International Monetary and Financial Committee

Sixteenth Meeting
October 20, 2007

Statement by Miguel Gustavo Peirano
Minister of Economy and Production, Argentina
On behalf of Argentina, Bolivia, Chile, Paraguay, Peru, Uruguay

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Minister of Economy and Production of Argentina
Speaking on behalf of the Southern Cone Countries of Latin America
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I. The Global Economy and Financial Markets – Outlook, Risks and Policy Responses

1. After a solid and broad-based growth for four consecutive years, the world economy is expected to decelerate in 2008 and downside risks that the U.S. economy will slow down substantially have increased. This comes as a consequence of the recent financial turmoil, triggered by the crisis in the U.S. sub-prime mortgage market and its potential consequences on the financial global markets and on the U.S. real economy.

2. We should admit that the vulnerability of the U.S. sub-prime mortgage market, and its potential consequences on the financial global markets and on the U.S. real economy, must open an intense debate among regulators, investors and the International Financial Institutions. This crisis has exposed some serious flaws in the recent innovations of the securitization model that were hidden or ignored requiring new perspectives to address them. The complexity of new financial contracts and the difficulty to determine the risks involved has contributed to the lack of transparency on these instruments and consequently an increase in volatility. Thus, the Fund should put, at least, as much zeal in evaluating vulnerabilities of advanced economies, as it does in emerging markets.

3. Turning to the consequences on the real economy, we would like to see **the Fund resuming the multilateral consultation process, but with a wider range of participants**. Active policy coordination is critical to prevent the unfolding of this crisis. Undoubtedly, the Fund may play a key role in this process.

4. **We cannot expect a balanced growth of the world economy if inequality is growing**. In the U.S., Japan, and Europe, salaries have been shrinking as a proportion of national income. In emerging and developing countries, growth is pulling people out of poverty, but the earnings of the highest paid grow far faster than the lower-paid. Income distribution should matter; not only because the malaise feeling with globalization is breeding protectionism and nationalism, but also because the world economy would greatly benefit if those sectors of the population with higher marginal propensity to consume were integrated into the markets.

5. **Active social policies should find a more prominent place in the package of policy recommendations advanced by the Fund**. The staff should refrain from advocating for the derogation of labor rights (discreetly wrapped in the code word "flexibility") without previously consulting with the International Labor Organization. At the Fund, we have no

expertise on labor policies and we have repeatedly made the point that both international agencies should act coherently. We are convinced that it is in the interest of the global economy's stability to halt the erosion of labor's participation in national income. Indeed, there is an intrinsic disparity between capital's increasing mobility and labor's lack of mobility. This asymmetry puts labor at a disadvantage. It is no wonder then that labor's share in income is under permanent pressure, and that protectionist sentiment is flourishing in the population. A relaxation of barriers on labor mobility is politically very sensitive and is out of our reach. Nevertheless, the Fund could, at least, not make this disparity worse by advocating for additional "flexibility". The Fund should, instead, recommend compliance with domestic labor legislation and internationally recognized Core Labor Standards.

6. **Short-term capital flows should be of our concern in the Fund**. These hot flows of money pose serious risks to our monetary policies and we are frustrated to see the Fund stick to its traditional advice against capital regulations. In lieu, the Fund recommends fiscal consolidation and additional exchange rate flexibility**.** While we acknowledge that it would be all too nice if we could offset the monetary consequences of surges in capital inflows by implementing counter-cyclical fiscal policies and by adding some flexibility to the exchange rate, we do not find this recommendation realistic. The sheer magnitude of short-term capital flows makes it virtually impossible to use fiscal policies to offset their monetary consequences. Beyond that, no government would be ready to surrender its fiscal policy objectives to the vagaries of short-term capital. Even if capital controls are not a first-best option, it may be prudent for governments to have them ready in their tool-box, in case they are needed to avoid excessive appreciation of the exchange rate.

