



# **International Monetary and Financial Committee**

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**IMFC Statement by Julio Velarde  
President of the Central Bank of Peru**

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

**Statement by Governor Julio Velarde, President of the Central Bank of Peru  
On behalf of the Southern Cone Constituency  
(Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay)**

## **Global Developments**

**The global economy continues to strengthen but some risks have materialized, and distribution of economic growth has become more heterogeneous.** After consecutive upward revisions for 2018 and 2019, the October World Economic Outlook (WEO) has reviewed downward the global GDP growth forecast for both years (-0.2 percentage points), mostly because of trade measures.

**Main advanced economies (USA) are likely to already be in an expansionary economic cycle, 10 years after the global financial crisis, and many economies are closing out-put gaps.** The main drivers of this and next year's world economic cycle continue to be present but accommodative financial conditions are decreasing (in particular for advanced economies), as are the domestic and international repercussions of expansionary fiscal policy in the USA. Looking beyond, a slowdown of economic growth is expected, as potential GDP growth will be negatively affected by an aging population.

**Latin America is still recovering from the fall of commodity prices (2013-2015) as these prices have partially recovered (2016-2018), although economic growth is becoming more uneven.** The October WEO has reviewed downward economic growth for the three biggest economies of the region (Argentina, Brazil, and Mexico) for negative supply shock (Argentina), fiscal consolidation process, tightened financial conditions, and uncertainty about international trade rules and presidential elections. On the other hand, the October WEO shows a clear recovery in 2018 for several countries (Bolivia, Chile, Panama, Paraguay, and Peru) with economic growth of 4 percent or more.

**Inflation for 2018 is expected to be within the respective target in countries with inflation-targeting regimes in the region (Brazil, Chile, Colombia, Guatemala, Mexico, and Peru).** Argentina had a sharp depreciation, followed by an important inflation increase in 2018. Venezuela is still suffering from a collapse in its economic system (two-digit negative growth rates for three consecutive years and hyperinflation since 2017), resulting in a severe humanitarian and political crisis with massive migration throughout the region.

**Global risks remain skewed to the downside, marked by recent escalation of international trade disputes and financial market volatility with spillover effects on economies with weaker macroeconomic fundamentals.** There are no winners in a trade war, as a worldwide establishment of trade barriers diminishes the efficiency of the global trade market. Trade conflicts lead to more expensive products, more limited choices, less competition, and prevent trade from boosting productivity and spreading new technologies. Policy makers should work to promote an open and rules-based multilateral trade system and an efficient global financial system.

**Financial risks remain in different forms: stretched valuations, rising leverage, and rapid innovation.** According to the growth-at-risk (GaR) approach, a modest increase of risks for the near-term has been detected, whereas the medium-term risks remain elevated compared to what was seen in the Global Financial Stability Report (GFSR) of

April 2018. Capital outflows from emerging markets are occurring amid the stronger US dollar, and significant changes in debt and equities markets are tightening financial conditions. Tighter unanticipated financial conditions in advanced economies could cause additional exchange rate depreciations and further outflows of capital in emergency economies.

**Investors' capacity to differentiate among emerging markets is a good sign of a better communication strategy and transparent information.** This is especially true in times of uncertainties and looming financial risks. Timely and transparent information that helps differentiate specific situations by region and by country are critically needed. There are important differences among EMDCs in terms of official reserves, depth and liquidity of capital markets, and the ability to hedge credit and currency risk, among other factors.

### **International Collaboration and IMF Policies**

**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.** At the country level, flexible macroeconomic policy frameworks, including sustainable fiscal policies, flexible exchange rate regimes, adequate level of international reserves and inflation targeting, 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.

**We support the Fund's Global Policy Agenda in emphasizing that policy makers need to tackle significant structural reforms to increase productivity and potential growth.** In addition, reforms should aim not only at reaching higher sustainable economic growth, but the dynamic of growth should also be inclusive. Social safety nets remain important to protect those adversely affected by technological progress and other structural transformation. Improving the quality and access to education and health is key to reducing inequality and enhancing social mobility over time.

