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On behalf of Argentina, Bolivia , Chile, Paraguay, Peru, Uruguay

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Minister of Economy and Public Finance of Argentina
Speaking on behalf of the Southern Cone Countries of Latin America
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1. The Global Economy

Since last year, our fears about the global economy have materialized and the world has entered a difficult phase characterized by recession and low growth in many advanced countries, and the increasing risk of a long-term crisis in Europe. The situation of the global economy is uncertain, particularly in regards to the fragility of the economy and the financial sector in advanced economies. Uncertainty is affecting confidence and the future global economic outlook. Global growth as projected by the recent World Economic Outlook (WEO) for 2012 and 2013 is lower than what was projected in July 2012, which, in turn, was lower than the April 2012 WEO projections. The output in the euro countries is projected to be negative and other advanced economies are decelerating their growth; consequently, intensified spillover pressures are transmitted to the rest of the world thus affecting the growth prospects for emerging markets, developing countries (EMDCs) and Low Income Countries (LICs). All this implies greater risks of broad contagion to bystanders, including in South America where growth prospects for 2012 and 2013 have decreased.

Monetary and sovereign policies announced by the European and Japanese Central Banks and by the FED have calmed the markets, but the slowdown of the world economy is not an encouraging sign. As most variables are measured against GDP, if it does not rise, debt, expenditures, fiscal deficits, imports, among others, in relation to GDP go up. That is why despite progress in reducing deficits at the cost of reduced growth, debt ratios remain elevated. In the short term, main risks are identified with a re-intensification of the euro area crisis, whereas in the medium term, major risks are associated with increased public debt in Advanced Economies (AEs), particularly in the euro area, with high public deficits and, as a consequence, debt increases.

The response of the AEs has sped up with new and old inventiveness. Efforts in the euro area account, the Outright Monetary Transactions by the ECB, the European Stability Mechanism (ESM) allowed to recapitalize banks, the work initiating a banking union, the EFSF approval of financial assistance to Spain for up to € 100 billion for banks´ recapitalization, while countries in the euro zone periphery pressed by the “troika”, have undergone drastic fiscal adjustment. In the United States, the FED launched a third round of quantitative easing and the guidance for low interest rates was extended to mid-2015, but the fiscal cliff still has to be solved. In Japan, in turn, the consumption tax rate was increased from 5 to 10 percent and the asset purchases were also augmented under quantitative easing, which will be extended during through 2013.

In several major emerging markets such as China, Brazil, India, and Indonesia, growth and trade are decelerating, producing a negative chain reaction within their trade partners. Trade and financial flows are the first transmission mechanism of the incipient deceleration through a reduced amount of exports and falling prices of commodities while at the same time, other prices, particularly certain food prices, are increasing, an additional problem for several economies. Most EMDCs are advancing stimulus measures to invigorate the economy; Brazil has presented a 66 billion stimulus package; in China, banking rates were liberalized to support growth, and India announced several policy measures with a similar objective. In turn, the BRICS are planning a joint anti-crisis fund.

In the Global Policy Agenda, we believe that the phrase “mobilizing resources to support adjustment” (IMFC/Doc/26/12/2) does not accurately reflect the objective of mobilizing resources because the extraordinary adjustment imposed on several countries, particularly those in the European periphery, has led to the strong fall of their output and has added unexpected problems to those they already face, i.e., the fall in tax revenues that led to increased fiscal deficits.

2. Securing the Recovery

In an interlinked world, vulnerabilities in AEs that can spread to the rest of the countries need a collective and cooperative action at the international level. All countries play a part in building a stronger world economy and a stable international monetary and financial system but the level of commitments and responsibilities are different among AEs and EMDCs. Responses at the domestic level by AEs should be carefully analyzed and avoid all types of spillovers which could destabilize other economies.

Advanced Economies

In the euro area, the authorities should be commended for their significant recent efforts in economic governance and institutional reform, particularly, on moving ahead with a single supervisory mechanism for euro area banks, clarification of the seniority of ESM claims, a more flexible deployment of EFSF/ESM resources, and the growth compact. Strong political leadership has been deployed to push forward these initiatives. Although the initial market reaction to these announcements was positive, doubts remain about the specific timetable for their implementation, and therefore the deterioration of financial and economic conditions in the short term has not stopped. Notwithstanding major efforts by the authorities at all levels, the euro area remains in crisis.

Banking and sovereign tensions remain unabated, and paint a gloomy picture of increasing risks and financial fragmentation across the area, while collateral policy introduces pro-cyclicality in monetary conditions. An internal rebalancing of the external accounts within the area is also needed.

Regarding fiscal policy in the United States, although medium-term consolidation is needed, there continues to be a strong case for a back-loaded strategy. The so-called fiscal cliff, although it would significantly improve the fiscal balance in the short term, would put a significant brake on the economy and run a very clear danger of putting the U.S. economy back into recession. This is the last thing the global economy needs, given the underlying weaknesses in other advanced economies. Moreover, it would not provide a lasting improvement to the fiscal tensions over the long run, which lies more on entitlement reform and a more efficient tax code. We are confident that after the election a calmer political environment will allow for the difficult choices needed to address both the fiscal cliff and secure the long-term path for public finances.

Some AEs countries, eminently the U.S. and Japan, may have some room to operate as long as markets remain lenient. The IMF advises that these countries should specify their medium-term fiscal consolidation process that "must be backed by binding legislation or fiscal framework”.

Otherwise, credibility could be lost. Nevertheless, credibility is lost if growth is not achieved and the unemployment rate does not fall. Markets are probably more interested in growth prospects than in consolidation policies. Other countries do not have that room, to the extent that markets have closed their doors or are demanding unsustainable returns. It must be noted that despite of the weak recovery, the Fiscal Monitor shows an improvement in fiscal projections for 2012 and 2013 for most advanced economies. Perhaps this outlook is too optimistic, and not robust enough, given the wide uncertainties still present. Moreover, given that the fiscal outlook still remains fragile, it is not advisable that fiscal consolidation be even more ambitious.

