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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

Although the global economy appears to be heading towards a soft landing, near- and medium-term challenges, as well as uncertainty, remain. The forecast for global growth for 2024 has been revised upwards to 3.1 percent, +0.3 pp compared to the fall, although regional performances diverge. The decline in growth prospects relative to historical levels is especially pronounced for Emerging Market and Developing Economies (EMDEs), holding back convergence toward higher income levels and undermining their capacity to address global challenges. Faster-than-expected disinflation in most regions could allow central banks to bring forward easing plans, but divergence in disinflation speeds and asymmetric policy stances could cause currency movements and capital flow reversals. Moreover, new commodity price spikes stemming from geopolitical tensions and further geo-economic fragmentation cannot be taken off the table. Financing costs remain expensive, and with debt servicing increasingly affected by lower growth and still high interest rates, debt vulnerabilities in low- and middle-income countries are building-up. Artificial intelligence and digitalization could boost growth and inequality reduction through an increase in labor productivity, but potential risks such as cyber incidents and negative impacts on job creation and quality could materialize in the medium and long term.

Rebuilding buffers and enhancing global cooperation are critical to address domestic and shared challenges. Countries need to implement appropriate domestic policies to foster macroeconomic and financial stability, boost potential growth, and build resilience in a more shock-prone world. Pivoting toward fiscal consolidation while advancing with structural reforms must remain priorities for the domestic policymaking. Global challenges require multilateral solutions, and a strong and responsive global financial safety net (GFSN) is needed to provide timely and adequate support to vulnerable countries facing a complex global landscape.

IMF PRIORITIES

A strong, representative, and adequately resourced Fund must continue playing a leading role in supporting members achieve sustainable growth.

Rebuilding buffers

We welcome the focus on fiscal consolidation. Reducing deficits and curbing the rise of public debt is of utmost importance to avoid further imbalances and to maintain a sound macroeconomic environment. However, fiscal consolidation needs to be guided by a mix of measures that combine more progressive taxation with expenditure efficiency, eliminating inefficient and unnecessary spending but maintaining targeted protection of the most vulnerable.

Delivering a rebound in growth

We agree that structural reforms are key to raising growth and arresting setbacks in income convergence. Structural reforms that foster solid institutional and regulatory frameworks are necessary to lay the groundwork for the markets to work efficiently, attract investments, encourage job creation, and boost productivity growth. These efforts must be complemented by policies that provide clear signals for the development of strategic sectors that underpin the comparative advantages of our economies, while keeping sound macroeconomic fundamentals.

Scaling-up of financing from the international community should match domestic efforts.

Liquidity constraints in some vulnerable countries are high and are stepping in the way of critical spending in growth-promoting investments and investments to achieve development objectives; therefore, it is paramount that EMDEs are able to access affordable, long-term financing to carry out the structural reforms that the transitions will require, without compromising their social and economic development needs and while protecting the most vulnerable.

Renewing purposefully the Fund's ability to respond to members' evolving needs

We welcome the Fund's efforts to continue providing bilateral and multilateral surveillance.

We support the Fund's policy advice to continue to assist members in assessing risks, bolster their policy and institutional frameworks, and calibrate macro financial policies to rebuild buffers, boost growth, and make it more inclusive. We also support the Fund partnering with other institutions in order to help members address transformational challenges.

The quota increase approved under the 16th General Review of Quotas (GRQ) was an achievement; nevertheless, urgent progress on quota realignment is needed. The increasing misalignment in individual countries' quotas undermines the Fund's effectiveness, resulting in increasingly stricter lending conditions. Moreover, in order to safeguard the effectiveness of the Fund as a platform for finding multilateral solutions, countries must be adequately represented. Thus, we emphasize the importance of adhering to the June 2025 timeline for proposing options on revising the quota shareholding formula in a way that reflects the evolving economic realities of member countries, specifically strengthening the voice and representation for EMDEs.

We welcome the Fund's efforts to adapt the lending toolkit to better support vulnerable members.

