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Statement by Axel Kicillof, Minister of Economy and Public Finance, Argentina

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

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On behalf of the Southern Cone Constituency
(Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay)

I. Current Conjuncture

Seven years after the North Atlantic financial crisis began, "uncertainty" and "worrisome" are still the best words to characterize the current prospects of the world economy. The crisis is not over and many challenges remain. The recent financial turmoil associated with the stock market in China, the very high sovereign, corporate and household debts in Advanced Economies (AEs), the consequences of a protracted decline in commodity prices, and the sluggish economic growth and lower potential output in many countries around the world are the most recent examples and reminders of the complexities that AEs and emerging markets are facing to overcome the crisis and regain economic growth.

Growth prospects across the main countries and regions remain uneven while the balance of risks is still tilted to the downside. Global growth does not exhibit a firm recovery due to setbacks in the first semester of the year. The World Economic Outlook (WEO) presents a substantial downward adjustment in its growth forecast for the global economy compared to the April 2015 report of 0.4 percentage points, based on the disappointing figures of global growth in the first half of 2015. Moreover, the substantial adjustment in oil prices went from a projection of a 3.3 percent decline for this year (October 2014 WEO) to a sharp decline close to 50 percent. In this regard, we understand that it is not easy to forecast world growth and commodity prices, but it seems that there is ample room for improvement.

The most expected event for AEs is the approaching interest rate hike by the United States Federal Reserve (Fed) and its effects on the global economy and capital flows. With an increase in interest rates by the Fed, the situation could aggravate commodity prices and currency weakness. The negative impact will come not only from the increase in the policy rate, but also from the uncertainty surrounding the decision. In fact, this has been generating more financial turmoil than the likely impact of the actual forthcoming increase. More importantly than when will rates rise, the question is more about the timing and degree of adjustment, how fast to increase the rate, and how much in each policy decision. Therefore, perhaps one of the most important issues related to this matter is to have a clear and appropriate communication strategy.

The US recovery is gaining ground and the WEO projects a growth rate of 2.6 percent for 2015; 0.2 percent higher than in 2014. This growth is led by domestic demand, and private consumption backed by job creation, but wages have seen a moderate growth rate, below Fed expectations. Key challenges also remain in other AEs. In Europe, one of the key questions is related to the weaker-than-expected growth and investments and whether this would be a temporary or more permanent fact. Moreover, the uncertainty on Greece's future is not over at all, neither is its continuation as a member of the Euro Area; spillover risks on Europe may have been mitigated, but it is clearly a red dot on the horizon of the region as it could still suffer potential market reactions. Activity in Japan is still far from being stable, with strong growth in the first quarter followed by a drop in the second quarter; the Bank of Japan (BoJ) announced on Tuesday, September 15 that it will refrain from further monetary stimulus.

Another focus of concern relates to the process of deleveraging of banks in AEs. After an extended number of years of a low interest rate environment in AEs and tighter regulations on banks, new credit intermediations have moved away from these regulations, but new sources of risks have emerged. Capital markets and shadow banking are filling the space left by AEs' banks and pose different challenges to regulators. This new tendency is pushing capital markets and shadow banking into becoming the "spare tire" on the vehicle to finance the real economy. Therefore, new policy advice is needed for regulators and policy makers on how to deal with this change on the financial landscape. We understand this is a work in progress at the Fund and further discussions are needed before arriving at policy recommendations.

In Emerging Market and Developing Countries (EMDCs), the pace of growth remains lower than expected and is becoming more country specific. After the crisis, EMDCs headed by China, were and still are the locomotive of global economic growth. Now EMDCs are losing steam, due to problems transferred by AEs, such as trade decline, the appreciation of the US dollar, lower productivity growth, shifts in risk tolerance and volatility of financial activities, the dramatic fall of international oil prices, and the decrease of commodity prices. Nevertheless, growth projections show that emerging markets are growing at double the rate of AEs this year and next. World growth is projected at 3.2 percent and 3.8 percent for 2015 and 2016 respectively while EMDCs will see a potential growth rate of 4.1 and 4.8 percent, while AEs are set to grow by 2.0 and 2.4 percent in 2015 and 2016 respectively. EMDCs are resilient, have accumulated important buffers and international reserves, and are not heavily indebted, plus they have seriously invested in the people, i.e., in education and health, while millions have been taken out of poverty.

We are less sanguine regarding risks of higher corporate debt in emerging markets than the Fund flagships. The October 2015 Global Financial Stability Report (GFSR) points out that the level of corporate leverage in major emerging markets is a concern, due to the fact that the debt of non financial corporations for 2003-2014 increased fourfold. We must consider that the GDP in these countries doubled during this period and that as a percentage of GDP, corporate debt went from 50 to almost 75 percent of GDP, thus increasing 25 percentage points of GDP. The main results of the IMF analysis are related to the importance of global drivers over domestic to explain leverage growth. Leverage has grown more in cyclical sectors, such as construction, and emerging-market firms took advantage of global market conditions to issue bonds at better terms and refinance their debts. The possible impact of tightening monetary policy and financial conditions indicates that systemically important corporations could be a risk for EMDCs' economies and should be closely monitored. In order to do so, more data on the finances of these firms should be obtained, including debt in foreign currencies.

We believe that the issue of high sovereign debt in AEs and some emerging markets in the Euro periphery is still a high risk for macro and financial stability. These issues and their potential spillovers should continue to be monitored. Despite many efforts in recent years to address high sovereign debt in AEs, little progress has been achieved. The Fund's possible role to curb the expectations of increased bailouts of private creditors, for a more strategic approach of protecting the country member if this situation arises, should be discussed. For instance, including within this discussion a modification of the policy of "lending into arrears", for specific country cases.

China, which is an important reference for the global economy and emerging economies in particular, as source of global growth, would reach, according to the WEO report, growth rates close to or within the authorities' targets. Even though concerns were raised because of recent stock market volatility, this has had no consequences on the banking sector and the real economy, and the country reacted swiftly and with resilience. China has come a long way but still has significant space for growth and development, that is to say, it still has to achieve its peak in industrialization, urbanization and the needed infrastructure. China can keep growing within reasonable figures given its buffers and reserves and its record in managing multiple policy objectives of steady and high growth, structural transformations and reforms.

