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Statement by Mr. Caputo
Argentina

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

Statement by Governor Luis Caputo, Minister of Economy, Argentina

On behalf of the Southern Cone Constituency

(Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay)

Global outlook, economic policies, and international cooperation

Although the global economy continues to move closer to a soft landing, uncertainty remains high, with risks tilted to the downside, and global growth below the average of the past decade, with diverging prospects across countries.

The forecast for global growth for 2024 remains unchanged, after being revised upwards to 3.2 percent in July -+0.1 pp compared to the spring. Even though growth for 2024 in EMDEs has been revised slightly upwards compared with April -from 4.1 to 4.2 percent-, this is due to upgrades in Asia, notably China and India, offsetting downgrades for sub-Saharan Africa and the Middle East and Central Asia. For the region of Latin America and the Caribbean, growth is projected to decline in 2024 (2.0 percent) compared to 2023 (2.2 percent); however, a rebound to 2.5 percent is expected in 2025.

With medium-term growth projections for the world economy at their lowest in decades, risks and uncertainties persist, which weigh more heavily on the prospects for the Emerging Market and Developing Economies (EMDEs). Geopolitical tensions, prolonged wars, and the escalation of conflicts, as well as economic fragmentation, could trigger higher volatility in financial markets and commodity prices, unleashing capital outflows and currency depreciations in EMDEs and bringing back inflationary pressures. Amid weak growth prospects, elevated debt levels, and still tight global financial conditions, high debt-service-to-GDP ratios are crowding out critical investments for development and productivity growth, hindering EMDEs' catchup, and adding to the risk of economic divergence.

As it is argued and well documented in the latest edition of the Fiscal Monitor, sovereign debt dynamics post pandemic are not sustainable and need to be addressed as an urgent matter, in some of the major economies of the world, but also in other places that are less systemically important. The expansionary trend of fiscal policies seems to have reached the boundaries of what healthy and innovative economies are able to afford. The new debt at risk model and metrics is a warning sign that policy makers need to change course now in order to avoid a hard landing and a disorderly correction in the medium term.

Building domestic resilience and enhancing international cooperation are key to foster strong, sustainable, and inclusive growth. At the domestic level, countries need to develop sound and credible macroeconomic and institutional frameworks. Pivoting toward fiscal consolidation to set debt on a sustainable path and rebuild buffers, while advancing with productivity-enhancing market-orienting structural reforms, must remain priorities for domestic policymaking. While these reforms may take some time to deliver, and in parallel to much needed fiscal consolidation, an accommodating international financial environment would help countries escape a high-debt low-growth trap. Capacity building and technical assistance are needed, but also affordable and flexible international financial support, including through the provision of concessional loans and grants, and debt relief. In this regard, a strong, well-funded, and readily accessible global financial safety net (GFSN) with the IMF at its center is necessary to provide timely support to vulnerable countries.

The IMF at 80: Committed to our members

Fortify the lending toolkit to respond to needs in a shock-prone world

Review of Charges and the Surcharge Policy. We welcome the Review of Charges and the Surcharge Policy approved by the IMF Executive Board this month as a timely deliverable that will give needed relief to borrowers against the backdrop of buoyant net income generated to a great extent through lending activities at the institution, with the target of precautionary balances comfortably met, borrowing costs at the highest in decades, and sufficient resources to support PRGT reform. This outcome, reached by consensus, is a relevant first step that shows that although it seems difficult nowadays to agree at multilateral fora on anything, with good leadership and political will from the membership, good reforms can be agreed upon -and much more remains to be done- to keep a Fund fit for purpose that delivers for its members. Beyond the very welcome financial relief on borrowing countries, we also welcome the additional measures that will add to the transparency of the policy and emphasize that the Fund must remain agile in adapting to evolving circumstances.

PRGT Review. We also welcome the PRGT Review that will allow the Fund to maintain adequate financial support to LICs, while restoring the self-sustainability of the Trust.

Resiliency and Sustainability Trust (RST). The RST has proven to be an effective tool to help members cope with the balance-of-payment requirements of structural and long-term challenges, such as climate change and pandemic management. In the comprehensive review of 2026-2027, we see merit in updating the RST to cover a broader range of structural challenges beyond climate change and pandemic preparedness.

