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IMFC Statement by Martín Guzmán
Minister of Economy

Argentina

On behalf of

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

Statement by Governor Martín Guzmán, Minister of Economy of Argentina

On behalf of the Southern Cone Constituency

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

Global Developments

Global economic recovery continues while significant gaps in recovery prospects persist between country groups amid sharp differences in vaccine access, distribution, and policy support.

As the pandemic of the coronavirus approaches two years, and uncertainty about its end persists, emerging market and developing countries (EMDCs) are facing difficult trade-offs as their policy space has shrunk, social conditions have deteriorated, and global financial conditions could tighten in the short term. At the same time, major structural challenges related to the recovery, employment, production, climate change, digitalization, and rising inequality and poverty, demand urgent attention. Global cooperation to ensure universal access to vaccines and a strong international financial safety net, together with sound policy frameworks and ambitious domestic reforms, are elements that would ensure a successful exit from the crisis and advance the transformational agenda.

This statement offers specific comments on recent economic and financial developments and policy recommendations to the IMF October 2021 flagships.

WORLD ECONOMIC OUTLOOK

The WEO projection for global activity is almost unchanged since July but the balance of risks is tilted to the downside. Recent economic activity data has fallen somewhat below expectations in advanced economies (AEs) and China, while improvements in commodity exporters partially offset the global impact. We welcome the upward revision of growth projections for Latin America and the Caribbean. The improvement reflects not only external factors, such as the recovery in world trade and export prices, but also domestic factors such as progress in vaccination and policy support. We highlight the slow recovery of employment and labor participation across many economies with different income levels and different labor policies. Likewise, the employment of youth, women, informal, and low-skilled workers in emerging market and developing countries (EMDCs) continues to lag, especially in Latin America. These developments deserve further research, as well as tailored policy advice. We highlight the emergence of new virus variants and the possibility of a sudden capital stop to emerging market economies (EMEs) as the main downside risks ahead.

The main novelty in the WEO refers to the generalized increase in inflation across the membership. Since the Spring Meetings, inflation figures in AEs and many EMDCs have surprised significantly to the upside, although recent data has been more subdued. Average inflation in AEs is now projected to be at 3.5 percent by the end of 2021, compared to less than 2 percent in April. Similarly, inflation projections for Latin America, Emerging and Developing Europe, and Sub-Saharan Africa have been significantly revised upwards.

- **Staff's assessment is that the main drivers of rising inflation are pandemic-related supply bottlenecks, one-time service fee corrections, and higher commodity prices.** Staff analysis concludes that, even under extreme scenarios, on average, headline inflation is expected to converge to trend by early 2024. The unwinding of monetary stimulus will require close monitoring from the Fund to mitigate adverse financial spillovers effects.

At the multilateral level, the most urgent task is to accelerate universal vaccination. We welcome the reference in the WEO of the IMF proposal to speed up universal vaccination. We also support the call to strengthen the global financial safety net, ease financial constraints to struggling countries, and tackle debt vulnerabilities. As countries unevenly emerge from the crisis, tensions in the global financial system will increase. The extraordinary efforts to provide financial assistance to low-income countries (LICs) are essential to resume their development paths. At the same time, many middle-income countries are facing financing constraints and unsustainable debts that limit their policy response to the pandemic. The recent SDR allocation has helped alleviate immediate liquidity pressures among the most vulnerable members, but new rechanneling mechanisms through the PRGT and most importantly through the proposed Resilience and Sustainability Trust (RST), to reach all affected countries, will be essential. Also, more needs to be done through grants, concessional loans, and initiatives such as the G20 Common Framework for debt relief and the extension of the DSSI, as well as **the relief of IMF surcharges** during the pandemic, which are regressive and procyclical, affecting more the countries in need.

We welcome the focus on the transformational agenda towards a more sustainable, greener, more digital, and productive economy. We highlight, however, the wide confidence bands around these long-term projections due to uncertainty about future mitigation actions and technical progress, and the importance of taking into account country circumstances and financing needs to push forward these agendas.

WEO Chapter 3 addresses the vital role that basic research plays in increasing productivity and long-term economic growth. Basic research and scientific knowledge are critical components of innovation and their diffusion is wider and longer lasting than applied research. We broadly concur with the finding that innovation in EMDCs has particularly benefited by access to international research, both basic and applied. Cross-country citations in patent applications provide valuable clues about the drivers of the international knowledge transfer. A step forward would be to analyze corporations behind these patents. Many basic and applied research in EMDCs is patented by corporations in AEs and then EMDCs must pay for those patents. Furthermore, registering EMDCs´ patents in AEs is very costly and few have the money to do so. Staff analysis of the economic consequences of scientific decoupling illustrates the importance of maintaining a cooperative, symmetrical, and transparent framework for sharing basic research and scientific knowledge. The analysis could be complemented by further exploring the role of corporations in facilitating or slowing down the dissemination of knowledge in EMDCs. At the same time, we encourage further analysis on how to improve access and transfer basic research and how to better adapt it so it can be translated into innovation that supports economic growth and development.

We highlight that positive spillovers and underinvestment in basic research and scientific knowledge is also an important concern for EMDCs. We would welcome further analysis on effective actions to encourage research in EMDCs, particularly given that policy levers may be more restrictive than in AEs. A more general discussion on the relative effectiveness of alternative instruments beyond subsidies to fund basic research directly or to encourage the private sector is needed, including how to foster an effective interaction between governments, academia and public research institutes, and the private sector.

GLOBAL FINANCIAL STABILITY REPORT

GFSR Chapter 1 presents a positive baseline scenario for global financial conditions and credit. Despite the resurgence of the pandemic, somewhat weaker economic data, and rising headline inflation, global financial conditions remain relatively benign across AEs and EMEs. Long-term international interest rates have declined since the spikes around the Spring

Meetings. Corporate balance sheets have strengthened amid the global recovery and improved operating cash flows and the compression of risk premiums, while bankruptcies in AEs have fallen short of expectations. Capital flows to emerging and frontier economies have continued as sovereign, and corporates tap international bond markets. The capital position of global banks remains strong and can support international credit. Capital flow volatility could be a challenge for emerging markets, even with enhanced macroprudential frameworks. At the same time, we agree that credit measures should become better focused and tailored to hard-hit sectors, while strengthening the framework to address debt-overhangs and facilitate efficient capital reallocation in EMDCs, where fiscal support has been limited and the recovery will take longer. We missed further development of these issues in the GFSR.

