



# **International Monetary and Financial Committee**

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**Statement by Mr. Dujovne  
Argentina**

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



**Statement by Governor Nicolás Dujovne, Minister of the Treasury of Argentina  
On behalf of the Southern Cone Constituency  
(Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay)**

**Global Developments**

The World Economic Outlook (WEO) has reduced its forecast for global economic growth in 2019 to 3.3 percent, from 3.9 percent expected in July 2018. Beyond idiosyncratic factors, political and geopolitical developments and policy uncertainties appear to have an increasing relevance, while there is evidence that the credit cycle in advanced economies is maturing. In Latin America, growth will continue to recover at a slow pace from the lows observed after the decline in commodity prices in 2014-2015, but more progress is needed to meet the region's multiple and vast requirements in economic and social areas. Unfortunately, the political, economic, and humanitarian crisis in Venezuela has aggravated, with significant spillovers to the region.

Recently, positive market expectations about trade negotiations and signals of a slower pace of monetary policy normalization by the US Federal Reserve, and the easing of global monetary conditions more generally, led financial markets to exhibit an upturn from the past year's losses. Nonetheless, the associated easing of financial conditions may prove temporary, unless positive expectations are supported by further policy actions.

Meanwhile, financial vulnerabilities continue to build. While there are differences across regions and income levels, debt levels are high in the sovereign sector and in nonfinancial corporate sectors, and household debt is also building up. Portfolio flows to emerging markets are increasingly influenced by benchmark-driven investors, who are more sensitive to changes in global conditions than to country-specific developments. As a result, the benefits of index membership may be tempered by stability risks for some countries, which underscores the need to build stronger buffers in those cases.

Global risks remain tilted to the downside, and many of the potential triggers identified in the WEO and GFSR reports, may materialize. The important question is then how well-prepared countries are to react to the materialization of these risks. With limited room for monetary policy in advanced economies, fiscal space becomes critical. Countries with enough policy space could place stronger reliance on supporting demand growth. Other countries that have appealed to fiscal stimulus during the expansion phase of the cycle face a narrower fiscal policy scope, while a third group of countries must definitively undertake fiscal consolidation to restore sustainability. As public and private debt are close to historical peaks, fiscal policy needs to carefully balance short-term effects with medium-term considerations.

## **International Collaboration and IMF Policies**

Against this background, policy-makers should continue with their efforts on structural reform to address medium-term growth headwinds and promote inclusiveness. In light of continued downside risk to the global outlook, upgraded global cooperation is also needed. This includes efforts to promote an open and rules-based multilateral trade system and an efficient global financial system. Policy makers globally need to steer clear of protectionism, guard against financial risk, and continue efforts to secure the recovery and improve medium-term prospects. In the face of higher leverage in the non-financial corporate sector and nonbank financial intermediaries, it may be necessary to consider expanding prudential tools. The Fund could help contain stability risks by communicating the strength of many emerging markets featuring lower vulnerabilities, stronger buffers, and larger policy space.

At the country level, flexible macroeconomic policy frameworks, including sustainable fiscal policies, flexible exchange rate regimes, adequate level of international reserves and credible monetary policy commitment to low inflation, complemented by sound regulation, supervision, and the appropriate use of macro prudential policies, have proven to be critical for reaping the benefits of global integration.

On the Fund's Global Policy Agenda, we fully agree with the three reinforced and complementary areas for policy action to pursue a new multilateralism, namely (i) domestic policies to create more resilient economies and provide economic opportunities; (ii) upgraded global cooperation to provide a level playing field across borders; and (iii) a commitment to work together on broader global challenges. We also agree with the envisaged role of the Fund in this endeavor. Against the background of slower growth and downside risks, policies need to strengthen growth prospects, enhance resilience, and promote inclusion. In particular, adequate social policies and pro-growth structural reforms remain critical, including for Latin America, which exhibits high levels of inequality and low productivity growth. We support the Fund to continue to advocate for open, stable and transparent trade policies, with advice and analysis grounded on analytical work, including in collaboration with other international institutions. We fully support the role of the Fund in strengthening governance, including fiscal transparency, stronger AML/CFT and anti-corruption frameworks. Regarding IMF policies, we will remain engaged as important reviews take place, including the Comprehensive Surveillance Review, the FSAP review, and the Conditionality Review. We also support internal efforts to modernize the Fund and adapt it to new challenges, maintaining its efficiency, and ensuring that the institution remains capable of attracting top and diverse talent.