7. We would also highlight the urgency of successfully concluding the multilateral trade liberalization process. **The surge in agricultural commodity prices makes subsidies and market protection less necessary, thus opening a window of opportunity for the U.S. and the EU to improve their offers in subsidy reduction and market access**. We are concerned about the rising protectionist sentiments, and the current crisis will only stir them. The Fund should take a more forceful stance convincing advanced economies of the importance of grasping this window of opportunity. If the Doha Round fails, it will not be only the WTO's failure.

8. Finally yet importantly, **we are pleased to see that the Fund is taking climate change more seriously**. While we share the recommendations put forward in the World Economic Outlook (WEO), such as implementing a global carbon tax to curve the emissions and finance the cost of abatement, we think that public policies cannot be limited to those aimed at ensuring the correct pricing of environmental externalities. Command and control measures, such as regulations, caps, and bans could also be necessary.

II. The IMF Reform on Quota and Voice

9. **We see that further progress in key aspects of the reform process is still needed.** It seems palpable that only a reform that would substantively increase the voting shares of developing countries, and particularly of the most dynamic emerging market economies, would be able to add legitimacy to the institution. However, it would be a blow to the Fund's effectiveness if that increase were to come at the expense of those developing countries that may still need to borrow from the Fund.

10. If the Fund's potential borrowers were not to be granted the right to increase their quotas, this would condemn them to be "exceptional access" demanders in case of facing balance of payments problems. Needless to say, asking for exceptional access comes at exceptional costs, both financial and political. Accordingly, the Fund would be encouraging its potential borrowers to set up "self-insurance" policies, shoot for depressed exchange rates to allow them to accumulate more reserves, and initiate or strengthen regional reserve pooling arrangements.

11. **We are convinced that we need a new quota formula that stands on its own merits;** not one whose results are so conflicting with the aforementioned goals that it needs to be "filtered" and buttressed by the voluntary foregoing of the purported "rights" of the wealthiest economies to further increase their already privileged quota shares. In our view, this would be possible by measuring the economic weight of countries in the global economy in Purchasing Power Parity (PPP) terms, rather than by using exchange rates that beyond being intrinsically variable, fail to capture the importance of large non-tradable sectors. It is also crucial to adequately capture in the formula, the members' potential need to borrow. In order to do this, it would be necessary to correct the current measurement of "variability" that ironically makes the most advanced economies appear as those with more potential need of the Fund's financial support.

12. **To move forward, we need to escape from the zero-sum game in which we are currently trapped.** The ultimate result should not be that some countries gain exactly what others loose. To avoid this trap, we should be prepared to consider innovative ideas, adding elements to the "governance equation" so that the results would be less black and white and could be phased-in over a period of time in order to facilitate adaptation.

13. **In this vein, besides a new quota formula that would "add-legitimacy-and-effectiveness" to the Fund, we think that it is crucial to factor "time" into the equation**. Many already agree that this should not be a one-time reform, but rather a process of reform that would be phased-in gradually over a determined period of time. We think that this is key as it would help us to be more ambitious (but less traumatic) blending meaningful change with political realism.

14. **Also, serious consideration should be given to a "double-majority system" in making decisions.** Quota allocations must be changed to better capture the world economy's

dynamism; however, as the quota formula method is overburdened with multiple roles (contributing, borrowing, and voting), improving the calculation of weight in the global economy would not suffice to redress the Fund's democratic deficit. Double majority allows us to reconcile considerations of both developed and developing countries, without compromising the logic or the integrity of either.

15. **We should ensure that the Fund's surveillance over exchange rate policies will be exercised with evenhandedness among all members.** The Fund has renewed the foundations of bilateral surveillance by approving a new Decision where the concept of external stability becomes an organizing principle and some clarity and specificity is given to the principles guiding members' exchange rate policies. However, the skewed distribution of influence in the Fund that we have just referred to, gives us very little confidence that surveillance will escape the influence of the most influential.

16. **It would help if we could acknowledge that, in exercising surveillance, the Fund should put more zeal on assessing the vulnerabilities and risks coming from policies and regulations in systemic economies**. Moreover, in light of massive transfers of hot money from countries with low interest rates to countries with higher interest rates (the so-called carry-trade), the Fund should be prepared to accept that good marks in exchange rate policies should not necessarily be for those countries that float exchange rates, and that the automatic association of the concept of exchange rate manipulation to the concept of misalignment is not so forthcoming.