Financial risks remain elevated. The global recovery is lopsided across countries and sectors. There is lingering uncertainty about the length of pandemic and the strength of the ongoing recovery. Rising inflationary pressures could trigger an abrupt correction of monetary policy in AEs at a time of high public and private debt and stretched valuations in financial and housing markets. Our main concern is a sudden tightening of financial conditions and capital flows to emerging and frontier markets. We also share concerns about the buoyancy of house prices across many jurisdictions.

The Fund can play an important role to ensure that the international monetary system and financial system remain stable and efficient, including its near-universal membership, core focus on macro-financial policies, broad expertise, and links with monetary, fiscal, and financial authorities through surveillance and capacity development. A gradual and prioritized strategy focused on the most pressing narrow issues around policy definitions and capacity development is preferable, with a focus on the needs of EMDCs. IMF partnering with other stakeholders and building internal capacity seems a viable strategy to tackle some EMDCs' demands for analytical foundation, surveillance, and capacity development. We agree that regulation should become proportionate to new risks and surveillance should focus on those economies´ financial systems, where this new ecosystem might represent a macro-critical problem due to bank disintermediation or currency substitution.

We broadly agree that the sustainable investment fund sector can complement the transition towards a more sustainable economy, but the sector is still small. As GFSR Chapter 3 notes, important challenges lie ahead to foster its development, including advancing harmonized disclosure and audit standards, generally accepted classifications, and indicators. We highlight that the same challenges apply to other financial instruments and sustainable investment funds aimed at fostering inclusive economic and social development in EMDCs.

FISCAL MONITOR

We welcome the focus on the challenges for fiscal policy in a still highly uncertain environment. An effective framework needs to adjust swiftly to changing circumstances, particularly with regards to the pandemic conditions, ongoing social and economic developments, and available policy space. In the case of EMDCs, in addition to the low availability of vaccines, the recovery is held back by reduced fiscal space which, in many cases, is aggravated by severe borrowing constraints and financing costs sensitive to sovereign debt risk interest rates and global financial conditions. As staff notes, debt is expected to remain high with significant increases in government financing needs in the coming years; therefore, strengthening medium-term fiscal frameworks would be important to foster a sustainable recovery. Governments need to buttress their medium-term fiscal frameworks, while maintaining well-targeted fiscal support, rebuilding buffers, and making progress on transformational reforms.

We concur that fiscal policy needs focus on protecting vulnerable population and enhancing growth prospects. In this regard, we stress the importance of strengthening social protection systems, which help to mitigate the impact of the pandemic in countries. On the revenue side, measures to improve the efficiency of tax collection, avoiding evasion and elusion and strengthening the progressivity of tax systems should be an increasingly important part of the fiscal effort to rebuild more equitable economies.

Fiscal Monitor Chapter 2 explores the challenges faced by the membership to strengthen the credibility of public finances in the coming years. Fiscal support has been critical to protect lives and jobs, but the legacy of higher public debt has increased fiscal vulnerabilities.

There is no one-size-fits-all solution, and each country will need to adopt the best strategy in line with their specific circumstances. Prior to the pandemic, some economies already had legacy issues like aging population in AEs or development needs in LICs and EMEs. On top of that, and particularly for EMEs and LICs, expected tightening of monetary policy in AEs, will have a negative impact on countries with high debt levels. In many cases, recovering fiscal sustainability was already a major challenge prior to the pandemic. Thus, it is a big question mark how these issues will be addressed in the future by preserving the recovery, growth, and social safety nets.

We agree that a consistent and credible macroeconomic framework will make the transition easier and less costly in terms of financing cost and speed of the adjustment. Again, we believe that the answer depends on each country's characteristics, their current public debt level, existing fiscal space, growth prospects, and future revenues. In turn, these factors will help to outline the fiscal policies that work better in each country. The question is how to establish a fiscal framework that is compatible with economic recovery. As recognized by staff, fiscal sustainably includes a political and social dimension which is dangerous to ignore.

MD's Global Policy Agenda: VACCINATE, CALIBRATE, ACCELERATE

We fully agree with the analysis and main recommendations posed in the Global Policy Agenda (GPA). We support the tone and priorities in the GPA.

Still, challenges related to the pandemic are immense in several countries. Therefore, a strict prioritization is needed, trying to concentrate on the immediate solutions to the crisis, and then on what will remain once the main impact of the pandemic is over for a resilient recovery and limiting to a minimum the scarring effects. In the short term, we would especially underline the importance of accelerating universal access to vaccines and vaccination. Greater international cooperation will be key to bridge gaps and lower barriers that hinder the widespread access to vaccines. Thus, we strongly commend the Fund´s commitment to support cooperation with international organizations to help countries access vaccines, as well as actions to reduce trade barriers on medical supplies and equipment.

We support the GPA proposals to achieve an equitable, sustainable, growth-friendly transformational and well-balanced post-pandemic recovery. At the multilateral level, we count on the Fund to foster AEs' effective coordination and communication of exit polices as countries emerge from a period of extraordinary fiscal and monetary stimulus. Also, in an uneven recovery, a strong Global Financial Safety Net with a well-resourced IMF at the center will remain critical to maintain or increase support for vulnerable members.

We also back the agenda to raise new resources from donors and the channeling of the new SDR allocation for the PRGT and the establishment of a well-resourced, new Resilience and Sustainability Trust open to middle-income countries, as well as LICs.

Additionally, we look forward to the upcoming quota review as an opportunity to strengthen the Fund´s governance by correcting out-of-lineness quotas and increasing quota resources. The IMF process of governance reform should continue with a quota increase under the 16th General Review of Quotas to be concluded no later than December 2023.

At the bilateral level, we share the emphasis in the GPA on tailoring policy advice and capacity development to specific country circumstances, instead of broad and general top-down messages, considering the stage of the recovery, available policy space, and domestic, social, economic, and political conditions.

We welcome the inclusion of the debt agenda in the GPA as a key aspect to achieve a resilient recovery. We look forward to strengthening the implementation of the common debt framework, enhancing debt transparency of debtors and creditors, particularly private creditors and investors, and the multi-pronged approach to debt sustainability and restructuring. Furthermore, the commitment towards expanding the Fund´s work on social and governance issues in EMDCs is a key lever in reducing inequality and strengthening social cohesion, which, for instance, includes social safety nets and tax policies.