Latin American countries are exhibiting an economic slowdown after very high historical growth levels achieved in recent years. The region has clearly been affected by shocks coming from the fall in commodities prices and in trade due to the prolonged slowdown and uncertainty in AEs, the overvaluation of the US dollar and on the monetary policy normalization in the United States, China's slowdown, and a considerable depreciation of several local currencies. Even though growth prospects are negative for the whole region, a number of economies maintain good economic bases and an ample external position, with net international reserves above most metrics, and important cushions created by previous fiscal savings and relatively low public, corporate and household debt. Furthermore, a decade of investment in health, education and improving living conditions has created the human capital base for improving growth prospects in the short and medium term. Moreover, countries in our region are continuing their process of inclusive growth and development, with due consideration to income distribution and fairness objectives.

Since the crisis initiated in advanced economies it is still not over; risks remain tilted to the downside, and these continued risks have eventually spilled over to EMDCs. Indeed, similar scenarios caused sudden crises in emerging economies in the 1980s and 1990s. A number of policies can mitigate the risk of these shocks: a macroeconomic framework that includes income distribution, support to trade and fiscal and monetary policies in line with an accommodative exchange rate, capital outflows management, 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.

Other concerns could be raised about risks and uncertainties and the future of the global economy, in particular:

- Unemployment, mainly among the young, continues to be unacceptably high in many countries. Long-term unemployment needs more active policy measures to avoid becoming endemic, particularly in many countries of the European Union. It is also important to make efforts to create quality employment in many EMDCs and Low-Income Countries (LICs).

We are also concerned about the systemic impact of the Argentine litigation on Sovereign Debt Restructuring issues and the functioning of the International Financial System. While we share the positive evaluation of the efforts made so far for the inclusion of enhanced clauses on CACs and pari passu, we believe that this does not address the real problem. As the IMF signaled in its latest paper on debt issues, the stock of sovereign debt without enhanced clauses has increased to US$ 915 billion in spite of a successful introduction of such clauses in most recent issuances. This stock will mostly mature in more than 10 years' time. We remain convinced that a holistic solution to this problem requires a more systemic framework. We believe it is imperative at this stage for the IMF to concentrate on this area building upon the United Nation General Assembly's resolution adopting Sovereign Debt Restructuring Principles, with 136 countries voting in favor.

II. Policy Challenges

We agree with the message in the Managing Director's Global Policy Agenda (GPA) that "mutually reinforcing policies are needed to support growth today". Demand should be supported, investment encouraged, financial stability safeguarded, sources of growth identified, quality jobs created and socially and environmentally sustainable long-term inclusive growth ensured. How this is being achieved varies from country to country reflecting member circumstances.

Structural Reforms

With regards to structural reforms in the Managing Director's GPA, it seems that they have become a catchphrase, the magical solution to most economic problems without proof that countries applying them have succeeded. It is also mentioned that problems have arisen because structural reforms were not applied in-depth. At the same time, the GPA points out that reforms have "potential short-term negative effects that often go against vested interest and populist pressures". This is a very biased way of explaining why these reforms are not applied. What is correct is that they have potential short-term negative effects, although supposed medium and long-term benefits have not been proved. Labor reforms are the most promoted by the Fund, but its own analysis in the April 2015 WEO showed that labor market regulation (or deregulation) has not been found to have statistically significant effects on total factor productivity or growth.

As presented, structural reforms are vague and have different meanings for advanced, emerging, and developing economies. The GPA proposes measures for the next six months that are unfeasible to implement in such a short period, for instance, improving low productivity and the problem of an aging population. On the other hand, which reforms lift labor demand and supply, investment and productivity, as proposed in the GPA? These policies merit further analysis and discussion. We know that there is no one policy that fits all countries and developing economies need a policy mix that has economic development and inclusive growth as the main goals.

Investments

We agree that measures to increase investments, particularly in infrastructure, can boost growth, both in AEs and in EMDCs, including LICs. Investment in infrastructure plays a central role when talking about enhancing growth, job creation and development. In AEs they are needed to replace obsolete infrastructure, and in EMDCs to eliminate bottlenecks and support economic development. In this regard, we are convinced of the leading role that the public sector should play, which should be maintained, not only through public investment but through its central role as provider of guarantees and setting the right conditions for private sector investment. This, on the other hand, implies that the objective is also to attract private and external funding when rates of return demanded are deemed to be adequate. We are certain that the benefits would be greater and that the economy would benefit if there were a complementary relationship between the public and private sector, where the share of (social) profits is distributed fairly.

We strongly support social investment policies, as implemented in the countries of our constituency, oriented to enhancing education and health, encouraging innovation, fostering financial inclusion and promoting alternative sources of funding for credit-constrained small and medium enterprises (SMEs).

III. Global Policy Priorities

We agree that cooperation is vital in areas such as the global financial safety net, trade, climate change, sustainable development goals and demographic transitions, whether refuges or migration issues. Moreover, international cooperation, coordination and coherent policies should tend to mitigate spillovers and stability risks, which in turn are expected to help support growth and increase employment and are needed to deal with global trade imbalances in AEs, income distribution disparities on a global level, the stability of the international financial system, and international taxation issues.

The GPA highlights that for many countries, the room to support demand is narrowing. We consider that, in this case, it is possible to support short-term growth and demand through measures with a higher multiplier than buying bonds and those that improve income distribution and particularly trade. It has already been mentioned that trade surplus economies should increase internal demand or change their composition towards internal consumption, while trade deficit countries, the friends of the world economy, as seen by the Bretton Woods Institutions' founders, should concentrate spending on physical and human capital, R&D, and technology.

Other measures that emerging markets should invest in are policies to improve resilience, as highlighted in the GPA. In this regard, we agree that foreign exchange intervention can provide short-term insulation against disorderly market conditions and that capital flow management measures on outflows could also play a temporary role in a broad policy response to a new composition of portfolio investment or when market liquidity tends to diminish.