The upcoming reviews of the concessional financing tools, geared to tailoring lending to specific needs and catalyzing more financing towards LICs is important to support the most vulnerable members. For other members, the review of the Surcharges Policy can be an important source of financial relief. Since surcharges mainly affect MICs, with higher financing requirements in relation to their quotas, reviewing the Surcharges Policy could be a low-hanging fruit for providing support to this group of countries. Finally, the *Resiliency and Sustainability Trust (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; however, we expect the RST to be updated to cover a broader range of structural challenges.

ARGENTINA

The new economic program

The new economic 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.

On the fiscal front we are expecting to achieve a primary fiscal surplus of 2 percent of GDP by 2024 (comprising an adjustment of about 5 GDP points) through a combination of efforts to reduce administrative costs, energy and transport subsidies, discretionary transfers to provinces and state-owned enterprises, and infrastructure spending and temporary taxes. Additionally, all monetary financing of the fiscal deficit is being eliminated to strengthen the central bank's balance sheet.

In order to rebuild international reserves, the exchange rate has been adjusted upwards and a system to simplify and boost foreign trade has been launched. Measures are also being implemented to correct prices misalignment of goods and services with the aim of promoting a market-oriented economy and removing the structural obstacles that hold back productivity, investment, formal employment, and trade. All this is being complemented by targeted measures to strengthen social assistance for the most vulnerable.

Early actions are already having a positive impact. In January 2024 the Executive Board enabled a disbursement of around US\$4.7 billion (or SDR3.5 billion) to support the new authorities' strong policy efforts to restore macroeconomic stability and bring the program back on track.

Economic outlook and projections

In 2024 we expect the correction of imbalances to take a toll on economic activity, leading to a GDP contraction of around -2.8 percent. However, a recovery is expected from the second semester onwards, with GDP growing at an average annual rate of 5.0 percent in 2025. The outlook this year is good for some productive sectors, notably agriculture, with a significant improvement in the 2023/2024 crop this year after last year's drought.

In the first two months of 2024, the National Public Sector accounts showed a financial surplus for the first time in 12 years, driven by a 38 percent real fall in expenditure. This was mainly explained by a drop capital in expenditure (-87 percent real yoy), in current transfers to provinces (-77 percent real yoy), in economic subsidies (-54 percent real yoy) and in other current expenditure (-42 percent real yoy).

Within this framework of fiscal consolidation and surplus, monetary policy was geared towards reducing inflation through a contraction in real terms of monetary emission and an improvement in the central bank's balance sheet. Between December 10, 2023 and March 31, 2024, the monetary base was reduced by 35.8 percent cumulatively in real terms, while the broad monetary base (including interest-bearing liabilities in pesos) was reduced by 21.4 percent.

In addition, the monetary policy instrument was changed from LELIQs to one-day passes, thus reducing the maturities and the policy rate (from 133 percent to 100 percent in December 2023, to 80 percent in March 2024 and to 70 percent in April 2024), which substantially reduced the flow of

interest on interest-bearing liabilities. At the same time, the Treasury managed to absorb part of the stock of the central bank's liquidity.

Without fiscal deficit and monetary emission, and with exchange rate stability, month-to-month inflation began to decelerate after a December peak of 25.5 percent (totaling 211 percent for the year 2023), a month in which relative prices were readjusted. It declined to 20.6 percent in January, 13.2 percent in February, and 11 percent in March, even in a context where some regulated prices were updated, such as public transport and electricity tariffs. We expect this trend to continue with monthly inflation reaching single-digit levels during the second quarter of 2024.

Regarding the trade balance, we achieved a surplus for the third consecutive month in February 2024, thus accumulating USD 2.2 billion in the first two months of the year.

Finally, all these policies were coupled with measures to support the most vulnerable, including monthly bonuses for retirees and pensioners who receive the minimum amounts, doubling the amounts of the "Prestación Alimentar" and the Universal Child and Pregnancy Allowance (AUH), and increasing the Annual School Aid Allowance by 2024.

BOLIVIA

Amid a challenging external context, during 2023 and the first months of 2024 the Bolivian economy remained resilient. The defense of economic activity dynamism and the population's purchasing power, especially that of the most vulnerable; confronting the external pressures and local shocks; as well as the priority of productive strengthening and achieving the country's development objectives continued to guide the government's actions.