We also look forward to the Executive Board meeting to review the Fund´s access and surcharges policy in December 2021. We understand that the strategic income policy should also be reviewed.

Finally, we support the emphasis in the GPA on the new work stream on climate change and digital money. Besides, we share the priority in the GPA to support small states, LICs, and carbon-intensive countries. We acknowledge that meeting all these new targets will require an adequate and timely budget increase, and we support the reference to it in the GPA. However, the budget finance and the replenishing of precautionary accounts has relied heavily on the shoulders of very few EMDCs. In this regard, we believe that EMDCs (including LICs) face acute issues that deal with growth and development, such as, employment, industrialization, poverty and extreme poverty, education, health, a social safety net, debt and issues related to climate change, and very critical and life-threatening adaptation issues. That is why, as mentioned above, along with the budget, the Fund also has to discuss its strategic income policy.

ARGENTINA

In December of 2019, while the country was in the middle of a deep crisis, the current administration took office and set clear priorities. The immediate challenges were to reverse the economic contraction, restore public debt sustainability, and protect the most vulnerable. Initial measures were to be taken to stop economic contraction, and a long-term agenda needed to be deployed to ensure that the basic macroeconomic balances could be preserved and help key sectors of the economy foster a process of inclusive, federal, and sustainable economic growth.

The macroeconomic situation prior to 2019 was not easy. During the previous four years, the public debt in foreign currency had increased by USD 100.16 billion. In 2018, when Argentina lost market access, the previous administration requested the largest loan in the history of the IMF (the Program entailed the equivalent in SDRs of more than USD 57 billion). The effective disbursement, which amounted to an equivalent of SDRs of almost USD 46 billion and more than 1000 percent of quota, was used to pay unsustainable debt and to allow capital flight at exchange rates that also proved to be unsustainable.

As in every country worldwide, the COVID-19 pandemic hit our country affecting the lives and livelihood of the population. COVID-19 reached an Argentina with limited resources, tight constraints, and massive needs. It hit at a moment when Argentina lacked access to international credit markets and had limited scope to tapper the domestic segment. But there was no choice: the health crisis had to be faced and managed, while working to resolve the macroeconomic crisis. Argentina has since been implementing different measures to end the economic contraction.

While fighting the pandemic, Argentina successfully managed to reach a debt restructuring that implied a relief of almost USD 35 billion in a decade and pushed for the reconstruction of the public debt market in pesos. Hence, it was possible to revert a downward trend in economic activity and the recovery began. This can be seen in the industry, employment, and investment figures. GDP growth is projected at 8 percent for 2021, recovering much of the of -9.9 percent drop registered in 2020, which allows not only progress towards pre-pandemic activity levels, but also opens the door to a second recovery stage in 2022 to repair the profound damage resulting from the macroeconomic crisis of 2018/19.

The agenda for the coming years is organized around a fundamental principle. Macroeconomic stability will only be achieved with a recovery of economic activity that includes and protects the most vulnerable.

1. The response to the pandemic

The pandemic deepened social, economic, and gender inequalities around the globe. Argentina was not an exception. Therefore, the government took swift and decisive actions in order to secure health, income, production, and employment, while mitigating inequalities. The health system was strengthened by investing in hospitals and medical supplies. The Emergency Family Income (IFE) reached almost 9 million people, and the Work and Production Assistance Program (ATP) reached more than 2.3 million workers in the private sector. At the end of 2020, programs such as the Universal Child Allowance or the “Alimentar Card”, the program “Potenciar trabajo”, the “PROGRESAR” scholarships, among others, were strengthened; and a transition process from ATP to the Productive Recovery program (REPRO) began, while registered (formal) employment gradually recovered. Since the beginning, total official support to fight the pandemic and its consequences reached around 6.5 percent of GDP.

By strengthening the health system, a priority for the government, it was possible to face the second wave of infections at the beginning of 2Q2021 in a stronger position. While the cases spread at a much higher rate than in the previous wave, the health system was robust enough to avoid collapsing and able to assist everyone who required attention. The vaccination campaign against COVID, which is already the largest in our history, was understood to be the structural tool to combat the pandemic.

2. The debt challenges

The room for maneuver has been limited since the beginning for this administration. The stock of public debt denominated in foreign currency was unsustainable. For this reason, the government restructured the sovereign debt with private creditors in 2020, maintaining the principles of securing the economic recovery and the protection of the most vulnerable, while engaging in good faith with our creditors. Progress has also been made in the domestic currency segment.

An important understanding has been reached with the creditors grouped in the Paris Club and negotiations are ongoing with the IMF to define a new program that allows, first and foremost, a process of recovery for the Argentine economy that ensures public debt sustainability.

3. From double crisis to double recovery

In 2020, the impact of the pandemic on economic activity aggravated the recession. Despite the challenges, significant progress has been made. The government has taken concrete steps to build an inclusive, dynamic, stable, federal, and sovereign development model.

- **a) The economic recovery**

The pace of economic recovery has been strong. In the first semester of 2021, GDP grew by 10.3 percent, driven by investment, which grew 55.8 percent compared to the same semester of the previous year, and in turn, consumption grew by 8.4 percent (private and public consumption grew 9.4 and 4.0 percent respectively).

Economic activity indicators show an important but heterogeneous recovery for this year. The pandemic had impacts on employment, income, demand composition, social inequality, resources distribution, and access to opportunities in a number of dimensions. Different speeds of recovery are observed between sectors. Gender gaps were also amplified. Activities such as culture, tourism, and gastronomy show a marked female presence, hence, while the male employment rate exceeded pre-pandemic levels, female employment continues to show a slower recovery.

The recovery in activity levels in the services sectors, the most affected by the pandemic, will contribute to a recovery in wages in the non-registered sector. This recovery in income is not only fair, but it is necessary to stimulate consumption and, consequently, growth.

Investment has shown a strong recovery in the first and second quarter of 2021. The implementation of the Knowledge Economy Law contributes to boost a sector that has high economic potential. As part of a general approach, a fluid dialogue has been maintained with the private sector, both in the evaluation and implementation of measures and regulations that allow the adaptation of the productive apparatus to the challenges of global changes.