Support global efforts to tackle liquidity challenges and raise financing for development

We acknowledge that in the past years, higher interest costs against the backdrop of lean economic growth, are pushing up the debt servicing to GDP, adding near-term pressure on already constrained public budgets. In many EMDEs, this means that debt interest payments are crowding out critical investments for development and resilient growth. Structural reforms, especially those that foster solid institutional and regulatory frameworks, are necessary to lay the groundwork for the markets to work efficiently, attract investments, and mobilize private financing. Likewise, fiscal consolidation and improving the efficiency of public spending will further contribute to macroeconomic stability and ease liquidity pressures.

However, it is important to consider that these policies take time to kick-in, and in the short term they may not only have a negative social impact, but also step in the way of development priorities. In this regard, it is important to accompany these measures with initiatives for mobilizing adequate international support and reducing debt servicing burdens.

Ensure a strong and representative IMF

We reiterate that a quota realignment that reflects the real weight of members in the global economy, and that addresses the underrepresentation of EMDEs, is important for enhancing the legitimacy of the IMF at the center of a GFSN. To that end, we support efforts from staff to develop, by June 2025, possible approaches as a guide for further quota realignment, including through a new quota formula, under the 17th General Review of Quotas.

ARGENTINA

Developments of the new economic program

The new economic program (the “Program”) launched in December 2023 focuses on establishing a strong fiscal anchor with solid fiscal consolidation, strengthening the financial position of the central bank, rebuilding reserves, fostering a sound macroeconomic environment, bringing down inflation and tackling long-standing imbalances, thus laying the foundations for a sustainable economic growth. To achieve its goals, the Program focuses on two fundamental pillars: ensuring macroeconomic stability and reducing bureaucracy and simplifying trade and other economic transactions.

The first pillar of macroeconomic stabilization is based on the fiscal anchor, which consists of prioritizing the financial equilibrium of the Non-Financial Public Sector, eliminating the need to finance the deficit through net indebtedness or monetary issuance. From the beginning, there was a commitment to achieve and sustain fiscal balance, based on attending to the National Government's own functions, eliminating inappropriate expenses, and streamlining the administration.

The financial balance target was achieved in record time: starting from a financial deficit of 4.4 percent of GDP in 2023, in January 2024 Argentina recorded a primary surplus of 0.3 percent of GDP and a financial surplus of 0.1 percent of GDP. In the first nine months of the year, the primary surplus amounted to approximately 1.7 percent of GDP and the financial surplus to 0.4 percent. Moreover, even with the reduction of the *impuesto PAIS* from 17.5 percent to 7.5 percent, the primary surplus in September overperformed by about 0.4 percent of GDP, the target agreed in the last review of the Extended Fund Facilities (EFF) with the IMF for the third quarter. This result was achieved through a combination of permanent spending cuts and temporary tax increases at the beginning of the Administration, while prioritizing social assistance to the most vulnerable, internal security and national defense, and the modernization and simplification of the State. Since the second half of the year, different fiscal measures were implemented in order to continue reorganizing the Argentine economy.

The second pillar of the Program focuses on the implementation of measures and reforms aimed at promoting productive development through the integration with the world and the strengthening of transparency and competition.

Regarding foreign trade, the measures implemented since December were aimed at reducing import costs, boosting exports and facilitating transactions. These have focused on the elimination of import permits and standardization, the reduction of import tariffs and taxes, and the elimination and simplification of non-tariff measures and procedures.

With regard to domestic trade, the objective of the policies implemented was to normalize trade, promote competition, and protect consumers. The measures implemented were aimed at eliminating price and quantity controls, simplifying domestic trade, modernizing antitrust regulations, and improving means of payment.

Likewise, the approval of the Law 27,742 (“Ley de Bases y Puntos de Partida para la Libertad de los Argentinos”) and the Law 27,742 (“Medidas Fiscales Paliativas y Relevantes”), consolidates this agenda of generating a favorable regulatory framework for investment and the creation of formal employment. Enhancing a growth model that is based on the private sector investment will allow for a sustained expansion of potential GDP, so as to provide greater sustainability to the development process and overcome the limitations faced by the Argentine economy in recent decades.

