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Statement by José De Gregorio, President, Banco Central de Chile, Chile

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

Statement by the Honorable José De Gregorio
Governor of the Central Bank of Chile
Speaking on behalf of the Southern Cone Countries of Latin America
International Monetary and Financial Committee Meeting
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I. The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

We come to this meeting at a time where the global economy has maintained the pace of recovery, though at different speeds in emerging and advanced economies, which is resulting in tensions around the world. We agree with the view that risks to the growth forecast are tilted to the downside, in particular for advanced economies in 2011, due to the fact that their financial systems remain fragile and the deleveraging process will result in slow demand growth. We cannot discard the possibility of further bouts of financial turbulence where the Fund might be required to act.

In this context, we concur with the view that a sustained recovery rests on two rebalancing acts. An internal rebalancing in advanced economies is needed to secure a shift from public to private and external-sector-driven growth, while for major emerging market economies an external rebalancing is needed in order to shift growth from external to domestic sources. However, we must distinguish among surplus economies, and the Fund's assessment should be clear about this. It is expected that countries that are experiencing exceptionally high terms of trade run a current account surplus. This is the case of Chile and many other commodity exporters.

The reluctance of economies across the world to allow for exchange rate appreciation poses specific challenges that can derail the recovery and/or stress the financial and economic environment. This is a key factor behind tensions in foreign exchange rate markets. First, delaying or avoiding nominal exchange rate appreciation, where needed, will lead to a more stimulative global monetary policy stance, which can give rise to asset price bubbles, inflation, and distortions in the pricing of risk. Second, the eventual rigidity of real exchange rates, coupled with the risk of premature fiscal consolidation, could lead to an abundance of global savings, lack of effective global demand, lower real wages, and a depressed level of consumption worldwide. Finally, the lack of exchange rate adjustment in some major economies is placing pressure on economies with more flexible exchange rate regimes. Indeed, at the current juncture the exchange rate adjustment is mostly falling on small open economies. These are precisely the economies that can rely less on domestic demand to sustain growth.

Both advanced and emerging economies face financial stability challenges driven by their respective monetary and exchange rate trends. While in advanced economies low interest rates will likely persist for a long time, in emerging economies, capital inflows and appreciating exchange rates need to be dealt with caution so as to avoid the emergence of vulnerabilities. However, interest rate differentials are at their lowest ever, and thus concerns about their role in fueling capital inflows might be premature. Nevertheless, growth prospects differ significantly between advanced and emerging economies. As long as these fundamental forces remain in place, capital flows should be expected, and the use of

macroprudential measures could help avoid their negative consequences. Delaying exchange rate adjustments may end up fueling capital inflows more than interest rate differentials by themselves.

Coordinated policy actions in the current environment are called for. A proper assessment of global interlinkages and risks is needed so that the policy dialogue can proceed in a cooperative environment. The Fund is uniquely placed to conduct this global assessment. Thus it should strive for an even more candid and pointed assessment of the real exchange rate levels across the world, as well as the respective proper policy stances going forward for each economy.

II. IMF Reforms—Quotas, Governance, and Mandate

Before discussing the process of reforms to the IMF, we would like to address the need to resolve the pending situation of the Regular Election of Executive Directors. In our view, it is of the utmost importance to swiftly find a solution to the current standstill in order to move forward in the discussion of the other reforms. We believe that postponing the Regular Election of Executive Directors will necessarily weigh down on the credibility of the ongoing reform process of IMF governance.

In this regard, the absence of a clear resolution of this issue going forward reveals, at the very least, a significant lack of transparency in the decision process of the main shareholders or, worst case scenario, a standstill that compromises the viability of the leadership and governance of this institution. The resolution to the standstill situation we are currently in should be in line with good corporate governance principles, so that there is adequate protection of the stake of minority shareholders from the implications of decisions taken by large shareholders. The Independent Evaluation Office could report on these corporate governance principles.

The option for the resolution to the current situation under the Articles of Agreement would imply that four of the current chairs in the Board representing emerging market and developing countries (EMDCs), including this one representing the constituency of the Southern Cone Countries, would no longer exist. Such collateral damage to minority stakeholders should be avoided, as we might end in a situation that goes exactly in the opposite direction of the whole process of governance reform, and this is unacceptable.