## **IMF Governance**

In the context of the 15<sup>th</sup> General Review of Quotas, we note that there has not been a consensus for a quota increase, which we have supported. We remain committed to a strong,

quota-based and adequately resourced IMF at the center of the International Monetary System and the Global Financial Safety Net, in line with previous statements by the IMFC. Global risks ratify the need to increase or at least maintain the IMF's lending capacity. Our view remains that an increase in quotas is needed to improve the balance of permanent to borrowed resources, which is below the historical average, but we are willing to work constructively with the membership to address the most pressing need of securing and adequate lending capacity for the IMF. We note that current quota shares and the quota formula do not adequately reflect the weight of members in the global economy, and a realignment remains necessary.

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## **Argentina**

In 2018, the economy was affected by a severe drought, which led to a sharp decline in agricultural production and export revenue, higher world energy prices, and tightened external financial conditions. These shocks combined with high fiscal and external financing requirements, resulted in strong downward pressure on the currency, lower appetite for public debt and a higher sovereign risk premium. Domestic credit declined, and inflation increased, reducing consumer confidence.

In the face of these turbulences, Argentina decided to proceed more decisively with the planned fiscal consolidation and accelerate economic reforms. Monetary and fiscal policies were tightened without delay. To complement these policy actions, cement credibility and minimize the risk of a serious downturn, Argentina decided quickly to seek support from the IMF for its economic program.

The reformulated economic program is yielding positive results. So far in 2019, sovereign spreads have moderated, the stock market has rebounded, and public debt rollovers have been higher. A strong peso during January and February allowed for some rebuilding of central bank reserves, while the external imbalance continues to narrow, as evidenced by a sustained trade surplus in the last 6 months. The banking sector remains healthy, fiscal and monetary policy targets have been achieved with some margins, and social spending has been protected.

Notwithstanding these achievements, the financial environment remains volatile, especially after monthly inflation—driven by inertia, some recovery in production margins, continued normalization of utility prices, and higher food prices—rose in January and February, although remaining below the high monthly rates of the second half of last year.

## **Economic Policies**

*Fiscal policy.* Argentina remains strongly committed to achieving a zero-primary deficit for this year. In the first two months of 2019, the primary surplus of the federal government was equivalent to 0.1 percent of GDP. For the year, revenues are projected to be somewhat weaker than expected. Nevertheless, additional measures were identified that will allow the achievement of the zero-primary deficit target for 2019 before the adjustments allowed under the program with the IMF, which are aimed at protecting social spending and infrastructure. Work is in train to improve the efficiency of tax collections and Public Financial Management. A new debt management strategy has been elaborated and published, laying the principles for medium-term government financing and debt reduction.

*Monetary policy.* Monetary policy has been guided by the framework in place since October 2018, which is being implemented with full transparency. The central bank has fully eliminated LEBAC securities, alleviating an important financial vulnerability. The growth of the monetary base due to net domestic asset creation has been kept below the levels originally announced. As monthly inflation outturns for January and February were higher than expected, the central bank has extended its commitment to keep the monetary base unchanged until end-November 2019, maintaining the overcompliance observed through March. In addition, the central bank has given guidance to markets that the policy interest rate will remain above 62.5 percent in April, to prevent any unanticipated loosening of monetary conditions and encourage further traction of the policy rate into deposit rates. The central bank will continue allowing the exchange rate to be determined by market forces within the established non-intervention zone, while being prepared to intervene outside the non-intervention zone in a transparent and fully anticipated way, in line with the announced monetary policy framework.

*A draft of a new BCRA charter has been submitted to Congress.* The draft law enshrines the autonomy of the central bank, establishes price stability as the first and fundamental mandate of the BCRA, restricts monetary financing of the public sector, enhances decision-making structures, and buttresses transparency and accountability. It also reaffirms the objective to support financial stability and promote financial inclusion. In addition, to protect the central bank balance sheet, the draft law eliminates the possibility of distributing unrealized gains to the Treasury and establishes that accounting norms need to follow international best practices.