Several advanced economies have undertaken substantial monetary expansion, playing a key role for their economies. Further relaxation is likely, although the effectiveness of monetary policies seems to have diminished. Without denying the positive impact that monetary policies have had in AEs, it is imperious that global monetary policy be properly coordinated across major economic zones, so as to avoid unwanted imbalances across regions or markets. Concerted policies are more than needed in AEs to tackle the current problems and swiftly implement a set of measures to restore confidence and reduce tail risks but not at the cost of transferring the crisis to EMDCs.

The Role of the Fund in Advanced Economies

Regarding IMF policy advice and particularly the role of the IMF in the international community, the IMF/ECB/EU (the troika) programs imposed on some peripheral European countries are in many ways a repeat of the IMF's mistaken conditionality applied to many countries in the 90s that ended in economic crisis. Unfortunately, the institution seems to have forgotten some of the lessons from the Latin American crisis, and the Asian crisis before that. Once again, this time in Europe, the IMF is endorsing policy conditionalities and reform strategies that are bound to fail, worsening recession and unemployment levels in program countries and leading to unsustainable debt paths and social failure. The IMF has recognized in its latest WEO report that they "may have" underestimated the negative growth impact of fiscal consolidation in several countries. This recognition is a first step that should lead the IMF to change its strategy in Europe and rethink its stance regarding crisis resolution and debt restructuring. The IMF is, at the same time, heavily exposed to the five largest European users of Fund resources which account, as of mid-September, for almost 75 percent of the total lending.

Given the global importance of several AEs, such as the U.S. economy, the Fund should organize a more in-depth analysis of how policies' spillovers impact on the global economy in a more disaggregated form. It is known that these countries´ policies are going to impact globally but it would be very useful to have more details. Two examples are worth keeping in mind: China's spillovers from an eventual adjustment of the investment rate were analyzed by countries affected, whereas in the case of euro zone policies, the deleveraging impact on growth was presented by regions.

Although the current environment of low-interest rates might lead to specific imbalances in some markets, the proper tools to address those risks are firm regulation and supervision. The capitalization of financial institutions should continue. However, policies to strengthen the structure of the financial system to safer standards that are less reliable in volatile wholesale funding and complex financial instruments must not be delayed until the recovery is completed. It is imperative that the financial reforms continue on a gradual and steadily pace.

Emerging-Market Economies

Emerging markets and developing countries (EMDCs), particularly the major emerging economies, are facing an economic slowdown whose origin has to do more with the problems in the AEs than with domestic problems. EMDCs still are in a good position, due to the benefits of the macroeconomic and structural policies applied, growth rates remaining higher than the global average, the public debt being moderate or decreasing, and many of these countries could provide fiscal support, not only to continue helping to sustain global economic recovery, but also to withstand a worsening of the current crisis. Thus, if the downside scenario continues, responses to slowing domestic activity will vary widely across the spectrum of more than 100 EMDCs. Some of these policies have been referred to above. In this context, the macro policy responses to volatile commodity prices and speculative capital flows will broadly be of a protective and defensive nature, using macro prudential tools at hand, when needed. In the case that oil prices remain high, the scope for fuel subsidy reforms will be scarce, only leaving space for policies that would focus the subsidies on better targeting the beneficiaries. As a matter of fact, the huge subsidies in many sectors in AEs are never mentioned in IMF analyzes.

If the presented risks materialize, the focus of the advice to emerging economies as a group should be on maintaining or achieving flexibility in policies to face double-sided risks going forward. In this regard, if the demand from advanced economies weakens and the price of oil remains high, while other commodity prices fall as a consequence, EMDCs should weigh these risks and organize policy room for maneuver.

EMDCs should replace demand from AEs with domestic and regional demand and promote and establish regional and south-south financial, trade, technological, and complementation agreements. Today, several of these agreements already exist, such as utilizing local currencies in trade or developing joint equipment, machinery and industrial products or creating new regional or supranational bank institutions. Investing in infrastructure is a key element for the economic development of emerging economies and developing countries. This policy could also help advanced countries—especially now as their growth prospects are weak—to restore their economic prospects. Infrastructure projects tend to produce movements and chains benefiting the entire economy of one country. It creates jobs, eases transportation and logistical arrangements (which in turn facilitate exports); thus, it produces many externalities.

With regards to Latin America, it is clear that resilience has substantially increased relative to advanced economies, but more importantly to the region's past. In general, this is the result of better macroeconomic policies, including more flexible exchange rate systems and prudent fiscal policies, further openings to trade, better institutions, for instance, regarding revenue administrations, strengthened prudential regulation and supervision framework, among others. Even though, the region is exhibiting an economic slowdown and one of the main risks that the region is facing, besides the spillovers from AEs, is with regards to the dependence on certain commodity prices. Latin America, in general, is well prepared to face external shocks, for which it is key to continue preserving macroeconomic stability and maintaining the reforms already taken.

The Role of the Fund in Emerging-Market Economies

The Fund advises countries on prevention in order to avoid over-stimulating the economy. This advice is similar to that given to prevent overheating when, at the time, most EMDCs were pulling the world economy out of the crisis. The support to crisis bystanders should be without segmentation of the facilities, as presented in the FCLs or the PLLs or further conditionalities or previous actions. Countries that appear to have strong policy frameworks could very quickly loose them if triggered by certain events. This has been seen in the recent European crisis. It would also be important to provide large upfront financing and increased flexibility in the proposal of programs.

The global safety net, in order to safeguard global and regional stability, should be enhanced through arrangements for cooperation with regional financial agreements.

Low-Income Countries

As a result of slowing external demand and increased expenditures for food and fuel subsidies, some LICs have increased their fiscal deficits. The Fund advises an appropriate gradual fiscal consolidation through better-targeted subsidies and broadening the tax base, as key to rebuilding buffers, as well as for sustainable social safety nets and poverty reduction overtime. However, in LICs this advice tends to concentrate on income because before broadening the tax base, tax evasion and elusion should be strengthened, thus having a larger impact than broadening the tax base. Enhancing governance should also be sought as part of their fiscal policy framework. External resources are becoming scarce and there is a tendency in development financiers to shift from budget support to project support; moreover, concessional financing is becoming less available even from multilateral financial organizations. Finally, we also believe that any fiscal advice, to be sustainable, must take into account growth impact, social equity issues, and long-term employment.