- **b) Fiscal policy**

The deficit reduction throughout 2021 has been based on the recovery of fiscal resources and an expansionary capital spending policy, an increase in the net primary expenditure with respect to the trend, and a significant reduction in external public debt payments because of the sovereign debt restructuring carried out in 2020. Net interests went from 3.3 percent of GDP in 2019 to 2 percent of GDP in 2020. However, 2020 ended with a fiscal deficit of 6.4 percent of GDP and the financial deficit amounted to 8.3 percent of GDP because of policies to mitigate the impact of the pandemic and the decline in economic activity.

In 2021, an improvement in fiscal figures has been observed, mainly due to a better macroeconomic scenario. The primary fiscal imbalance went from a deficit of 4.1 percent of GDP in the first eight months of 2020 to 1.0 percent of GDP in the same period of 2021, mainly due to growth in total revenues (+1.3 percentage points (pp) of GDP) and the change in the pattern of spending associated with COVID-19, in a context of evolving sanitary measures. Meanwhile, interest on public debt (net of intra-public sector payments) amounted to 1.0 percent of GDP and represented 0.4 pp lower than that accumulated as of August 2020.

Tax revenues have been growing in real terms from August 2020, favored by several factors; the recovery of the economy, the contribution of taxes associated with foreign trade driven by the favorable terms of trade and the increase of exports (due to the recovery of the aggregate demand of Argentina´s main trading partners), and the progressive tax policy measures taken after two laws were approved by Congress—namely, the Law of Social Solidarity and

Productive Reactivation, and the Law of *Aporte Solidario y Extraordinario* to help mitigate the effects of the pandemic aimed at strengthening fiscal sustainability. Tax collection associated with Social Security Contributions has been increasing gradually, due to the slower recovery of wages and employment.

Expenditures, barring those of an extraordinary nature associated with the COVID-19 pandemic, increased in order to support the recovery process. So far in 2021, real primary spending is expanding by 7.2 percent year-on-year, a dynamic in line with that stipulated in the 2021 Budget Law.

The increase in the share of capital spending, which almost doubled over the course of the year, has increased the expansionary effects of fiscal policy. It is worth noting the main investments in energy, road works, the capital transfers for public investments to the provinces through the "Argentina Hace" Plan, and all those destined to the education sector for infrastructure expenses and equipping and strengthening kindergartens, and those aimed at drinking water provision and sewerage works in poor neighborhoods.

The government has continued supporting vulnerable households and companies, reinforcing programs such as Food Policies and REPRO II.

- **c) Inflation**

The increase in consumer price index during 2020 was 36.1 percent year-on-year, the lowest in the last three years, at 53.8 and 47.6 percent in 2019 and 2018, respectively. The inflationary dynamic accelerated during the first four months of the year with an average inflation of 4.1 percent per month and with a peak of 4.8 percent per month in March and is associated with the gradual opening of activities and with the increase in commodity prices.

The declining path of inflation has resumed since May, registering an average rate of 3.0 percent per month in the following four months (May-August). During the first eight months of the year, accumulated inflation was 32.3 percent, and it is projected that by the end of 2021 it would be around 45 percent, while for next year it is projected around 33 percent.

- **d) Balance of payments, international reserves, and the foreign exchange market**

As in all countries worldwide, in 2020 trade was affected by the pandemic

The current account of the balance of payments showed a surplus of USD 3,313 million (0.9 percent of GDP), representing a significant improvement when compared with 2019. The stock of international reserves closed 2020 at USD 39,387 million due to a deleveraging process in the private sector. By the end of the first semester of 2021 the stock of reserves was USD 42,437 million.

In the first eight months of 2021, exports of goods reached USD 50,717 million (+35.5 percent yoy) and imports reached USD 40,068 million (+52,9 percent yoy), which has resulted in a trade surplus of USD 10,649 million. Compared to the same period of 2019, exports showed an increase of 20.1 percent yoy, while imports grew 16.3 percent yoy, which represents an increase in the trade balance of USD 2,894 million. The recovery in trade as of January 2021 was driven mainly by exports of Manufactures of Agricultural Origin (MOA), followed by Manufactures of Industrial Origin (MOI). In the case of imports, the increase is related to greater purchases of goods associated with the recovery of economic activity.

4. Economic activity projections

GDP is projected to grow 4.0 percent in 2022. Currently, since lockdown measures are winding down, growth is expected to be driven by the production of goods and services. Manufacturing sectors will grow by an average of 3.7 percent. Services would show an average expansion of 4.3 percent, with a strong recovery in the Hotel and Restaurant sector (+41.2 percent), and growth in Trade (2.7 percent) and Transport and Communications (6.1 percent), in line with the growth of goods.

On the demand side, private consumption is projected to grow at a higher rate than GDP (after the sharpest decline in 2020), standing at 4.6 percent. Likewise, the recovery of investment is expected to continue, with an increase of 6.6 percent in 2022, in line with investment in construction and capital goods, consistent with the economic growth process on the supply side.

BOLIVIA

Economic Recession and Pandemic

After the breakdown of the constitutional order which occurred in Bolivia in November 2019, the country went through a period of political, economic, and social instability. In 2020 the transitional government implemented neoliberal measures that deteriorated the country's economic activity. In a few months the economic situation became critical due to the recessionary measures implemented, and a negative year-on-year rate was observed even before the arrival of the pandemic. Indeed, in March 2020 the Global Index of Economic Activity (IGAE in Spanish) had a contraction of 4.0 percent compared to the same month of 2019.

This scenario was deepened with the arrival of the coronavirus pandemic (COVID-19), since in the absence of adequate contingency plans to confront a health crisis of such magnitude, a rigid quarantine was established in the country after detecting the first positive case in the month of March. This left the neediest population vulnerable as an effect of a reduction in their income, which was finally reflected in the increase in the levels of unemployment, poverty, and inequality in 2020. Consequently, the Gross Domestic Product (GDP) registered a drop of more than 8 percent in the year.

It is worth mentioning that instead of taking advantage of the rigid quarantine period to manage the acquisition of bio security supplies, equipment, medicines, and vaccines to deal with COVID-19, it was observed that the contract processes were marked by corruption, such as the purchase of respirators with surcharge. On the other hand, at the end of July 2020 the school year was abruptly stopped by the government (normally it ends in November); this measure did not consider the significant effect on students' short, medium and long-term development and on human capital in the country.