As the result of the economic policies put in place, the administration expects a re-establishment of macroeconomic stability and a faster downward trajectory of the debt-to-GDP ratio. The IMF expects real GDP to contract 1.2 percent in 2019 and inflation to decline to around 30 percent by year's end. The elimination of the fiscal primary deficit and access to IMF resources will provide certainty that remaining financing needs are manageable, even if market conditions worsen. The external current account deficit is projected to decline to 2 percent of GDP in 2019, as the real depreciation of the peso will facilitate a substantial increase in exports and a significant import reduction.

*Social policies.* To continue protecting the most vulnerable, about 4 million beneficiaries of the Universal Child Allowance (AUH) received one-off payments in September and December last year, increasing the real value of benefits relative to 2017. In addition, to support the poor without children, a one-off payment was provided in December to nearly 520,000 beneficiaries of the Employment Support Program. Moreover, on March 1 the authorities decided to front-load to March all the increases in AUH benefits implied by the indexation formula for 2019. This implies a 45 percent increase in benefit levels starting in March, which will help shelter beneficiaries from erosion in purchasing power.

*Structural reforms.* Much progress has been achieved from earlier action in deregulating markets and allowing prices to better reflect supply and demand conditions. In the energy market, oil and gas production has started to increase after many years of decline, and investment already committed to continue developing non-conventional oil and gas is expected to lead to faster growth of supply and net exports in the coming years. Early results include an increase in exports of oil and petrochemicals (57 percent in 2018), and a sharp decline of the imbalance in the domestic gas market, where supply now allows for seasonal exports and import needs are concentrated only in the winter months. Electricity supply has also increased, including with new supply of renewable energy (30 wind and solar projects already fully in operation with an installed capacity of 795MW). At the same time, meat exports grew by almost 80 percent in 2018, while exports of industrial manufactures continue to increase, with auto exports growing by 25 percent in 2018. Some of these positive results are also the result of a reduction of logistical costs, which has been achieved through higher efficiency in rail and road transport and ports operation.

Besides these core policies, the administration will continue developing its strategy to sustain a process of gradual integration to the world economy, improve the business environment, enhance domestic competition, expand credit markets on a sound basis, and reduce corruption, all essential elements that would spur robust private sector activity and wealth generation, and would allow the benefits of economic growth to be shared by all segments of society.

## **Bolivia**

Throughout 2018 the Bolivian economy maintained a robust growth rate based on impulses from non-extractive sectors, domestic demand, and adequate economic policies. In the third quarter of 2018, GDP growth was 4.04 percent and by the end of the year it is once again expected to ratify the country's economic growth leadership in the region. As a result of this outstanding economic performance, substantial improvements in the living conditions for the population were achieved, especially for the most vulnerable sectors, which shows significant progress towards reducing extreme poverty and inequality.

The great economic performance is based mainly on the outstanding production from non-extractive sectors, such as agriculture, financial services, and the manufacturing industry, among others. On the expenditure side, domestic demand based on public investment continued to be an important contribution to economic growth and represents the active role of the state to steer the economy in accordance with the Plan de Desarrollo Económico y Social 2016 - 2020 (PDES). However, the main sector related to external demand showed brief contractions due to the irregular demand for natural gas from Argentina and Brazil, while the mining sector exhibited temporary lower production.

Fiscal accounts remained with a deficit in 2018, which will be lower than projected in the budget, mainly explained by capital expenditures in order to reduce the infrastructure gap and expand the output base, but not through current expenditures. The fiscal deficit must be analyzed considering its composition and its relationship with the investment projects prioritized in the PDES. This deficit was financed by domestic savings and international borrowing from both bilateral and multilateral organizations. In addition, the public path of debt dynamics is sustainable and remains lower than international levels and, given Bolivia's successful track record in international capital markets, the country has no difficulties in tapping external resources.

On the other hand, the presence of fiscal deficits was already projected by the investments planned in the PDES, which was confirmed by the implementation of a successful countercyclical policy against external shocks, as the global economic crisis adversely affected the terms of trade and the regional economic performance, especially of our commercial partners.