**A strong global financial safety net (GFSN) is critical for crisis prevention and to help countries adjust to economic shocks.** We support IMF plans to continue exploring ways to enhance the GFSN, including strengthening collaboration with regional financing arrangements and maintaining precautionary lending for the broad membership.

### **IMF Governance**

We remain committed to a strong, quota-based and adequately resourced IMF at the center of the International Monetary System and the GFSN, in line with statements by the IMFC. The recent development of capital outflows ratify the need to increase the IMF's lending capacity sooner rather than later. Our view is that an increase in quotas is needed to improve the balance of permanent to borrowed resources, which remains low. It is essential that the Fund has sufficient resources available ex-ante to respond to financing needs of members and to help mitigate the impact of crises. We trust that we can find a solution and conclude the 15th General Review no later than the 2019 Annual Meetings.

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## Argentina

Argentina's financial markets came under sudden pressure in April 2018, due to a confluence of factors. A severe drought led to a sharp decline in agricultural production and export revenue, world energy prices increased, and global financial conditions tightened.

These shocks combined with known vulnerabilities, mainly significant fiscal and external financing requirements, resulted in downward pressure on the currency, lower roll-over of short-term central bank paper (a market with important participation of foreign investors) and a moderate increase in sovereign risk premium. Financial market conditions made it difficult to continue with envisaged international debt issuance, reducing public sector short-term liquidity. A de-anchoring of inflation expectations amid currency depreciation, reduced 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 quickly, while intervention in the foreign exchange market was necessary to contain the speed of currency depreciation, preventing disorderly adjustment. To complement these policy actions, cement credibility and minimize the risk of a serious downturn, Argentina quickly decided to seek support from the IMF with its economic program.

Following the announcement of the program with the IMF markets remained volatile. After some financial stability in July, global financial conditions for emerging markets tightened in August, and domestic political strains increased following an ongoing corruption investigation, with important consequences on the financing of construction activity, a key sector in the economy.

Against this background, Argentina will accelerate the strengthening of its fiscal position—already under way—aiming at equilibrium in the fiscal primary balance in 2019 and a primary surplus of 1 percent of GDP in 2020. This will reduce financing needs and put public debt on a clear downward path. A new monetary policy framework will enhance credibility and decisively lower inflation, allowing the exchange rate to operate flexibly as a shock absorber.

Argentina remains committed to ensuring that the burden of the needed recalibration of fiscal policy is shared fairly and that the most vulnerable segments of Argentina's population are fully protected. This strong revised plan is designed and fully-owned by Argentina, and will help build confidence, reduce uncertainty, and strengthen Argentina's economic prospects.

Besides these core objectives, 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 ensure that the benefits of economic growth are shared by all segments of society.

## **Policies under the revised economic program**

*A significant fiscal effort is being made upfront.* The plan is for the primary deficit to decline to 2.7 percent of GDP in 2018—compared with 3.8 percent of GDP last year—and make important additional efforts in 2019 to bring it down to balance. This pace of convergence to a balanced budget at the federal level will be matched by the provinces.

*The measures supporting this fiscal plan, imply corrections on both the spending and revenue sides.* On the spending side, measures include further reductions in subsidies—which require price adjustments to increase cost recovery—transfers to provinces, and capital spending. Savings are also expected from compression of operational spending, including through freezing new hires. On the revenue side, some elements of the 2017 tax reform will be put on hold, and a new tax on exports has been enacted.

*A decisive effort is being made to protect vulnerable segments of society from the effects of the external shocks and recalibration of policies.* The protected social expenditure and safeguards will be channeled through existing automatic, well-targeted cash transfer programs that reach most of the poor and vulnerable population. A floor on social assistance spending (1.3 percent of GDP) has been set to safeguard programs' coverage for 2019-20 while allowing benefits to rise according to the existing indexation formula. In addition, the fiscal targets will be relaxed if spending on key social programs were to rise due to worsening social conditions (up to an annual equivalent of 0.2 percent of GDP).