The Role of the Fund in Low-Income Countries

The Fund should, in the fields in which has expertise, strengthen LICs' capacity building, sustainable financial deepening and lower debt vulnerabilities, but we doubt the Fund's capacity to advise on efficient strategies to support inclusive growth and natural resource management.

Financing to help LICs weather the adverse external environment and avoid further crisis is warranted. It is also necessary to provide concessional financing for those members in need and, at the same time, prevent the PRGT financing to decline after 2014. We commend the strategy to use the remaining gold sale windfall profits to allow for self-sustaining PRGT.

The Role of the Fund in the Middle East and North Africa

The IMF should respond to the needs of Middle East and North Africa countries in transition by supporting them to return to a path of growth and employment creation and by addressing the region's challenges in the midst of an uncertain global environment. The IMF should increase its technical assistance, policy advice, analytical work, training and financial support to these countries. Individual countries' social and political situations should be considered and domestic efforts to restore confidence and boost inclusive growth should be supported while policy options should be given to deal with critical challenges.

3. **Anchoring the Future**

The recovery has to be achieved only through credible policy measures that change the uncertainty over the future by reaching inclusive growth and employment <u>now</u>. It has already been pointed out that the advice and policy recommendations of the Fund did not lead clearly to growth, as expected, because growth sources were never defined. In the Global Policy Agenda (IMFC/Doc/26/12/2), all the rhetoric on growth is even more confusing:

- National authorities should implement strong policies to credibly ensure fiscal consolidation over the medium-term and to raise growth and employment. (Page 1)

- Policymakers should preserve policy flexibility to facilitate a response to adverse shocks and support growth. (Page 1)

- Where growth remains buoyant, countries should rebuild policy buffers. Where growth slows sharply, existing buffers should be used prudently. (Page 1)

- Legacy issues will need to be resolved to anchor future growth. (Page 1)

- In the euro area, despite the many policy steps noted above, policy implementation remains insufficient to achieve the strong and balanced growth needed to secure debt sustainability and facilitate rebalancing within the monetary union. (Page 3)

- The larger emerging markets have introduced structural reforms that could support domestic sources of growth and contribute to global rebalancing, but more could be done. (Page 3)

- Decisive action is thus needed to put the global recovery firmly back on track and to strengthen policy and institutional frameworks to address the legacy issues and provide a sounder foundation for inclusive growth. (Page 4)

- Concerted action is needed, including policies to restore growth, address known vulnerabilities, and better position crisis bystanders to deal with adverse spillovers. (Page 4)

- In the U.S., Japan, and some other advanced economies, fiscal adjustment needs to be anchored by concrete and ambitious medium-term consolidation plans that are designed in a pro-growth manner. (Page 4)

- Policy responses will depend on national circumstances, but where there is scope additional support should be provided to domestic demand if growth continues to disappoint. (Page 5)

- Engage on policy options to deal with key macroeconomic challenges presented by volatile capital flows, and on the appropriate calibration of policies to support growth and employment while avoiding over-stimulating the economy. (Page 5)

- As long as growth remains buoyant, rebuilding policy buffers should have due weight on countries' medium-term macroeconomic frameworks and development needs. (Page 6)

- Enhance capacity building support for LICs, including in advice on natural resource management, sustainable financial deepening, and efficient strategies to support inclusive growth and lower debt vulnerabilities. (Page 6)

- Define a structural policy agenda to restore investor confidence and promote high and inclusive growth. (Page 6)

- Future. Advise on structural reforms to promote inclusive growth to tackle high unemployment in the region and to design efficient policy options to achieve social objectives rather than reliance on untargeted and inefficient subsidies. (Page 6)

- Financial sector incentives and regulation may need to be rethought, and existing growth models refined to deliver sufficient new employment opportunities. (Page 7)

- The focus now is on advancing this broad agenda to support the membership in providing a more secure basis for future growth. (Page 7)

- Developing fiscal policy options to achieve the medium-term fiscal objectives, including by underlining their growth and distributional implications and the challenges imposed by ageing populations; (Page 8)

- Unemployment rates, particularly among the youth, are very high in many countries, especially in Europe and the Middle East. A rebound in global growth will help, but even then the pace of job creation will need to accelerate very rapidly to absorb both the existing unemployed and new entrants coming onto the labor market. (Page 8)

- Foster an enabling environment for private sector growth, including through action in factor and product markets. (Page 8)

- Design clear medium-term policy strategies to emerge from the legacy issues to remove policy uncertainty and support potential growth. (Page 8)

- Advise on growth-friendly adjustment strategies to minimize the employment impact in countries undergoing a period of fiscal consolidation, for example by better targeting social support and reforming taxes; (Page 8)

- Deeper analysis, in collaboration with the World Bank and other relevant institutions, of the growth and employment consequences of policy actions. (Page 8)

- It is therefore equally important that policies to strengthen domestic sources of growth are decisively implemented in surplus countries. (Page 9)

Strengthening the Financial System and the Fund's Financial Surveillance Strategy

In the context of a more integrated global economy, spillover effects from the financial system should be strongly monitored and the ability of the IMF to identify systemic risks wherever they may lie should be strengthened. We support the main proposals to strengthen the financial system and the Fund´s Financial Surveillance Strategy, such as implementing the regulatory agenda and an effective cross-border resolution regime; progress on closing data gaps must also continue; the Fund should upgrade and integrate instruments and products and make bank founding models more robust and work to fill data gaps. Promoting financial deepening will in turn support development.