The government, with its fiscal policy, will continue its role as income redistributor through social programs. For the last thirteen years, the authorities have been applying policies to improve income redistribution through granting conditional and non-conditional cash transfers, along with other measures to support the most vulnerable of the population. The continuity of these programs is crucial to avoid reversing the progress achieved in poverty reduction. Moderate poverty levels in the country reduced from 59.6 percent in 2005 to 36.4 percent in 2017, while extreme poverty decreased from 36.7 percent to 17.1 percent in a similar period, which mostly impacted rural areas.

In 2018, the Central Bank of Bolivia, in response to uncertain external conditions, maintained an accommodative orientation of the monetary policy and exchange rate stability policy to support the dynamism of economic activity, keeping imported inflation under control, and deepening the de-dollarization process without ignoring domestic price stability. The orientation of monetary policy, in coordination with the National Government, channeled resources to the economy to maintain adequate levels of financial system liquidity and low interest rates to support the dynamism of private credit and economic activity.

Inflation remained under control and registered a y/y rate of 1.5 percent which represents the lowest value in the last nine years and the second lowest in South America. This result is explained by the substitution import process in the agricultural sector and the stability of the exchange rate which anchored inflation expectations.

Sustained growth in the Bolivian economy is accompanied by the industrialization process and requires imported capital and intermediate goods, which have been the main drivers of current account deficits and the reduction of international reserves in recent years. Nevertheless, the authorities projected new flows of resources for exporting new products with value-added that emerges from strategic projects, such as the sale of Ammonia and Urea, Lithium Carbonate, Liquefied Natural Gas (LNG), Potassium Salts, Electricity, and other products through National Companies. The level of current international reserves at the end of 2018 were equivalent to 22 percent of GDP, remaining well above the theoretical levels recommended, such as the Assessing Reserve Adequacy (ARA) metric.

Indicators of solvency and liquidity of financial intermediaries reflect the soundness of the financial system and represent another remarkable achievement in a regional context. Likewise, financial banks' profits have increased and maintained historically high levels. The high prudential cushions required by the regulation, together with a permanent monitoring and oversight of the Financial Stability Council (CEF), guarantee the stability and quality of financial system loans. The rate of non-performing loans has reached 1.8 percent, which is the lowest in the region and shows low credit risk in the financial system. Besides, the process of de-dollarization has successfully continued in Bolivia and credit and deposits in domestic currency reached 98.4 and 87.6 percent respectively as of December 2018.

The implemented public policies, which prioritized the generation of surpluses and income redistribution, boosted domestic demand, strengthened the productive sector, and consolidated the industrialization process. The Bolivian economy will continue on a path of sustained and stable growth, and economic growth at the end of the year is projected to be close to 4.5 percent, ratifying the country's leadership of economic growth in the region.

In the framework of the government's PDES and the Patriotic Agenda 2025, as well as the objectives provided in the annual budget 2019, the implementation of public policies will continue to focus on prioritized sectors, the use and generation of surpluses, income redistribution, the reduction of poverty and inequality, strengthening the productive sector, and consolidating industrialization.

## **Chile**

The external environment has become more uncertain as output growth in most of the main developed economies has experienced an unanticipated slowdown leading to a considerable shift in the stance of monetary policy and expected trajectory for interest rates. Financial

markets have experienced events of high volatility, but financial conditions remain favorable. Terms of trade, largely determined by copper and oil, remain similar to a year ago. Despite this challenging background, economic activity in Chile regained dynamism after a pause in the third quarter of 2018, mainly led by investment. The year 2018 closed with the economy growing at 4 percent overall and 3.9 percent for non-mining activity.

The external impulse is expected to continue to be positive over the next two years, but lower than the previous two. During 2019, the terms of trade will experience a moderate increase. Domestically, the recent evolution of aggregate demand and the outlook for consumption and investment indicate that the economy will grow within a range of 3 to 4 percent during 2019 and 2020, and 2.75 and 3.25 percent in 2021.

Chile is committed to prudent and responsible macro financial policy, including the buildup of international buffers, and a transparent fiscal rule along with credible monetary policy based on expected inflation-targeting monetary policy, with a flexible exchange rate system that is used as a shock absorber. In addition, the domestic financial system will undergo a complete revision during the *Financial Stability Assessment* scheduled for 2020.