*Argentina will reinforce steps taken to level the playing field and provide women with economic opportunities.* Main policies in this area include reforming the current tax system to reduce the disincentives for women to participate in the labor force; continue implementing projects and initiatives to promote equal pay and a more equal system of paternity and maternity leave; continue building infrastructure for childcare and early child education; require listed companies to publish data on the gender balance on their Boards and managerial positions; continue working on initiatives to fight gender-based and domestic violence and provide support networks for victims of such violence.

*To reduce inflation and re-anchor inflation expectations a simpler monetary policy framework has been adopted.* The inflation-targeting framework has not delivered the desired results, and the central bank will now shift to a simpler approach that can deliver short-run results that can be monitored easily by Argentine society. The central bank will aim to stabilize monetary base in nominal terms (zero growth), taking into account seasonal patterns, until June 2019. Thereafter, monetary base will grow no faster than 1 percent per month. In addition, and to maintain tight monetary conditions, the central bank will keep the policy rate at or above the current level of 60 percent until inflation expectations are seen to decline. The central bank will operate this quantity-based framework as a transitional arrangement and will decide on the length of this transition in due course, once economic conditions warrant.

*Consistent with this monetary policy, Argentina will operate a flexible exchange rate.* If the currency strengthens significantly, the central bank will stand ready to purchase FX in a transparent and market-based way to rebuild international reserves to more prudent levels. Similarly, if the currency depreciates excessively over a short period of time the central bank will be willing to offer daily auctions to offer liquidity to the market and help smooth a

transition to a more sustainable exchange rate. FX intervention following this arrangement will not be sterilized.

*Argentina remains committed to reinforcing the autonomy of the central bank.* A new central bank draft law will be submitted to congress early next year to give the central bank more operational autonomy and increase accountability and transparency, while continuing with the policy of not financing Treasury operations.

Argentina's economy was showing healthy growth rates at the time of seeking the assistance of the IMF. By the first quarter of 2018, economic activity was growing close to 4 percent on an annual basis. In the second quarter, mostly due to a sharp reduction in agricultural output, growth turned negative (-4.2 percent over a year ago), though non-agricultural output levels remained broadly stable compared with the same quarter of 2017. For 2018 as a whole, GDP is expected to contract by 2.4 percent, with inflation returning to around 40 percent, due to the depreciation's pass-through to domestic prices.

Still, as the result of the new policies put in place, the administration expects a re-establishment of macroeconomic stability and a faster downward trajectory of the debt-to-GDP ratio, which will result in a rapid recovery starting in the second quarter of 2019—also supported by a strong rebound in agricultural output. The real depreciation will facilitate a shift of demand from domestic sources to exports and result in a sharp adjustment of the current account of the balance of payments. The elimination of the fiscal primary deficit and access to IMF resources—which are expected to be used for budget support—will provide certainty that remaining financing needs are manageable even if adverse market conditions remain for a prolonged period.

## **Bolivia**

In the first quarter of the year, the Bolivian economy continued a path of sustained and stable growth. In fact, in 2017 the country achieved one of the highest economic growth rates in the region (4.2 percent); by the end of the first quarter of this year, a positive trend was maintained due to an annual GDP growth rate of 4.4 percent, and economic growth is projected to be close to 4.7 percent by the end of the year, ratifying that the country continues to lead the region in growth. The agricultural sector, financial services, crude oil and natural gas, construction, and other industries are the main drivers of growth, while domestic demand is still strong.

Throughout the year, given the continuation of previously implemented public policies, the prioritized sectors again were focused on the use and generation of surpluses, income redistribution, the reduction of poverty and inequality, and the creation of opportunities. These policies have boosted domestic demand, strengthened the productive sector, and consolidated the industrialization process. This was possible through policies and investment oriented in strategic projects included in the Economic and Social Development Plan 2016-2020 (PDES) and the 2025 Patriotic Agenda.