The Program already shows positive impacts in 2024. The exchange rate adjustment served as an incentive for production and exports, while discouraging imports. In September 2024, the trade balance was in surplus for the tenth consecutive month, with nine consecutive months of increasing exports and decreasing imports in year-on-year terms. Thus, in the first nine months of the year, the trade surplus was USD 15,075 million, compared to a deficit of USD 6,942 million in the same period of 2023. The trade surplus was crucial for the Central Bank's reserve accumulation process, which from December 10, 2023 to the last days of September accumulated purchases of USD 17.7 billion.

Furthermore, once achieving financial equilibrium and after stopping the financing of the fiscal deficit through monetary issuance, the inflation rate has declined sharply in 2024. The Consumer Price Index (CPI) rose to 25.5 percent MoM in December 2023, triggered by the increase in FX and other relative price changes, like food and beverages, gas, medicine, and health insurance. Since then, the CPI rate has declined to a range of 4.0 percent MoM between May 2024 and August 2024, reaching 3.5 percent MoM in September 2024, the lowest rate since November 2021. This trend has also been reflected by the Wholesale Price Index, which decelerated from 54.0 percent MoM in December 2023 to only 2.0 percent MoM in September 2024, the minimum rate in the last four years. This deceleration occurred even despite some regulated price updates aimed at reducing distortions in relative prices, such as public transport and energy tariffs.

Economic outlook and projections for 2025

For 2025 we are projecting a GDP recovery of 5.0 percent. Likewise, sustained GDP growth is expected to continue in the following years (+5.0 percent in 2026 and +5.5 percent in 2027). In 2025, projected GDP growth is mainly driven by industry and trade, with increases of 6.2 percent and 6.7 percent, respectively. The agricultural sector is expected to grow by 3.5 percent, following the recovery of the previous year's harvest. On the demand side, all components are expected to recover; in particular, Private Consumption (+4.5 percent) and Investment (+9.9 percent).

In 2025 fiscal balance will remain a top priority, and this will be achieved through a primary surplus equivalent to debt interest, estimated at 1.5 percent of GDP. For the second consecutive year the National Public Sector will not need financing through indebtedness or monetary issuance, since there will be no imbalances in the public accounts. At the same time, the government will continue to strengthen the areas of national defense and internal security, and the modernization and simplification of the State will be deepened. Priority will continue to be given to social support for the most vulnerable sectors -without the intermediaries that reduce the impact of policies-, with special emphasis on children and adolescents.

BOLIVIA

Recent economic developments

The Bolivian economy has evolved in an extremely challenging context so far in 2024, with an external scenario of a slowdown in the global economy in general and of trading partners in particular, restrictive financial conditions, still high prices, including shipping costs, and a tense geopolitical environment. Furthermore, the local background has been marked by severe climate events, strong fires, the decrease in hydrocarbon production, pressures on foreign currency liquidity, and political tensions, especially in the legislative assembly that limited the approval of relevant regulations, including the access to external financing for public investment, primarily. Despite these circumstances, the Bolivian economy remains

resilient, amid the government's firm actions to contain pressures, strengthen economic activity, and protect the population's living conditions.

The economy grew by 1.3 percent in the first quarter of 2024, mainly driven by the positive performance of the activities of financial establishments; restaurants, hotels, and other services; transportation and storage; and significant growth in basic services and construction, which offset the negative effect of unfavorable weather conditions and the contraction of the hydrocarbon sector. Labor market indicators remained dynamic, with an urban unemployment rate of 3.4 percent in June 2024. On the other hand, the high pressures from imported inflation, the climate impact on the food sector, road blockades, and an increase in reverse smuggling were factors that contributed to an accumulated inflation of 5.5 percent as of September. The government is working intensively to address these pressures and preserve households' purchasing power.

Furthermore, the delay in the harvest period of important products of the agro-industrial sector, road disruptions, as well as lower exports of natural gas affected the trade balance, which, however, changed its trend and is showing signs of a gradual recovery. Similarly, net international reserves stabilized, even recording an increase compared to the levels reached at end-2023. The financial system remained resilient, displaying, as of August 2024, adequate capitalization levels; growth in deposits and credits, 6.8 percent and 4.1 percent y-o-y, respectively; and the permanence of a high percentage of operations in local currency, 90.9 percent in the case of deposits and 99.5 percent in credits. While the impact of the shocks and the conclusion of the extension and grace periods, applied as relief measures during the COVID-19 pandemic, caused an increase in the non-performing loans rate, it is still at low levels. The government is closely monitoring the performance of the sector and taking action to protect financial stability and promote the recovery of borrowers' economic activity.