Policy and Economic and Social Measures to Rebuild the Bolivian Economy

Since the democratically elected government took office in November 2020, the Productive Community Social Economic Model (MESCP in Spanish) was reestablished with the aim of rebuilding the economy and once again consolidating stability and economic growth. Thus, in March 2021, in full exercise of economic sovereignty, the 2021 Fiscal Financial Program was signed to establish policy guidelines to guarantee Bolivian economic recovery.

Regarding monetary policy, an expansionary orientation was maintained through different measures in order to preserve an adequate liquidity level in the financial system, and to help boost credit and investment.

The exchange rate policy was aimed at maintaining the stability of the exchange rate, allowing more space for the application of expansionary monetary policy and helping generate greater certainty. Additionally, exchange rate stability continues to support *Bolivianization* (de-dollarization) and inflation control.

Moreover, since November the Bolivian government adopted a set of measures to boost supply and aggregate demand in the country to carry out the economic reconstruction.

In the demand area, the Bono contra el Hambre (a cash transfer program) benefited more than 4 million Bolivian people, with a total disbursement of USD 588 million from December 2020 to May 2021. An increase in rents for the retired population was established with a total amount of USD 36 million and 219,963 beneficiaries in December 2020. Public investment was reestablished with a budgeted investment of USD 4,011 million for this year. The Reimbursement of the Value Added Tax measure benefited 42,212 people in August 2021; and 204 taxpayers paid the Great Fortunes Tax to April of this year. The National Minimum Wage was increased by 2 percent. Jobs were created for Education (1,700) and Health (2,500) in 2021. Finally, the return of contributions to insured persons in the Pension System was set up, which is estimated to benefit more than 1.4 million Bolivian people.

On the supply side, lines of credit to promote import substitution policy were established through the "SIBOLIVIA" program and these credits were extended for the agricultural and farming sector; nearly 3,000 producers benefited up to September 2021. 243,845 credit operations were rescheduled and/or refinanced to August 2021. The limits of productive and low-income housing portfolio were reestablished, which benefited 659,427 businesses and 87,811 families, respectively, up to August 2021. Public companies and investment projects were also strengthened and reactivated. These were the most notable actions.

In the same way, regulatory measures were determined to boost productive business through State purchases such as an electronic catalog, State virtual market, and electronic auction. By August 2021 the electronic auction saved USD 19 million in adjudications.

It should be noted that, after the violation of the right to education by the previous administration, the current government declared 2021 as the year for recovering this right and established modalities to return to education.

Results of the Implemented Measures

The Bolivian economy shows important signs of recovery with a 9.2 percent growth of IGAE up to July 2021. The rebound in the mining sector stands out with a rise of 54.9 percent, the construction sector grew 32.8 percent, the manufacturing industry 10.4 percent, and the commerce sector 9.0 percent, among others.

Foreign trade reactivation was reflected in the 65 percent growth in accumulated exports up to August of this year, compared to the same period in 2020, and the 33 percent improvement in imports, resulting in a surplus trade balance of USD 1,360 million, after six years of deficit.

A rebuilding of domestic demand was evidenced in the 29 percent growth in invoiced sales of restaurants up to July 2021. Similarly, the consumption of basic services increased by 4 percent to July 2021, compared to the drop by 8.6 percent in the same month in 2020.

In addition, up to August 2021, savings in the financial system increased by 8 percent in relation to the same period in 2020. Low-income housing loans and productive loans were restarted and boosted. The former with the aim of the low-income population gaining access to home ownership, and the latter to cover the financing needs of productive enterprises. On the other hand, tax collections grew 17 percent up to August of this year.

It is worth noting the reduction of urban open unemployment rate by 5 percentage points (pp), from its highest level of 11.6 percent in July 2020 to 6.5 percent in August 2021, which reflects the return of economic activity dynamism.

Strategic Plan to Fight COVID-19

Considering the Bolivian economy’s deterioration and poor health management by the previous government, the new legitimately elected authorities implemented the Strategic Plan to Fight COVID-19 with a budget allocation of USD 368 million for this year by the central government. Within this amount, USD 138 million was used for vaccine purchases, USD 126 million for the acquisition of tests and medicines for timely detection and diagnosis, USD 41 million for health personnel hiring, and USD 32 million for complementary medical supplies.

From November 2020 to August 2021, the government spent USD 314 million at the central level for COVID-19 care. In the same direction, Bolivia bought the necessary amount of vaccines to immunize 100 percent of the country's vaccinable population. To date, about 50 percent of the population has had both doses.

Economic Outlook

In the framework of the 2021 Fiscal Financial Program, the country's economic activity is expected to grow by around 4.4 percent—far from the contraction of more than 8 percent in 2020—and reduce the fiscal deficit to single digits (9.7 percent of GDP). Furthermore, it will continue to prioritize public investment, exchange rate stability, and an adequate control of inflation, which is expected to close this year around 2.6 percent.

Finally, social measures that prioritize the most vulnerable sectors will still be promoted; health care and the fight against COVID-19 will be strengthened; and the government will continue establishing the conditions to resume the sustained growth path of the Bolivian economy and to confront the challenges from the current context of the pandemic, with a strong emphasis on boosting the industrialization process, the import substitution strategy, and productive enhancement.

CHILE

The Chilean economy has recovered rapidly from two large and consecutive shocks. In late 2019, economic activity suffered a sharp contraction during the outbreak of social unrest, and then again in mid-2021 when the virus and lockdown measures hit the economy. Since then, the economy has recovered steadily, with a brief setback last March and April after the resurgence of the pandemic. By mid-2021, output was already above pre-social crisis and pandemic highs. The swift recovery has been underpinned by the mass vaccination process and unprecedented fiscal and monetary support.

Vaccination coverage has increased swiftly. By October 1, about 90 percent of the adult population had already received two doses of the vaccine, and the most vulnerable groups were receiving a booster shot. The number of new cases in the country has declined steadily since the middle of the year along with an increase in vaccination and the continuation of health care measures. Vaccination coverage is now extending to children from 6 to 17 years of age.

In the last two years, the authorities have implemented a wide array of policy measures to support the economy. Monetary and credit measures included cutting the policy rate to 0.5

percent, implementing an asset purchase program, setting up a new funding-for-lending scheme along with public credit guarantees and temporary regulatory relief. Fiscal measures included new emergency programs to support household incomes during the pandemic, strengthening unemployment insurance, and new subsidies for hiring workers.

