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IMFC Statement by Rodrigo Vergara
President, Central Bank of Chile

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

Statement by Governor Rodrigo Vergara, President of the Central Bank of Chile
On behalf of the Southern Cone Constituency
(Argentina, Bolivia, Chile, Paraguay, Perú and Uruguay)

Outlook and Current Macroeconomic Issues

1. The global economy continues to perform at a moderate rate, with growth relatively steady overall. The recovery in the United States has strengthened, such that the world's largest economy has returned to being one of the main engines of global growth. However, sizeable output gaps persist among many advanced economies, and monetary and fiscal policies must work to return output to potential, reduce unemployment and re-anchor inflation expectations. In that vein, we welcome the expansionary monetary policy taken by the European Central Bank

2. A relevant feature of the global economy is the asynchronous monetary policies that are being deployed in large advanced economies, with implications for exchange rates and external financing conditions. We perceive these monetary policies as being adequately calibrated according to domestic considerations, and thus see nothing inherently worrying about their deployment. To the extent that exchange rates are left to vary in order to avoid the accumulation of external imbalances, their movement is a welcome byproduct of appropriate policies responding to an asymmetric recovery. While changing external conditions can create risks and require adequate adjustment on the part of emerging markets, tighter financing conditions will be accompanied by strengthening demand from the United States. The main risks we see on this adjustment path are related to the speed and smoothness of exit from unconventional monetary policies, and we welcome the Fund's analysis of certain market features that could trigger or amplify these risks.

3. Risks remain tilted to the downside, and are dominated by adverse scenarios along the path of monetary normalization in the United States. Financial vulnerabilities that have built up in response to the low interest-rate environment could be revealed as interest rates rise and the dollar strengthens. Indeed, similar scenarios have caused sudden crises in emerging economies in the 1980s and 1990s. A number of policies can mitigate the risk of abrupt adjustments: a macroeconomic framework that includes sound fiscal and monetary policies and a flexible exchange rate; the use of macro-prudential policies; the implementation of regulations in line with Basel III; and resolution and bankruptcy frameworks that ensure an efficient pricing of risk. Sustaining a firm commitment to exchange rate flexibility also sends a strong signal that private actors must bear the cost of hedging their foreign currency exposures.

4. In this respect, we welcome the *Global Policy Agenda*'s positive evaluation of monetary and fiscal policy implementation in emerging markets. In our view, this speaks of a growing consensus among policymakers on the importance of establishing strong macroeconomic policy frameworks that anchor expectations while allowing for external adjustment to avoid imbalances. While particular structural reforms are indeed needed in certain cases to address bottlenecks and boost productivity, we encourage the Fund to use a granular approach and to focus on those reforms that are most critical to each member's macroeconomic circumstances. In addressing the

broader membership, we believe the Fund should maintain its focused message on the need to strengthen macroeconomic policy frameworks.

5. These meetings mark the fourth consecutive major reduction to the Fund's growth outlook for Latin America. This slowdown has primarily reflected a change in external conditions, as the commodity super-cycle that had boosted export prices and supported growth in the region following the Global Financial Crisis came to an end in 2013. While policy space should be used to support demand where possible, a longer-term approach grounded in strong policy frameworks is needed. As our countries now face less favorable external conditions, we must set the stage for inclusive growth driven by increased productivity rather than by factor accumulation or terms of trade windfalls.

6. However, we question the view that the Latin American slowdown is mostly structural in nature, which suggests that a very sudden drop in productivity growth has taken place recently. Rather, we suspect that potential growth has been lower than previously thought all along, but also somewhat higher than current estimates. From 2006 to 2012, during a period of exceptionally favorable external conditions, the Fund made repeated upward revisions to estimates of potential growth in emerging markets and in Latin America. When external conditions began to normalize in 2013, potential growth in emerging markets was marked down substantially. As recently as April 2013, the Fund estimated long-term growth in Latin America and the Caribbean at 3.9 percent. Just two years later, it is thought to be only 3 percent. In the particularly extreme case of Brazil, the corresponding revision was from a dynamic 4.2 to a lackluster 2.5 percent. These are very substantial revisions to make over such a short period, and we would expect them to be accompanied by strong evidence of structural change.

7. While the analytical chapter entitled "Where are we headed? Perspectives on Potential Output" tackles relevant questions, its conclusions are not fully satisfying. Since the entire downward revision in emerging economies is due to falling TFP growth, we are left to interpret the trajectory of an empirical residual. We agree with the need to remove infrastructure bottlenecks, improve business conditions and make product markets more agile in the region, and that hastening education reform would unlock valuable human capital. These are laudable objectives, but they have been in place for decades and cannot explain the recent slowdown. We must all work to ensure that our estimates of potential growth—and thus our policy assessments—do not become overly pro-cyclical.

Reform of the International Monetary System

8. The International Monetary Fund should continue to be at the center of the Global Financial Safety Net. To ensure that it is in a condition to act as required in the face of future crises, progress is urgently needed on quota and governance reform. In the face of substantial delays in implementing the 2010 reform package, we see value in the Fund's proposal to take stock of potential reforms to other aspects of the International Monetary System, including ways to better support low income countries and fragile states. Since the list of possible reforms is long, the exercise should employ an evidence-based approach to distinguish those aspects of the current system that have been functioning reasonably well from those that most require

improvements. We look forward to the Fund continuing its work on sovereign debt restructuring, and its upcoming review of Special Drawing Rights, which will improve the functioning of the IMS by ensuring that the basket incorporates the changing landscape of currencies being used in commerce and finance.