Policies to safeguard the economy and the population's well-being

Faced with the complex external and domestic context, the Bolivian government continues to implement decisive actions to address challenges, strengthen productive activity, and preserve and improve the population's welfare. In this regard, further efforts remain to foster the productive sector in general and the export segment in particular, which will also contribute to foreign currency generation. The coordination and greater involvement of the private sector in these efforts stand out. Thus, the government persists with investments in strategic sectors, such as mining, lithium, hydrocarbons, food, among others, under the import substitution industrialization policy. In addition, measures to boost productive activity in the private sector continue, including the recent temporary tariff exemption on agricultural inputs and machinery imports, the agreement to create an investment and export promotion agency, the establishment of a single window for foreign trade, and the extension of the SIBOLIVIA credit trusts to the export sector and producers of biodiesel and/or its raw materials—this program was initially created to provide concessional financing to productive sectors involved in import substitution.

Moreover, with the aim of addressing the challenges in the hydrocarbon sector and the country's dependence on fuel imports, the government continues to make progress to reverse the decline in natural gas production through significant investments in exploration by the state-owned hydrocarbon company. In this regard and as part of the results of these efforts, in July 2024 the discovery of an important field, Mayaya X1, was announced. In relation to fuels, the government persists in the construction of biodiesel plants and is promoting the participation of the private sector in this initiative through tax and financial incentives. Similarly, new types of high-quality gasoline were introduced at prices that vary in line with international prices. More broadly, actions continue to advance the generation of alternative and

renewable energy. These efforts, besides strengthening the country's energy security and sovereignty, will contribute to reducing fuel imports and saving foreign currency.

Containing pressures on local prices has been a significant part of the government's efforts. In addition to the permanence of fuel and food subsidies, a series of measures were adopted to control inflation, such as temporary tariff exemptions for critical products in the basket of goods and essential inputs for productive and service activities; the launch of food fairs to promote direct trade from producers to consumers; intensified controls to prevent reverse smuggling due to lower prices of local products; and greater vigilance to avoid speculation.

Efforts continue to foster financial inclusion and protect the vulnerable population against shocks. In this vein, the government, through the Productive Development Bank (BDP), persists in promoting the productive activity of young people and women, facilitating their access to financing at interest rates below those of the market and providing technical assistance for the development of their projects. Similarly, a credit fund and a guarantee fund were established to provide loans at preferential interest rates to microenterprises and to benefit the retail sector, respectively. In addition, a voluntary rescheduling and refinancing of credits in favor of sectors affected by shocks, including those of a climate nature, was recently announced. These actions also contribute to strengthening economic activity.

Furthermore, the government continued to deploy its salary policy to promote the population's well-being, under the income redistribution policy framework. Hence, an increase of 5.8 percent in the minimum wage and 3.0 percent in basic salaries was determined for 2024. Similarly, the administration established a 2.7 percent rise in the income for the retired population. Regarding this last sector, a regulation was also approved to improve low-income retirees' payments.

Despite the limitations in access to financing, amid the tighter global financial conditions and the refusal of parliament to approve external credits already negotiated for more than $US 1 billion, which prevents the progress in important investment projects, the government continues to promote public investment. Moreover, it is closely monitoring external financial conditions and exploring additional financing options that ensure more favorable terms for the country. The government has punctually complied with external debt financial obligations and remains committed in this regard.

Economic outlook

The Bolivian economy is expected to continue growing towards the end of the year supported by ongoing and planned policies. Furthermore, it is expected that the normalization of the productive cycle after the impact of climate events, as well as measures in place, will allow the stabilization of inflation and the strengthening of external accounts. Nevertheless, the government is aware of the significant uncertainty and risks arising from the international context, the climate crisis, and the domestic political situation, among others. Therefore, it remains committed to monitoring these factors and implementing the necessary actions to mitigate their impacts and, more broadly, persisting in efforts to ensure a resilient economy with an improved standard of living for the population.