In concordance with the fiscal projections, the authorities are envisaging a fiscal deficit of around 7.0 percent of GDP, which will be lower than in 2017, mainly because of extraordinary fiscal revenue from the application of the tributary armistice law and higher hydrocarbon incomes. Fortunately, the significant fiscal surpluses achieved in previous years are allowing the authorities some buffers to maintain the level of public spending and maintain the dynamism of the economy through public investment. Furthermore,

preserving macroeconomic stability is paramount for Bolivia to reduce the infrastructure gap, expand the output base, and increase industrialization and productivity.

During the first half of 2018, in response to weak external conditions, the orientation of monetary policy continued to be expansive keeping monetary interest rates at low levels, improving the levels of liquidity of the financial system, and supporting economic activity. In this regard, in the second half of the year, an expansive stance was warranted through adequate liquidity to incentivize credit, mainly to productive sectors and social housing with the necessary prudence that allows price stability in the economy.

Development in price indexes show that inflationary pressures are absent as 12-month inflation of August 2018 reached 1.82 percent, in line with the projected annual inflation which is below 3.5 percent, showing one of the lowest records of the country in recent years and the lowest in the region. This is the result of a good agricultural year and the stability of the exchange rate that anchored inflation expectations.

The policy of exchange rate stability was favorable for the economy against a regional context of volatility. It secured public expectations of the value of the dollar and the authorities do not perceive misalignments of the real exchange rate. The exchange rate policy also supports the de-dollarization process and strengthening the performance of the financial sector. As of August 2018, credit evolved positively supporting private investment and the credit growth rate was 3.55 percent. The rate of non-performing loans reached 2.0 percent, which shows low risk in the financial system.

After two continuous years of deficit, the cumulative trade balance in June 2018 presented a surplus due to a significant recovery in exports and an improvement in the terms of trade. Remittances received a record flow in the first semester, contributing to an upturn in the current account and an increase in national income. These improved results, together with the high balance of international reserves and sustainable external indebtedness in terms of liquidity and solvency, reflect the country's external strength. For instance, at the end of first semester of 2018, the international reserves were approximately 10 months of imports and are expected to remain well above the theoretical levels recommended by international organizations such as Assessing Reserve Adequacy (ARA) metric.

The social policy is going to continue to follow its state-led model for economic development focused on redistributing income through social programs, granting conditional and non-conditional cash transfers, along with other measures to support the most vulnerable of the population. The maintenance of these programs contributes to avoiding a reversal of the progress achieved in poverty reduction in the last 12 years. Indeed, moderate poverty levels reduced from 60.6 percent in 2006 to 36.4 percent in 2017, while extreme poverty decreased from 38.2 percent to 17.1 percent in a similar period, which mostly impacted rural areas in Bolivia.

## **Chile**

In the current juncture, when risks arising from international markets are increasing, domestic conditions allow Chile to differentiate from other emerging economies that are showing some macro-financial vulnerabilities. In addition to maintaining a flexible exchange rate regime permitting the absorption of external shocks without major irruptions, Chile is committed to an agenda of fiscal consolidation and stepping up capital requirements in the banking system. The estimation of potential growth was revised up

and convergence between potential and trend growth will occur sooner than expected. Overall, economic growth projections have been revised upwards to a range between 4 and 4.5 percent in 2018, and between 3.25 and 4.25 percent in 2019. Trend growth is estimated at 3 to 3.5 percent for the next 10 years.

Regarding inflation, risks appear to be balanced and convergence towards the 3 percent target is expected sooner than in the assessment of the April 2018 Communiqué. As of July 2018, annual inflation reached 2.7 percent and is expected to reach 3.1 percent in December, according to the latest Monetary Policy Report. The depreciation of the Peso is one of the factors behind the short-term upward revision.