17. **The Fund must also strengthen its lending function and move expeditiously in the design and approval of a new liquidity instrument that will provide reliable, automatic, and front-loaded access to countries with sound macroeconomic fundamentals but yet subject to volatility incidents due to external shocks.** This would reduce their need to accumulate reserves allowing the use of those resources for development purposes. The idea of having a Reserve Augmentation Line (RAL) appears to be going precisely in that direction and we are frustrated to see that, despite the fact that the IMFC gave clear mandate to the Managing Director to present a concrete proposal by April this year, there is nothing on the table yet.

18. **We give great importance to the creation of the RAL**. We see this instrument as part of a strategic reform package that brings both renewed effectiveness to the Fund's insurance and additional income to the Institution. In this vein, we reiterate that we stand for an instrument available for a broader set of member countries, where the selection criteria should not be too stringent and should be exclusively based on objective and quantitative indicators. Similarly, we attach great importance to affordable financial conditions and to conduct reviews in a way that would be commensurate with the need to provide confidence to countries applying for this insurance. Our preference would be for annual reviews, coinciding with a country's Article IV Consultation.

19. **So far the Fund lives on its borrowers, ironically those with less influence on its policies.** With less and less borrowers, the Fund is facing a serious shortfall of income. The Fund has been so forthcoming in recommending austerity and flexibility that it is embarrassing to see it cannot live up to its own standards. Its administrative expenses are registering only marginal real reductions (yet increasing in nominal terms). It is more troubling to know that to maintain its structure, the Fund is drawing from reserves created with money coming from charges paid by tax-payers from countries that borrowed from the Fund. The aforementioned reserves were not intended to finance current expenditures but rather to protect the Fund from defaults. We find this bewildering and it undermines what is left of the Fund's credibility.

20. **We support the thrust of the proposals put forward in the Crocket Report, but we feel that it is equally important to adopt measures on the expenditure side.** Otherwise, we will not be able to convince our law-makers to approve the changes in the Articles of Agreement required to boost the Fund's income position. Indeed, we note that several of the reforms on the table will require modifications to the Articles of Agreement and, consequently, will require that Governors face parliaments to explain their need to law-makers. We would strongly prefer to go only once to Congress with a comprehensive package of reforms. This calls for parallel progress in the different reforms that fall under the umbrella of the Medium-Term Strategy as, at the end of the day, they will only make political sense if they are balanced.

III. Outlook for Countries in Our Constituency

21. **Our countries are riding the crisis fairly well.** Before turning to comment on the economic outlook of each of the Southern Cone countries, we would like to make a few comments that apply equally to all of them. First, we would like to note that the economies in all countries in our constituency are proving resilient to the current crisis. This comes as a consequence of a better macroeconomic management and contrasts with some past experiences, where growth came at the cost of current-account deficits that ultimately led to balance-of-payments crises.

22. **Strong mineral and agricultural commodity prices are here to stay**. We are not expecting a significant shift away from this favorable scenario as commodity prices ultimately reflect the long-term equilibrium between a constraint supply and a growing aggregate demand.

23. **Strong commodity prices come at a cost.** Naturally, high commodity prices increase inflationary pressures. This is particularly the case for agricultural commodity prices that have a heavy weight in the CPI of all countries of our region, whether they are net exporters or net importers.

ARGENTINA

24. In 2007, **Argentina's economy will experience another year of extraordinary growth (more than 7,3 percent), consolidating an endogenous and sustained growth process for five consecutive years**. This is unprecedented in our economic history and several features of the current macroeconomic performance indicate that the economy is heading toward a new long-term equilibrium.