Recent developments of the economy

As of the third quarter of 2023, GDP grew by 2.3 percent, driven by the domestic demand. In fact, given the decline in net exports, the 6.6 percent growth in domestic demand sustained the economy, with an important contribution from public and private investment, and household consumption. On economic activity, the positive performance of other services, which include restaurants and hotels; financial establishments; public administration services; agriculture; and transportation and storage mainly influenced this result. A growth rate of around 3 percent is expected by the end of 2023. On the other hand, the labor market continued its recovery, reaching a record level of employed population and an unemployment rate of 3.9 percent at end-2023; in the latter case, returning to pre-pandemic levels and representing one of the lowest rates in the South American region.

In 2023, price stability continued to be recorded in Bolivia, with an inflation rate of 2.1 percent. The agricultural sector's positive performance, the permanence of fuel and food subsidies, and exchange stability allowed to contain the pressures still coming from international markets. Price stability and, therefore, the protection of the population's purchasing power, remained as one of the government's priorities during the year. As of March 2024, the country has controlled inflation, which reached an accumulated 0.7 percent.

The financial system appeared resilient despite the shocks experienced by the sector in 2023. Indeed, during the first half of the year the system faced the resolution of one of the most relevant banks in the sector, as well as an unusual demand for foreign currency. Regarding the first, the

government responded quickly to contain a possible risk of contagion to the rest of the system. Similarly, it ensured the supply of dollars to the sector to meet the demand for foreign currency. In this context and given the strength of the Bolivian financial system, with adequate levels of capitalization, profits, liquidity, and asset quality, with a non-performing loan rate of only 2.9 percent, and a high share of operations in local currency, the sector showed a significant recovery in credits and deposits at the end of the year, which has continued in the first months of 2024.

The government's efforts to protect economic activity and the population's purchasing power, which implied the dynamism of public investment and higher resources allocated to finance subsidies, especially for fuel, primarily contributed to the 2023 fiscal deficit. Furthermore, the tighter external financial conditions and local political tensions within the Assembly made access to financing difficult, even to those already agreed with multilateral and bilateral creditors to finance important public investment projects. However, the fact that domestic resources continued to mostly finance public investment projects in 2023 stands out.

Economic policy to consolidate the recovery

Amid a challenging context, several actions were adopted to mitigate its impact on the economy and population, and to continue strengthening the productive sector. Thus, given the pressures on international reserves in 2023 associated with the slowdown in global demand, the fall in the country's exports, in addition to the permanence of fuel imports and the speculative outbreak on the availability of foreign currency, the government implemented different measures to strengthen international reserves. These include the possibility of purchasing gold from the local market and transactions in the international market by the Central Bank of Bolivia (BCB), the promotion of the export sector to facilitate the generation and return of foreign currency, and the issuance of BCB bonds in foreign currency, among others.

Similarly, in its commitment to defend price stability and households' cost of living, and contain the pressures on local companies' costs, particularly in the agricultural sector, the government made the necessary efforts to ensure the subsidy on fuels; nevertheless, this generated pressures on fiscal accounts. Against this backdrop, the projects and initiatives to face this challenge continued, such as the construction of biodiesel plants, the increase in the ethanol mix for gasoline production, the introduction of new gasoline types at prices higher than the subsidized one, as well as tax incentives for the importation of electric and flex vehicles, the possibility of the private sector to directly import diesel for self-consumption, and fuel auctions for large importers, among others. These measures will help reduce imports of these fuels and save foreign currency.

The government continues to promote the productive sector, within the framework of the national import substitution strategy, through public investment projects and incentives to strengthen the private productive sector. Regarding the former, there are several investment projects underway, especially in the areas of mining, food, lithium, among others, which are expected to be completed in the short and medium term. On lithium, given the country's potential in this resource and its importance in the global energy transition, the Bolivian government is accelerating its development. At the end of 2023, the first industrial lithium carbonate plant was launched, and there are currently agreements with international companies that have shown interest in exploiting the resource. In addition, measures remain to promote the private productive sector, through the tax exemption on imports and sales of capital goods, the promotion of access to financing via minimum limits on productive credits in the financial system, the credit trust with preferential interest rates of 0.5 percent for producers involved in import substitution projects, the recent agreement with the private

sector to promote exports and agricultural productivity, including the State bank's new program, Agro+BDP, to provide financing and technical assistance to the sector, among others.

