and the 2009 crises, with a similar drop in GDP (-6%) but with a very different behavior of inflation and poverty

• **Need to control for other variables (1995 and 2009 very different episodes)**
  
  • 1995 one of the worst BOP and financial crisis in Mexico, after a previous boom of capital inflows. In 2009 spillovers from the global financial crisis
  
  • Large current account deficit (8% of GDP in 1995 vs 1.5% in 2009) and external debt ratio (50% of GDP in 1995 vs 20% in 2009)
  
  • Sharp depreciation of the exchange rate: 60% in 1995 vs 25% in 2009
  
  • Banking crisis in 1995 vs solid fundamentals of banks in 2009
  
  • Monetary and fiscal policies: very restrictive in 1995 (sharp increases in interest rates and fiscal consolidation measures) vs quite expansionary in 2009 (-400pb cuts in interest rates and a large fiscal stimulus package)

• **Policy recommendations**
  
  • Strict fiscal and monetary discipline to contain inflation
  
  • Avoid boom-bust cycles with macro- and micro-prudential surveillance
  
  • Structural reforms to boost economic growth and inclusiveness
THANK YOU FOR YOUR ATTENTION