9. As external financing conditions continue to change following a period of exceptionally loose monetary policy, the Fund must stand ready to support the membership. Preventative instruments made available to top-performing countries, such as the FCL, should continue to play an important role in the Fund's toolkit.

Quota and Governance Reform

10. The implementation of the 2010 package remains our highest priority, and we repeat our call for its swift ratification by those members that have not already done so. This package represents a significant step in an ongoing process of reforms that will bring representation back in line with the shifting global economy.

11. Making meaningful progress in each stage of the governance reform project requires the support of the full membership, including its largest shareholders. While de-linking would be our preferred option—both because it is simpler for us to implement and because it is more closely aligned with the multiple objectives of the 2010 package—we recognize that it will not gain the required support among the membership.

12. We are open to building a consensus around the proposal for interim steps that garners the broadest support. Having noted the strong support for the proposal for ad hoc quota adjustments, we are ready to contribute to discussions on the details of such an agreement. While we are eager to see progress take place, we would emphasize that any interim agreement must be sufficiently meaningful so as to justify the costs of its implementation.

13. We restate our commitment to ensuring that the Fund remains adequately financed until the agreed increase in quotas can be implemented. Going forward we are open to maintaining the Central Bank of Chile's support to the Fund through participation in the New Arrangements to Borrow, so long as re-activation decisions remain subject to the existing procedure.

Financing Sustainable Development

14. We welcome the upcoming high-level U.N. conferences, and encourage the Fund to play a collaborative role in ensuring that progress is achieved at each of them. As was the case during the formulation of the *Millennium Development Goals*, the IMF should play a role in contributing to the establishment of the *Sustainable Development Goals*. A deep pool of cross-country experience and analytical skills makes the Fund well placed to assist the global community by providing assessments and critical analysis of competing objectives and tools, which should help focus discussions.

15. We underscore that the Fund ought to focus its contribution on those aspects that are directly related to its core mandate. We underscore that the concerted international effort that will be dedicated to these global causes is an excellent opportunity for the Fund to collaborate actively with other IFIs, which may be better placed to offer technical expertise on those agenda items that are further from the Fund's core mandate. We see particular scope for constructive engagement in the agendas to boost domestic revenue mobilization, to identify illicit financial flows that contribute to corruption and tax avoidance, and to bolster capacity development through technical assistance. In this regard, we note that an ongoing assessment of the effectiveness of the Fund's technical assistance could help to ensure that scarce institutional and donor resources are being put to their best use.

Argentina

16. Since 2003, Argentina has implemented a series of policies aimed at expanding social, economic and cultural rights of the most neglected sectors of society. With that objective in mind Argentina built up an economic model of growth with social inclusion, where the redistribution of wealth is seen as a precondition for growth and not vice versa, as dictated by economic precepts of the mainstream. Since 2009, the world has suffered one of the most important crises in economic history, which has severely hit the advanced countries (mainly Europe) and to a lesser extent China and emerging countries (Brazil, the principal trading partner of Argentina). Since 2012, Brazil has been facing a decline in activity, largely explained by a contraction in manufacturing and, in the last year, by a contraction of foreign trade, given the fall in commodity prices.

17. Given the difficulties that the world is facing (the slowdown in Chinese growth, decline in Brazilian and European economic activity, falling commodity prices and the threat of the rise in interest rates by the US Federal Reserve), in 2014 the Argentine government implemented a series of anti-cyclical policies in order to maintain economic growth and redistribution of income. These policies are based in social spending, especially on transfers to the poorest sectors of the economy in order to maintain consumption and boost aggregate demand. It also launched a package of measures in order to maintain the purchasing power of workers (Precios Cuidados, Ahora 12, among others) and to stimulate industrial production through demand.

18. Argentina continues to face the consequences of judicial decisions by Courts in New York which could jeopardize the entire process of restructuring public debt, not only for Argentina but there is also a present and alarming precedent for the international community. Despite the rulings, Argentina has always maintained its policy of paying creditors in a fair, legal and equal manner. This policy includes making continued payments, continuing to claim through the corresponding legal channels, and carrying out a policy of international awareness about the dangers of the actions of vulture funds for future restructurings. As of late, the District Court of New York adopted new overreaching measures which do not fall within its jurisdiction, thus seriously affecting the Argentine national sovereignty.

19. In the October 2014 WEO, the IMF projected for Argentina an overly pessimistic fall in GDP growth of -1.7 percent for 2014 and -1.5 percent for 2015.[1] These projections did not take into account the available GDP figures for the 3Q 2014 and the projected figure could only be achieved with a larger fall in 4Q of more than -5 percent in GDP, which did not happen, and the economy ended up growing slightly last year by 0.5 percent. In the April 2015 WEO, the projection for 2015 has been increased by 1.2 percentage points. The end of 2014 and beginning of 2015 were very calm with record figures reached in domestic tourism which showed the achieved improvement in income. Foreign tourism in Argentina also increased by 13.1 percent in 2014 compared to 2013.