In Annex I of the GPA, within implementation of policy priorities, we believe that the advice to AEs should include balancing and liberalizing trade, as the same is asked of emerging markets and LICs some lines below. Trade barriers and non-tariff barriers are issues of AEs and not only for LICs or emerging markets. In the same vein, as the Fund advises developing countries to reduce oil and energy subsidies, taking advantage of the fall in oil prices, it should advise AEs to reduce the huge subsidies in commodities, including agricultural. On the other hand, we welcome the advice given to commodity exporters and LICs to diversify the economy. Nevertheless, we believe that it is essential to include industrialization in the advice; otherwise this could be understood as diversifying commodities' production.

Finally, fiscal policy, as stated in the outline, needs to shoulder more of the burden to boost activity. Besides enhancing the quality of expenditures and revenues, fiscal policy should also deal with income distribution as a driver of growth, considering the high impact that fiscal tools have in improving income distribution. In this regard, we welcome the bulk of the IMF's work on income inequality, including wealth inequality, which should be ongoing, collecting the needed data and making this work operational. Otherwise, it seems that the voice of the Fund on inequality and growth is in one direction, and the Fund programs and surveillance in other direction, with danger of giving mixed signals on this subject.

IV. How the Fund Will Help the Membership

We support the MD's comments in the GPA on how the Fund will help the membership. In strengthening the Fund, the governance of the institution should be the priority issue. The Fund's legitimacy and effectiveness should be enhanced while strengthening the multilateral and cooperative nature of the Fund. The 2010 reform package should be adopted swiftly. It now represents the pre-crisis world economic situation (the data used was up until 2008), reflecting the global situation seven years ago. Moreover, if the continued reform of the quota and governance structure is key to the Fund's legitimacy and effectiveness, the stagnant process for the 15th General Review of Quotas (GRQ) puts forward the deepened democratic deficit of the institution and the need for a profound transformation of the Fund. The current governance of the institution does not represent the appropriate views and present weight of the whole membership in the world economy, particularly EMDCs and LICs. If the 15th GRQ is expected to result in increases in the quota shares of dynamic economies, the definition of "dynamic" should be better analyzed than it was in the 2010 quota reform.

We support ensuring financing for development to reach the post 2015 Sustainable Development Goals. Nevertheless, in Annex II, Implementation of IMF Deliverables, the Monterrey Consensus is an issue of lending, not surveillance. We note the two-way dialogue proposed in the GPA and the engagement with regional bodies and Latin American regional bodies should be included.

We support the efforts to address stigma[1] and evenhandedness which are not only perceptions; we await the announced framework for countries to voice concerns. In the GPA, the Fund should include continuing its work on sovereign debt, and as we stated above, mentioning the nine principles approved by 136 countries on September 10, 2015 at the United Nations General Assembly, that will allow the restructuring of sovereign debts with greater equity, efficiency, and transparency. This falls under evenhanded treatment.

We believe that the Fund has to continue working with medium and low-income small states, with a responsibility to the so-called fragile members. We support further analysis on poverty and inequality, not only on income but also on wealth and their role in macro stability and

[11] In relation to stigma the speech to the UN by Pope Francis, is very clear, "The International Financial Agencies should care for the sustainable development of countries and should ensure that they are not subjected to oppressive lending systems which, far from promoting progress, subject people to mechanisms which generate greater poverty, exclusion and dependence." Pope Francis, Address to the United Nations on Friday, September 25th 2015, as prepared for delivery and translated by the Vatican.
http://en.radiovaticana.va/news/2015/09/25/pope_francis_addresses_the_un_general_assembly/1174588

policy implementation at the Fund, given the recent interest of the institution in these macro critical elements.

With regard to knowledge management, this is not only an issue of data gathering and processing, technological investments, and breaking down internal silos to manage and share information. Skills should be enhanced to correctly interpret and analyze the information gathered, and to connect the dots to anticipate issues and improve advice and proposals to contribute with solutions to solve the real challenges and problems faced by the membership. We also support a more timely feedback and that the principle of speedy response should be applied across the Fund.

We support the four recommendations to enhance the IMF's approach to self-evaluation as a tool for systematic learning and accountability, as well as institutional effectiveness and transparency presented in the IEO Report "Self Evaluation at the IMF: An IEO Assessment".

We recognize the efforts the Fund has made on diversity issues, particularly on improving geographic and gender representation in senior and managerial positions but more has to be done and at a faster pace. Further progress should be achieved to promote the diversity of staff, particularly with regard to academic backgrounds, approaches and experiences.

We believe that the goal of having a flat budget for so many years has weakened the Fund, jeopardizing its credibility. In this regard, we agree that the Fund's activities, responding to a changing world, will need to be fully supported by adequate financial, human, and technological resources so that the Fund becomes more agile, integrated and focused on better assisting members.

Argentina

The New Economic Paradigm

After the worst economic crisis in its history, between 1998 and 2002, Argentina changed its economic paradigm. During previous decades Argentina´s economy was characterized by macroeconomic instability and stop-go cycles, with expansions followed by orthodox adjustment policies under the supervision of IMF programs. Nevertheless, since 2003, Argentina has been implementing a series of policy measures aimed at expanding social, economic, human and cultural rights, mainly focused on the most neglected sectors of the society. With these objectives in mind the government pursued an economic model of growth with social inclusion, where inclusion and redistribution of income are seen as a precondition for growth and not vice versa, as stated by the mainstream economic precepts.

Between 2003 and 2014, the annual average rate of economic growth was above 5.75 percent, the highest average growth rate in its economic history over such a long period, while per capita GDP increased by a yearly average of 4.6 percent during the same period. Most importantly, all this was achieved through heavily investing in people. This led to 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.