On the size of the Fund, we concur with the view that a substantial overall increase in the size of the institution is needed to ensure that it has sufficient resources to meet members' needs. At least a doubling of the size of quotas is the minimum required amount, in our view, for the Fund to fulfill its mandate. Recent experiences show that a strong commitment of resources at an early date will be required. While we are aware of the need to strike the right balance between quota and borrowed resources from the New Arrangements to Borrow we would favor postponing such discussion to a date after the actual increase in the size of quotas has been fully implemented.

Regarding the Fourteenth General Review of Quotas, time is running out for the conclusion of this process and, therefore, we need a prompt resolution. Although we believe that the current quota formula should be the basis to work from, the formula should be promptly revised after meeting the January 2011 deadline to enhance its role as a credible rules-based criterion for future quota revisions.

We welcome the steps taken by the staff towards resolving the inherent tensions in the implementation of the proposed shift in quota shares to EMDCs of at least 5 percent. However, we are of the view that the discussions surrounding the concept of dynamism clouded the fundamental spirit of the quota reform, as a substantial part of the shift is at the expense of other EMDCs. It is a confusing and arbitrary concept. In the extreme, if applied to the whole world, the share of advanced economies would be significantly diminished. Moreover, the protection of quota shares of currently overrepresented members arose without any clear connection with IMFC's previous statements. Given this, among the options presented by the staff, we favor a quota realignment that gives rise to the largest transfer of quota from advanced to emerging economies and that minimizes the protection of over-represented advanced economies. To protect the voting share of the poorest members, we believe the relevant eligibility criterion for such members is the Poverty Reduction and Growth Trust.

On the governance reforms related to the composition and size of the IMF Board, these reforms should explicitly consider the protection of minority shareholders from large shareholders in line with good corporate governance. In this regard, the principle of voluntary constituency formation based on quotas should be preserved and enhanced. Thus, we support the proposal to shift to an all-elected Board with adequate safeguards against excessive concentration of voting power. Limits of the total voting power to elect an Executive Director should be done with enough flexibility to facilitate an adequate representation of EMDCs at the Fund's Board and some consolidation of advanced economy chairs. The possibility of having a Second Alternate Executive Director for multi-country constituencies could play an important role in facilitating the transition to a new Board composition in terms of those chairs that are expected to consolidate in this process.

On surveillance, we welcome the recent approval of the mandatory integration of financial stability assessments into bilateral surveillance for members with systemically important financial systems, as well as the need to map the interconnectedness and risks in financial markets and the need to address important gaps in financial data. We also welcome the Board's recent approval of the Fund's membership in the Financial Stability Board as a way to further enhance the joint work of both institutions.

Finally, we would like to reiterate our support for the selection of Management under a transparent and open process, and we welcome the steps taken to enhance the staff's diversity.

III. Economic Outlook for the Countries of our Constituency

Including this year, **Argentina** has had eight consecutive years of growth, a sequence which has not been witnessed since 1964. Between 2003 and 2008 average annual economic growth was about 8.4 percent. As a result of experiencing the worst global economic and financial crisis in recent history, GDP growth was close to 1 percent in 2009 and growth projections for 2010 are between 8.5 and 9.2 percent based on the annualized growth for the first semester. Industry has grown 9.3 percent while the building sector is growing at 8.5 percent. Exports increased by 11 percent in March and 20 percent in April at a time when imports in the first five months of 2010 expanded by 43 percent. While the impact of the global crisis seems to have been left behind, clear positive economic prospects lie ahead.

This is not the result of pure chance. The macroeconomic policy framework conceived since 2003 continues to aim at building a solid path for growth based on job creation and social inclusion as its fundamental pillars. Argentina now recognizes that progressive redistribution of income improves national welfare and creates a foundation for growth based on its own resources, a welcomed development after having followed the recommendations and policies that led to the 2001 social collapse.

From then on, the sound macroeconomic policy framework that has been implemented has drastically modified the macroeconomic scheme. It is now based on a socially inclusive development strategy capable of generating its own internal financing resources through continuous external and fiscal surpluses. Responsible fiscal and monetary policies, a well-managed policy of foreign reserve accumulation, coupled with an unprecedented dis-indebtedness process based on the current account surpluses and the boost of growth as a pillar of national repayment capacity, have laid solid foundations for sustainable growth. The economy has been protected in this way from the historical pattern of stop and go, a pattern which became even more acute during the era of globalization, as it depended on increased flows of volatile external financing which, once again, proved to be unsustainable. Domestic consumption and investment were stimulated and when the latest international financial crisis took place it was possible to organize a countercyclical policy that not only safeguarded domestic demand, but also sustained employment and protected the most vulnerable sectors of the population.