25. **Today's macroeconomic model rests on three pillars: maintenance of a competitive exchange rate; fiscal prudence and active income policies.** I will address them in this order. On the one hand, a competitive exchange rate has been critical to stimulate the expansion of the tradable good and service sectors and reverse the process of deindustrialization experienced in the past decade. This has resulted in a genuine job creation and a re-composition of salaries that has come together with increases in both public and private saving rates. On the other hand, fiscal prudence (together with the restructuring of public debt) has enabled us to reduce public liabilities, reducing the burden of public debt on the economy (from 135 percent of GDP in 2003 to 64 percent in 2006) and facilitating our reentrance in the capital markets. It is worth noting that fiscal prudence has not come at the expense of public investment. On the contrary, we have increased public investment in infrastructure and human capital to support the development process. This has been possible thanks to Argentina substantially improving its tax collection, bringing national tax pressure (the ratio between federal tax collection and nominal GDP) from a bottom-level of 16.7 percent (average 1997-2000) to the current 24.3 per cent (September 2007). Finally, the third pillar, namely active income policies, has accompanied the process, easing distributive conflicts, limiting inflationary expectations and ultimately allowing for a better distribution of the benefits of growth.

26. **Part and parcel of this macroeconomic framework is a prudent and consistent monetary policy.** Monetary transmission channels are progressively being rebuilt but credit to the private sector still accounts for only 11 percent of the economy, still far below the Latin American average. Therefore, the Central Bank has acted on the monetary aggregate targets so as to ensure the equilibrium between supply and demand in the monetary market. A managed floating foreign exchange regime that has avoided short-term volatility without creating the mirage of a "foreign exchange insurance" has enabled the Central Bank to build up its reserves while absorbing pesos without compromising its balance sheet. This has been possible through a comprehensive combination of monetary instruments that allowed to combine the absorption of the overflow in the supply of Pesos derived from foreign exchange with positive annual results.

27. **In particular, domestic consumption has increased by 8.7 percent in 2007 as a result of the sharp increase in the total wage bill and the upturn of credit**. This strong demand has tract investment, which increased at a very dynamic pace (13.1 percent in 2007), bringing it at its highest levels in Argentina's history (23 percent of GDP).

28. **Contrasting with past experiences, growth has come together with high current account and fiscal surpluses.** The average current account surplus from 2003 to 2006 was US$ 6.2 billion, equivalent to 3.8 percent of GDP. This can be attributed to strong growth in exports, which posted new records year after year with industrial exports performing very strongly and accounting for nearly half of the total increase in foreign sales. Likewise, a strong fiscal position is another healthy contrast with our past. Argentina has accrued five consecutive years of financial budgetary surpluses, with actual primary balances continuously exceeding the figure budgeted. In 2007, the Government is expected to endure such a positive outcome with a consolidated primary fiscal surplus of around 3 percent of GDP. In short, the twin surpluses (fiscal and external) have been a trademark of the Argentine economy over the last five years and are expected to continue so.

29. **This macroeconomic context, together with the aforementioned income policies, has allowed for a rapid recovery to take place in all social indicators**: the latest unemployment rate stood at 8.7 percent; around 4 million full-time jobs have been created since the first quarter of 2003; the incidence of poverty now stands at 26.9 percent in urban centers, in contrast to 54.0 percent in the first half of 2003; indigence has declined rapidly, latest figures indicates a substantial plunge in the proportion of the population below indigence (from 27.7 percent in the first half of 2003 to 8.7 percent). Equally, the considerable increase in real family per capita income yield significant improvement in income distribution, as evidenced by a sharp decline in the Gini coefficient and in the reduction of the average income gap.

30. **Hence, the present macroeconomic strategy protects the economy from a repeat of a boom-and-bust pattern and lays the foundations for a process of sustainable growth based on a continuing accumulation of capital.** Looking ahead, the country's economic projection requires a sustained export growth, an even higher level of investment, together with increases in productivity coming from technological advances and improvements in human capital. These are the main challenges that we will be facing in the coming years.

31. In **Bolivia**, economic performance has continued to be positive up to the third quarter of 2007. In fact, the GDP is projected to reach a growth rate of 4 percent, slightly lower than in 2006, due to the floods associated to the El Niño stream in the first quarter, which affected agriculture, and caused losses in production. The balance of payments will also attain positive results in the current account and the international reserves, despite smaller than in 2006, partly due to the still positive international environment -reflected in higher prices for Bolivian exports-, lower external debt service, and foreign remittances.