The 2009 North Atlantic Countries Financial Economic Crisis Recoils

Since 2009, the world has suffered one of the most important crises in economic history. While originating in North Atlantic countries, it has severely hit not only advanced economies (mainly Europe´s periphery) but its backlash has also now reached emerging economies, such as China and Brazil, Argentina´s main trading partners. Given the difficulties that the world is facing (the slowdown in Chinese growth, decline in Brazilian and European economic activity, disappointing Q2 2015 in Japan, falling commodity prices and the constant threat of interest rates hikes by the US Federal Reserve), the Argentine government implemented several anti-cyclical policies in order to sustain economic growth and the redistribution of income to reduce the negative impact of the external situation.

These policies are centered on supporting aggregated demand through social spending, especially on transfers to the poorest sectors of the economy and pensioners in order to maintain consumption and boost the domestic market. It also launched a package of measures in order to support working class purchasing power (Precios Cuidados, Ahora 12, SUBEneficio, Progresar, A Rodar, Renovate, among others) and labor policies that stimulate industrial production and investment, achieving a virtuous inclusive growth process.

In this context, coordination and implementation of investment policies have a key role to play. Expansion of the economy's productive capacity requires pursuing policies of a structural nature to remove supply-side bottlenecks and, in particular, increasing the investment in infrastructure and energy.

World Economic Outlook Projections

In the October 2014 World Economic Outlook (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.[2] These projections did not materialize and the economy ended up growing slightly by 0.5 percent in 2014. The forecasts 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 of GDP. In fact, the end of 2014 and beginning of 2015 were very calm with record figures in domestic tourism reflecting the improvement in income. Foreign tourism in Argentina also showed an increase of 13.1 percent in 2014 in relation to 2013. In this vein, the April 2015 WEO forecast for 2015 showed an increase of 1.2 percentage points to -0.3

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

percent, despite the available information. In addition, the October 2015 WEO´s new projection of growth for 2015 is 0.4 percent. In this regard, the IMF's pessimistic economic scenario for 2015 and 2016 is noteworthy, where almost no growth is expected for 2015 and a recessive situation is predicted for 2016 (-0.7 percent).

One of the most remarkable aspects of the latest WEO is the little relevance given to the interaction between various variables. For example, for 2016 the WEO projects an annual decline in activity of -0.7 percent for Argentina with increased inflation and unemployment. However, for 2016 the IMF expects an improvement in our trading partners' economic activities. While China and Brazil´s case may explain a reduction in exports, the WEO considers that positive spillovers won't be enough to stimulate economic activity or to prevent a negative result in the current account. Consequently, the fall in activity expected for 2016, would imply that the Fund expects a scenario of fiscal adjustment and sharp devaluation of the exchange rate (aligned with IMF's theoretical foundations).

Argentina's 2016 budget estimates are different from these projections, with an estimated GDP growth rate of 2.3 percent and 3.0 percent for 2015 and 2016, and a CPI inflation rate of 15.4 percent and 14.5 percent respectively. These projections are based on the fact that in the second quarter of 2015 GDP grew 2.3 percent (on an annual basis) and the result for the first semester was an annual growth rate of 2.2 percent. Therefore, to have a 0.4 percent annual growth of GDP, as estimated in the WEO, the upcoming two quarters would have to see an annual added fall of -1.3 percent; the likelihood of this occurring seems very low.

Regional Economic Outlook Advice

In the October 2015 Regional Economic Outlook (REO), the IMF insists that Argentina supposedly needs to implement a fiscal adjustment and a tighter monetary stance after a long period of growth. This is the same recommendation that the IMF gave to the European periphery after the active fiscal policy they initially implemented to stem the crisis, the consequences of which are well known. In fact, in 2014 the Independent Evaluation Office argued that fiscal consolidations were more harmful to growth than was first assumed by the IMF and that in these countries the debt-to-GDP ratio increased instead of decreasing. As a result of these considerations, we believe that it is extremely controversial to advise fiscal adjustment in an unfavorable international context and in a negative conjuncture (low growth prospects), because the only consequence will be the deterioration of the fiscal balance and, thus, a lower debt sustainability. It is also noteworthy that the REO states that only three Latin-American countries do not require adjustment.

The Resilience of Argentina´s Economy to External Shocks

The resilience of Argentina's economy is due to active macroeconomic policies, despite the economic uncertainties in Advanced Economies (AEs), lower growth rates in emerging economies, the fall of export commodities prices and the strong pressure of the vulture funds who attempted to hold back the economy. These macroeconomic policies are further buttressed by a strong domestic consumption. Supermarkets increased sales in the first semester of 2015 by 7.6 percent yoy in real terms and shopping centers by 18 percent yoy. These increases in consumption were based on the support given to employment policies, real wages and pension increases, enhancing job creation while promoting public and private investments, particularly of micro, small and medium enterprises; low indebtedness levels of both the public and private sector, 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 macro-prudential framework.

In this regard, the Ministry of Economy and Public Finance has focused on fostering domestic demand by enhancing and guaranteeing income distribution. Meanwhile, private consumption and investments have continuously increased since 2003. Moreover, within investment, one of the most dynamic sectors is Research and Development (R&D), which increased fourfold in the last 10 years. R&D is warranted for technological innovations needed to increase productivity which is not only important for AEs, as the MD's GPA proposes, but also for EMDCs, including LICs.

Promoting and Sustaining Economic and Social Growth While Pursuing Equality is Essential

Argentina strongly believes that equality is the main building block for promoting and sustaining economic and social growth. Since 2003, the creation quality formal employment, social inclusion, and better income distribution are the pillars of Argentina's growth model. During this period, the number of registered workers increased by 78 percent and the minimum wage increased by 31 percent in 2014, and has further increased by 28.5 percent during 2015, making it the highest in Latin America. Contrary to the global trend, the participation of wages in terms of total income has increased significantly, from 30.6 percent in 2004, to 50.9 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]

In this regard, social and economic growth goals are achieved through policies oriented to boosting economic activity and, at the same time, enhancing Argentina's social safety nets. In order to continue the sharp reduction in non-registered employment and the creation of quality jobs, the law for Promotion of the Registered Labor and to Prevent Occupational Fraud was approved in June 2014. In the same vein, several policies were oriented to preserve the level of employment and support the rhythm of job creation, particularly for the

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

youth. These programs placed Argentina among the top G-20 countries that have most successfully reduced youth unemployment.