The policy framework in place, along with a sound financial system in which exchange rate risks are hedged, allows for monetary policy to be countercyclical, if needed. As of now, the policy rate has stayed at 2.5 percent for the last 16 months, also becoming one of the most expansive in the region. Nevertheless, the Board signaled that the monetary stimulus should begin to be tapered on the months to follow. The assumption underlying the Board decision is that the policy rate could reach a level between 4 and 4.5 percent by 2020.

The economic authorities have acted towards improving the fiscal accounts through a planned consolidation path for the next four years. The recently submitted 2019 Budget Law forecasts a sharp decline in the overall fiscal deficit from 2.8 percent of GDP in 2017 to 1.9 and 1.7 percent of GDP respectively for 2018 and 2019. Fiscal consolidation is reflected in a slower expenditure growth in 2019 (3.2 percent real terms) which, in turn, will be supported by a fiscal austerity package of USD 4.4 billion to be implemented linearly over a four-year horizon. The authorities remain committed to a gradual reduction of the structural fiscal deficit by 0.2 percent of GDP per year to 1 percent of GDP by 2022. As a result, the trajectory of the public debt-to-GDP ratio is expected to stabilize in the near term, at a low level relative to peers. Despite a rating downgrade last year, sovereign risk spreads remain low from a historical perspective compared to peers.

Fiscal authorities are also strengthening their institutional framework by providing legal and financial independence to the Fiscal Council, together with a broader mandate. The authorities have also sent a Tax Modernization bill that is expected to significantly simplify the tax payment process, improve efficiency of the system, support small-to-medium enterprises, and foster both investment and growth, while safeguarding fiscal discipline. It is estimated that approval of the tax bill would increase GDP growth over 0.5 percent per year over the next decade.

Demographic developments in Chile have been relevant from an economic and social point of view. On the one hand, the population ageing process has been faster than anticipated. On the other, immigration has been significant, with nearly 700,000 people entering the country between January 2015 and December 2017. This has raised the share of foreign-born population from 2.3 to 5.9 percent of total population in only three years. As a share of the labor force, immigrants have grown from 1.4 percent in 2010.I to 2.5 percent in 2018.I, with skills and distribution across sectors very similar to the Chilean population. These facts will have positive implications for the estimation of the labor force and the future dynamics of the labor market and trend growth.

## Paraguay

In the second quarter of 2018, economic activity has grown significantly, with an expansion rate of 6.2 percent in year-on-year terms. On the supply side, this behavior was largely explained by the impulse of manufacturing, construction, and commerce. On the demand side, investment and private consumption were the main drivers of this dynamism. Moreover, government consumption also recorded a significant increase in that period. With this result, the accumulated growth in the first semester of 2018 was 5.4 percent.

In this context, the GDP growth projection for 2018 is 4.7 percent, essentially based on the performance of the sub-sectors of government trade and services within the tertiary sector, and manufacturing within the secondary sector. On the expenditure side, growth would be mainly explained by domestic demand, both for consumption and for investment, while net external demand would have a slightly negative incidence.

It should be highlighted that the economic weaknesses of countries within the region and the depreciation of their currencies have affected the performance of the national economic activity. In fact, the leading economic activity indicators already reflect this lower dynamism.

With regard to prices, inflation has remained stable. Thus, the year-on-year inflation observed in September was 4 percent, mainly due to rises in prices of durable products of the consumer basket and fuel, as well as to adjustments of some administered prices. These increases were mitigated by price decreases for some food items.

Nonetheless, inflation trend measures have continued on a downward trajectory, although they remain consistent with the convergence of inflation to the 4 percent target in the monetary policy horizon. Additionally, the inflation expectations of the economic agents remain anchored.

In this complex regional scenario, in which, for the moment, no inflationary pressures are perceived, the central bank has decided to maintain its monetary policy stance, maintaining the reference rate at 5.25 percent annually.