20. For several years, the Argentinean economy was characterized by macroeconomic instability and stop-go cycles. Even so, after the worst crisis in its history from 1998 to 2002, the country, based on the active role of the public sector, made a complete reversal with a large structural transformation. Between 2003 and 2014, Argentina's GDP had an average annual economic growth rate above 5.75 percent, the highest average growth rate in its economic history over such a long period, while per capita GDP increased by 4.6 percent during the same period. Most importantly, this was achieved with socially inclusive growth, and a clear reduction in poverty, unemployment, and inequality, making Argentina's PPP GDP per capita one of the highest in Latin America and its Gini coefficient one of the lowest.

21. The resilience of Argentina's economy is due to active macroeconomic policies, despite the economic uncertainties in Advanced Economies (AEs), and the strong pressure of the vulture funds and local supporters who attempted to hold back the economy. This macroeconomic policy is further buttressed by a strong domestic consumption based on the support given to employment policies, real wages and pension increases, enhancing job creation while promoting public and private investments, particularly of medium and small and micro enterprises; low indebtedness levels of both the public and private sector and a solid balance of payments result, in the context of a managed floating exchange rate regime; and a robust financial sector supported by a sound macroprudential framework. The Ministry of Economy and Public Finance has focused on enhancing and guaranteeing income distribution to increase domestic demand and reorient private investments towards the production of goods needed by the majority of the population. In this regard, private consumption and investments have continuously increased since 2003 and within investment, one of the most dynamic sectors was Research and Development (R&D), which increased four times in the last 10 years. R&D is not only important to AEs as the MD's Global Policy Agenda proposes; it is much more important for EMDCs including LICs. As a result of these investments in R&D, among others, in 2014 Argentina launched into orbit the first geostationary satellite built in Latin America.

22. Today we are facing a slowdown in growth, mainly due to the contraction in activity in our major trading partners. Growth prospects for Brazil, our main trade partner and a strategic ally, as presented in the April 15 WEO, show a GDP contraction of -1 percent. However, the

[1] Page 83, GDP projections for Argentina and on page 84, *"Argentina is projected to remain in recession in 2014–15".*

Argentine government budget for 2015 estimates an increase of 2.8 percent in growth, driven by consumption and investments, and a primary balance surplus of more than 2 percentage points of GDP (in real terms), including an increase in social expenditure of almost 10 percent, also in real terms.

23. WEO forecasts regarding Argentina, in one given year for the following year's real GDP growth, were off by an average of 5.0 percentage points between 2000 and 2013. If the average of the September-October WEO forecasts for the same year were taken for the period 1998-2013 the forecasts were off by an average of 1.8 percent points. As shown above, the forecast for 2014 in October of 2014 were off by 2.2 percentage points, which is rather high considering that that the end of the year was just a few months away. Biases in the WEO forecasts are rather appalling. Whereas optimistic forecasts were related to the period of Argentina´s programs with the Fund, pessimistic projections are seen when Argentina follows heterodox (and successful) economic policies. These forecasts are a concern. In a constructive way, we tend to see this as further reason for the Independent Evaluation Office (IEO) recommendations for improving the Fund's forecasting methods.[2] When forecasts for a particular economy are persistently out of line, the underlying model or accepted wisdom about that economy should be revised in order to add value to the forecast. Forecasts should be driven by economic projections and not political reasons. This is what we ask to be done in this case.

24. In the April 2015 REO, the IMF insists on Argentina´s supposed need to implement a fiscal adjustment, after a long growth period, which initially made it possible to significantly increase social expenditures and, second, it was needed to address the international crisis of 2008-2009. This is the same recommendation that the IMF gave to the European periphery after the active fiscal policy they initially implemented to curtail the crisis. The IMF proposed that countries with a high fiscal deficit and debt-to-GDP ratio should undertake fiscal consolidation, based on the assumption of high multipliers. However, in 2012 the WEO acknowledged that it had underestimated fiscal multipliers for the European periphery, and that consolidation had a much stronger impact on GDP, which lengthened the duration of the crisis. Furthermore, in 2014 the IEO argued that fiscal consolidations were more harmful to growth than was first assumed by the IMF and in these countries the debt-to-GDP ratio increased instead of decreasing. Thus, we believe that the IMF is recommending exactly the same policies advised to the European periphery in the years immediately after the crisis, and with the same arguments used at that time. As a result of these considerations, we believe that it is extremely dangerous to advise fiscal adjustment in an unfavorable international context and in a difficult conjuncture (low growth prospects), because the only consequence will be the deterioration of the fiscal balance and, thus, a lower sustainability of the foreign debt. Besides, the REO states that some countries in Latin America do not require an adjustment, but that group consists of only three nations (Paraguay, Nicaragua, and Panama).