At the end of 2009, the gross public debt, excluding the 2005 restructuring holdouts, was 49 percent of GDP (net of intra public sector debt it was 44.1 percent) while international reserves in September 2010 surpassed US$ 50.5 billion. The dis-indebtedness process reduced the debt-to-GDP ratio to international reserves and to exports. The substantial reserve increase reinforced the government's decision on dis-indebtedness in two ways. On the one hand, the government created the Argentine Debt Reduction Fund aimed to meet public debt maturing this year and, on the other hand, it successfully completed a debt-restructuring process of the debt that had not entered in the exchange offer put forward in 2005, which increased the acceptance of the debt swap of the debt in default from 76.1 percent in 2005 to more than 91 percent at present. The success of this process will help turn

the page of a gloomy phase in recent history (the 2001 default declared by the government of that time). In the last three decades, Argentina underwent debt-restructuring operations subject to severe fiscal constraints, requiring continuous refinancing efforts, each time at a higher rate, which only masked the fact that critical fiscal sustainability problems had come to an end. Today, the country is committed to continuing to foster GDP to prove its capacity and willingness to meet its obligations. Hence, this dis-indebtedness policy will further strength Argentina's policy framework and enhance its potential growth.

In 2003, after the 2001-2002 crisis, there was a slow process of recovery of past levels of deposits and of the confidence of the private sector in the local financial system. Now the financial system is sound, solvent, liquid, well-regulated and capitalized and strongly supports the real sector of the economy. In March 2010, non-performing loans were at a historic low of 3.3 percent of total loans, profits on assets reached 2.3 percent higher than the 90's average, and operative efficiency increased in line with financial revenues. Increasing lending to the private sector is one of the primary concerns of the Argentine government, particularly because they are important to continue fostering industrial production and the growth of small and medium-sized enterprises (SMEs). To this end, the government has implemented a plan which aims to provide convenient credit lines of up to US$ 2 billion on aggregate, which is open to the whole financial system. It is focused on financing projects that increase private production capacity and exports, as well as the net creation of employment.

Investment grew significantly during the period 2003-2008. While GDP grew at an average rate of 8.4 percent, Gross Fixed Domestic Investment grew 19.3 percent on average. Both private and public investment contributed to this increase, while public investment grew by 31.2 percent, covering the social and economic infrastructure which was not attended to during the 90's, the private sector increased by 17.9 percent on average. In 2009, public investment played a central role in the stimulus package with a 46 percent increase. To support investments in the provinces, the Federal Solidarity Fund (Fondo Federal Solidario) was established through the collection of 30 percent on exports of soy complex, which was oriented to building schools, houses, drinking water processing plants, and drinking water networks.

Other programs were oriented to support production and consumption, such as the Productive Recovery Program (Programa de Recuperación Productiva (REPRO)) and the Local Development and Social Economy Plan "Manos a la Obra". The purpose of the REPRO is to help distressed enterprises by providing direct support to different industries in an effort to maintain employment levels and preserve jobs, while the "Manos a la Obra" Plan has provided credit and technical assistance to thousands of small and micro enterprises, cooperatives, and local development centers. All in all, this global financial crisis has brought to the fore something Argentina has already learnt throughout its history: the crucial role played by public intervention—the role of the State—in developing a sustained and inclusive

economic cycle. Increasing employment is the best policy for building continuous social cohesion. Accordingly, the government has launched a number of programs to boost credit for investment and consumption, combined with incentives and financing policies for SMEs, in addition to working capital in general.

In the context of this global crisis, and as part of a key component of Argentina's social safety net, the "internal debt" that the government is committed to fulfill, the Universal Child Allowance Program was launched, and other social programs, as well as the social security system, were strengthened. These actions are key steps for fostering a more inclusive society and enhancing distributional fairness as part of the policies aimed at ensuring that the results of growth spillover to the whole population. The impact of the Universal Child Allowance Program on poverty levels, health and education is unprecedented. It benefits workers in the informal sector, the unemployed, and workers in domestic service who have children younger than 18 years of age, and provides coverage for 3.5 million vulnerable children. The government has budgeted 1 percent of GDP under this program. Similarly, the social security system has also increased its coverage to 6.5 million beneficiaries and the government has consistently advocated a policy of pension mobility to ensure pensions purchasing power. Social spending on non-contributory pensions has also been increased. The Food Security Plan has improved the subsistence capacity of 1,683,651 families and expenditure on education has risen to 6 percent of GDP, in line with the Education Law. President Fernández de Kirchner recently launched a program to distribute laptops (approximately 3 million) to secondary school students, which will also have a major beneficial impact on public education. Finally, health spending has also been raised, successfully preventing the H1N1 flu this winter and dengue fever.