32. The conduct of monetary policy is carefully geared towards preserving adequate liquidity conditions and monitoring inflation developments. The real balances in domestic currency increased significantly due to the nominal appreciation and the issue of inflation-indexed financial instruments in the banking system, which influenced positively in the de-

dollarization of the economy. However, the increased foreign exchange flows caused a greater disposable income and also higher liquidity; therefore, inflationary pressures emerged in the second quarter of 2007, that were worsened by the decreased output in the agricultural sector. However, the Central Bank of Bolivia -in coordination with the government - has started to take a more dynamic and direct open market operations with the public, to absorb liquidity. It is expected that the inflation rate by the end of 2007 will not be higher than 8 percent.

33. Investments in oil and mining sectors are expected to increase from 2007 onwards because the government has reached agreements in negotiating contracts with foreign companies, which -along with higher export prices for exported hydrocarbons- will permit to reach a surplus in government accounts and consolidate the fiscal stance. Strong fiscal consolidation is being attained, in line with the goals set in the National Development Plan, mainly due to hydrocarbon revenue, because of oil international prices and the 2005 Hydrocarbon Law, which allows for a greater government intake from royalties and taxes. This increased intake was directed to expand expenses for health, education, and infrastructure.

34. The Constitutional Assembly is still working on the new Constitution, through an ample debate and full freedom of expression. Because of the necessity to reach consensus ─to introduce social inclusion and other important changes for a sustainable political stability─ the members of the Constitutional Assembly have decided to extend their sessions until December 2007. The broad agenda of the Constitutional Assembly includes, among other issues, the autonomy of the administrative regions and both the government and parliament have supported this decision.

35. The financial sector stability has improved as it showed positive growth in 2007, nonperforming loans have reduced, provisions have increased, and profitability has also improved. Despite these achievements, the authorities are aware of the remaining vulnerabilities in some of the entities of the banking system and close supervision will be applied.

36. Development of the hydrocarbons and mining sectors are key factors to Bolivia's future and to attaining a sustainable reduction in poverty levels. Being aware of this, the authorities are doing their utmost to put in place a framework for the exploitation of their vast hydrocarbons reserves, allowing room for private investment, both foreign and domestic. The authorities' ultimate goal is to arrive at a framework that promotes the development of the sector, with the proper checks and balances in place to ensure a fair share of the benefits for the Bolivian people. In the mining sector, it was necessary to revise the operating framework that allows a sustainable development over the medium and long term for both private and public enterprises. Additionally, the authorities signed a contract with an international company that will enable the exploitation and industrialization of the great deposits of iron in

the east of the country. This contract will positively impact the current account from the year 2010 onwards.

37. The government started in 2006 to implement its five-year National Development Plan. This plan, which is based on four strategies, economic aimed to increase productivity; social-community oriented to improve social safety net; international relationship aimed to enhance the external sector in economic, political, and cultural ambits; and social empowerment oriented to strengthen democracy through promoting social inclusion. The authorities are aware that the private investment is important to growth and job creation, so they emphasize that public investment in other economic sectors will be just complementary to private investment. To promote private investment, the government has established a second-tier public development bank (BDP) to finance micro-entrepreneurships, preserving competition within the financial system. In addition, the government is engaged in obtaining access to foreign markets for non-traditional exports and has gotten an extension of the Andean Trade Preference Drug Eradication Act (APTDEA) in the United States Congress, which enables duty-free access to United States markets for a number of nontraditional Bolivian exports.

38. In **Chile**, output grew 5.9 percent in the first half of 2007. This result reflected the favorable external environment, a more expansionary fiscal policy, and a supportive monetary policy. Growth was broadly based across sectors with the sole exception of the electricity, gas and water sectors, due to restrictions in the imports of natural gas and dry conditions. During the same period, domestic demand grew 6.9 percent as consumption has maintained its dynamism while at the same time investment recovered significantly, expanding well above the low levels exhibited in 2006. Sustained consumption growth has been favored by credit and a firmer labor market.