25. To promote and sustain economic and social growth pursuing equality is essential. During the last decade, Argentina has strongly believed that equality is an important ingredient in promoting and sustaining economic and social growth. Since 2003, the creation of formal and quality employment, social inclusion and better income distribution are the key components of Argentina's growth model. During this period, the number of workers with a formal job, paying

[2] See: IEO, 2014. IMF forecasts: process, quality, and country perspectives. – Washington, D.C.: International Monetary Fund.

social security contributions in the private sector increased by 78 percent and the minimum wage grew to be among the highest in Latin America. The participation of wages in terms of total income, which was on average 40.2 percent between 1993 and 2001, increased to 51.4 percent in 2013. The end result was a historical increase in living standards, which is reflected in the doubling of the middle class between 2003 and 2009, as found by a 2014 report by the World Bank.[3]

26. Economic and social growth goals are achieved through measures oriented to boosting economic activity and, at the same time, enhancing Argentina's social safety net. These measures are based on several programs, among others: the Universal Child Allowance (UChA); the Universal Pregnancy Allowance Program (UPAP) and Sumar (which complement both programs UChA and UPAP during pre and post birth and has now been extended to the whole population without health insurance until the age of 64); Ahora 12, (programs which finance goods in 12 monthly installments in more than 100,000 associated retail stores); Renovar (this program finances the change of domestic appliances for those with more efficient use of energy); Hogar (which subsidizes poor households with 2 CNG cylinders per month);the National Program "Precios Cuidados" (to provide predictability, stability and transparency to the price-setting mechanisms of consumer goods through price agreements, 6 out of 10 consumers look at these prices); interest rate regulations to reduce financing costs; "Argentina Trabaja", a program to encourage the small agriculture producer (PEPPG); "Ellas Hacen" (with the aim of empowering women); "Manos a la Obra"; the Food Security Plan (Seguridad Alimentaria); the program Actions for Social Promotion and Protection; the Plan for Pension Inclusion, Plan Federal de Viviendas; and "PROCREAR", an innovative program to finance house construction and remodeling.

27. To deal with the hard core of poverty, the "Plan Ahí" has outreached small towns and poor neighborhoods. In addition, as part of the efforts to reduce income inequality and promote social inclusion, the Government recently launched the program "Prog.r.es.ar" (Programa de Respaldo a Estudiantes Argentinos - Program to Support Argentinean Students), aimed at including young people in the social protection system. The program encourages beneficiaries (young people who do not work or work informally or who have a salary lower than the minimum wage) to complete their studies and/or their professional training, thus increasing their chances of productively entering the labor force.

28. Since 2003 to 4Q 2014, non-registered employment was reduced from 49.2 to 34.3 percent and in order to continue this sharp reduction and create quality jobs, the law for Promotion of the Registered Labor and to Prevent Occupational Fraud was approved in June 2014. Several policies were oriented to preserve the level of employment and support the rhythm of employment creation, such as the Program of Productive Recovery (REPRO); the reduction of employer contributions for new workers; and in August 2014 the Program Pro-Employment (Proemplear) was launched to increase youth employment and several programs aimed to support micro, small and medium enterprises and cooperatives. These programs placed Argentina among the G20 countries that have most successfully reduced youth unemployment. In order to boost exports in the medium term, particularly of industrial manufacturers, the Program to Increase and Diversify Exports (PADEX) was launched.

[3] 2014. World Bank. *The Long-Awaited Rise of the Middle Class in Latin America Is Finally Happening.* Washington, DC.

29. The minimum wage was increased by 31 percent from September 2014 to January 2015, making it the highest in Latin America. Both the defense of employment and the policies to increase the income of the vulnerable population have improved income distribution. The Gini Coefficient in 4Q 2014 was 0.419 which is -15.2 percent below that of 2004. The ratio of per capita income of the richest 10 percent of the population to that of the poorest 10 percent was reduced from 12.0 times in 2004 to 7.6 times in the last quarter of 2014. Moreover, the social security system has increased its coverage from 3,158,000 beneficiaries in 2003, which represented 66 percent of the elderly, to almost 6 million beneficiaries, reaching 94.3 percent of coverage. Expenditure on education has risen to more than 6 percent of GDP with certain programs, such as Conectar Igualdad, which provided notebooks to 100 percent of high school students.

30. Finally, the recent implementation of a program for reallocation of subsidies, based on income and wealth criteria, as well as on energy efficiency criteria, will allow the government to assign social spending more equally, guaranteeing the protection of the most vulnerable sectors of its population.

31. A vigorous and profitable financial sector is tackling the challenge of increasing credit. During the 2001-2002 crisis in Argentina, the financial system almost collapsed. After more than 12 years, as shown in the FSAP, it is now solvent, liquid, well-regulated, profitable and capitalized. At the same time, the Central Bank of Argentina has a new charter, approved by law in 2012, which broadened its objectives and mandates, which currently include not only monetary stability, but also financial stability, employment, and economic development with social inclusion.

32. Furthermore, the government has implemented a range of policies to support the development of long-term financing for productive investments, particularly in infrastructure. The Fund for the Argentine Economic Development (FONDEAR) was launched to broaden credit supply and make it more flexible. The program is oriented to projects in strategic sectors for the economic and social development to initiate activities with high technological content and to increase value-added generation in the regional economies. The Sustainability Guarantee Fund (FGS) has also contributed to the sustainable development of the real economy through financing long-term investment projects and recent regulatory initiatives aimed at increasing institutional private funding for those types of projects. Such is the case of subsection "K", which establishes that insurance companies must redirect a percentage of their investments to instruments financing productive projects, which raised insurers' investments in these types of projects up to AR$ 21.223 millions, reaching about 0.5 percent of GDP in 2014.