To summarize, it can be said that Argentina, in the last eight years, has consummated an unprecedented structural transformation. In 2010, the country celebrates its Bicentennial anniversary as a free republic. It can proudly celebrate that economic independence has been consolidated like never before in recent history. Argentina has overcome the external crisis and strengthened its policy framework built on a broad-based productive and socially inclusive development, promoting regional integration, a solid banking system, and a substantial debt reduction supported by substantial international reserves. Growth has been sustainable and social indicators have improved. The unforgettable lessons from the crisis in 2001-2002 have been learnt. If, at that time, the country had followed the advice that International Financial Institutions traditionally gave (which favored unsustainable fiscal consolidation, foreign exchange rate appreciation, relying on conditioned multilateral financing, and in flows from market financing fueled by excessively liquid international markets, rather than self insurance mechanisms, and market-oriented "structural reforms", i.e., pension fund privatization and selling national oil and strategic sector companies), the results would have been totally different and today the country could well have been in the middle of a crisis. On the contrary, Argentina is well placed to address the challenges of the post-crisis world based on the structural transformation that the economy has carried out

since 2003. The government has put the country back on track and has restored its potential for economic, human, and social development. Enhancing and continuing with these realizations will be the main objective in the future.

As of the first quarter of 2010, the dynamism of **Bolivia's** economy has continued to be supported by non-extractive activities and domestic demand, reaching a growth rate of 3.3 percent. Additionally, there has been evident recovery in extractive sectors (hydrocarbons and mining) and exports. It is worth recalling that the economy grew 3.4 percent in 2009, the highest rate in South America, which has enabled the economy to count on a stable growth path. Neighboring countries are showing higher rates but they come from a lower statistic base. The authorities are considering a growth rate of 4 percent in 2010, lower than the initially projected 4.5 percent, because there has been an extensive drought, subsequent wildfires and an unusually cold June and July which affected harvests and farm output in eastern parts of **Bolivia**. However, this growth rate is conservative since **Bolivia** is now raising 2010 public investment to US$2.1 billion from US$1.8 billion to spur growth. The 2010 weather-related shock in the agricultural sector was associated with "El Niño" but it was less severe than in 2006 and 2007 when its effect was very significant. Although weather conditions affected output, inflation—which reached 1.3 percent as of June 2010—will be in the range of 3-3.5 percent by the end of the year, after registering a level of 0.3 percent at the end of 2009.

In the first quarter of 2010, **Bolivia's** current account registered a surplus of 1.2 percent of GDP stemming from the trade balance and increased remittances. Both exports and imports rebounded and the combined balance allowed higher international reserves, which now are equivalent to 19 months of imports. Thus, once again, **Bolivia** is enjoying a balance-of-payments surplus and an outstanding international reserves position.

Fiscal accounts in 2009 showed a small surplus following a tendency initiated in 2006. As of May 2010 the fiscal position is positive, even though the authorities are engaged in expanding public investment and had initially projected a manageable deficit. **Bolivia** will continue to follow its model for state-led economic development relying on a significant expansion of public investment, while at the same time aiming to reach fiscal discipline and sustained growth, with more equal income distribution through social programs to reduce poverty. The fiscal authorities are seeking a greater efficiency in public finances administration, as well as expanding the tax base through administrative measures rather than tax increases.

Bolivia's monetary policy in 2010 has been oriented to gradually reduce the monetary impulse applied in 2008 and 2009 by increasing their open market operations, keeping in mind inflation control without hurting the aggregate demand; however, interest rates in the banking sector were not affected, which may imply better conditions for credit and growth. The exchange rate policy has kept its objective of a stable exchange rate in a context of excessive volatility among neighboring countries. Such a policy has allowed additional confidence in the financial system and preserved the de-dollarization process, reflected in a stable demand for foreign currency and dissipated expectations about sudden movements in the exchange rate. The banking system continues a trend of expanding operations both in

credits and deposits, while non-performing loans are decreasing. De-dollarization is progressing as operations in domestic currency are gradually increasing, supported by macroeconomic stability.