Economic outlook

The Bolivian economy is expected to continue growing in 2024, with price stability and a solid labor market. In this regard, a GDP growth rate of 3.7 percent and inflation of 3.6 percent are expected. Domestic demand will still drive the economy, with a positive performance expected in activities linked to the domestic market. Public investment will play an important role in this context, with 56 percent of these resources allocated to the productive sector, 22 percent to the social sector, and 16 percent to infrastructure. The Bolivian government remains committed to implementing appropriate actions to guarantee the protection of economic activity and the population, and productive strengthening, which it considers are fundamental to ensure sustainable and resilient growth, and increased well-being for the population.

CHILE

The Chilean economy is making progress towards sustainable growth despite external challenges. Coordinated monetary and fiscal policies have effectively narrowed the positive output gap, returned inflation to its target range, and reduced the current account deficit that escalated during the pandemic. Notably, the macroeconomic adjustment to reduce 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, which included targeted support for the most vulnerable. As inflation aligns with its target, monetary policy is shifting to a less restrictive stance. Concurrently, the financial authorities are implementing Basel III and advancing the regulatory agenda to strengthen the financial system's resilience. The government is pursuing a multi-year fiscal consolidation path to rebuild buffers and maintain public debt below a prudent ceiling, along with a broader strategy to foster a more inclusive, dynamic, and greener economy, while maintaining macroeconomic stability and fiscal responsibility.

Recent economic developments and projections

After contracting at the end of 2022 and early 2023, Chile's economy resumed positive quarterly growth rates in the second half of 2023, resulting in a growth rate of 0.2 percent of GDP for the year. The Central Bank of Chile (BCCh) projects that in 2024 the economy will expand by 2.0-3.0 percent and by 2025 it is expected to reach its potential growth rate of 1.5-2.5 percent. Inflationary pressures are subsiding, with headline inflation projected to align with the 3 percent target within the two-year monetary policy horizon. Furthermore, the current account deficit, after reaching historically high levels, moderated to 3.6 percent of GDP in 2023 and is expected to remain close to 3.4 percent in 2024 and 2025.

Monetary policy and inflation

After timely and strong monetary policy actions since mid-2021, the BCCh started to ease its monetary stance from restrictive levels in July 2023. Currently, the monetary policy interest rate (MPR) has been reduced by 475 basis points (bp), bringing it to 6.5 percent, remaining above the neutral rate. 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.

Inflation continued to decline in 2023 driven by the resolution of macroeconomic imbalances and the easing of recent cost shocks. By the end of 2023, headline inflation fell to 3.9 percent, a sharper decline than expected. Similarly, core inflation, led by a reduction in the other goods component, stood at 5.4 percent¹. Nevertheless, the latest CPI readings of 2024 showed an acceleration of inflation and higher-than-expected figures, underpinned by the peso depreciation, an increase external prices and the indexation of some local prices. Moreover, they occurred in a context in which monthly inflation has shown greater volatility in recent months. Therefore, the evolution of inflation must continue to be monitored. In this context, the BCCh expects that inflation will converge to the 3 percent target within the two-year monetary policy horizon.

The authorities regard the flexible exchange rate system as a key shock absorber role for external shocks and remain firmly committed to maintain it as such. The Flexible Credit Line (FCL) remains a key safeguard for Chile's international liquidity along with the international reserves, especially in the face of significant external uncertainty.

Fiscal policy and public debt

Under the Fiscal Responsibility Law, the government is implementing a multi-year consolidation plan to achieve close to a structural balance by 2026 (-0.5 percent of GDP) and keep public debt below a prudent level of 45 percent of GDP. After implementing one of the largest international post-COVID19 fiscal consolidations in 2022, the overall fiscal position in 2023 is projected to have reached a deficit of 2.4 percent of GDP, while the structural budget is estimated at a deficit of 2.6 percent of GDP. Gross public debt is expected to rise moderately to 39.4 percent of GDP.