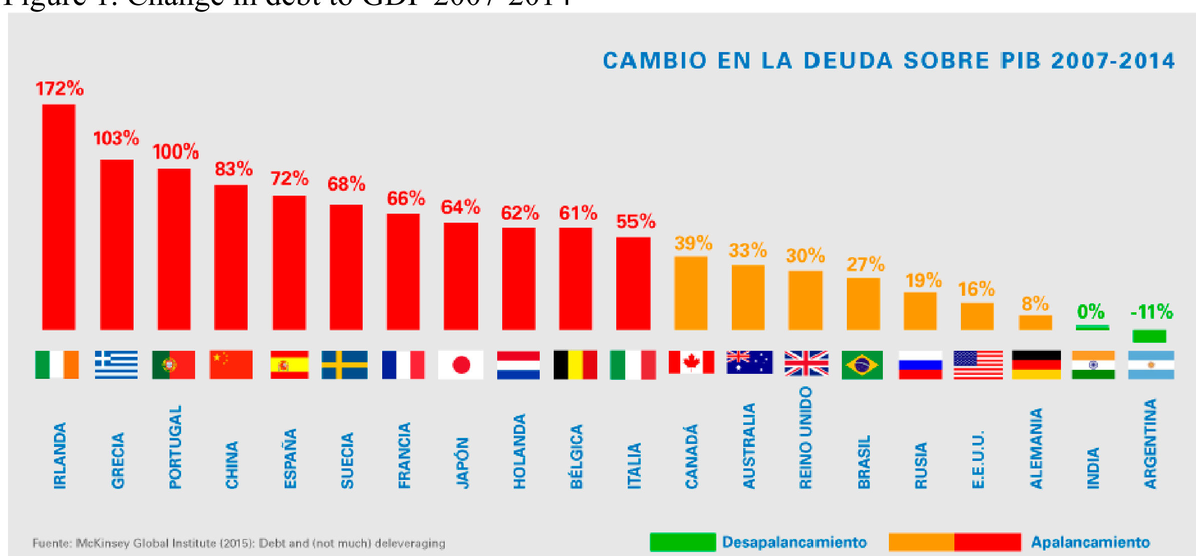
33. The government understands that public investment, particularly in infrastructure, is a key tool for development, regional integration, employment creation and improving the living standards of the population. Public investment is currently focused on roads and highways, railways, logistics and transportation, shale oil and natural gas, electricity, communications, education, health and housing. This enhanced role of the state has strongly encouraged private investment. In 2014 investments reached 19.7 percent of GDP.

A Sustainable Public Debt Path

34. Since 2003, after the country's worst financial crisis that led to default, Argentina implemented a set of measures aimed at progressively normalizing and reducing 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 92.4 percent of the eligible debt. There was an important debt reduction process carried out by the government in recent years. In this regard, the gross public debt (national sector) in terms of GDP dropped from 138.7 percent in 2003 to 42.8 percent in June 2014. Moreover, the external public debt fell from 79.2 percent in 2003 to 15.2 percent in June 2014.

35. The reduced external public indebtedness in terms of GDP allowed the stock of international reserves to represent around 41.6 percent of the public external debt in June 2014, whereas in 1992-2000, the period of the so called "Argentine miracle" and the currency board, this figure was 33.4 percent. At the same time, debt-services (principal plus interests) have significantly reduced since 2005. In terms of total national public resources, total services dropped from 52.9 percent in 2005 to 32.1 percent in June 2014. GDP services decreased from 9.7 percent in 2005 to 8.15 percent in June 2014.

Figure 1. Change in debt to GDP 2007-2014



36. Despite these efforts, Argentina is still facing an extraordinary challenge posed by the predatory speculative funds known as "vulture funds", which have not accepted and continue to refuse the proposed debt restructuring and do not have any qualms about harming the rights of those majority creditors who accepted Argentina's exchange proposals in 2005 and 2010. This disruptive strategy from the vulture funds, which consists mainly of blocking the rightful flow of funds to a bona fide 92.4 percent of creditors who accepted the debt restructuring, is made possible because of the lack of an adequate international legal framework for sovereign debt restructuring. Auspiciously, this new framework has now been proposed to be established by the United Nation General Assembly (UNGA) in September 2014 and a new UNGA Resolution has

created an ad-hoc committee to work on a multilateral legal framework for sovereign debt restructuring to be presented to the UNGA in June.

37. Several countries, international institutions (including the IMF) and prestigious experts are convinced of the disastrous potential consequences of upholding the vultures' views in court. They are aware that vulture actions may affect the financial world, particularly the sovereign and State Owned Enterprises' (SOEs) debt market, and consequently have warned about the need to limit the damage that these strategies can generate. In this case, Argentina has received the support of other countries, such as Brazil, Mexico, and France who sent "amicus curiae" to the judiciary in USA, as did several private banks, investors and academics with little success. At the same time, the IMF encourages countries to include new clauses related to CACs and pari passu in bond contracts.

38. Argentina has demonstrated its commitment to work together on the bilateral agenda with the IMF. Our relations with the Fund have involved technical support to develop the new CPINu on a national basis (launched in February 2014) and the improvement of GDP figures. Also, the ROSC on the three key standards of financial regulation has been completed; the country is sharing all relevant information and statistics through the SDDS, and the FSAP was completed and already discussed by the IMF Board. The Argentine Congress also approved the 2010 Quota and Governance Reform of the IMF. Argentina has also ended disputes with several corporations at the International Centre for Settlement of Investment Disputes (ICSID) of the World Bank and an agreement was achieved with the Paris Club and the first payments of the debt were already made. An agreement to compensate the company Repsol for the public sector's increased share in the company was approved by Congress. All these factors, together with the significant reduction in debt levels already achieved, will be particularly important in energy projects, such as Vaca Muerta, one of the largest world reserves of shale oil and natural gas.