In the foreign exchange market, the dollar has been strengthening in line with the strong growth of the US economy. In this regard, the exchange rate in Paraguay was not immune to this trend and followed the regional dynamics. Thus, between January and September 2018, the Paraguayan guarani depreciated 4.3 percent, the Brazilian real 22.3 percent, the Argentine peso 121.8 percent, the Chilean peso 6.7 percent, and the Peruvian sol 2.1 percent. On the other hand, the Colombian peso accumulated an appreciation of 0.7 percent. Therefore, the guarani has remained one of the most stable currencies in the region.

Given this scenario, according to what was established in its legal framework, the central bank's interventions in the foreign exchange market were minimal, solely for the purpose of moderating the exchange rate volatility, without responding to the market fundamentals. Paraguay's solid external position, with levels of net international reserves of USD 8 billion, around 20 percent of GDP, constitutes an important buffer of liquidity to continue facing potential episodes of exchange rate instability.

The fiscal sector performance remains strong, with a deficit similar to the previous years and within the limits established in the Fiscal Responsibility Law. In this regard, the total revenue collected as of August 2018 had an increase of 6.7 percent, while the total accumulated expenditure (excluding the net acquisition of non-financial assets) had an increase of 10.1 percent, both compared to the same period of the previous year.

The financial system maintains solid indicators of solvency, loan quality, liquidity and profitability. In this regard, stress test results reveal a comfortable position of the financial system to deal with extreme shocks, but with low probability of occurrence. Regarding the behavior of loans, the portfolio in national currency and foreign currency continue to show a growing trend consolidating the recovery exhibited since 2017. On the other hand, the process of financial regulation reform continues after the amendment of the law of banks in 2016. In this regard, the approval of the Charter of the Central Bank of Paraguay reform in the middle of this year is highlighted. This new law will allow the monetary authority to adapt to international best practices to achieve its objectives.

The process of regulatory reform will continue and the agenda aims to prioritize the creation of a pension superintendence that ensures the efficient administration of retirement funds, which, at present, lack an entity in charge of their regulation and supervision.

## **Peru**

After expanding by 4.0 percent in 2016, economic activity in Peru temporarily decelerated to 2.5 percent in 2017, mainly due to a weaker contribution from net exports and the impact of the El Niño Phenomenon, which affected the performance of several industries and caused considerable infrastructure destruction, especially in northern Peru. However, since the second half of 2017 there was a recovery in private investment, particularly in the mining sector, and in public expenditure, which contributed to higher domestic demand growth.

The cyclical recovery of economic activity continued in 2018. In the first seven months of the year, GDP grew 4.0 percent, driven by the recovery of domestic demand. This recovery was mainly due to the greater growth of consumption, private investment and public spending, driven by infrastructure works. Going forward, growth will continue to be driven by the recovery of private and public investment, and GDP is expected to grow 4.0 percent in 2018–19.

Inflation closed 2017 at 1.36 percent, within the target range (1 percent-3 percent), mainly due to the correction of food prices resulting from the reversal of El Niño supply shocks. After two months of low inflation below 1 percent in March-May 2018, inflation lies within the target range since June. Annual inflation is expected to reach 2.2 percent in 2018 and 2.0 percent in 2019. Inflation excluding food and energy is likely to remain very close to 2.0 percent in absence of inflationary demand pressures, moderate imported inflation, and anchored inflation expectations.

The Central Reserve Bank of Peru (BCRP) maintains the reference interest rate at 2.75 percent since June, to sustain the expansionary stance of monetary policy and ensure that inflation and its expectations are within the target range in the forecast horizon, in a context of cyclical recovery of activity without inflationary demand pressures.

Credit to the private sector accelerated from 6.6 percent yoy in December 2017 to 8.7 percent yoy in August 2018, mainly in response to a better performance in corporate and personal credit in a context of recovering private sector demand.