Climate change

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 and investment, the issuance of ESG bonds, the creation of a taxonomy for environmentally sustainable economic activities, the work of the natural capital committee to include nature 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 aims to develop the lithium industry, increase fiscal revenues, and enhance its environmental and social sustainability.

¹ Every five years the National Institute of Statistics updates the basket of goods and services that represents households' consumption of goods and services in the country. This year the new basket with base year 2023 was introduced. For the purposes of macroeconomic analysis and the conduct of monetary policy, the Board uses this series, called the reference CPI, which considers information from the new basket only. As of December 2023, it showed an annual increase of 3.4 percent for headline inflation and 4.7 percent for core inflation.

Concurrently, the National Hydrogen Action Plan 2023-2030 outlines a strategy for developing the hydrogen industry, balancing economic growth with environmental and social considerations.

PARAGUAY

Paraguay's GDP growth rate for 2023 is estimated to have reached 4.5 percent. This was primarily driven by the positive performances of agriculture, electric energy generation, manufacturing, and services. On the expenditure side, private consumption was favorable, while there was a decrease in gross-fixed capital formation. Regarding external demand, exports exhibited important growth rates, while imports also experienced a significant increase.

For 2024, the GDP growth forecast stands at 3.8 percent. In the primary sector, projections indicate an expansion of agriculture and livestock production, while in the secondary sector, a recovery in construction is foreseen, particularly in the private sector. The favorable dynamics of the primary and construction sectors are expected to have a positive impact on associated manufacturing industries and the services sector. Likewise, we anticipate a positive effect of the El Niño climate phenomenon on the Paraná River's water flow, thus allowing greater generation of electrical power. On the expenditure side, an increase in domestic demand is foreseen due to expansions of private consumption and gross fixed capital formation. Regarding external demand, moderate growth rates are expected for both exports and imports.

The encouraging economic prospects are sustained by the positive figures that were exhibited by the labor market throughout 2023. In inter-annual terms, employment increased by 4.2 percent in the fourth quarter of 2023 and the employment rate rose from 66.6 percent to 67.4 percent. The unemployment rate decreased from 6.0 percent to 5.2 percent in the same period.

Total inflation has stabilized below the 4 percent target set by the Central Bank of Paraguay (CBP) since the second semester of 2023. Inflation decreased from 8.1 percent in 2022 to 3.7 percent in 2023. Likewise, projections for 2024 point to an inflation rate of around 4 percent. The reduction in the international prices of commodities, the restrictive stance of monetary policy, and expectations of an inflation rate aligned with the target are the key factors that explain the rapid moderation of inflationary pressures. Considering the favorable evolution of inflation and expectations, the CBP initiated the process of reducing its monetary policy rate (MPR) in August 2023, accumulating a decrease of 225 basis points by the end of February 2024, with a reduction from 8.50 percent to 6.25 percent.

The nominal exchange rate of the Guarani vis-à-vis the United States dollar ended 2023 with a slight depreciation of 1.3 percent (December 2022 vs December 2023) while remaining stable in its monthly evolution. In the first two months of 2024, the exchange rate experienced a slight cumulative appreciation of 0.7 percent. The external position remains solid, with net International Reserves standing at around 23 percent of GDP.

In the domestic financial system, the solvency indicator stands above the minimum regulatory requirements and profitability has continued to recover, reaching similar levels to those registered before the pandemic. In recent months both credits and deposits have shown promising dynamics. In addition, the expectations of the financial system's agents for the granting of loans in the upcoming months have remained optimistic.

Concerning reforms, it is important to highlight the recent passing of legislation for the establishment of the Superintendency of Pensions, a technical agency that will be in charge of regulating and supervising all retirement and pension fund entities. This law seeks to comply with Article 95 of the National Constitution, which establishes that the services of the social security system, whether public, private, or mixed, should be supervised by the State. Furthermore, it is appropriate to note the advances made for integrated supervision of the financial system with the creation of the Superintendency of Securities (in replacement of the National Securities Commission), which functions as a part of the CBP, together with the Superintendency of Banks and the Superintendency of Insurance. We believe that the creation of these bodies will contribute towards the greater development of Paraguay's capital market. On one hand, strengthening the governance of pension funds is crucial for improving the safety, diversification, and return of funds. On the other hand, enhancing both the regulation and supervision of the securities market will enable the monitoring of the diversification process of investment portfolios managed by pension funds.