### ***Inflation***

As of January 2019, the *National Statistics Institute* updated the Consumer Price Index (CPI) basket and its measurement methodology, which implied a sizable reduction in the annual variation of the index with respect to that estimated until December 2018. Thus, while with the index with base 2013=100 the CPI had a cumulative change of 2.1 between February and December (eleven months) of 2018, using the new basket and methodology—2018=100—the same cumulative figure amounted to only 1.7 percent. In the case of the CPIEFE (total CPI excluding food and energy) the corresponding figures were 2 and 1.5 percent, respectively.

Given the lower measured inflation, its convergence to the 3 percent target will take longer than forecasted a year ago. CPI inflation is now estimated as 2.6 percent by 2019-year end, reaching 3 percent during the first half of next year. From then on, it will hover around the policy target until the end of the policy horizon; the first quarter of 2021. In the case of the CPIEFE, it is projected to end 2019 at 2.4 percent and at 3 percent in the second half of next year.

### ***Monetary policy***

Regarding monetary policy, the Central Bank continues to consider that the evolution of macroeconomic conditions makes it necessary to reduce the monetary stimulus on the policy horizon. However, the change in the initial conditions of the baseline scenario, including

lower observed inflation and a presumably wider output gap, means that its convergence to target requires a substantially lower normalization of the monetary policy rate.

In the medium term, forecasts are consistent with the fact that the monetary policy rate reaches its neutral level towards the end of the policy horizon, by early 2020. The neutral rate is currently estimated between 4 and 4.5 percent—but will be updated in the *Monetary Policy Report* of June 2019. However, there are risks which, if materialized, would modify the macroeconomic outlook and the monetary policy stance. Particularly, the balance of external risks continues to be biased downward. The main risk continues to be an abrupt reversal of financial conditions for emerging economies, which could be triggered by various factors, including a more abrupt and generalized slowdown in world growth or a negative evolution in the various ongoing geopolitical tensions. A lower appetite for risk and a decline in commodity prices could also be observed, more than offsetting lower interest rates as a result of the monetary stimuli of the main central banks.

### ***Fiscal policy***

On the fiscal front, current targets have been outperformed. The headline fiscal deficit fell significantly from 2.8 percent of GDP in 2017 to 1.7 percent in 2018, supported by an important rise in revenues of 8.8 percent in real terms and a moderation of expenditure growth from 4.7 percent in 2017 to 3.4 percent in 2018, real expenditure growth was below real GDP growth (4 percent) for the first time since 2013. The structural balance declined from -2 percent of GDP in 2017 to -1.5 percent in 2018, outpacing the medium-term consolidation path of a reduction of 0.2 percent of GDP per year.

Looking ahead, the authorities remain committed to a medium-term structural consolidation path towards a structural deficit of 1 percent of GDP by end-2022, balancing fiscal consolidation efforts and social spending commitments. The public debt-to-GDP ratio is expected to level off soon, well below peers. Despite a rating downgrade last year, sovereign risk spreads remain low from a historical perspective.

Fiscal authorities are also strengthening the institutional framework by providing legal and financial independence to the *Fiscal Council*, while broadening its mandate. The authorities have also sent a Tax Modernization bill that is expected to significantly simplify the tax payment process, improve efficiency, support SMEs, and foster investment, while safeguarding fiscal discipline. It is estimated that approval of the tax bill would increase GDP by at least 0.5 percent per year over the next decade.

### ***Recent developments in the labor market and capacity gaps***

The measurement of the output gap is subject to high degree of uncertainty everywhere. The Central Bank has emphasized the need to complement model-based estimates with

information that directly measures the gaps in the goods or factor markets. In the case of Chile, the latter indicated that the migration inflow has been material for labor market dynamics. In December 2018, the *National Statistics Institute* published new population forecasts, which ratifies that immigration had significantly increased since 2015 and revised the projected population by 2020 by more than half a million people.

The impact of this migration shock is yet to be determined. The information of the first months of 2019, with activity in line with predictions, inflation at lower-than-expected levels and growing nominal and real wages, suggests that greater labor supply dominates in the short run, broadening growth potential and containing inflation. In the medium term, the demand channel would contribute to consolidate the expansionary effect on economic activity, with a moderate impact on inflation.