Both the defense of employment and policies to increase the income of the vulnerable population have improved income distribution. As a result, the Gini Coefficient was reduced from 0.526 in 2Q 2003 to 0.410 in 2Q 2015, which is one of the lowest ever reached in Argentina. In addition, the ratio of per capita income of the richest 10 percent of the population compared to that of the poorest 10 percent was reduced from 13 times in 2003 to 7.1 times in the second quarter of 2015. Moreover, the social security system has broadened its coverage from almost 3 million beneficiaries in 2003, which represented 66 percent of the elderly, to 6.5 million beneficiaries in September 2015, reaching almost 97 percent of coverage. Also, Central Government social expenditure has risen to 14 percent of GDP. Not less important is the bill proposal sent to the Congress to regularize ownership rights of family dwellings. This bill aims to execute and deliver title deeds to families living in properties without title and thus acquiring ownership of their homes. This proposal would benefit more than 500,000 families.

A Vigorous and Profitable Financial Sector is Tackling the Challenge of Increasing Credit Towards Production Activities

During the 2001-2002 crisis in Argentina, the financial system almost collapsed. After more than 12 years, it is now solvent, liquid, well-regulated, profitable and capitalized. At the same time, the Central Bank of Argentina now has a new charter, which was approved by law in 2012, and which broadened its objectives and mandates. These currently include not only monetary stability, but also financial stability, employment, and economic development with social inclusion. The policies to increase credit oriented towards production and the measures intended to stabilize the financial markets also accompanied the economic activity recovery in the last months of 2014, which consolidated during 2015. Maximum interest rates for loans directed to families were established, and minimum reference interest rates for time deposits lower than the equivalent of US$ 100.000 were indicated. As a result, the yoy stock in time deposits increased by 42.1 percent from October 2014 to July 2015.

In order deal with long-term financing oriented to the productive sector and infrastructure, Argentina developed several public initiatives to prop up credit by including productive activities within the financing of different programs; the Bicentennial Productive Financing (PFPB), the Fund for the Argentine Economic Development (FONDEAR), the Sustainability Guarantee Fund (FGS), among others. These are contributing to the sustainable development of the real economy through financing long-term investment projects and in addition to this there have been recent regulatory initiatives aimed at increasing institutional private funding for these types of projects. Another important measure is subsection “K” of the General Rules for the Insurance Activity, 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 reaching about 0.5 percent of GDP in the first semester 2015. Also, it has been enacted by law that to sell the shares owned by the State in private firms (mainly in the FGS), Congress' approval is required.

Investment in Infrastructure a Key Component of Growth

The government understands that public investment plays an essential role in promoting and directing economic and social development in the medium and long term. On the one hand, it provides the necessary infrastructure for development and fosters sectors neglected by the private sector. On the other, it addresses the provision of services that cover social needs, such as sanitation, education, culture, housing, defense and security.

In this regard, the Argentine government with the understanding that investment in infrastructure is a key to support the country´s economic growth and encourage job creation, has undertaken, since 2003, an aggressive public investment program to overcome the restrictions faced by the private sector to manage investments in large-scale projects with very long maturities in the areas of production and distribution of energy and in the transport sector. Focus was put on transforming the productive structure into a network with greater industrial development, incorporating value added and knowhow to the productive process while fostering job creation.

The government carried out very ambitious infrastructure projects, particularly focused on transport and energy sectors. Among others, the government has undertaken the most ambitious revamping of the metropolitan area passenger railway system in 50 years; and, taking advantage of its majority shareholding position in the national state oil company YPF, and through agreements with several industry leaders, is giving a strong boost to production and investment in this strategic sector. Moreover, there are also significant hydroelectric, nuclear and communication projects, such as the nuclear plants Atucha II y III and two new hydroelectric dams. This enhanced role of the state has strongly encouraged private investment and in 2014 investments reached 19.7 percent of GDP.

A Sustainable Public Debt Path

Since 2003, after the country's worst financial crisis, which 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 has been 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 43.0 percent at the end of 2014. In turn, the composition of this 43 percent of total debt to GDP is the following; 26.3 percent with Public Sector Agencies, 5.7 percent with MDBs and BDBs, and 10.9 percent with the private sector.

Moreover, the external public debt fell from 79.2 percent in 2003 to 14.6 percent at the end of 2014, and public debt in foreign currency in the hands of the private sector, is greater, although it dropped from 13.3 percent in 2007 to 8.9 percent of GDP at the end of 2014.

The reduced external public indebtedness in terms of GDP allowed the stock of international reserves to represent around 41.9 percent of the public external debt in December 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 38.8 percent in 2014.

Argentina´s Debt and Vulture Funds

As presented above, Argentina has gone through a process of debt reduction, where important strives were made to reduce the outstanding levels of debt. Nevertheless, Argentina still faces the consequences of judicial decisions by Courts in New York, which represent an alarming precedent for the international community. Argentina has always maintained its policy of paying all creditors in a fair, legal and equal manner. This policy includes making continued payments, while continuing to claim through the related legal channels and carrying out a policy of international awareness on the dangers of the actions of vulture funds for future debt restructuring processes.

Predatory speculative funds, which have not accepted, and continue to refuse the proposed debt restructuring, do not have any qualms about harming the rights of the majority of creditors who accepted Argentina's exchange proposals in 2005 and 2010. This disruptive strategy from the vulture funds, which mainly consists of blocking the rightful flow of funds to a 92.4 percent of bona fide creditors who accepted the debt restructuring, was made possible due to the lack of an adequate international legal framework for sovereign debt restructuring.