High Debt

Although it is true that in many AEs the debt levels relation to GDP are as high as those from the era of WWII, and that several countries face large liabilities due to their support to the private financial system, it is also true that in recent decades several AEs already managed to deal with very high debts with no apparent problems, that low interest rates will be maintained till 2015 and that the post-war debt problem was solved through steady and continued growth. Thus, we can say that growth is all that is needed.

Growth and Jobs

We support the Fund's intentions to deal with growth and jobs. We do not believe that the key steps mentioned in the Global Policy Agenda (page 7) will help much. It is enough to see the results of past similar advice. It is not clear what it is meant by "growth-friendly adjustment strategies" and, in this regard, it will be useful to show an example of a country where these strategies were successfully applied. Furthermore, the Fund's approach to labor market flexibility and structural reforms related to the labor market, public employment, minimum wages, wages as an adjustment variable and productivity should be reviewed. We support a deeper analysis, in collaboration with other relevant institutions such as the ILO, of the growth and employment consequences of policy actions.

4. Addressing the Governance Deficit

Governance should be the first point and not the last in the Global Policy Agenda in order to enhance the Fund´s legitimacy and effectiveness and to strengthen the multilateral and cooperative nature of the Fund. The views of the whole membership have to be reflected to deal, at the same time, with the democratic deficit of the Fund. In this regard, we support a voluntary re-composition of the Board that increases the number of emerging-market chairs to enhance the voice and participation of Non-European EMDCs in the institution and particularly of middle and low-income countries. But this is not enough. The institutional culture of the IMF should be changed to definitively deal with the Fund´s stigma. Some clues on this can be found in the reports published by the Independent Evaluation Office (IEO). At the same time, diversity is important not only in terms of gender and geographic, but particularly, diversity in academic backgrounds, economic vision and experiences. Also, we believe that more training for staff is needed on negotiation skills, and countries' cultural and customs awareness and, not less important, the merit of the staff's efforts should be adequately recognized.

Quota and Governance Reforms

It is important to complete the agreed schedule on quota formula and the quota review on a full and timely basis. This includes the comprehensive review of the quota formula to better reflect economic weights and enhance the voice and representation of EMDCs by January 2013, and the completion of the next general quota review by January 2014. The quota formula must be reformed to address its deficiencies and bias against developing countries. A reformed quota formula must give predominant weight to GDP and GDP measured in PPP terms which is the most robust measure of comparable economic weight and is the best way to support LICs and EMDCs as a whole. With regards to openness, the severe distortions in trade and financial openness through correcting or eliminating its role has to be addressed, and eliminate the measure of variability. The ultimate goal must be to better reflect the growing weight of EMDCs in the global economy while protecting the share of poor, small and vulnerable economies in quotas and voting power. The revised formula should lead to an increase in the calculated and actual quota shares of dynamic EMDCs in line with their relative positions in the world economy, and must not come at the expense of other Non-European EMDCs. The bullet point on page 9 of the Global Policy Agenda that states that "dynamic EMDCs will have increased by 9 percentage points" should be revised and corrected and the meaning of the word "dynamic" in this sentence should be clarified.

Finally, we would very much like to thank the government of Japan for hosting the 2012 Annual Meetings of the IMF and World Bank and wish the authorities and people of Japan all the best in their future endeavors.

ARGENTINA

The **Argentine** economy has undergone an extraordinary structural transformation since the 2001/02 crisis. Between 2003 and 2011, average annual economic growth was 7.7 percent, which constitutes the highest average growth rate in the country's economic history. During the same period, per capita GDP accumulative growth was 66.2 percent. Growth reached 9.2 percent in 2010 and 8.9 percent in 2011. This incomparable period of sustained growth has come hand in hand with a marked reduction in poverty, unemployment, and inequality.

Since last year, our fears about the global economy have materialized and the world has entered a difficult phase characterized by recession and low growth in many advanced countries, and the increasing risk of a long-term crisis in Europe. This situation is having a negative impact on emerging markets, including in South America where growth prospects for 2012 and 2013 have decreased markedly. Indeed, the Argentine government has cut growth forecasts for the current year to 3.4 percent and to 4.4 percent for next year. Private consumption continues to be the most important driver of growth. Exports show a reduction of 1 percent during the first 8 months of this year compared with the same period of 2011 and imports fell by 7 percent during the same period, after having increased more than 30 percent in 2011, the second highest increase in imports compared to other G20 countries. Trade surplus reached US$ 8,721 million in the first semester of 2012 and the current account surplus was US$ 1,429 million, which means both figures have increased in relation to the same period of 2011.

In this challenging context, Argentina's economic policies continue to be based on a sound macroeconomic framework where equality is an important ingredient in promoting and sustaining growth. The main pillars of this sound macroeconomic framework remain the following: external and fiscal surpluses, low and sustainable public debt level, responsible fiscal and monetary policies, a managed floating exchange rate regime, a macro-prudential policy framework to face volatile capital flows, and the accumulation of foreign reserves, among other countercyclical policies.

Strong Fiscal and Debt Fundamentals

Argentina has managed to maintain a primary fiscal surplus since 2003. Different factors contributed to this result, such as the strategy of debt reduction, the increase in fiscal pressure due to a more efficient administration of revenue collection that focuses on evasion and elusion, and changes toward a more fair tax structure.

Argentina has applied a set of measures aimed at progressively normalizing public debt and creating a sustainable repayment capacity. These measures involved a successful debt restructuring process that reached a substantial level of acceptance. More than 93 percent of the eligible debt was tendered to the two-phase exchange process that took place in 2005 and 2010. Over the past nine years, the debt-to-GDP ratio has been reduced from 166.4 percent to around 41.8 percent at the end of 2011. The current public debt stock shows a balanced composition in terms of currency, duration, interest rates and types of creditors. Particularly, the public debt in private sector hands is 32.3 percent of total public debt which represents 13.5 percent of GDP. In terms of external debt, the debt-to-GDP ratio comes to less than 17 percent as of September 2011.