Policy Challenges and Future Accomplishments

39. On the structural front, Argentina is facing important challenges. Many of them are, to a large extent, a result of fast growth itself (as in the case of energy or infrastructure), but also as a consequence of the natural increase in the aspirations of the population and the need to improve competitiveness, to increase the complexity and regional integration of production and to stimulate the industrialization process and the diversification of exports. Reform priorities will remain focused on the areas of inclusive growth through broadened and deepened consumption, productive and infrastructure investments, employment and the social safety net.

40. Argentina has learned the hard way throughout its economic and social history, that the state must play an active role to achieve a steady, sustainable and inclusive path of economic growth and that the development process should be focused on people, their empowerment and improvement of their living conditions. It is the state that, as a last resort provider, cares for the vulnerable people, the workers, the pensioners, the poor, consumers, women, youth and children. Growth has been sustained and social indicators have improved considerably. Due to the structural transformation of the economy since 2003 (very different to those measures proposed as "structural reforms" by the IMF), Argentina is now in a very good position to address the

development challenges ahead. The main objectives for the future will be strengthening, broadening and continuing with these accomplishments.

Bolivia

41. Bolivia's economy once again showed a satisfactory performance in 2014 despite the growth rate being lower than in 2013. In fact, the GDP growth rate was 5.5 percent, which still ranks among the highest in South America. This increase was driven by construction that expanded 8.6 percent, crude oil and gas 7.3 percent and in financial services 6.5 percent. Public investment amounted to more than $ 4.5 billion in 2014, which registered a significant increase compared to 2013 at $ 3.8 billion. Public investment is aiming to develop the productive sector, strengthen the country's infrastructure and support education and health with greater resources. As has been the tendency in recent years, growth in Bolivia is based on the continuous dynamism of domestic demand which is currently the engine of the economy. Preliminary data shows that gross fixed capital formation register an expansion of 14.02 percent while consumption expanded 5.6 percent.

42. Inflation was kept under control reaching 5.2 percent at the end of 2014—in line with expectations—and unemployment decreased to 6.3 percent. Likewise, Bolivia's balance of payments broadly reached positive results; since the current account continued to be positive (0.7 percent of GDP) and the level of accumulated international reserves is still comfortable for Bolivia representing 44 percent of GDP. In 2014, the sustainability of external public debt continued to be the main objective of public debt management. The debt-to-GDP ratio registered 18.8 percent compared to 20.3 percent in 2013, below common international standards.

43. As for public finances, the fiscal stance in 2014 ended up with a manageable deficit of 3.2 percent of GDP, which is not mainly due to the fall in prices of raw materials that emerged in the third quarter of 2014, but rather the response to counter-cyclical macroeconomic policies that strongly invigorate investment. A similar fiscal deficit is expected for 2015 as a consequence of greater public investment. An increase in hydrocarbon revenue is also envisaged. The expansion of the government's economic activities responds to the key role of the State in the economy which has shown to be very effective, not only in income redistribution, but also in the sustainability of macroeconomic stability. The Bolivian government has projected strong investment to industrialize the strategic sectors, which will reverse fiscal deficits in the medium term.

44. The Bolivian authorities highlight the need to attain greater equity, transparency, and accountability underpinned by cautious macroeconomic policies. They are assigning a greater role to the State, not only in mining and hydrocarbons activities but also in industrialization projects across all feasible sectors in order to increase fiscal revenue to improve education, health, and social programs, as well as strengthen infrastructure for competitiveness enhancing. The authorities are aware that private investment is important for growth and job creation, and thus are engaged in collaborative efforts to expand the output base. In this vein, the Bolivian government attaches great importance to the diversification of the economy to gradually reduce

future dependence on the hydrocarbon and mining sectors and, consequently, lessen the economy's vulnerability to external shocks.

45. In 2015 Bolivia will continue to follow its model of state-led economic development. The government strategy aims to reach a sustained growth with a more equal income distribution and further reduce the poverty rate, relying on the nationalized sectors (hydrocarbons, electricity and telecommunications) and a significant expansion of public investment. As for dealing with shocks, the government has proven to be capable of adopting rapid responses to them, whether domestic or international. Monetary policy will continue to be vigilant of the monetary conditions using traditional and non-traditional tools to reign on inflation while at the same time supporting the economy through adequate liquidity management and financing for development. The authorities are confident that the growth rate for this year will be around 5 percent, as the economy would be decisively stimulated through public investment to maintain the growth momentum.

Chile

46. Following a sharp slowdown triggered by the substantial reduction in mining investment from 2013 onwards, among other factors, the Chilean economy has stabilized and growth is expected to rise from 1.9 percent in 2014 to between 2.5 and 3.5 percent in 2015. The recovery is being supported by accommodative monetary and fiscal policies aimed at stabilizing domestic demand in a context of price stability and fiscal responsibility. While the slowdown has taken a toll on investment and consumption, labor market indicators have remained resilient throughout, with unemployment rising slightly from historical lows. Policy buffers remain at healthy levels, after having been prudently built up during periods of more favorable external conditions.