In 2009, the **Chilean** authorities undertook significant monetary, fiscal, and pro-credit policies in order to mitigate the impact of the global downturn as much as possible. The fiscal resources and monetary space were available thanks to a sound policy framework implemented over the preceding decade. Although output dropped by 1.5 percent in 2009 (compared to the 3.7 percent growth of 2008), recovery was well on its way at the beginning of 2010 when an earthquake measuring 8.8 on the Richter-scale and a subsequent tsunami hit the country on February 27. The Banco Central de Chile (BCC) estimated that 3 percent of the country's capital stock was destroyed and the government's share of the estimated US$30 billion cost of the reconstruction is anticipated to be US$8.4 billion (4 percent of GDP over four years). The reconstruction plan will be funded by a temporary rise in taxes, improved expenditure efficiency, and two highly demanded bonds placed in international markets at the end of last July. Since the earthquake, recovery has been stronger than expected. Output growth was 1.5 and 6.5 percent in the first and second quarters, and the latest monthly activity index grew 7.6 percent in 12 months. Output is expected to grow between 5 and 5.5 percent in 2010 and net job creation is expected to achieve record levels.

After taking the monetary policy rate to a 0.5 percent minimum after the global crisis, the monetary authorities are unwinding the monetary stimulus at a pace that depends on the evolution of internal and external macroeconomic conditions. Inflation is expected to reach 3.9 percent by the end of 2010 and converge to the 3 percent target in 2011. While the nominal exchange rate has fluctuated due to market developments, the real exchange rate broadly remains aligned with its long-term fundamentals. The Chilean authorities are committed to maintaining the flexible exchange rate regime. Nevertheless, this framework does not preclude intervention during extraordinary circumstances.

In fiscal matters, the authorities seek to return to structural balance once the fiscal stimulus package and reconstruction spending are phased in and are working to perfect the existing structural balance rule that has guided fiscal policy for almost a decade. Public expenditure will grow 9 percent in 2010 (down from 18.2 in 2009) such that the authorities are forecasting a 3.2 percent structural deficit for 2010 and a 1 percent structural deficit target for 2014. The authorities are also seeking to gain efficiency in the state apparatus, pushing for labor legislation reforms, and favoring pro-investment policies. These reforms are expected to yield an additional 1 percentage point to the potential GDP growth rate.

Chile's sound regulatory framework was fundamental in securing the stability of the financial system, and therefore insulating the domestic market from the global turmoil. The financial sector has also proven resilient to the earthquake and the recent period of financial turmoil triggered by events in Europe. The most recent bank-lending conditions survey shows that banks are easing credit conditions. A number of ongoing financial market reforms seek to

modernize financial instruments and their regulation, with an ultimate goal of moving towards a comprehensive reform of the supervision scheme.

On a final note, Chile's strong institutions and policy frameworks have been instrumental in the process of becoming a member of the OECD, which culminated in May of 2010 with the accession to the organization as an official member.

Paraguay's GDP is recovering strongly after last year's recession, which had been caused by a severe drought. Economic output is expected to grow by 9-10 percent in 2010, representing the largest expansion in the last two decades. The economic recovery is broad based, supported by a remarkable recovery in agricultural and beef output and healthy dynamics in the industry, construction, and services sectors. Continued macroeconomic stability is beginning to bear fruits, creating a friendly environment for private sector economic activities, which are complemented by good climate conditions, favorable commodity prices, and benign international financing conditions.

The external position continues to be strong. Total exports and imports have been substantially higher than estimated earlier this year, growing by 39 and 48 percent y-o-y respectively at the end of August 2010. International reserves at the end of September reached a record level of US$ 4 billion, nearly 26 percent of GDP, which the authorities consider an appropriate buffer against eventual external shocks. The floating exchange rate of the guaraní remained stable in the last six months, without intervention from the central bank.

The fiscal policy implemented in 2010 maintains the discipline that started in 2004. Expenditures are being contained at a prudent and orderly level. Revenues have increased substantially thanks to the buoyant external and domestic demand and will contribute to a small fiscal surplus projected for 2010. Public expenditures are being oriented to increase investment and social spending with a focus on poverty reduction, health, and education, without jeopardizing the hard-earned fiscal sustainability.