The Payments System has continued operating in a smooth and efficient manner, focused on the implementation of new functionalities within the Instant Payments System in 2023. This has resulted in increased dynamism in inter-bank transfers. At the same time, there has been an increase in the adoption of digital payments by economic agents, as a result of the advancements in financial infrastructure for electronic payments in recent years.

PERU

Economic activity declined by 0.6 percent in 2023 due to various supply shocks, including political unrest, adverse weather conditions, and the avian flu outbreak, which affected productive capacity and had a second-round impact on private sector income and confidence. Additionally, a decrease in household purchasing power resulted from persistent and significant increases in food prices, along with reduced demand for non-traditional products. On the expenditure side, this trend was primarily marked by a contraction in private and subnational government investment, together with a steep slowdown in private consumption.

A growth recovery to 3.0 percent is expected in 2024, largely driven by the normalization of climatic conditions beginning in the second quarter, which will spur growth in primary sectors such as agriculture, fishing, and their related manufacturing. Furthermore, an anticipated decrease in the impact of inflation on purchasing power is expected as it returns to the target range, alongside a conducive socio-political environment for private investment. These factors are expected to bolster the recovery of private spending and positively influence non-primary sectors such as construction, manufacturing, and services. By 2025, the economy is projected to expand by 3.0 percent, with domestic demand serving as the primary driver, while growth is expected to remain close to potential over the medium term.

Inflation in Peru has consistently ranked among the lowest and least volatile in LAC since 2001, averaging 2.9 percent between 2001 and 2023. Following an initial period of rising global inflation, year-on-year inflation continued to decrease from 3.6 percent in November 2023 to 3.0 percent in January 2024. Meanwhile, inflation excluding food and energy narrowed from 3.1 percent to 2.9 percent, within the 1-3 percent band targeted by the Central Reserve Bank of Peru (BCRP). In February, specific supply factors led to headline inflation and inflation excluding food and energy rising to 3.3 percent and 3.1 percent, respectively. In contrast, 12-month inflation expectations fell to 2.65 percent in the same month, down from 2.83 percent in December 2023. Inflation is forecast at

2.2 percent in 2024, converging towards the midpoint of the target band by the second half of 2025, with growth nearing potential.

Private sector credit expansion slowed from 4.5 percent to 1.3 percent between 2022 and 2023, primarily in response to declining domestic demand. However, a rebound in credit demand (3.5 percent in 2024) is expected, aligning with the trend of domestic demand.

The 12-month cumulative fiscal deficit increased from 2.8 percent to 3.0 percent of GDP between December 2023 and February 2024, primarily reflecting higher capital expenditure and interest payments on domestic debt. Public debt as of end-2024 is projected at 33.8 percent of GDP, among the lowest in LAC. Going forward, fiscal consolidation will continue in accordance with the fiscal deficit caps established by the fiscal rule.

As a percentage of GDP, the current account shifted from a deficit of 4.0 percent in 2022 to a surplus of 0.6 percent in 2023, driven by reduced imports, lower freight costs, improved tourism due to the normalization of sanitary conditions, higher returns on foreign assets, and decreased profits of companies with foreign direct investment in the country. The current account is forecast to decrease to a deficit of 0.5 percent of GDP in 2024, reflecting lower terms of trade and increased imports in line with the recovery of domestic demand. The balance of payments is expected to remain sustainable, supported by long-term capital inflows.

Between January and February 2024, the BCRP reduced its reference rate by 25 basis points at each monetary policy meeting, from 6.75 percent to 6.25 percent. In March, the BCRP decided to keep the rate unchanged. Furthermore, the BCRP Board reduced the reserve requirement rate in domestic currency from 6.0 percent to 5.5 percent, effective April, to complement the monetary easing initiated in September 2023. The BCRP's monetary policy statements issued between January and March noted that future adjustments to its reference rate would be contingent upon new information regarding inflation and its determinants.

Additionally, the BCRP maintains an FX buffer approximately five times the country's short-term obligations and equivalent to 29 percent of GDP, reflecting a precautionary accumulation of international reserves. Bolstered by strong fundamentals and ample FX reserves, Peru's external position is one of the most robust among emerging market economies, considerably mitigating risks from external financial shocks.