39. Going forward, output growth is expected to be between 5¾ and 6¼ percent in 2007, and between 5 and 6 percent in 2008, underpinned by the possible continuation of a favorable external environment, a supportive fiscal policy, constructive financial conditions, and continuation in the observed acceleration in investment. However, the latest information available suggests a lower than expected growth in the third quarter of 2007. Given the latest developments in financial markets and its implications for the world economy, the balance of risks to this central outlook is tilted to the downside. The main downside risks are related to how the recent developments in financial markets are resolved, which include a deceleration in the U.S. and world economy, larger uncertainty in commodity prices, particularly oil, a large correction in the price of copper, and less favorable global financial conditions overall.

40. In the first half of 2007, CPI inflation remained close to the 3 percent target. However, in the third quarter, inflation exhibited a significant acceleration, with CPI inflation reaching 5.8 percent year-on-year in September 2007. Such acceleration in inflation reflects exogenous supply shocks including a jump in global food prices, unusually cold weather conditions resulting in a significant supply shock to food items, both of which have proven

deeper and more persistent than anticipated, and disruptions in energy supply. In line with these developments, core inflation measures and other inflation trend indicators have also increased above the 3 percent level. In turn, the wage growth rate has increased in the last few months, with an additional acceleration just recently. The exchange rate has appreciated in recent weeks, in part reflecting the weakness of the U.S. dollar. Medium- and long-term inflation expectations have remained well anchored around 3 percent, which is coherent with the ongoing transitory increase in inflation. Given the more than initially anticipated persistence of the shocks currently affecting inflation, it is expected that CPI inflation will remain above 5.5 percent for the next few months, and then gradually move down toward the mid-point of the target range of 3 percent within the monetary policy horizon of around two years. In line with the developments described above and in order to ensure inflation convergence to 3 percent, the Central Bank raised the monetary policy interest rate by 25bp in each of its monetary policy meetings of July, August, and September, thus reaching 5.75 percent. However, in its latest meeting in September interest rates were left unchanged, and further changes will remain dependent on incoming information and its implications for the inflation forecast. The Central Bank will pay particular attention to the risk of second round effects in inflation, including the behavior of wages and of expected inflation measures.

41. In the context of the implementation of the structural budget rule and due to continuing high copper prices, in the first half of 2007, the Chilean central government posted an overall surplus of 5.3 percent of GDP and a real increase of 16.6 percent in revenues. Public expenditure grew 6.6 percent in real terms in the same period. For 2007, the fiscal surplus is expected to reach 8.1 percent of GDP. In order to manage windfall revenues and consistent with the Fiscal Responsibility Law, the government has continued saving the surpluses into the Economic and Social Stabilization Fund, which at the end of August 2007 had accumulated USD 9.6 billion, as well as into the Pension Reserve Fund, with USD 1.3 billion. The law also allows the government to use its surplus to recapitalize the Central Bank, and during 2007 payments of USD 735 million were made. The government recently submitted the 2008 budget to Congress, which provides for public expenditure growth of 8.9 percent in real terms with respect to the 2007 budget law, prioritizing social spending in health, education, innovation and social housing. The 2008 budget, the first constructed in line with the new structural surplus target of ½ percent of GDP, considers an expected effective surplus of 4.8 percent of GDP for 2008. The budget also incorporates a strong focus on the execution and quality of public expenditure.

42. Moving to structural reforms, under the Chile Invests Plan, the government has continued to work on initiatives aimed to boost investment, facilitate entrepreneurship, globalize the domestic financial markets, further enhance trade integration, improve government effectiveness, foster innovation and human capital, and address the country’s expanding energy needs. A third reform bill, the Capital Market III Reform bill will also be sent to Congress later this year. This plan complements the 15-measure Chile Competes Plan announced in 2006, which aimed to promote competitiveness, productivity and job creation

by facilitating access to technology and financing, and fostering competition and a stable investment environment.