After a period of expansion, the monetary policy has started to tighten somewhat in the second quarter of 2010. The central bank interest rates have gradually increased, reflecting a more cautious stance towards a buoyant economy. It is expected that this stance will moderate incipient inflationary pressures and will maintain the level of inflation near the central bank's referential rate of 5 percent. Headline inflation at the end of September reached 3.8 percent on a yearly basis. The financial system remains robust, and banking system indicators continue to show sound levels of solvency, liquidity, profitability, and non-performing loans.

For 2011, a more moderate growth rate of 4.5 to 5 percent is expected, in line with the historic growth trend of the Paraguayan economy. The fiscal position will continue its neutral stance, trying to maintain a medium and long-term fiscal balance and keep public debt at its current low levels. Monetary policy will be focused on retaining a low, stable, and predictable level of inflation, in the reference range established by the monetary authority.

Peru has weathered the recent financial and economic crisis well. After slowing down to small but positive growth in 2009, growth prospects are again among the highest in the region, with the economy now expected to expand by 8 percent in 2010 and 6 percent in 2010-2013. Peru was able to fend off the impact of the global crisis thanks to its strong fiscal buffers, which allowed the government to implement a counter-cyclical policy for the first time, and the deployment of non-conventional monetary policies aimed at preserving adequate liquidity, followed by monetary stimulus. The Central Bank of Peru has recently started to raise the reference interest rate from a historic low of 1.25 percent in May to 3.0 percent in September. Interest rate hikes have been accompanied by reserve requirement increases for obligations in both domestic and foreign currency. In the absence of inflationary pressures, these measures have a precautionary nature in a context of strong domestic demand. Twelve-month inflation is expected to remain within the target range in 2010-2012. Going forward, the current account will remain sustainable, with a strong external position, and a declining fiscal deficit will bring the debt burden down to around 20 percent by end-2012.

Uruguay is exhibiting another remarkable performance this year, which is reflected, among other factors, by the dynamic of economic activity—forecasted by market analysts to increase by more than 7 percent in 2010; unemployment rates, recording historic low levels; improved fiscal results—it is worth noting that amidst the 2008-09 global crisis, the country hardly recurred to fiscal stimulus, although its economic activity continued to change positively; inflation, which is under fully control, within the central bank's target range; the financial system, presenting healthy indicators, as result of years of reforms that have critically transformed the system, including its regulation and supervision; and social indicators that continue to reveal significant achievements in terms of poverty reduction and, looking forward, increasing opportunities for society as a whole and particularly for its most vulnerable groups.

Of course, these positive developments and prospects, including the fact that Uruguay has become an important recipient of capital—especially direct investment—also bring about substantial challenges for the country and, in this regard, the Uruguayan authorities are undertaking the needed policies and reforms to successfully face them. Reinforcing the government's strict commitment to macroeconomic stability—which, of course, comprises stable and low inflation rates—the central bank recently raised its policy rate 25 bps; while maintaining a flexible exchange rate system, the authorities have reiterated their intention to smooth market volatility, thus avoiding eventual temporary misalignments; and renewed efforts are being made to further improve the tax system and revenue administration (it is worth noting that evasion of VAT nearly halved between 2005 and 2009). Meanwhile, the five-year budget is currently under discussion; its amount as a whole has already been decided, which is fully in line with the authorities' commitment to fiscal consolidation (an overall fiscal deficit of 1.2 percent of GDP expected for 2010 will continue to decrease to 0.7 percent in 2015) and a declining trajectory of the public debt-to-GDP ratio (rollover and exchange rate risks associated to the public debt have dramatically fallen during the last years, in a trend which is expected to deepen). At the same time, the envisaged budget composition stresses the high priority given to social expenditures and public infrastructure. Furthermore, the budget also aims to implement a comprehensive public sector reform and its

design intends to improve expenditure management, for instance by further enhancing transparency and establishing criterion to clarify links between resources devoted and results.

In conclusion, sound policies, reforms, and institutions which, as is the tradition in Uruguay, constitute critical pillars to ensure, among others, the prevalence of the rule of law and a favorable social and investment climate, supported by a positive external environment, are allowing Uruguay to enjoy a positive cycle. The authorities, fully aware of the new challenges, are making substantial efforts and progress to take advantage of this cycle to reinforce stability, further reduce vulnerabilities, ensure higher growth rates over the medium term and significantly boost the welfare of Uruguayan society as a whole.