A Solid Financial System

After almost collapsing in 2001-2002, the financial system is now solvent, liquid, well-regulated and capitalized, which allowed our economy to recover from the impact of the 2008 international financial crisis faster than others. Liquidity and solvency levels remain high, in a context of reduced credit risk, which is reflected in low levels of non-performing loans with respect to other emerging and developed economies. Favorable prospects for economic growth help to strengthen the conditions for financial stability. Return on Assets (ROA) and Return on Equity (ROE) that were negative in 2003 (-2.9 percent and -22.7 respectively) have been positive since 2005, and during the first semester of 2012 achieved figures of 2.8 percent and 25.1 percent respectively.

The new Central Bank Charter law Nº 26.739 of the BCRA (Central Bank of the Republic of Argentina) approved in April 2012, states that "the goal of the bank is to promote within its attributes and possibilities and in the framework of policies established by the national government, monetary and financial stability, employment and economic development with social equity." The reform reflects the needs of a changing world and gives the BCRA faculties and instruments to deal with financial stability issues, employment and production. This law reestablishes the capability of the BCRA to give rise to a financial system to service development needs and the growth of the real economy, that is, to direct credit to productive investment.

With the purpose of enhancing financial deepening and inclusion, the Argentine government implemented a strong campaign to incorporate a considerable proportion of vulnerable sectors of the population into the banking system through the Free and Universal Account Program, and through the adoption of additional measures aimed to facilitate banking access and operations to pension beneficiaries.

Moreover, the government strongly supported the increase in lending to the private sector, particularly small and medium-sized enterprises (SMEs). Along these lines, the BCRA opened a new credit facility for productive investments oriented to SMEs. Indeed, financing to the private sector grew by 42 percent in 2010 and by 46.2 percent in 2011, and achieved a record for the Argentine economy reaching 14.5 percent of GDP, which shows that there is still plenty of room for the financial deepening of the economy. In June 2012, the stock of lending to the private sector rose 3 percent (35.4 percent y.o.y.); the largest monthly increase this year. This performance was driven by loans to the productive sector, which rose by 3.9 percent during the month (32.8 percent y.o.y.), while lending to households increased by 1.8 percent (39.2 percent y.o.y.). This dynamic was explained mainly by the public bank segment, which has accounted for 34 percent of the total stock of lending to the productive sector, increasing its share by over 6 p.p. in the last 12 months.

Focus on Investments and the Real Sector

On the real side, investments grew by a significant 15 percent in 2010, and by 13.5 percent in real terms in 2011, accounting for 24.5 percent of GDP; a performance explained by both private and public investment. In the first semester of 2012, investments grew at a slower pace, but still above the historical average. Long-term challenges are being addressed through the record rate of investments over the past 50 years and by doubling the percentage of expenditures in science and technology in relation to GDP, including an important program of fellowships for doctorate students.

Since its creation in 2007, the Ministry of Science, Technology and Productive Innovation incorporates the benefits of science and technology to improve economic and social development. The new plan "2012-2016" also supports entrepreneurship and innovation. Investments in the provinces are supported by the government-established Federal Solidarity Fund (Fondo Federal Solidario), funded by a 30 percent export tax collection on soy complex, which has been oriented to infrastructure, such as building schools, houses, drinking water processing plants, and water and sewage networks.

The Plan for Industrial Development 2020 has been launched to foster technological development in the industrial sector, along with a new Strategic Plan Agri-food and Agroindustrial (PEA), which aims to increase grain production by 50 percent by the year 2020. The plan to develop the software industry has been successful, placing Argentina as the top software exporter in Latin America. The software industry accounts for more than 50,000 employees and more than 1,000 firms that export their production to more than 100 countries.

Credit programs to boost production are the Bicentennial Program to Finance Production (Programa de Financiamiento Productivo del Bicentenario), the Productive Recovery Program (Programa de Recuperación Productiva – REPRO) which has been extended to the end of this year, and a lending program to renew the truckloads' fleet.

As a way to stimulate the economy, a credit program for first-time buyers called PRO.CRE.AR was launched. The program gives low and middle-income sectors the opportunity to own a property, although it has to be a newly constructed property in order to spur the construction of new houses to avoid the buildup of housing bubbles. The program objective is to offer 400,000 loans in four years.

Finally, the nationalization of 51 percent of the shares of YPF, the largest oil company in the country, was one of the most important policy measures taken recently. YPF had been completely privatized in 1999. Since then, imports started to increase sharply due to the fall in oil and gas production. The reduction in drilling and exploration combined with the non fulfillment by the company of environmental rules led the Argentinean government to acquire a majority share of YPF in order to increase production and profitability and ensure that oil and gas resources are used in a way that supports the development needs of the country.

Strengthened Social Safety Nets

Argentina has developed an important social safety net based on several programs: the Universal Child Allowance Program "Asignación Universal por Hijo" provides coverage for 3.5 million vulnerable children; the program "Argentina Trabaja" allows social inclusion through work; the program "Manos a la Obra" has productive projects for families and self-employees; the Food Security Plan (Seguridad Alimentaria) has improved the subsistence capacity of more than 1,500,000 families; and the program "Actions for Social Promotion and Protection and the Plan for Pension Inclusion", among others.

Along the same lines, the social security system has also increased its coverage to 6.5 million beneficiaries who have a legal right, beyond the will of the government authorities, to increase their pension twice a year, based on a formula that guarantees pensions' purchasing power. Social spending on non-contributory pensions has also been increased. Expenditure on education has risen to 6 percent of GDP, in line with the Education Law. Argentina's Connect Equality Program (Conectar Igualdad), launched by President Cristina Fernández de Kirchner in 2011 to distribute approximately 3 million laptops to secondary school students is being implemented successfully. Finally, health spending has also been raised to tend to the universal access by promoting a minimum quality standard is service and infrastructure paying special attention to prevention and primary health service.