An important new development is the resolution on "*Basic Principles on Sovereign Debt Restructuring Processes*" adopted by the General Assembly of the United Nations in New York at its Sixty-Ninth Session on September 10, 2015. By adopting this resolution, with 136 member States voting for, six against and 41 abstentions the UN General Assembly states the importance of counting with a clear set of principles for the management and resolution of financial crises that take into account the obligation of sovereign debtors and their creditors to act in good faith and with a cooperative spirit to reach a consensual rearrangement of the debt of sovereign states. It also implies that sovereign debt restructuring processes should be guided by customary law and by nine basic international principles of law, such as sovereignty, good faith, transparency, legitimacy, equitable treatment and sustainability, among others. The adoption of this resolution by such a majority of states reflects growing concerns about renewed sovereign debt crises and long-term debt sustainability in the context of continued global economic uncertainty.

Relations with the IMF and International Community

Argentina has demonstrated its commitment to work together on the bilateral agenda with the IMF. Our relation with the Fund has 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.

On the other hand, 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 16 countries within the Paris Club where debt payments have already been made. Finally, an agreement to compensate the company Repsol for the public sector's increased share in the company was also approved by Congress and the agreed payment was made.

Policy Challenges and Future Accomplishments

In addition to the achievements highlighted, Argentina is facing important challenges. Besides external shocks, many of them are, to a large extent, a result of fast growth itself (as in the case of energy or infrastructure), the need to improve competitiveness, to increase the complexity and integration of production at regional and national level, and to stimulate, deepen and extend the industrialization process and the diversification of exports, from commodities to industrial and high-tech goods and services. Reform priorities will remain focused on the areas of inclusive growth through broadened and deepened consumption, productive and infrastructure investments, employment and social safety nets.

It was very costly for Argentina to learn 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 the improvement of their living conditions. It is the State which, as a last resort provider, cares for the vulnerable people, whether workers, pensioners, poor, consumers, women, youth or children. Growth has been sustained and social indicators have improved considerably. Due to the structural transformation policies 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 achievements.

Bolivia

Despite a regional context of economic slowdown, Bolivia's economic growth was outstanding in 2014 (5.5 percent) and will continue in 2015 (4.6 percent up to May and 5.1 percent y-o-y) registering the highest growth rate in South America. All economic activities have contributed to this performance with the exception of crude oil and natural gas. From the perspective of spending, domestic demand continued to be the main determinant of this dynamism. In spite of the less favorable international context, the external sector presented positive results in the first quarter of 2015 with a surplus in the balance of payments, which determined an increase of net international reserves (NIR). The current account deficit was more than offset by the surplus in the capital and financial account, where inflows from public sector financing and foreign direct investment are remarkable. In the second quarter, the decrease of the NIR was mainly explained by the negative balance of trade; but the NIR stock remains above 45 percent of GDP.

Public finances continued to evolve fairly well in 2014; in fact, the non-financial public sector revenue recorded an increase of 13.1 percent in 2014, as a result of increased sales of hydrocarbons and the expansion of tax revenues. Expenses were greater than revenues, attributing to the record level of public investment, mainly executed by sub-national entities (governorates and municipalities). There were also unforeseen expenditures due to the rehabilitation the economy of the Amazon region—impacted by natural disasters—and payments made to nationalized companies. Consequently, the overall balance recorded a manageable deficit of 3.4 percent of GDP in 2014, based mainly on greater capital spending.

Bolivia will deploy efforts to maintain growth as in recent years; an expansion of 5.0 percent of GDP in 2015 is anticipated, driven by a greater level of public investment, which will reach a record of $ 6.2 billion, in accordance with the orientation of the state-led economy model. Within this framework a fiscal deficit of 4.1 percent is expected at the end of 2015, which is still manageable given the macroeconomic conditions and the buffers accumulated in previous years.

For the ninth consecutive year, public debt remains sustainable. In 2014, the debt balance reached 17.5 percent of GDP and the balance of the domestic debt stock of the Central Government represented 12.6 percent of GDP, 0.6 percentage points lower than in 2013. It is worth mentioning that the National Treasury issued a 100-year maturity bond for the first time in Bolivian history, reflecting the confidence of the private sector in public finance management. In 2014 international rating agencies raised Bolivia's sovereign risk rating; in fact, in May, Standard & Poor's (S&P) raised the rating from "BB-" to "BB"; the highest registered in Bolivian history. Equally, in August, Fitch Ratings raised its rating for Bolivia's country risk from "BB-stable" to "BB-positive".

In the second quarter of 2015 the orientation of monetary policy was clearly expansionary, in a context of low inflation and a slowdown in the regional economic activity. Financial intermediation operations continued showing dynamism and such expansionary stance in the second quarter generated an increase of deposits in financial institutions which, together with the redemption of monetary regulation securities, substantially increased liquidity, determining falls in interest rates which translated to a significant increase in the credit portfolio. The de-dollarization process continues steadily in Bolivia as credit and deposits in domestic currency reached 93.7 and 82.5 percent respectively as of July 2015, while indicators of solvency and liquidity of the financial intermediaries reflect the soundness of the financial system.

As for inflation, it is projected that the 2015 end-of-period inflation would be around 4.5 percent, less than in the previous year (5.2 percent). Such lower inflation would allow a margin of action to continue implementing monetary impulse to contribute to the dynamism of the real sector. In addition, the Bolivian government is ready to adopt short-term policy measures to control inflation, as well as supporting the productive sector of the country and ensuring access to food staples at fair prices.

The exchange rate has remained stable in the first half of 2015 as it has been since the end of 2011; the exchange rate policy is consistent with the decline in international prices and it has not affected external competitiveness, since persistent real exchange rate misalignments were not generated. This policy has also moderated the population's expectations, supported the process of de-dollarization of the economy, and contributed to maintaining the strength and stability of the financial system.

Within the framework of heterodox policies, the Central Bank of Bolivia (CBB) continues to financially support the national strategic public enterprises and social programs, such as conditional cash transfers. Also in 2015, the Fund for Industrial and Productive Revolution (FINPRO)—funded with resources provided by the CBB—will continue to grant loans for new productive enterprises. At the same time the CBB will apply policies to encourage family savings through dedicated monetary policy instruments.