The unprecedented policy support played a critical role to contain the crisis. A recent study by the Central Bank of Chile (CBC) estimates that in the absence of these policies, the fall in GDP in 2020 would have been between 4.5 and 7.5 percentage points deeper than its effective contraction (–5.8 percent). In the first half of 2021, in the absence of policies, the annual variation in GDP would have been between an increase of 0.8 percent and a fall of –2.4 percent, compared to the observed annual growth of 8.7 percent. Early on, the combination of liquidity policies and public guarantees was essential to support the expansion of credit to firms and avoid widespread bankruptcies. Credit support policies were implemented through banks, allowing them to apply KYC capabilities. This approach contrasts with the widespread renewal and regulatory moratorium in other countries that could mask the risks of non-financial companies and bank portfolios. Beyond this, fiscal stimuli became a major driver of aggregate demand since late-2020, while pension withdrawals increased household liquidity, albeit generating financial and longer-term costs.

Economic growth is projected to be close or above 10 percent in 2021. The private consumption-led recovery has been very strong supported by the fiscal measures and the pension withdrawals. Investment has also recovered, especially in the machinery and equipment component, while construction activity is still below its pre-pandemic peaks. Renewable-energy projects remain one of the key drivers of investment. Job vacancies, employment, and labor participation have been increasing in recent months, although shortfalls affecting mostly low-skilled workers and women are still relevant. Wages have been growing in line with the limited response of the labor supply and the rapid increase in aggregate demand. Next year, activity is projected to slow significantly as the extraordinary monetary and fiscal stimulus fades and the output gap closes.

As the economy exits the recession, the authorities are recalibrating their policies to prevent the development of macroeconomic or financial imbalances and return to a path of fiscal consolidation and re-composition of private savings.

CBC is gradually withdrawing extraordinary monetary stimulus from the economy. Strong consumption dynamism has put pressure on inflation in a context in which domestic supply has not yet fully recovered, bottlenecks persist in global supply chains, oil prices have risen, and the peso has depreciated. Short-term inflation projections have been revised upward. The CBC has increased the monetary policy rate by 75bps to 1.5 percent and expect to continue tightening until bringing it around its neutral level towards the first half of next year. At the same time, domestic term and credit premiums have increased and the peso has depreciated on the back of massive pension savings withdrawals and persistent local uncertainty. The tightening of financial conditions and the slowdown in demand resulting from the withdrawal of fiscal and monetary stimulus policies, among other things, will bring inflation to converge to 3 percent in the two-year policy horizon.

Chile has maintained access to the FCL during the pandemic as a precautionary and temporary arrangement. The authorities plan to exit the FCL once the regular 24-month period is completed in May next year. Preparations to strengthen the international liquidity position of the CBC have started well in advance, including an ongoing reserve accumulation program, among other actions. Access to the FCL has provided a valuable backstop against external tail risks.

Extraordinary fiscal stimulus will be withdrawn as the economy exits the pandemic recession. Early in 2021, the government extended the emergency family income (IFE) to cope with the resurgence of the pandemic and new lockdown measures. Public spending is projected to grow 32.1 percent this year, with a headline fiscal deficit at 8.3 percent of GDP. The fiscal buffers accumulated in previous years and the favorable access to markets have made it possible to finance the extraordinary fiscal response to the pandemic. The government presented the budget law for next year, which considers fading emergency measures as the economy recovers. The headline and structural deficit are projected to decline to 2.8 percent and 3.9 percent of GDP, respectively. GDP is projected to reach 34.9 percent of GDP by the end of 2021 and 37.5 percent of GDP by the end of next year. The government is continuing to implement its Financial Strategy to address Climate Change, including fostering the development of green financial markets and instruments and developing a green budgeting framework.

PARAGUAY

The Paraguayan economy showed a positive dynamism during the first semester of 2021, in line with the gradual reopening of the economy, greater mobility of the population, improvements in employment, the adaptation of people and businesses to the new forms of work, and the favorable external impulse. In this context, the central forecast of GDP growth for 2021 was adjusted upwards from 3.5 percent (April) to 4.5 percent (July). In recent months, economic activity records have stood above the foreseen levels.

In addition, since the previous revision of the GDP forecast in April, the sanitary overview has improved notably with an important reduction of the number of people infected by COVID-19 and the significant progress in the process of immunization of the population. This has allowed for a more favorable performance of the services sector.

The correction of the GDP forecast, on the side of supply, was explained by an improvement of the following sub-groups: other services (including the segments most affected by the pandemic), construction, manufacturing, trade, and livestock. On the expenditure side, a higher growth rate is expected for investments, boosted by construction and the purchases of machinery and equipment. Private consumption will also show a greater expansion, supported by the gradual recovery of the labor market and the better expectations of economic agents. Likewise, the external sector has maintained a positive performance.

Regarding prices, inflation has rebounded in the last few months, affected mainly by external factors. The inflation of food items has been increasing, due to the higher prices of commodities and a substantial improvement of external demand, particularly for beef. At the same time, the elevated levels of petroleum prices have carried over to local fuel prices. In this context, inter-annual inflation has been accelerating recently given the increases of both food and energy prices and due to the lower comparison base in 2020. In August, inflation measured by the Consumer Price Index (CPI) was 5.6 percent y-o-y, while the CPI rate that excludes food items and energy (IPCSAE) was 2.1 percent y-o-y, denoting the high concentration of inflation in the two aforementioned categories. The inter-annual inflation of the prices of services stood at low levels (1.2 percent), which are consistent with the lag that certain segments of the services sector continue to show, since they cannot operate at their full capacity as one of the consequences of the pandemic.

Monetary policy has played its stabilizing role following the strong impact of the COVID-19 pandemic on both economic activity and demand since the end of the first quarter of 2020. Between March and June 2020, the monetary policy rate was reduced by 375 basis points, from 4 percent to 0.75 percent. This is the lowest level of the reference rate since the implementation of the inflation-targeting scheme (May 2011). In this regard, in Paraguay, monetary policy adopted an extremely expansive stance during the pandemic, with the purpose of contributing, to some extent, to mitigating the effects of COVID-19, while contributing to the country's economic recovery. Inflation, while explained largely by external factors, in a scenario of greater economic performance, could eventually generate second-round effects on other categories of the basic basket of consumer goods and services or affect inflation expectations. Taking into account this new context, the authorities of the Central Bank of Paraguay (BCP) decided to initiate a gradual withdrawal of the monetary stimuli in August, with an increase of the monetary policy rate of 25 basis points; followed by an increase of 50 basis points in September. Thus, the rate now stands at 1.50 percent annually.