47. Following a series of rate cuts in 2014, monetary policy has remained accommodative in the presence of a growing output gap and a strong depreciation of the peso. Monetary policy has facilitated economic adjustment by allowing the peso to depreciate both in nominal and real terms. The current account is expected to be close to balance during 2015. While pass-through to domestic price inflation has been in line with prior experience, exchange rate depreciation has been somewhat more persistent than expected and inflation will remain close to 4 percent —the upper bound of the Central Bank's target range— during most of this year. Notwithstanding this transitory shock, medium-term inflation expectations have remained firmly anchored at 3 percent and inflation is expected to converge to the Central Bank's target during 2016.

48. Fiscal policy remains anchored by the structural rule, and the authorities have announced their commitment to reach structural balance by 2018. Within the confines of the rule, fiscal policy has supported the domestic economy by shifting the composition of spending towards infrastructure spending, in order to boost investment and catalyze private activity while addressing long-standing bottlenecks. A major tax reform was passed last year, aimed at gradually raising approximately 3 percent of GDP in additional structural revenues by 2018 to close the current structural deficit and fund increased spending on education and other social expenditures directed at increasing social inclusion.

49. The government continues to implement an ambitious package of structural reforms aimed at reviving productivity growth and reducing income inequality. The education reform agenda includes a series of bills that will reduce the extent of individual tuition contributions, centralize the administration of public schools, and reform the training process for teachers. A labor reform is currently being discussed in Congress, and aims to level the balance of power in collective bargaining negotiations, while introducing new adaptability clauses. Finally, productivity and energy agendas are aimed at facilitating investment in energy projects, and boost the provision of public services that are needed to support diversification, jump-start productivity and make the economy more inclusive.

Paraguay

50. In the second half of 2014, Paraguay's economic growth gained momentum, which resulted in an upward revision of GDP from 4 percent to 4.4 percent, mainly based upon construction, manufacturing and services. Similar figures are envisaged for 2015, with favorable economic conditions remaining steady and estimated growth reaching 4.5 percent, also driven by the aforementioned factors but with further diversification with the development of light manufacturing industries and the increase of the value-added of agricultural exports. Domestic demand is playing a leading role in supporting growth, mainly through consumption and investment. In spite of the economic deceleration in the region, the Paraguayan economy displayed a strong performance, prevailing over a weak external demand and refraining from risking macroeconomic stability.

51. In December 2014 the Central Bank of Paraguay (BCP) reduced its inflation target from 5 percent to 4.5 percent, given the current scenario and considering that since the official implementation of the IT regime, the inflation rate remained around the target and its volatility has gradually declined.

52. At the beginning of 2015, inflation displayed a downward trajectory in an external deflationary environment. Furthermore, inflation expectations adjusted rapidly to the new central bank's target. This scenario was considered appropriate for an adjustment of the monetary policy rate, in line with the new inflation target, in order to maintain the monetary policy stance constant in real terms.

53. In 2014, the fiscal deficit amounted to 2.3 percent of GDP, primarily due to above-average execution of capital spending in the last quarter. For this year, the deficit is expected to exceed the ceiling established in the Fiscal Responsibility Law. However, this result will be explained by higher levels of capital expenditure, as numerous infrastructure projects are being foreseen to take place.

54. Tax revenues expanded at a rate of 19 percent last year, with income tax escalating at 25 percent due to higher levels of compliance and strengthened enforcement, in line with the implementation of the new income tax and the renewed legal framework involving tax reforms.

55. In order to update the financial system legal framework, in March 2015 the BCP submitted to the Congress the new proposals for the central bank and banking laws. These pieces of draft legislation seek to incorporate Basel Core Principles, with the ultimate goal being to expand the set of tools that regulatory authorities have at their disposal to implement prudential measures and thus consolidate risk-based supervision for the financial sector.

Peru

56. The Peruvian economy registered a significant slowdown, from a 5.8 percent growth rate in 2013 to 2.4 percent in 2014. Factors accounting for this slowdown include: (i) lower consumption and investment growth, given the decline in terms of trade over the past three years; (ii) a reduction in public expenditure, associated mainly with difficulties in the implementation of investment programs by regional and local governments; and (iii) temporary supply factors, such as adverse climate effects on agriculture and fisheries and lower mineral ore grades. Primary GDP experienced its most pronounced decline (-2.3 percent) since 1992.

57. The current account of the balance of payments showed a deficit of 4.1 percent of GDP in 2014, slightly lower than in 2013 (4.4 percent), explained by lower import volumes due to lower aggregate demand growth and a real depreciation of the domestic currency.

58. On the fiscal front, the economic balance of the non-financial public sector is expected to show a deficit of 0.1 percent of GDP in 2014, from a surplus of 0.9 percent in 2013, due to higher non-financial expenditure and lower current income.

59. In 2014, inflation registered 3.2 percent, mainly reflecting a rise in food prices and electricity tariffs. However, isolating the impact of high price volatility, inflation excluding food and energy recorded a rate of 2.5 percent. At the same time, inflation is forecasted to reach the 2 percent target on the 2015-2016 forecast horizon. This scenario considers that there will be no inflationary demand pressures; and that inflation expectations will remain within the target range and show a declining trend towards 2 percent.

60. The Executive Board of the Central Reserve Bank of Peru (BCRP) decided to lower the monetary policy benchmark interest rate to 3.25 percent in January. This level of the policy rate is compatible with an inflation forecast where inflation converges more rapidly to 2.0 percent in 2015, considering that lower international oil prices are starting to have an effect on domestic market conditions, thereby creating greater scope for monetary policy decisions; and that the level of economic activity is still below potential. The BCRP also continued to ease reserve requirements in soles to facilitate credit expansion.