CHILE

The Chilean economy continues to make progress towards sustainable growth despite external challenges. Coordinated monetary and fiscal policies have effectively narrowed the positive output gap, eased inflationary pressures, and reduced the current account deficit which escalated during the pandemic. Notably, the macroeconomic adjustment to reduce persistent high inflation rates has been

achieved with less social and economic costs compared to previous episodes, which can be attributed to swift monetary actions and the government's consolidation efforts, including targeted support for the most vulnerable sector of the population. Economic activity has converged towards a more sustainable trajectory following a necessary adjustment phase, which has reduced inflation pressures significantly. Headline inflation has increased recently due to increases in electricity prices but is expected to converge back to target throughout 2025 once transitory supply factors subside. Concurrently, the financial authorities are taking crucial steps to enhance the resilience of the financial system by implementing the last steps of Basel III and advancing on the financial regulatory agenda. The government is pursuing a multi-year fiscal consolidation path aimed at rebuilding buffers and maintaining public debt below a prudent ceiling, along with a broader strategy to foster a more inclusive, dynamic, and greener economy.

Recent economic developments and projections

Since the beginning of the year, economic projections have been revised upward amid stronger domestic demand, higher copper prices, and a more positive investment outlook. This year GDP is expected to grow between 2.25-2.75 percent, and in 2025 it is expected to reach its potential growth of 1.5-2.5 percent. Headline inflation is projected to increase over the coming months driven by the electric tariff increase; however, the shock is expected to be a one-time and transitory event and should not affect the economy's ability to achieve the 3 percent target for inflation within the monetary policy horizon, converging to the 3 percent target in the first half of 2026.

Monetary policy and inflation

After timely and strong monetary policy actions since mid-2021, the Central Bank of Chile (BCCh) started to ease its monetary stance from restrictive levels in July 2023. Currently, the monetary policy interest rate (MPR) has been reduced by 600 basis points (bp), bringing it to 5.25 percent, remaining above the nominal neutral rate, which is estimated between 3.5-4.5 percent. The monetary authority considers that further MPR reductions will be needed to ensure inflation aligns with its target. The extent and timing of these reductions will depend on the evolution of the macroeconomic situation and its impact on the inflation path.

Financial sector

The banking sector remains liquid, solvent, and well capitalized, supported by effective supervision and regulation. The implementation of Basel III is underway, strengthening financial buffers in the banking system, to be fully phased-in by the end of 2025. Despite the monetary tightening cycle and the withdrawal of support measures introduced during the pandemic, the banking system remains resilient, healthy, and capable of withstanding severe stressed scenarios. Nevertheless, there are still pockets of vulnerabilities in some specific sectors which the authorities are carefully monitoring. As a precautionary measure amid external uncertainty, in May 2023 the BCCh activated the counter-cyclical buffer (CCyB), at a rate of 0.5 percent of RWA, which came into full effect one year later and it remains at that level.

Significant steps have been taken to enhance the financial regulatory framework, following the 2021 FSAP recommendations. The Financial Market's Resilience Law is expected to strengthen the infrastructure and functioning of financial markets, and the introduction of the Fintech Law will support the development of fintech to foster innovation, competition, and inclusivity in the financial sector. Also, with the support of the IMF's Technical Assistance, the authorities are working on alternatives to improve the crisis management toolkit and bank resolution framework. They are confident that the ongoing financial regulation agenda will continue to bolster the resilience of the Chilean financial system.

Fiscal policy and public debt

The government is implementing a multi-year consolidation plan to achieve a structural equilibrium by 2026 (-0.5 percent of GDP) and keep public debt below 45 percent of GDP. The current administration remains firmly committed to complying with the fiscal policy target of a structural deficit of 1.9 percent of GDP this year and public debt-to-GDP ratio of 41.2 percent. The 2025 budget bill strikes a balance between the authorities' commitment to spending and their ongoing medium-term plan for fiscal consolidation, announced in 2022, which distributes the effort evenly throughout their term in office. It sets a structural fiscal deficit target at 1.1 percent of GDP, with a 2.7 percent increase in real expenditures compared to 2024. This additional spending will primarily be allocated to public security, and health. The gross public debt is expected to reach 41.3 percent of GDP by the end of 2025, peak in 2026 at 41.4 percent and start a downward trajectory in 2027.