43. One of the key reforms that the government is committed to is a major reform of the pension system. The main elements of the reform are the establishment of a basic solidarity pillar, which includes the basic solidarity pension (BSP) and the solidarity pension contribution (SPC), the resolution of gender inequalities of the system, incentives to incorporate independent workers to the pension system, and increase competition by allowing new players to enter the system. The proposed reform was already approved by the Lower House of Congress and is currently being discussed in the Senate, with the purpose of becoming a law by early 2008, in order to be able to start paying the basic solidarity pensions by mid 2008. In order to address labor market issues and social equity, the government recently created a Presidential Advisory Council on Labor and Equity, whose main purpose is to discuss and make policy proposals, which can contribute to improving equity in the areas of labor market institutions, labor markets and policies.

44. The **Paraguayan** economy is expected to grow at around 5 percent in 2007, the highest expansion since 1995. High commodity prices have contributed to narrowing the current account deficit, and record levels of international reserves and a considerable appreciation of the *guaraní* have strengthened the external position. After last year's inflation surge, the trend has shifted towards a moderate level of 6 percent (core inflation) projected year-end. The Central Bank has revised its interest rate policy to limit currency expansion and prevent carry trade pressures. On the fiscal side, the projected 2007 surplus signals the mid-term trend of fiscal balance. The small debt burden makes the country less vulnerable to negative international shocks, and places it in a sustainable medium-term position.

45. After a decade of restructuring, the financial system is stronger than ever, with expanded operations and high profits, mainly due to adequate prudential regulations of banks and deeper financial intermediation. The government of Paraguay is committed to pursuing its ambitious reform agenda to improve competitiveness and the business environment, while at the same time maintaining sound macroeconomic and fiscal policies, which will allow sustainable growth, better poverty-alleviation, and a more equitable distribution of income.

46. The **Peruvian** economy continues to perform well. GDP growth is among the strongest in the region, inflation remains well contained, the external position is solid, and financial vulnerabilities are further declining. The government is committed to maintaining prudent macroeconomic policies, developing a comprehensive poverty-reduction plan, and pressing ahead with an ambitious reform agenda aimed at laying the foundation for sustained growth, strengthening resilience to shocks, deepening financial intermediation, and improving the business environment. Within this strategy, resolving social needs, bridging the infrastructure deficit, reducing dollarization, and developing debt management policies to further limit exchange rate risks are high priorities. The Peruvian government and society are addressing with determination the effects of the earthquake that hit the Coast of Peru in

August. Peru wishes to thank the international community wholeheartedly for their response and solidarity.

47. **Uruguay** is showing a robust economic growth, which is being accompanied by substantial social improvements, having critically reduced poverty rates and unemployment, which is at the lowest level in more than a decade. Inflation has been pressured by the sizeable increase of commodity prices and climate vagaries, but the government has rapidly responded with fiscal and monetary measures, which are already exhibiting positive outcomes. Large capital inflows pose another important challenge for macroeconomic management and the authorities have taken advantage of it to increase international reserves, while making efforts to avoid, to the extent possible, eventual distortions that capital inflows may establish in the short term. Nevertheless, the authorities have always acted under the consideration that keeping inflation in check is the overriding objective of monetary policy. Furthermore, the overall fiscal balance is close to being in equilibrium, the debt-to-GDP ratio has substantially decreased, and investment relative to GDP is at a very high level for Uruguay. Confidence instilled by the authorities' policies and reforms is a major explanation of these results. Meanwhile, Uruguay has undertaken significant structural reforms aimed at promoting better institutions and paving the way for higher and sustainable economic and social development. The financial system has been significantly strengthened; trade and investment is well diversified among countries and sectors of the economy; key offices, for instance the tax and custom agencies, have been transformed with the intention of further increasing transparency and accountability; and a comprehensive tax reform has been implemented with the objective of enhancing efficiency, equity and coherence with the country's aim to promote productive investment. As usual, these reforms have been handled with due respect for democratic process and with citizens' involvement, as key elements to ensure the sustainability of the reforms. Evidently, the above-referred achievements, among others, have been critical, but the authorities are far from complacent, considering them as simply an additional incentive to continue implementing sound macroeconomic policies and the ongoing structural reforms.