The current account deficit continued to decrease as a percentage of GDP, from 2.7 percent in 2016 to 1.1 percent in 2017. It is expected to increase slightly to 1.5 percent of GDP in 2018-19, considering lower terms of trade. The moderate current account deficit will likely continue to be covered by long-term capital flows, which are expected to remain above 4.0 percent of GDP in 2018-19. Finally, the BCRP keeps an international reserve buffer equal to 4 times short-term obligations and above 26 percent of GDP. The absence of macroeconomic imbalances and a high level of international reserves place Peru as one of the emerging economies with greater external financial strength, which allows smoothing the effect of possible external financial shocks.

## Uruguay

Sound policies and institutions matter. In 2018, Uruguay is recording its sixteenth consecutive year of positive growth rates. During this period, many complex and extraordinary developments have occurred at global and regional levels. The 2008 global financial crisis moved some of the foundations of the world economy and the responses waged in advanced economies to face it had and continue to have major effects for emerging economies. Meanwhile, Uruguay's region has suffered substantially in recent years: Argentina records three years of recession over this lustrum, and Brazil seems to be slowly emerging from a deep recession. Furthermore, a large part of the region has been impacted by corruption issues.

Uruguay's extended period of growth has been accompanied by relevant social improvements: extreme poverty declined from 2.5 percent in 2006 to 0.1 percent in 2017; poverty from 32.5 percent to 7.9 percent in the same period of comparison; and inequality, measured by the Gini Index, dropped from 0.45 to 0.38. Inclusiveness is a critical objective for the authorities.

In a world surrounded by huge political uncertainties, Uruguayan society continuously ratifies its unambiguous preference and values regarding democracy, transparency, and stability. Among certain indicators that may illustrate Uruguay's institutional health, the Democracy Index (from The Economist Intelligence Unit) classified Uruguay among the 19 "full democracies" around the world (covering 167 countries); and the Corruption Perception Index (from Transparency International) placed Uruguay in the 23th position (out of 180 countries) with a score of 70.

In times of financial volatility, Uruguay exhibits economic resilience and robust financial buffers. Among others, international reserves are well above the IMF reserve adequacy metric range, and other prudential benchmarks. The country's debt profile indicates that the average time to maturity of the Central Government debt is more than 14 years, with most of the debt at a fixed rate, and about half of which is denominated in domestic currency. On public debt indicators, it is worth underlining what the IMF Fiscal Monitor explicitly alludes to on the coverage and transparency of the data for the consolidated public sector, noting that "Uruguay is one of the few countries in the sample for which public debt includes the debt of the central bank, which increases recorded public sector gross debt". On other issues, the Uruguayan authorities are encouraged by the inclusion of the Uruguay's case, together with those of Australia, New Zealand, and the United

Kingdom, in the Fiscal Monitor when analyzing frameworks on public sector balance sheets, which illustrates another dimension of Uruguay's institutional enhancements.

The authorities are fully committed to a flexible exchange rate, leaving interventions just to avoid excessive volatility. The reforms of public banks and critical transformations of regulatory and supervisory frameworks established some time ago have allowed Uruguay to enjoy a healthy financial system, as reflected in its indicators.

Undoubtedly, Uruguay is facing substantial challenges. Regional conditions are entailing an economic slowdown in the country, compared to the average expansion observed during this historic period of growth. Nevertheless, it is worth noting that Uruguay's economy expanded 2.5 percent the second quarter of this year, versus the same period of 2017, with interesting increases in private consumption and investment. Employment, affected by current conditions and technological changes, is, of course, a matter which needs permanent attention. Inflation and inflationary expectations are under full control but, as usual, require close monitoring. The authorities' strong commitment to reinforce the sustainability of public finances is reflected in the budget elaborated for next year. And, of course, there are several important issues to be addressed related to productivity and competitiveness.

In conclusion, the combination of prevailing conditions in neighboring countries and political uncertainty worldwide pose undeniable risks for the country. Uruguay's response is firm: sound and consistent policies, robust institutions and social cohesion, which tend to act with synergies, and, as noted, reap fruits, which are much more visible during thorny times.