Structural policies

The authorities are committed to an ambitious agenda of structural reforms aimed at fostering inclusive, sustainable, and dynamic growth. The government and Congress have agreed on a fast track to accelerate 21 bills under the Pact for Economic Growth, Social Protection and Fiscal Responsibility. These bills include reforms to the permit system, tax compliance, and the public sector. Most recently, Congress approved the tax compliance legislation, which should bring an additional $1.2 billion to state revenues. The legislation on the permit system that was submitted early this year is making good progress and is expected to be passed by Congress before the end of the year. On pensions, the discussion of the reform is still open, but there is consensus on both the urgency and the need for a self-sustainable system. The government will present a bill in early 2025.

Chile remains committed to climate action, with a strong track record of policies and an ambitious agenda ahead. Under the Climate Change Framework Law, the authorities continue to implement their long-term climate strategy and stay on track with their National Determined Contributions (NDC). The Law mandates the Ministry of Finance to develop a Financial Strategy that it is now being updated and revised to include biodiversity, as well as other sustainability goals. The current strategy includes the implementation of a framework for measuring climate-related spending, the issuance of ESG bonds, the creation of a taxonomy for environmentally sustainable economic activities, the work of the natural capital committee to include biodiversity considerations in public policy and fostering engagement with the financial sector through the Public-Private Green Finance Roundtable.

Chile's abundant mineral and renewable energy resources present significant opportunities for growth, supported by its open trade policy. The national lithium strategy is making good progress. Public-private collaboration is expected to generate a 76 percent increase in production by 2030 and more than double by 2035. Concurrently, the National Hydrogen Action Plan 2023-2030 outlines a strategy for developing the hydrogen industry, balancing economic growth with environmental and social concerns.

PARAGUAY

Economic activity and demand indicators have evolved favorably in recent months. In the first semester, Gross Domestic Product (GDP) grew 4.6 percent, while the GDP that excludes agriculture and binational hydroelectric entities expanded by 6.2 percent. The GDP growth projection for 2024 has been revised upward from 3.8 to 4.0 percent. The main drivers of this growth are expected to be the services sector, manufacturing, livestock production, and construction, while the electricity and water sector is projected to experience a decline this year due to reduced water flow in the Paraná River. On the expenditure side,

domestic demand is expected to have a positive impact on GDP growth, due to the expansion of both private and public consumption, and greater gross fixed capital formation.

Total inflation and inflation trend measures have continued to evolve favorably in recent months. In this scenario of lower inflationary pressures and inflation expectations aligned with the target, the Central Bank of Paraguay (CBP) reduced its monetary policy rate (MPR) from 8.50 percent in July 2023 to 6.00 percent in March 2024. Since April, the Monetary Policy Committee (CPM) has kept the MPR unchanged at 6.0 percent. By the end of 2024, inflation is projected to stand at 4.0 percent.

The local exchange rate had depreciated around 7.0 percent by September 2024, in line with the dynamics of other regional currencies. This downward trajectory of the local currency is largely explained by the significant drop in the prices of export products, particularly soybeans. In addition, it is important to mention that external interest rates have remained high during a great part of the year, contributing to the strengthening of the U. S. dollar in international markets. However, international financial conditions have eased in recent months, a context that could eventually reduce pressure on the currencies of countries within the region.

The financial system has remained stable, with solvency levels standing above the minimum regulatory requirements and credit quality indicators at adequate levels. Profitability has continued to rise, reaching levels comparable to those recorded before the pandemic. Additionally, credit has continued with a positive dynamic, with growth rates of 13 percent for loans granted in foreign currency and 16 percent for loans extended in guaranies. Likewise, bank deposits have shown a favorable performance, particularly long-term deposits in local currency.

Concerning the financial system, regulations have been issued to promote greater access to the system through basic accounts for small and medium-sized enterprises (SMEs) and individuals, contributing to greater financial deepening and inclusion. In addition to the signing of agreements[1], the Superintendency of Securities has initiated the process to reform its legal framework in order to modernize and align it with international standards, thus promoting greater development of the capital market. This will support the attraction of foreign capital in a more favorable scenario, in which the country's rating has been upgraded. Regarding sustainable finance, Paraguay continues to advance in the construction of its green taxonomy to establish a classification of sustainable economic activities and channel investment flows toward these areas through new eco-friendly instruments.