In 2014, there was continuity in applying social policy measures to help the most vulnerable sector of the population, such as conditional cash transfers which amounted to 41.6 percent of the population. With differentiated electricity tariffs for poor families, water-provision projects favored 359,013 families, who now have access to irrigation, drinking water, sewage and sanitation. The Bolivian government also continues to grant universal retirement pension, the implementation of literacy programmes, and wage increases in line with the capacity of the economy, which still continues to expand. Employment-generating policies have continued and will continue unchanged in 2015, as well as measures and programs which contribute to the reduction of extreme poverty, which so far has declined steadily from in 38.2 percent in 2005 to 21.6 percent in 2012.

Chile

The Chilean economy is expected to grow by 2.0 to 2.5 percent in 2015, from 1.9 percent in 2014, amid a worsened external scenario, deteriorating mining activity, and subdued domestic demand. Nevertheless, annual growth in private salaried employment remains strong, while the unemployment rate remains low. Under inflation targeting, monetary policy has remained highly accommodative and inflation expectations are well anchored. Similarly, both credibility of the fiscal framework and favorable financing conditions have supported an important fiscal impulse this year, aimed at stabilizing domestic demand.

Following a series of interest rate cuts in 2013-14, monetary policy has remained highly accommodative in the presence of a growing output gap and a strong depreciation of the peso (16 percent in nominal terms this year to date). This depreciation has been critical for smoothing the significant adjustments that the Chilean economy has made, and has helped to reduce the current account deficit, which is estimated to reach 0.7 percent of GDP in 2015. On the other hand, it has also been the main driver behind the increase in inflation, which has remained above 4 percent in annual terms for more than a year. In the current scenario, it is expected that inflation will converge gradually to the 3 percent target within the next 24 months. Despite the significant increase in inflation, medium-term expectations have remained well anchored at the 3 percent target. However, in September's Monetary Policy Report, the Board of the Central Bank communicated that the size and persistence of the higher inflation rate requires a reduction in the high monetary stimulus currently in place.

Fiscal authorities are committed to achieving a structural balanced budget position over the medium term. The fiscal policy in 2015 had infrastructure and education spending as main components, accounting for about half of the 8.4 percent projected increase in public spending. Additional revenues from last year's approved tax reform have started to rise in 2015. Once fully implemented in 2018, the reform is expected to collect 3 percent of GDP, securing permanent financing of new permanent expenditures in education, health provision, among other social expenditures.

The government's structural reform agenda pursues increasing medium-term growth and the reduction of income inequality, while minimizing any associated implementation costs. The education reform agenda includes a series of bills oriented to raise the quality of Chile's human capital and reduce segregation in the school system (legislation approved early this year already ended the for-profit education, copayment, and discrimination practices at primary and secondary levels and a new teachers' career law is under discussion). In turn, the labor market reform, currently in Congress, aims at expanding the coverage and scope of collective bargaining, in an effort to level the balance of power between negotiating parties. The reform also allows for the negotiation of special work conditions not feasible under the current legislation (exceptional work/leave days, overtime, and retribution of non-work days). Finally, the government has continued working on the implementation of a wide productivity agenda, and an energy agenda that includes the expansion of electricity generation capacity at lower costs.

Paraguay

Despite an adverse global and regional economic environment, the Paraguayan economy grew by 3.3 percent in the first half of 2015. While the pace of expansion has moderated, largely due to weaker activity in neighboring countries and sharp decreases in agricultural commodity prices, economic activity remains dynamic thanks to steady domestic demand. Construction, industry and services are expected to be the main engines of growth in the near term. Growth projections for 2015 were reduced to 3.5 percent, below the past-decade average but well above expected growth for the region.

Amid worsening external conditions and well-anchored inflation expectations, monetary policy has adopted a more accommodative stance. The Central Bank of Paraguay has reduced its monetary policy rate four times this year for a total of 100 basis points. Price dynamics continue in line with the 4.5 percent target, mainly driven by lower oil and specific food prices. Year-on-year inflation reached 3.9 percent at end-September, while core inflation attained 3.1 percent.

A floating exchange rate regime has provided a useful buffer against recent external shocks. The national currency has depreciated vis-à-vis the US dollar by around 25 percent on a yearly basis. However, the exchange rate pass-through has been subdued as currency depreciations in main trading partners were even sharper. The authorities have built an adequate level of international reserves, adapting their FX interventions to changing external conditions and to avoid sharp fluctuations which are not in line with fundamentals. Nevertheless, the central bank's own external assets are expected to remain roughly constant in terms of GDP (at about 13 percent) by end-2015.

The authorities remain committed to the limits set by the recently passed Fiscal Responsibility Law. Following slower economic activity, tax revenues have been decelerating and are growing by 4.8 percent as of end-August. At the same time, the quality of public spending has improved as current spending is well contained while investment has increased by 38 percent to support growth and address infrastructure needs. Public debt levels are one of the lowest in the region (under 20 percent) and, given total international reserves, the country maintains its global creditor position.

The banking sector is in good financial health. The system has stayed well capitalized, with adequate liquidity levels and a low non-performing loans ratio. Loans to the private sector have slowed at the margin, but its growth rate is consistent with current economic activity. The recent national currency depreciation is not expected to pose any risk to the system as the vast majority of FX borrowers are naturally hedged. Deposit-to-loan ratios have slightly declined in recent years due to higher long-term financing from capital markets, but deposits continue to provide the lion's share of banks' funding. The authorities are also pursuing legal changes in order to upgrade the regulation and supervision of the financial sector.

Peru

During the first half of 2015, the Peruvian economy grew 2.4 percent, due to the boost in mining production. GDP in primary sectors partially recovered from supply shocks faced during 2014, from 0.2 percent in the first half of 2014 to 4.1 percent in the same period of the current year. However, GDP in non-primary sectors showed a slowdown, especially in construction and non-primary manufacturing, because of lower public expenditure, a decrease in private investment and a reduction in non-traditional exports.

The current account of the balance of payments registered a deficit of 4.5 percent of GDP in the first half of 2015, lower than that of the same period of the previous year (5.2 percent). The reduction in the current account deficit is explained by an increase in the volume of exports of mining products and a reduction in imports of capital goods. The negative impact of lower terms of trade on the trade balance was partially offset by lower payments for investment income.