### **Paraguay**

Economic activity showed significant dynamism in the first months of 2018, with substantial growth in the services, manufacturing, and agricultural sectors. However, the pace of expansion moderated significantly in the second half of the year, largely because of the more complex regional environment, as well as some internal factors on the supply side. The depreciation of the currencies of neighboring countries resulted in an appreciation of the bilateral real exchange rate, which led to an important reduction of border trade with Argentina and Brazil, and also influenced the performance of businesses tied to tourism. At the same time, other sectors were negatively affected by supply shocks, particularly those related to livestock production, construction, and the generation of electricity. Despite the moderation, the gross domestic product (GDP) growth rate is estimated at 3.6 percent in 2018.

For 2019, a growth rate of 4 percent is foreseen, mainly because of activity in the tertiary sector (commerce and other services) and the secondary sector (manufacturing, construction, and electricity); the primary sector would grow at a slower rate. On the expenditure side, the main contribution to growth is expected to come from domestic demand, especially private consumption and investment. Net external demand would also have a positive contribution, although minimal, with similar rates of growth for both exports and imports. Adverse weather conditions affected the performance of the agricultural sector in 2019, especially the production of soybeans, and the growth projection could be revised downwards at the end of April.

Inflation was 3.2 percent in 2018, falling within the target range of 4 +/-2 percent. This result was explained mainly by price pressures in the transport sector and, to a lesser extent, in the other categories, with the exception of food items and beverages, which registered a decline in prices during the year. Inflation trend measures closed the year at levels consistent with the target range.

Towards the end of last year and the beginning of 2019, headline inflation, as well as the measures of underlying inflation, have shown a downward trajectory. Taking into account both the recent and expected evolution of prices, together with the latest indicators of economic activity and domestic demand, the Central Bank of Paraguay considered it timely to ease the monetary policy stance by reducing the reference rate by 50 basis points (bps), to 4.75 percent. The monetary policy rate was reduced by 25 bps in both February and March 2019.

The exchange rate has remained in line with the dynamics observed at global and regional levels. During 2018, the Guarani depreciated by around 7 percent vis-à-vis the U.S. dollar, while the Chilean peso, the Colombian peso, the Brazilian real, and the new Peruvian sol depreciated by 13.1, 9.5, 18, and 4.1 percent, respectively. The Central Bank of Paraguay's participation in the foreign exchange market has been limited to attenuating abrupt exchange rate volatility, without altering the trend determined by market fundamentals. Net International Reserves at the end of 2018 were slightly over USD 8 billion (20 percent of GDP), a level that gives a comfortable margin of liquidity to face eventual sudden fluctuations of the exchange rate.

With regards to the public finances, the fiscal deficit is estimated at 1.3 percent of GDP in 2018, below the limit established in the Fiscal Responsibility Law. Tax revenue stands at 10 percent of GDP, maintaining the upward trend exhibited in recent years. In mid-2018, the Ministry of Finance established the Technical and Economic Commission for Taxation, with the purpose of analyzing the current tax system and presenting a proposal for tax modernization and simplification. Total spending increased at a moderate rate within a context characterized by an improvement of the composition of expenditures. On this note, the Ministry of Finance established a Private and Public Inter-institutional Commission to study proposals for a more efficient allocation of public expenditures.

The financial system remains stable, with solvency indicators that are in line with the Basel minimum capital requirements. Moreover, liquidity, non-performing loans and profitability indicators continue to stand at adequate levels. In this regard, stress testing reveals that the banking system is resilient to face extreme shocks. Furthermore, the process of financial regulation reform continues, with the main challenges involving the development of regulatory frameworks to adapt to the digital environment as well as to improve the market's transparency and discipline. Some draft laws that are currently being studied include the creation of a Credit Bureau, Crowdfunding, Transparency of the Total Cost of Credit, Foreign Exchange Brokers, and modifications to the Cooperatives Law and the Charter of the National Institute of Cooperativism (INCOOP), among others.