Additionally, the payment system has operated normally, in a smooth, secure, and efficient manner. It is highlighted that the Payment Systems of Paraguay (SIPAP) has completed a decade of operation in the Paraguayan financial system with important achievements. In this regard, there has been an increased use of electronic means, highlighting the growing dynamism of the Instant Payments System (SPI), which has incorporated new functionalities into SIPAP to enhance customers' experience and facilitate the process for inter-bank transfers. More recently, to promote payments interoperability, it has been established that all payment service providers adopt international QR payments standards, which fosters a more digital, secure, efficient, and competitive society.

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[1] In June 2024, an agreement was signed by the CBP's Superintendency of Securities (SIV) and IOSCO to strengthen the supervision of Paraguay's securities market. https://www.bcp.gov.py/convenio-entre-el-bcp-y-la-iosco-para-el-fortalecimiento-de-la-supervision-del-mercado-de-valores-en-paraguay-n2074

PERU

Economic activity has continued to recover this year, especially in sectors most affected by last year's supply shocks. Year-over-year growth in the second quarter reached 3.6 percent (up from 1.4 percent in the first quarter), driven by both primary (7.2 percent) and non-primary (2.5 percent) activities. Improved weather conditions and an increase in real income, due to the decline in inflation, have boosted household confidence and private consumption. Additionally, public investment has continued to grow at double-digit rates.

The recovery in consumption and private investment—reflecting rising real income and improved private sector expectations—will underpin growth in non-primary sectors, particularly in the second half of the year. Normal weather conditions and investments in mining and infrastructure are anticipated next year. In this context, GDP is forecast to grow by 3.1 percent in 2024 and by 3.0 percent in 2025.

Since 2001, Peru has maintained one of the lowest and least volatile inflation rates in LAC, averaging 3.0 percent. The year-over-year inflation rate has recently declined, from 3.2 percent at the end of 2023 to 1.8 percent in September 2024, making Peru one of the few countries in the region to have already achieved its inflation target. Core inflation (excluding food and energy) fell from 2.9 percent to 2.6 percent over the same period. Other trend inflation indicators and twelve-month inflation expectations also remain on a downward trend, within the BCRP's 1 percent-3 percent target band. Headline inflation is projected at 2.3 percent by the end of 2024, converging to the mid-point of the target band by 2025.

Credit to the private sector increased by 0.9 percent year-over-year as of August 2024 and has recovered since April, primarily reflecting the normalization of monetary policy and a rebound in economic activity. Demand for credit is expected to grow by 3.0 percent in 2024, aligning with GDP growth expectations.

The fiscal deficit over the past 12 months rose from 2.8 percent to 4.0 percent of GDP between December 2023 and August 2024, due to lower current revenues. Public debt is projected to reach 33.4 percent of GDP by the end of 2024. Fiscal consolidation is expected to begin, supported by: (i) higher tax revenues from economic recovery and improved export prices; (ii) increased extraordinary income, especially from rent in 2025; (iii) prudent tax and public spending management; and (iv) enhanced management of public enterprises. Based on these factors, the fiscal deficit is projected at 3.3 percent of GDP in 2024 and 2.0 percent in 2025.

The current account surplus is forecast at 1.6 percent of GDP, driven by a higher trade surplus (with favorable terms of trade), recovery in inbound tourism, and increased foreign remittances. The balance of payments is expected to remain sustainable, supported by long-term capital inflows. The current account surplus is projected to decline to 0.8 percent by 2025 as profits for foreign-owned businesses rebound.

The BCRP began easing monetary policy in September 2023, implementing consecutive 25 basis-point policy rate cuts until February 2024, with pauses in March, June, and July, followed by further cuts in August and September. In October, the BCRP held its policy rate at 5.25 percent, signaling that future rate adjustments will depend on incoming inflation data. The real policy rate is 2.8 percent as of October 2024.

Additionally, the BCRP maintains an FX buffer equivalent to about five times the country's short-term obligations and 30 percent of GDP, reflecting a precautionary accumulation of international reserves. With robust fundamentals and substantial FX reserves, Peru's external position ranks among the strongest

among emerging market economies, allowing authorities to significantly mitigate risks from exogenous financial shocks.

Peru continues to uphold strong fundamentals, including low debt ratios, one of the largest fiscal spaces in LAC, and significant external buffers. In the face of unprecedented challenges, the country's sound policy management over the past three decades remains validated.