On the fiscal front, the economic balance of the non-financial public sector showed a deficit of 1.0 percent in the first half of 2015. The decline registered in the revenue of the general government is associated with the economic slowdown, the decline of terms of trade, and by the series of tax measures adopted by the end of 2014.

In August 2015, 12-month inflation registered 4.0 percent, which mainly reflected the increase in prices of food and electricity. Inflation, excluding food and energy, increased by 3.5 percent. At the same time, inflation is forecasted to reach the 2 percent target on the 2016-2017 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.

The Executive Board of the Central Reserve Bank of Peru (BCRP) decided to raise the monetary policy benchmark interest rate to 3.50 percent in September, compatible with a real rate of 0.5 percent. This new level of the interest rate is consistent with the convergence of inflation to the target range The Board has emphasized the importance of the evolution of inflationary expectations on the future of the monetary policy rate. The BCRP also continued to ease reserve requirements in soles to facilitate credit expansion.

Uruguay

Reaping fruits from sound policies and structural reforms is more noticeable during thorny times. Emerging economies are facing very difficult circumstances; commodity prices have substantially declined; some countries are exhibiting sharp economic decelerations or recessions; domestic currencies are suffering huge depreciation pressures; and fiscal positions are under stress. Of course, Uruguay is not isolated from risks; but developments have been mirroring the considerable decoupling Uruguay has experienced over the past decade, particularly from its two biggest neighbor countries. Latin America and the Caribbean's GDP will decrease in 2015 for first time in decades. Nevertheless, Uruguay's GDP is projected to grow between 2 and 2.5 percent this year (during the first semester of 2015, the country's economic activity expanded 2.2 percent compared to the same period of 2014).

Market and product diversification is one of the factors that explain the above-referred decoupling. Not long ago, Uruguay's exports to Argentina and Brazil were approximately half of the country's external sales; currently, it is 23 percent, while Uruguayan goods and services are sold to about 170 countries. Meanwhile, Uruguay shows a relatively low commodity intensity of exports (it is also interesting to note that, as a result of this year's developments in commodity prices, the country is seeing a positive change in its terms of trade). Furthermore, exports of non-traditional goods and services have substantially expanded, a fact that is deeply enrooted with a substantial change regarding investment. For instance, foreign direct investment, instilled by investors' confidence on Uruguay's policies and institutions, has been outstanding, compared with developments observed in the region and with the country's history where investment constituted its Achilles' heel; recent developments and announcements continue to reflect a promising outlook for Uruguay with regard to investments (as a matter of fact, investment projects recorded in January-August 2015 under Uruguay's investment law significantly surpassed those from the same period of the previous year).

Amidst a complex regional scenario, in which, for instance, Standard & Poor's downgraded Brazil's sovereign debt, Uruguay's public debt was upgraded (one of the factors on which the improvement was underpinned was the "greater resilience to regional and global shocks, given the significant improvement in Uruguay's external position over the past decade"). Financial soundness is a critical strength for Uruguay, which may be discerned in many dimensions. The country's policies and a skilful public debt management have led to a sound debt profile which, meanwhile, continues the virtuous cycle where confidence constitutes a key gear. Currently, the average time to maturity of Uruguay's central government debt is 15.5 years (double than it was a decade ago); the composition of foreign currency is 52 percent (88 percent in 2005); and the percentage of debt related to the floating interest rate is just 6 percent (22 percent ten years ago). Meanwhile, indicators in the financial sector also support the above-referred conclusions; in order to cite two of them, it is worth underscoring that Uruguay has exhibited a sound credit level (relative to GDP) and that it has had the lowest non-performing loan indicator (in percent to total loans) in the region, which to a great extent mirrors the crucial transformation of the system (particularly the public institutions), its incentives, and the prominent change observed by the Superintendency of Financial Services, among other things.

Of course, institutions matter and constitute a key factor to explain Uruguay's evolution: for instance, according to the 2015 *Latinobarómetro* survey, 70 percent of people in Uruguay are very satisfied/satisfied with democracy (the average for the region as a whole is 37 percent); and the 2015 World Bank's Worldwide Governance presents high indicators in terms of Voice & Accountability, Political Stability, Government Effectiveness, Regulatory Quality, Rule of Law, and Control of Corruption—five of these increased this past year, while the other remains relatively stable. The authorities are fully aware that institutional strength is a critical and distinctive asset for the country and they are ready to keep progressing in this area.

Certainly, the global economy and the regional situation are posing significant challenges and risks for a small and open economy. The Uruguayan authorities are fully conscious of these challenges; nevertheless, at the same time, they are very confident on the country's pillars and envisaged path: fiscal prudence (as established in the five-year budget that was already sent to Congress for consideration; this budget gives strict priority to education, health and infrastructure expenditures while targeting a stable path of the public debt relative to the country's GDP); flexible exchange rate (with eventual interventions aimed to smooth excessive volatility and avoid that temporary movements or over-shootings could create some permanent distortions); and consistency among all policies, including fiscal, monetary and income policies. Inflation rates have been higher than envisaged and its reduction constitutes a key priority for the government, for which the stance of the monetary policy has been contractionary as part of the batteries deployed to combat inflation. The authorities reiterate that this combat must be consistent with the challenges of the new economic scenario, trying to maintain the country's competitiveness and macroeconomic equilibrium in their multiple dimensions.

Over the past decade, Uruguay had a period of robust growth but, more importantly, this expansion has come with enormous social achievements. Poverty has declined substantially; the fight against inequality has made significant progress; and Uruguayan society's rights have substantially expanded. Clearly, the global and regional economy has considerably changed this year posing important challenges. However, as noted, Uruguay is facing them from a position of strength and, admittedly at lower rates over the next few years, the country's economy will continue to grow; developments and results are clearly proving to be satisfactory. It is the authorities' firm intention to keep advancing on these social issues, whereby it is essential to maintain prudent policies and continue with structural transformation.