A More Inclusive Growth

Taking into consideration the high levels of inequality at the outset of the 2001-2002 crisis, the government has focused on active employment and income policies to create quality jobs and build a more inclusive economic structure. Since 2003, more than 5.5 million jobs were created and unemployment decreased from 24.3 percent in the 1Q 2003 to 7.2 percent in the 2Q 2012. At the same time, informal employment decreased from 49.7 percent in 2003 to 34.5 percent in the 2Q of 2012, and the average real wage increased by more than 37 percent during this period. In 2003 4Q, the income of the richest 10 percent was 46.8 times the income of the poorest 10 percent. At the end of 2011 this gap was reduced to 18.5 times. Similarly, the Gini coefficient dropped continuously from 0.532 in 2003 to 0.429 at the end of 2011.

As an important pillar of the income policy, the government continuously increased the Minimum and Adjusted Wage (Salario Minimo Vital y Movil) and pensions, and guaranteed wage negotiations by branch of economic activity. Both minimum wages and pensions have increased sharply since 2003. Pensions are now covering 93 percent of people 65 years and over.

The recent implementation of a program for the rationalization of subsidies based on an income and wealth criteria will allow the government to assign social spending more equally, guaranteeing the protection of the most vulnerable sectors of its population. As a source of social inequality, volatility in commodity prices is a menace against which Argentina has been active. Agricultural commodities play a very important role in the Argentine economy, as the country is a major producer, consumer and exporter of these products. Public investment supported thousands of rural families with technical assistance and financial aid. At the same time, investments in rural electricity have added 1,464 km of new connections, and 223 rural roads have been opened and improved.

Argentina in the International Financial Community

As witnessed by the most recent attempt to cease Argentinean assets overseas, “Fragata Libertad”, a national school vessel, is being used to complete the training of our marine armed forces. Argentina is still facing extraordinary, sometimes ridiculous challenges dealing with creditors known as vulture funds, who seek privileged treatment through litigations within legal gaps even though they have acquired sovereign debt at cents on the dollar. Due to the lack of an international legal framework for sovereign debt restructuring, Argentina continues to deal with a minority of litigious creditors that impede a full completion of the debt-restructuring process.

This year, Argentina cancelled the last issuance of the Boden 2012 bond, marking the end of the debt that arose from the so-called “*corralito*” that almost completely froze bank accounts in 2001 and 2002, and showing Argentina’s commitment to continue servicing its public debt on a regular basis.

Current credit ratings by credit rating agencies (CRA) do not reflect the efforts made by our country in this regard. Recognizing their pervasive pro-cyclical role, and their often interest-tainted analysis, the United States and Europe have enhanced supervision and regulation of CRA since 2010. In Argentina, since 2011, rating agencies must disclose their rating manuals and/or methodologies and the fees they charge for their services through the National Securities Commission (CNV). Our financial system has also moved towards less dependence on CRA ratings for regulatory purposes.

In its commitment to continue strengthening its relations with the international financial community, Argentina has demonstrated its resolve to work together with the IMF on the basis of mutual respect and recognition of Argentina’s sovereignty over its own policy choices. We benefit from technical assistance from the IMF to develop a new CPI on a national basis, we have completed and published the three main ROSCs on financial regulation and supervision, and are moving forward with IMF and World Bank staff on the FSAP report. Argentina has also fulfilled all of its commitments with regards to the IMF programs related to LICs, Liberia and the Poverty Reduction and Growth Facility Trust.

Finally, several lessons have been learnt the hard way throughout Argentinean history: the crucial role that the State must play to achieve a steady, sustainable and inclusive path of economic development; the importance of a strengthened policy framework built upon a demand driven, broad-based productive and socially inclusive development; the significance of a balanced fiscal policy and a solid banking system; the value of exports and a trade surplus that were a genuine source of international reserves accumulation; the meaning of investment in health, education, infrastructure and production to achieve growth with innovation and high productivity; and the promotion of regional integration and international cooperation.

In the last 10 years, growth has been sustained and social indicators have improved considerably. The government has put the country back on track and has restored its potential for economic, human, and social development. Argentina is therefore well placed to address the challenges and constraints of the international context going forward.

BOLIVIA

The **Bolivian** economy continued to have a strong macroeconomic performance in 2011 and 2012. The authorities conducted an economic policy aimed at preserving macroeconomic stability and pursuing income redistribution. The main achievements of the Bolivian economy were supporting growth, reigning on the effects of the international crisis, controlling inflation and securing macroeconomic stability. In fact, in 2011 the Bolivian economy continued to show a solid and sustained growth which reached 5.1percent due to the dynamism of transport and communications, financial services and manufacturing activities and the strong recovery of the mining and farming sectors. On the spending side, the remarkable dynamics of domestic demand have spurred the growth rate by 4.5 percent. The authorities project that growth in 2012 will be similar to that of 2011, however, there are upside risks that may lead to a higher growth rate.

Despite the global crisis, the Bolivian external accounts remained favorable, net international reserves reached $12,019 billion, seven times greater than in 2005 and around 50 percent of GDP; the highest in the region. This substantial increase was mainly due to the historical levels of exports and remittances, as well as higher prices of gold in the international market. The country continued to record a positive trade balance in the year. Exports continued the upward trend, reaching $9,098 million, with increases both in value and volume. Likewise, imports experienced a remarkable growth of up to $7,673 billion, attributed primarily to purchases of raw materials, intermediate products and capital goods accounting for about 80 percent of the total imported, which contribute to the strengthening of the productive capacity. Net foreign investment levels totaled $859 million; 27.9 percent greater than in 2010. Also, gross direct foreign investment grew by 10.4 percent, which primarily addressed hydrocarbons, mining and manufacturing.

The financial system continued expanding and strengthening as non-performing loans continued to decrease substantially through 2011 and 2012. Deposits reached $10,805 billion, nearly tripling the level of 2005. Furthermore, loans amounted to $8,284 million due to the dynamism of the economy and the new conditions for access to credit, along with new credit policies for production. The use of domestic currency (bolivianization) extended to 71 percent of credits and 64 percent of deposits.