URUGUAY

Recent economic developments

After growing by 4.7 percent in 2022, Uruguay's economic activity decelerated to 0.4 percent 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 normalization of agricultural production, stronger pulp industrial production, and lower outbound tourism. For the current year, household consumption is expected to continue growing as real wages recover and employment remains firm. In this context, economic activity is poised to rebound firmly with real output expected to grow by 3.5 percent in 2024.

Throughout 2023, labor market indicators improved on average reflecting a strong performance and a cumulative addition of around 37,000 net jobs. The employment rate increased to 58.9 percent, up by 1.2 percentage points from its 2022 level, while the unemployment rate was 7.8 percent in

December 2023, down from 0.1 percentage points from the same level a year earlier. In addition, real wage recovery has continued to gain traction with the real wages index up 3.7 percent by December 2023.

Monetary policy and inflation

Reducing inflation and anchoring expectations within the target range has been the primary focus of the Central Bank of Uruguay (BCU). In March 2024 inflation stood at 3.83 percent, the lowest reading since August 2005. With this, year-on-year inflation completed ten consecutive months within the target range of 3-6 percent. In turn, inflation expectations have declined, standing at 6 percent.

In its last meeting in February 2024, the Monetary Policy Committee of the BCU maintained the monetary policy rate at 9 percent, with the objective of contributing to consolidate inflation within the target range and the convergence of 24-month inflation expectations to the center of the range. Regarding exchange rate policy, the BCU has continued making important efforts to strengthen the free-floating regime, seeking to ensure that the foreign exchange market reflects supply and demand in the most transparent manner. Above all, this has contributed to strengthen the credibility of the BCU in its commitment to reducing inflation.

Uruguay's banking sector remains well-capitalized, with high liquidity levels, profitable, and with low non-performing loans. Financial institutions' capital buffer exceeded by more than 9 percent the minimum regulatory requirement set by the Superintendency of Financial Institutions (SFI) as of September 2023. Banks' aggregate profits represented a 2.1 percent return on assets and a 20.1 percent return on equity as of September 2023. The general credit debt delinquency stood at 1.9 percent, at minimal historic levels. Recent stress tests carried out by the SFI suggest that the banking system could withstand a significant recession scenario while maintaining a reasonably adequate equity level.

Fiscal policy and debt management

The authorities remain fully committed to the rules-based fiscal framework introduced in 2020. For the fourth consecutive year in 2023, the three pillars of the fiscal rule were met underpinning the credibility of fiscal policy: i) the preliminary structural fiscal deficit stood at 2.7 percent of GDP, in line with the government's target set in last year's Budget Law; ii) the change in real primary public expenditure was -0.4 percent, lower than the expenditure cap of 2.1 percent (given by the real potential GDP growth rate) and iii) the central government's net indebtedness was USD 2,424 million (the augmented legal limit for 2023 was USD 2,860 million). The overall fiscal deficit of the central government -netting out the effects of the Social Security Trust Fund- was 3.3 percent. In turn, the central government's gross debt reached 58.3 percent, while net debt stood at 54.6 percent of GDP by end-2023.

Regarding debt management, the authorities have continued proactive liability management strategies de-risking the debt portfolio while containing borrowing costs. On the multilateral front, the government continued to integrate sustainable finance within loan instruments. In November 2023, the Board of the World Bank (WB) approved a new DPL for Uruguay for USD 350 million. The loan includes the innovative feature of a step-down in the interest rate (of up to 100 basis points lower per year) if Uruguay reduces the intensity of methane emissions from livestock production beyond its ambitious commitments under the Paris Agreement. Currently, Uruguay is working on a

sustainability-linked loan from the Inter-American Development Bank that will embed financial rewards if Uruguay achieves energy efficiency goals.

Finally, Uruguay is the top global performer on ESG fundamentals in emerging markets and has the lowest sovereign risk premia in Latin America, thus reflecting the country's macroeconomic, sustainability, and institutional strengths. In addition, all five rating agencies place Uruguay at least one notch above the investment grade threshold for the first time on record.