Uruguay

61. Growing at a respectable rate of 3.5 percent, Uruguay ended 2014 recording its twelfth consecutive year of positive GDP growth. Even more important than a singular figure are the

numerous improvements at economic, social, and institutional levels that have supported and fed one of the most impressive economic periods in Uruguay's history.

62. The country's outlook continues to be positive, although not exempt of substantial risks; while South America as a whole and, in particular, Uruguay's main partners in the region would be exhibiting negative growth rates, analyst projections, along with the IMF, are forecasting the country's economic expansion for 2015 at somewhat below 3 percent. Traditionally, Uruguay has exhibited deep economic and financial linkages with its neighbors; but, that has drastically changed. Non-residents' deposits, once almost half of total deposits of the system and a major channel to absorb the region's problems, are currently less than 15 percent. Meanwhile, Uruguay is exporting an important range of goods and services to an ample number of countries around the world (about 140 countries); exports of goods to Brazil and Argentina have halved, compared with the times when regional sales occupied almost 50 percent of Uruguay's total external sales. Clear strategies of reducing financial linkages and diversifying goods and markets have constituted key pillars of the country's relative decoupling. Furthermore, looking forward, it is interesting to note that according to some market analysts, China's rebalancing aimed at expanding consumer-oriented activities may benefit Uruguay as a food exporter. It is also important to underline Uruguay's broad-based growth in which exports, consumption, and investment have kept sound balances.

63. In February, Uruguay reopened its 2050 global bonds, issuing US$ 1,200 million at a yield of about 5 percent. This is not an isolated episode, but one more on a long list of events that reflects investor confidence instilled by the authorities' policies. Admittedly, the current fiscal deficit, in the context of emerging global menaces, is a critical issue to be taken into account in the forthcoming consideration of the five-year budget and, in this regard, the authorities have constantly underscored the strict necessity of maintaining prudent policies and, in general, consistency among them. Looking at the fiscal figures from an ample perspective, it allows to discern the substantial fruits reaped by the country's efforts at different dimensions of the fiscal area over the past decade: net public debt (which, considering the current circumstances, may constitute the most appropriate indicator to assess fiscal sustainability) has declined 48 percentage points in the last 10 years to reach 21.6 percent; the maturity of the central government's debt exceed 14 years; the share of debt at a fixed rate is 95 percent; and the debt denominated in local currency, almost negligible 10 years ago, is currently at 52 percent.

64. The Uruguayan authorities have expressed their firm commitment to continue reducing inflation, bringing it to the country's target range. Positive developments are already tangible: one year ago, annual inflation was 9.7 percent; now, it is 7.5 percent. Meanwhile, Uruguay exhibits the highest level of international reserves (in terms of countries' GDP) among the LA6 (Brazil, Chile, Colombia, Mexico, Peru, and Uruguay). Even acknowledging the importance of having the IMF methodology to assess reserve adequacy, over the past years the Uruguayan authorities have constantly expressed the importance, for a small and open economy, of avoiding temporary exchange rate misalignments—which may generate more permanent economic damages—and holding a considerable amount of reserves (which, of course, has entailed higher fiscal costs than the envisaged), an approach which is clearly rewarded during these kinds of turbulent times at global and regional levels.

65. Uruguay's prudent policies and structural changes in the financial system are reflected in the sound financial indicators in terms of liquidity, capital and asset quality. Despite the prolonged period of robust growth, private sector credit relative to GDP has not surpassed 25 percent (the average for Brazil, Colombia, Chile Mexico, and Peru is 39 percent), while Uruguay's non-performing loans in 2014 were 1.6 percent, somewhat lower than the average of 2.9 percent estimated for the above-referred countries.

66. The sustainability of periods of robust growth should be supported by firm institutional pillars. In Uruguay's case, this is reflected in many indicators related to institutional matters: for instance, according to the last annual report of Latinobarómetro, on the question "are you satisfied or very satisfied on how democracy is working", Uruguay ranked first in Latin America with a score of 82, while the region's average was 39. Meanwhile, in the most recent Transparency's Corruption Perception Index, Uruguay ranked 21 out of 174 countries, occupying the highest position—together with Chile—in Latin America. The World Bank's Governance Indicators, among others, are headed in the same direction.

67. Perhaps the Uruguayan policies' main distinctive aspect is related to its solid stance that economic and social achievements should go hand in hand. The Uruguayan authorities are pleased to see the IMF's analysis on the country's inclusive growth, characterizing it as a "success story". Of course, much remains to be done in this area, but the positive results pose further stimulus to reinforce efforts. Extreme poverty declined from 1.4 percent in 2006 to 0.2 percent in 2014 and poverty follows the same unambiguous trend, from 32.5 percent in 2006 to 9.7 percent in 2014, exhibiting a huge decrease of about 2 percentage points during the past year. According to Socio-Economic Database for Latin America and the Caribbean (SEDLAC), Uruguay presents the lowest income inequality in the region, while a recent official report on poverty and inequality in Uruguay shows a new decline in inequality in 2014.

68. In sum, challenges and risks coming from the global economy and especially from the region are substantial; maintaining prudent policies and keeping efforts to further strengthen institutions and social conditions remain essential.