Fiscal policy continued to support economic activity although responsibly, evidenced by a fiscal surplus of the combined public sector—for the sixth consecutive year—which amounted to 0.8 percent of GDP. Tax revenue continued to grow in real terms while control of expenditure was exercised, prioritizing capital expenditure and pursuing public debt sustainability. The National Treasury (TGN), however, showed a slight deficit of 0.2 percent of GDP. Public investment surged up to $2,153 million, channeled mainly to infrastructure and social investment, as well as to public enterprises. The strong increase of productive investment doubled its level with respect to 2010.

Sustainability of public debt was strengthened in 2011 as balances of external and internal public debt as a percentage of GDP amounted to 14 percent and 19 percent, respectively. Resources coming from external indebtedness are mainly for financing infrastructure and productive projects. On the other hand, the Treasury's domestic debt increased slightly compared to 2010 with strong concentration in local currency, longer maturities and lower interest rates. Indicators of public debt, as well as prudent management, led to the improvement of the Bolivia's credit rating. Standard & Poor's, in May 2012 upgraded Bolivia's rating from B to B+, while Fitch upgraded the country ceiling to BB- from B+ in October 2, 2012.

In 2011, inflation became a challenge for the government's policies. Despite high inflationary pressures in the first months of the year, inflation ended up at 6.9 percent. This achievement was reached due to measures, such as increases in the supply of goods in local markets, direct food imports, import tariff differentiation for certain foods and regulation to exports, control of speculation and smuggling, appreciation of the national currency, open market operations and some selective fiscal tightening. In the second half of 2011, inflationary pressures were diminished as international food prices declined. As for 2012, inflation remained low and stable throughout September as the cumulative percentage change of the Consumer Price Index (CPI) reached 3.1 percent, being among the lowest in South America. It is expected that inflation in Bolivia will be around 5 percent by the end of 2012.

Unemployment decreased in 2011 to reach 5.5 percent, consistent with the dynamic economic activity and historic levels of public investment. More public enterprises started operations and more people were employed in education and health sectors. In the same vein, there were incentives to private investment through Banco de Desarrollo Productivo (BDP) loans, producer insurance and employment programs. On the other hand, wages also improved, following the 20 percent increase in the national minimum wage in 2011 and wage increases for education and health workers.

Since 2007, the authorities have been continuing to apply policies for improving income redistribution through granting conditional and non conditional cash transfers along with other measures to support the most vulnerable people. Thus, moderate poverty levels in the country reduced from 60.6 percent in 2005 to 48.5 percent in 2011 while extreme poverty decreased from 38.2 percent to 24.3 percent in a similar period, which mostly impacted rural areas.

CHILE

The **Chilean** economy has continued to expand, notwithstanding the weakening of global growth, posting a 5.4 percent growth of GDP in the first half of the year. Although the output gap has closed and the unemployment rate has fallen to below pre-crisis levels, there are signs of a deceleration towards trend-like rates of expansion for the whole of 2012. Underlying these domestic factors is the softening of global conditions in 2012, which is expected to exert a moderating influence on Chile's economy. Nevertheless, the economy is in a healthy position to face the lingering risks from a still uncertain global environment.

The appropriate policy response by the authorities over the past few years has prevented a significant resurgence of inflationary pressures. The high headline inflation by the end of 2011, close to 4 percent, was mostly driven by external factors, namely the depreciation of the exchange rate in response to international turbulences, as well as high food and energy prices. However, core inflation remained subdued. More recently, the strength of the peso has contributed to modest inflation prints. The authorities now expect that headline inflation will fall below 3 percent by the end of this year.

Although labor productivity growth decelerated over the last ten years, it has recently picked up, in the first half of this year to over 3 percent, which is similar to pre-2008 prints. This gives confidence that expected trend growth should remain around 5 percent. The recent results of the independent committee of experts for the design of fiscal policy are also consistent with these figures for trend growth.

The Banco Central de Chile (BCC) continues to perceive that two main risks dominate the Chilean outlook going forward. On the one hand, a disorderly and costly resolution of the sovereign tensions in the euro zone, excessive fiscal retrenchment in the US, or a significant slowdown in China, all could have severe financial and real effects on Chile. On the other hand, the resilience of the domestic drivers of growth could, over the medium term, generate inflationary risks, financial stability concerns and/or tensions in the financing of the current account, in the context of volatile global monetary conditions and commodity prices. The authorities have been clear that monetary policy will remain vigilant to confront risks, were they to materialize, so as to preserve macrofinancial stability.

Public spending is set so as to maintain the authorities' target of a structural fiscal deficit of 1 percent of GDP, which will be achieved this year instead of by 2014. The overall fiscal balance posted a significant surplus in 2011, has shown so far in 2012 a surplus of 2 percent of GDP, and is expected to remain close to balance for the year as a whole. Moreover, public spending has grown in 2012 close to overall GDP, and it is expected that, thanks to a recent approved tax reform to increase tax revenues, public spending growth will reach around 5 percent in real terms in 2013, with a significant boost in education spending.

The authorities are aware of the significant risks stemming from the global environment, and thus appropriately value the importance of sound fiscal policy design and implementation. The current policy framework in place in Chile tasks monetary policy with the first line of defense in the case of a significant deterioration of the outlook. However, the public sector remains a net creditor, and thus fiscal policy is ready to act should the risks of a marked downturn in output and employment materialize.

The authorities recognize the challenges the current external conditions could pose for Chile's macrofinancial stability. They consider that the current policy framework, based on a set of rules for the conduct of monetary and fiscal policy, along with a flexible exchange rate and strong financial supervision and regulation, provide an appropriate set of tools to successfully deal with emerging risks.

PARAGUAY

Paraguay's Gross Domestic Product (GDP) declined by 2.3 percent in the second quarter of 2012 compared with the same period last year, driven by a strong contraction in the agricultural sector. Adverse weather conditions affected agricultural output, closing a bad 2011/2012 campaign which, according to the latest estimates from the Ministry of Agriculture and Livestock, resulted in lower levels of production of the main activities. Despite the adverse impact of the supply shock, the non-agricultural GDP expanded at a rate of 2.6 percent in the same period, on the back of important fiscal impulse. In the second half of this year, eased monetary conditions and continued confidence will smooth the negative growth trend of the first semester. Still, real GDP is expected to contract by 1.5 percent by end-2012.