Along with the economic recovery, public finances have also improved in recent months. As of July 2021, total fiscal revenue grew by 22.6 percent, mainly explained by tax collection, which rose by 26.6 percent. On the other hand, current expenditures registered a cumulative variation of -1.3 percent, largely due to the reduction of social benefits and payments as compared to 2020, given the various measures implemented to provide assistance to households in order to lessen the impacts on income derived from the COVID-19 pandemic. Disbursements tied to public investment fell by 15.2 percent. Finally, the annualized fiscal balance stood at -3.8 percent of GDP in the month of July, consistent with the projection of a deficit for 2020 (-4.0 percent of GDP), as estimated by the Ministry of Finance.

Regarding the financial sector, monetary policy, liquidity support, and credit easing measures permitted entities to have sufficient resources with which to face the challenges stemming from the pandemic. In such a scenario, the financial system has remained stable, with sufficient liquidity, and with solvency levels far above both the regulatory requirements and the credit quality indicators. On the other hand, financial profitability has become weaker, but remains in line with the recent economic and financial situation experienced by our country and others in the region.

As concerns the evolution of credit, since the second semester of 2020 credit recovered its dynamism, reaching a maximum expansion rate of 9.1 percent y-o-y in April of this year. Said performance is attributed, to a great extent, to the flexibilization measures implemented in order to extend new loans and by the additional funds that made it possible to grant more support to businesses, with State guarantees, especially support for micro, small, and medium-size enterprises (MSMEs).

The payment system has performed normally, in a fluid, effective and efficient manner. Since November 2020, the operating hours have been extended so that participant entities and their clients may carry out more interbank electronic transfers through the platform of the Payment System of Paraguay (SIPAP). Since the beginning of the sanitary crisis, the operations taking place through the payment system have increased significantly. In particular, the quantity of transfers made between the clients of the financial entities tripled from March 2020 to July 2021. Furthermore, the BCP and the financial entities continue to make investments in technology to broaden the services offered, foster the digitalization of payments, and increase financial inclusion.

PERU

In the first half of 2021, year-on-year growth was 20.9 percent (-0.1percent with respect to 1H2019), explained by a recovery in non-primary sectors, such as services, commerce and construction; and by a low comparative base. As the vaccination rollout progressed (especially in May and June) and COVID-related infections and mortality decreased, containment measures eased. However, expectations deteriorated, thereby slowing down private spending recovery. Domestic demand growth was offset by a negative contribution from services exports—especially inbound tourism—which are still far from pre-crisis levels.

Following the recovery in monthly GDP at end-2020, the monthly dynamics during 2021, compared to 2019, reflected the focalized quarantine in February, as well as the effect of political uncertainty on expectations. As of July 2021, economic activity was 0.4 percent above the level reached in the same month of 2019, although there are still sectors lagging behind, especially those involving greater physical interaction, such as services and commerce. However, moderate growth is expected during the second half of the year, explained by a smaller statistical effect and lower business confidence. As a result, GDP is expected to grow by 11.9 percent in 2021 and 3.4 percent in 2022.

Inflation in Peru has been one of the lowest and less volatile in LAC since 2001 (2.6 percent in 2001-2020). In August, inflation was 5.0 percent due to supply-side factors, such as higher commodity prices (oil, wheat and soybean oil), increased transportation costs (import freight rates), and exchange rate depreciation. In this context, 12-month inflation expectations reached 3.07 percent (slightly above the 1percent-3 percent target range of the Central Reserve Bank of Peru, BCRP), but inflation trend indicators remain within target. For the remainder of 2021 and the first half of 2022, inflation is projected to be above the target range due to transitory supply-side effects, considering that the output gap will gradually close as the economy continues to recover.

Credit to the private sector increased 2.5 percent year-on-year as of August 2021, mainly due to higher loans to businesses. After a significant increase in the credit-to-GDP ratio in 2020, resulting from the expansionary monetary policy stance, liquidity operations, and a Government Loan Guarantee (GLG) program (known as *Reactiva Peru*), demand for credit moderated and is now expected to grow at a rate below that of nominal GDP.

The fiscal deficit is expected to decrease from 8.9 percent in 2020 to 4.0 percent in 2021, mainly due to higher government revenues in a context of domestic recovery and favorable international conditions. Public debt as of end-2021 is expected to reach 34.9 percent of GDP. Going forward, fiscal consolidation will continue, and the deficit will likely decrease as the economy gradually recovers from the negative COVID-19 shock.

The current account deficit (forecasted at 1.7 percent of GDP in 2021) is lower than the previous 10-year average (2.8 percent of GDP) and will continue to be sustainable and financed by long-term capital inflows. The trade balance surplus will continue to be positive in 2021 (6.8 percent of GDP).

Between April 2020 and July 2021, the BCRP kept the policy rate at 0.25 percent, the lowest since the adoption of the Inflation Targeting regime. This decision was complemented by massive operations to provide liquidity to the financial system (through longer-maturity repo operations, which are significantly larger than under the Global Financial Crisis). These measures include a loan program with government guarantees (8.4 percent of GDP) and liquidity provided by the BCRP through repo operations to support financing of working capital. The BCRP raised its policy rate by 25 bps in August and 50 bps in September, to 1.0 percent, in a context of global inflationary pressures and a recent surge in inflation expectations. The BCRP still maintains a significant expansionary stance and will continue to take the necessary steps to support the payments system and the credit channel.

Additionally, the BCRP maintains an FX buffer of around six times the country's short-term obligations and 36 percent of GDP due to a precautionary accumulation of international reserves. Additionally, Peru has access to contingent funds like the USD 11.4 billion Flexible

Credit Line agreed with the International Monetary Fund. With sound fundamentals and high FX reserves, Peru's external position is one of the strongest among emerging market economies. This enables the authorities to considerably limit the risks from exogenous financial shocks.

Peru's strong and coordinated fiscal and monetary response under the pandemic was possible as a result of solid macroeconomic fundamentals, including low debt ratios, one the largest fiscal spaces in LAC, and significant external buffers. In a context of unprecedented challenges, the country's solid policy management over the past three decades is being validated.