URUGUAY

Recent economic developments

After sluggish growth in 2023 weighed down by the effects of the most severe drought in the last century and lower external demand for agricultural goods, a recovery is underway driven by the rebound in both agricultural and industrial production, and exports. Economic growth in the second quarter of 2024 was 3.8 percent, compared to the same period in 2023 marking a notable acceleration from the 0.6 percent year-on-year increase observed in the first quarter. Real output is expected to expand by 3 percent in 2024.

Labor market indicators continue to perform strongly. All jobs lost due to the pandemic and in the previous five-year period have been recovered, with an average increase of 76,100 net employed persons in 2023 compared to 2019. Moreover, there has been a sustained rise in the activity rate which reached 64.5 percent in August 2024, the highest level since March 2016. The employment rate stood at 59.1 percent in August, marking a 0.9 percentage point rise in the same month of 2023 while unemployment in September stood at 8.4 percent, increasing 0.1 percentage points with respect to August due to the significant increase in the activity rate. Real wages continue to rise growing by 1.4 percent since August 2023. h

Fiscal policy and debt management

In 2023, the government delivered on all three pillars of the fiscal rule for the fourth consecutive year. Sustained compliance with the fiscal institutionality established in 2020 has enhanced fiscal credibility and transparency. Its focus is to stabilize the central government's debt stock in relation to GDP, avoid procyclical management of fiscal policy and promote the stability of public policies over time, particularly those aimed at education, security, and support for vulnerable households.

Three of the five rating agencies now place Uruguay at its highest credit rating ever. A new fiscal framework, together with a social security reform law passed in 2023, are the main drivers behind rating upgrades, as signaled by main agencies. In addition, the country is among the top global performers on ESG fundamentals in emerging markets.

In the 12 months ending in August 2024, the fiscal deficit of the Central Government stood at 3.4 percent of GDP. Netting out the effects of the Social Security Trust Fund (0.1 percent of GDP), the adjusted fiscal deficit was equivalent to 3.6 percent of GDP. Sluggish revenues, mostly driven by lower-than-expected inflation, have strongly impacted on fiscal figures. Central Government headline fiscal deficit for 2024 is projected at 3.1 percent of GDP, subject to a rebound of tax collection, given projected real GDP growth of 3.0 percent. In turn, the gross debt of the Central Government amounted to 60.1 percent of GDP as of June 2024, while net debt represented 55.8 percent of GDP.

The authorities have continued proactive liability management strategies de-risking the debt portfolio while containing borrowing costs. During the first six months of 2024, the Government tapped both

domestic and global markets, and disbursed multilateral loans, for a total gross borrowing equivalent of USD 3.382 million. In September 2024, Uruguay returned to international markets tapping a new USD Global Bond with final maturity in 2060, the country's longest term global bond. Debt management strategies and relative price effects have significantly reduced debt dollarization of debt, a key credit metric.

Inflation and monetary policy

Reducing inflation and anchoring expectations within the target range continued to be the primary focus of the Central Bank of Uruguay (BCU). In September 2024, inflation stood at 5.32 percent completing 16 consecutive months within the target range (3-6 percent), the longest period since the implementation of the inflation targeting regime. In turn, indicators of inflation expectations monitored by the BCU show a slow convergence as the 24-month average stood at 5.8 percent in September, within the target range.

In its last meeting on October 2024, the Monetary Policy Committee of the BCU maintained the monetary policy rate at 8.5 percent, with the aim of consolidating the convergence of inflation around the center of the target range (4.5 percent) towards the end of the Monetary Policy Horizon. The Monetary Policy Committee has gradually reduced the interest policy rate from 11.5 percent at the start of 2023 to 8.5 percent in April 2024, keeping it unchanged for four consecutive meetings.

Financial sector

The banking system is well capitalized, highly liquid, and profitable. The solvency of the financial institutions based in Uruguay continued to show remarkable strength, with a capital buffer that reached 1.9 times the minimum regulatory requirement (credit, market, operational, and systemic risks). Regarding liquidity risk, the ratio of liquid assets over total assets was 53.9 as of June 2024. The general credit debt delinquency stood at 1.8 percent, at minimal levels in historical terms. Stress tests of the banking system, carried out by the Superintendence of Financial Services (SFS) of the Central Bank, suggest that the banking system on average would withstand a severe recession scenario and the regulatory capital would remain above the minimum requirement.