## **Peru**

After attaining modest growth in 2017 (2.5 percent), mainly as a result of the impact of the El Niño Phenomenon and the Lava Jato corruption scandal, economic activity in Peru recovered to 4.0 percent in 2018, mostly in response to the performance of mining investment and private consumption. Growth is expected to remain at 4.0 percent in 2019-2020.

Inflation was 2.2 percent in 2018, within the target range (1 percent-3 percent), mainly due to the absence of supply shocks during the year. Moreover, one-year-ahead expected inflation was 2.5 percent as of December 2018 (within the target range since May 2017). The BCRP has kept its policy rate at 2.75 percent since March 2018. The BCRP Board will sustain an expansionary stance as long as inflation expectations remain anchored, with economic activity still below potential.

Credit to the private sector accelerated from 6.7 percent yoy in December 2017 to 8.3 percent yoy in December 2018, mainly because of a better performance in corporate and personal loans, in line with the recovery of domestic demand and the expansionary monetary stance.

The fiscal deficit fell between 2017 and 2018 (from 3.1 percent to 2.5 percent of GDP) due to a considerable increase in government revenues. Moreover, public investment reversed its declining trend as a result of higher outlays associated with road infrastructure works and the 2019 Pan-American Games. Public debt as of end-2018 was 25.7 percent of GDP, one of the lowest of the region. Going forward, fiscal consolidation will secure the fiscal deficit's declining trend.

The current account deficit in 2019-20 is expected to remain low at about 1.3 percent of GDP in a context of improved terms of trade. The trade balance surplus remained at 3.1 percent of GDP, despite global growth moderation and trade tensions. The external debt is low (34.7 percent of GDP in 2018), as the main source of external financing is FDI.

Finally, the BCRP keeps an international reserve buffer of around four times short-term obligations and 26 percent of GDP. With sound fundamentals and high international reserves, Peru is among the emerging economies with the strongest external positions. This in turn enables the authorities to limit the risks from exogenous financial shocks.

## **Uruguay**

Between 2003 and 2018, the world economy experienced some roller coaster movements; for instance, in terms of growth rates, currencies, real estate prices, sovereign spreads, commodity prices, social equilibria, etc. Under this complex scenario, during this period only 24 percent of IMF member countries, and in a lower percentage, 17 percent, in the Americas and the Caribbean, have posted uninterrupted positive growth. Uruguay is one of them, which is inedited for the country due to the extension of the period, and particularly exceptional for a small and open economy, which is recurrently exposed to volatile

circumstances in its region, where movements have often been much more exacerbated than the global economy's, particularly in Uruguay's big neighbors. It is worth recalling that sometimes along its history, Uruguay suffered from regional volatility even in a more virulent way than in its epicenter.

This peculiar period of the global economy, the region, and Uruguay itself, has led the country to draw relevant conclusions looking ahead. A common path of economic growth and substantial social progress is possible and necessary; a process of fundamental reforms, like those undertaken in the financial system, public banks, tax system, tax administration, and the energy matrix with a strong bet on renewable energies, among others, has brought Uruguay substantial benefits; political and social consensus are essential to implement and make long-lasting reforms; prudent and consistent policies have allowed the country to create buffers, boosting the likelihood of successfully facing headwind times; diversification and further integration to the world economy have been key factors to achieve a decoupling process from regional volatility; decoupling does not mean isolation from external shocks, but having policy and financial buffers that contribute to soften them when erupting; and a continuous self-criticism routine is essential to further improve policies and adopt good practices, or to realize which areas with fragilities need to be addressed. In times of uncertainty emanated from political and geopolitical events worldwide, robust institutions built along most part of Uruguay's history, democracy, low perception of corruption, transparency, an unambiguous adherence to the rule of law, freedom of speech and press, as well as the factors previously mentioned in terms of economic stability and social developments, allow Uruguay to display a distinctive dose of certainty, as undoubtedly recognized by markets, investors, rating agencies, and multilateral institutions.

Of course, some particular sub-periods over the past sixteen years, like the current situation that displays lower albeit positive growth rates and slowing of investment, with its consequent effects, for instance, on the fiscal front and employment, keep the authorities focused on implementing the most appropriate policies. The whole picture allows Uruguay to be optimistic about its robustness and possibilities to successfully face these challenges.