URUGUAY

As a result of a massive and steadfast vaccination plan, as of September 22nd, 74 percent of the total population of Uruguay has been vaccinated with both doses and 78.7 percent with one dose. Vaccination has been a key economic and social policy of the Government, which in conjunction with a forceful economic and social response and an emphasis on individual freedom with social responsibility, has contributed to mitigating the effect of the pandemic and positioned the economy for its recovery. That said, the global evolution of the pandemic and rise in the share of Delta cases merits continued monitoring.

Economic Outlook

After contracting by 5.9 percent in 2020, the Uruguayan economy is showing clear signs of recovery and is expected to grow by 3.5 percent in 2021. The economy grew by 11.3 percent in the second quarter of the year (April-June) compared to the same period of the previous year. In seasonally adjusted terms, economic activity grew by 0.9 percent compared to the previous quarter.

There was a generalized recovery of economic activity in this period, particularly in trade, accommodation, food and beverage supply, and health, education, real estate and other services sectors. The recovery is linked to the greater dynamism of both domestic and external demand. Sectors such as manufacturing, construction, trade, accommodation, food and beverage supply, and financial services reached levels in the second quarter higher than the second quarter of 2019. In seasonally adjusted terms, all sectors registered growth compared to the levels of the last quarter of 2019 (pre-pandemic levels) with the exception of energy, gas, and water (strongly affected by the drought), professional activities and health, education, real estate, and other services (sectors that continue to be affected by lower mobility in the second quarter).

Leading indicators for the third quarter are encouraging, reflecting continued growth in economic activity. According to Uruguay XXI, both imports and exports recorded significant growth, even against 2019 levels. Export orders measured in dollars grew 58.7 percent year-on-year in July and 39.7 percent in August while imports in dollars registered year-on-year growth of 31.1 percent in July and 32.5 percent in August. Moreover, manufacturing production grew 18.7 percent in July compared to the same month of 2020. July's data shows a strong year-on-year acceleration of the manufacturing industry, but also an increase of 14.6 percent with respect to July 2019. At the same time, revenue collection grew 6.2 percent in July-August compared to the same period of 2020 and 4.3 percent compared to July-August 2019.

The recovery of activity has been accompanied by the strengthening of the labor market. Unemployment insurance has cushioned the loss of employment, particularly through the suspension and reduction modalities that maintain the employment relationship. Firms that expected to return to a more normal rhythm of activity have used this instrument to avoid laying off workers. Therefore, job destruction occurred mainly in informal jobs, generating a reduction in informality. As of July 2021, an average of more than 30,000 jobs have been recovered from the 60,000 jobs destroyed in 2020. It is expected that three out of four jobs lost in 2020 during the pandemic will be recovered by the end of the year.

Monetary Policy

Based on the commitment to contribute to the slowdown in inflation, substantial improvements in the health situation and signs of recovery in economic activity, in August 2021, the Central Bank of Uruguay raised its monetary policy rate by 50 basis points to 5.0 percent to ensure that inflation expectations are in line with its target range. This represents the first change in its rate since September 2020 when the Central Bank modified the monetary policy instrument, substituting the monetary aggregates for the one-day reference interest rate. This decision was part of a more general process to provide greater transparency and clearer signals to economic actors about the trend of monetary policy.

Inflation in Uruguay stood at 7.59 percent in August 2021. As long as there are no setbacks in the health situation, the priority of monetary policy will be to drive inflation and inflation expectations to the center of the target range of 3.0 to 7.0 percent in the monetary policy horizon. The Central Bank is also advancing an agenda of financial de-dollarization as an additional instrument to strengthen monetary policy and reduce financial fragility.

Financial Sector

The financial sector remains resilient due to prudent supervision and regulation measures in place. As of March 2021, the solvency situation of the financial institutions based in Uruguay continued to show remarkable strength with a capital structure that doubles the minimum regulatory requirement. The profitability of banks (measured in nominal pesos) represented a return on assets (ROA) of 1.7 percent and a return on equity (ROE) of 20.7 percent in the first quarter of 2021. The general delinquency of credit stood at 2.7 percent—the same level as of December 2020—and represents a reduction from 3.3 percent from a year ago. Stress tests of the banking system carried out by the Superintendence of Financial Services, showed that the banking system would withstand a severe recession scenario, and the regulatory capital of the banking system would remain above the minimum requirement.

Fiscal Policy

In 2021 the Government continued responding to the pandemic in a timely, targeted, and responsible way to ensure that measures remain sustainable during the duration of the pandemic. Total budgetary resources to respond to the pandemic, managed through the Coronavirus Fund Solidarity Fund, are estimated at 1.7 percent of GDP in 2021. Many of the measures adopted to protect the most vulnerable population and contribute to the recovery of micro, small and medium-sized enterprises micro have been extended recently. One of them is unemployment insurance, which was extended until March 2022. On the other hand, measures related to credit assistance (SIGA, ANDE zero-rate loans, loans with subsidized rates, loan restructurings) are still in force. In addition, the Government is contemplating the implementation of two programs to address child poverty from 0 to 3 years old (estimated at USD 50 million additional per year) as well as housing for lower-income families. The promotion of employment opportunities for young people and people over 45 years of age who belong to the most vulnerable social groups is also a priority.

In the year ending in August 2021, the fiscal balance of the Central Government was -4.9 percent of GDP (excluding the positive effect of inflows to the Social Security Trust Fund of 0.6

percent of GDP). In turn, gross debt of the Central Government stood at 62.6 percent of GDP as of June 2021, while net debt was 57.2 percent of GDP.

The Government has deployed proactive sovereign debt management strategies, developing local currency market while maintaining liquidity buffers and precautionary credit lines. During the first six months of 2021, the Government tapped domestic and global capital markets and disbursed multilateral loans for a total equivalent to USD 2,962 million. Despite the context of uncertainty and volatility, Uruguay obtained large-scale financing in international markets in local currency, at an intermediate maturity, and a competitive rate. This transaction marked the first global local-currency bond offering from an emerging market (EM) country in 2021, and among the few that have issued internationally in their own currency so far this year. Going forward, the Government seeks to incorporate environmental, social, and governance factors in the design of its financing strategy and thus contribute to advance the sustainable development of the country in the medium term.