At the end of 2011, due to changes in conditions in the domestic market, the Central Bank of Paraguay (CBP) changed the profile of its monetary policy, going from a restrictive regime toward a more neutral stance. In this regard, the CBP reduced the monetary policy rate by 300 basis points, from end-2011 to August 2012. Since then, the policy rate has remained at 5.5 percent. After a period of acceleration in 2011, annual inflation, as measured by the Consumer Price Index, decreased to 2.8 percent by September 2012, close to the lower limit of the target range (2.5 - 7.5 percent). The inflation forecast for end-2012 is projected at the center of the target range.

Imports of goods and services presented a contraction by end-June 2012, explained by the strong decrease in imports of capital and consumer goods. Exports also shrunk compared to the same period in 2011, mainly as a result of lower external soybean sales due to the drought that had affected its production and lower beef exports as a consequence of a temporary closure of some beef markets. Currently the level of Net International Reserves is about 20 percent of GDP, slightly lower than the observed average in the last 12 months, providing enough buffers to deal with possible occurrence of external and internal shocks. The Real Effective Exchange Rate has appreciated 10 percent in 2012 compared to its long-term equilibrium level.

Although annual credit growth in the financial sector has been decreasing since the beginning of 2011, it continues in a dynamic trend (23.2 percent) supported by wide money market liquidity. Other indicators of the financial system remain sound and robust. Banks have relatively strong capital and buffers, and low non-performing loans, despite this year's contraction of the agriculture and expected spillovers on the financial sector, which did not materialize.

The initial forecast for 2013 indicates a strong rebound, at least by 8.5 percent, based on the recovery of agricultural production, the reopening of some markets to meat exports, and increased public and private investment. The recent approval by Congress of a special development fund with the additional resources from the bi-national hydroelectric plant Itaipu will contribute to support upgrading basic infrastructure, improve social indicators and create additional buffers.

PERU

Peru's economic performance in 2012 has continued to be strong, although affected somewhat by a deteriorated global environment (debt crisis in Europe, slow recovery in the U.S. and protracted deceleration in China). Growth in the first half of the year was 6.1 percent, above initial expectations, mainly due to the momentum of domestic demand. Notably, private investment increased at a solid two-digit pace, reflecting continuing confidence in the country's fundamentals. Consumer optimism has also been preserved. In this light, the growth forecast for 2012 has been revised upwards to 6 percent. The latter considers an expectation for lower terms of trade and sluggish foreign demand.

In this context, while a current account deficit of 3.9 percent of GDP is expected in 2012, in the medium term the launching of new large mining projects will contribute to reducing it. On the fiscal front, the public sector's performance points to a 1.5 percent surplus in 2012. The government remains committed to enhancing the quality and coverage of expenditure, especially through improved social programs. Despite a prudent monetary stance, 12-month inflation remains around 3.5 percent, above the central bank's 2%±1% target range, due to inflationary pressures created by an increase in international food prices and supply shocks associated with weather problems. However, inflation is expected to converge towards the target as such pressures recede.

In August, Moody's Investors Service upgraded the Peru's foreign- and local-currency long-term bond ratings. The upgrade reflects Peru's continuing economic growth, sound fiscal performance, sustained improvement of government debt management, and lower exposure to foreign currency denominated debt. The central bank stands ready to use its considerable reserve buffer in case of a sudden capital reversal.

URUGUAY

Although **Uruguay's** GDP has been recorded below the average increase of about 6 percent during this decade, it is now projected to grow at a considerable rate close to 4 percent this year. Of course, Uruguay's small and open economy is unavoidably exposed to the global economic circumstances. However, the policies and structural changes implemented in the country in recent years allow Uruguay to significantly mitigate the negative effects of the international crisis, thus facing it from a position of strength.

Among the different facts and developments, whose combination may explain the country's recent trajectory, we could cite: Uruguay's tradition of honoring commitments; bold efforts to strengthen institutions (for instance, at the Central Bank, revenue administrations, etc.); a critical transformation of the tax system; prudent fiscal and monetary policies; a flexible exchange rate system; dramatic changes in the financial system, which include those related to the governance and incentives of public banks, as well as regulation and supervision of the system; social policies aimed at improving income distribution and equalizing opportunities.

The results of the above-referred policies, efforts, and transformations are unambiguous: as noted, Uruguay has been exhibiting robust GDP increases, with many more sources of growth than in the past; a substantial rise in private investment (particularly, foreign direct investment); a significant diversification of exports in terms of markets and products; unemployment has been persistently below 7 percent over the past two years (and currently well below that figure); rates of informality are among the lowest in the region; inflation is fully under control (admittedly, pressures have been considerable due to the increasing trend of commodity prices and a vigorous domestic demand which have pushed inflation rates to be above the target range. Following its path of prudent policies, a few days ago the Central Bank decided on a new interest rate hike); a steep declining trend of public debt-to-GDP ratios along with a substantial improvement of the debt profile (less dollarized, longer maturity, and much more linked to a fixed interest rate); international reserves at comfortable levels; financial indicators (capital adequacy, liquidity, non-performing loans, etc.) mirroring the healthy state of the system in line with the above-referred transformations; more contingent credit lines from regional and multilateral institutions; and, an incessant declining trend of poverty rates (for instance, 9.5 percent of households are below the poverty line compared to about 26 percent in 2006). More than complacency, these satisfactory results further motivate to continue efforts and transformations which Uruguay has been transiting during the last years.

Finally, as a loyal and credible member of the international community, Uruguay continues to be strongly committed to strengthening regional and multilateral cooperation. While hoping that policies in developed economies can foster growth, as well as economic, financial and social stability, the authorities would like, once again, to reiterate a warning about the consequences that these policies may have on developing and low-income countries in the short and medium term. Meanwhile, countries around the world should resist temptations and pressures toward protectionist measures; history presents irrefutable evidence on the damaging consequences that these experiences have brought about worldwide.