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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

The unprecedented COVID-19 pandemic has severely hit the world and humankind, affecting multiple dimensions of economic activity and social life. Countries worldwide have reacted introducing harsh but necessary containment measures that are having a sizable economic and financial impact on their societies. Unfortunately, a greater effort appears necessary to mitigate the impact of the crisis and to minimize its consequences in the medium and long term. Against this backdrop, we believe that the IMF has a crucial role to play, not only by providing financial support and technical assistance, but also by preparing robust analytical work to guide its advice to country authorities.

The analytical work involved in the World Economic Outlook (WEO) is especially complicated given the current circumstances of extreme uncertainty and sharp declines in output and key prices, which make it difficult to rely on precise assumptions. In these very atypical circumstances, we wonder if the situation would have merited a different approach regarding the WEO's projections, for instance, by indicating ranges rather than point values. It should be recognized that there are current limitations to conduct its usual analysis in the face of the scope and the extent of this exceptional crisis and consider presenting a range. Given the difficulty of taking into consideration idiosyncratic factors that counteract the effects of the pandemic, region-wide projections should be presented, opening up to individual projections for larger economies.

With all these difficulties, we congratulate staff for its effort in putting together the analytical work underpinning the WEO. The analysis comprises a clear picture of the global crisis and related responses and risks, and clearly illustrates the unique nature of the events triggered by the global pandemic. The WEO evaluates the channels through which the crisis propagates, impacting on both the supply and the demand side of countries' economies and elaborates on expectations and behavioral aspects that affect them. We fully agree that the depth of the crisis will be unparalleled. The magnitude of the global recession projected by the report for this year is far worse than the 2008/2009 global financial crisis: a global rate of GDP growth of -2.9 percent for 2020 versus a global rate of GDP growth of 0.1 percent in 2009. Furthermore, the WEO shows an exceptional synchronized recession, with only 11 member countries projected to avoid an economic contraction in 2020. Even in these cases, countries would experience sizable corrections compared with past projections.

We are convinced that the Fund has a critical role in providing key messages through proper communication, especially in this environment of extremely heightened uncertainty. In fact, one of the most relevant and recurrent words that appears in the report is "uncertainty", as it rightly underscores the "extreme uncertainty" that surrounds the crisis and the assumptions behind the WEO's baseline scenario. Many factors surrounding these assumptions are definitively out of our area of expertise, primarily the

pathway of the pandemic, the progress in finding a vaccine, the effectiveness of therapies, the intensity and the hardly predictable effectiveness, and the duration of the containment and mitigation measures, among others.

Under these circumstances, it is clear that there are significant risks of an even worse outcome; and for this reason, the report elaborates an alternative scenario that departs from the baseline in three areas closely associated with the evolution of the pandemic. Looking at both scenarios, we find it very difficult to discern whether the baseline scenario is more likely to materialize than the alternative one. Some of the outlines of the baseline scenario are based on the path followed in China during the first quarter of the year, with a sharp decline followed by a gradual recovery. However, not only is China's recovery not fully assured, but also the impact of the ongoing shock in different countries will depend on idiosyncratic factors and countries' particular circumstances, including the size and effectiveness of the desirable and targeted policies that countries follow to respond to the COVID-19 shock.

A key driver of the recovery, but hard to predict, will be the success of the containment measures and, therefore, the gradual lifting of the lockdown. In that regard, it is important to note that the countries in our chair show promising signs in decreasing the pace of contagion, with different degrees of non-pharmacological containment within the region. In addition, the current situation in many of them is a partial lockdown, meaning that key economic sectors are still functioning.

We agree with staff that policy makers face a dual objective, namely supporting economic activity and safeguarding financial stability. Against this unprecedented challenge presented by the COVID-19 pandemic, financial markets have reacted abruptly, with high degree of synchronicity, and against a background of elevated uncertainty, as noted in the Global Financial Stability Report (GFSR). Asset price movements have been amplified and financial conditions quickly tightened, while market liquidity has deteriorated. The plummeting of oil prices has added to global volatility, which has reached levels much higher than those observed during the European banking crisis.

The sudden stop of economic activity hit emerging markets hard, which have seen their currencies depreciate, has been associated with sizeable capital outflows in some regions (particularly SE Asia). Nevertheless, Latin America has been relatively more resilient. Chile and Peru for example, with a large presence of non-resident investors in the local market and large domestic institutional investors, have not experienced significant outflows. The countries in our chair that are facing relatively larger impacts of the pandemic have taken bold measures on the fiscal, monetary, and financial fronts, against the background of sound financial systems. Liquidity risk and reinforcing the credit channel are concerns at the international level that are shared by our countries. Chile and Peru have recently decreased the monetary policy rate 125 and 100 basis points, respectively, and together with Argentina, have implemented a series of measures to support the liquidity in local financing markets. Our authorities are closely monitoring eventual cash flow shortages in the corporate sector, as well as investment funds, which are a concern. Measures on the monetary and financial front are being taken amidst sizable fiscal stimulus. Peru (7 percent of GDP), Chile (4.7 percent of GDP), and Paraguay (2.5 percent of GDP), show the strongest fiscal response, followed by Argentina, with a fiscal package that amounts to 1 percent of GDP.

Fiscal policy, more than ever, is playing a central role in helping prevent the amplification of the pandemic and contain a plausibly prolonged damage on activity and employment because of the shutdown, as

highlighted in the Fiscal Monitor (FM). Actions should be swift, timely, and involve large scale measures. These actions should be targeted to providing support to small and medium enterprises facing cash-flow problems, as well as state-owned enterprises operating in key sectors. They should also aim at protecting household income—including direct cash transfers, tax measures, and safeguarding jobs by replenishing the unemployment insurance mechanisms—and, most importantly, financing health spending on testing and treatment, as well as the necessary medical equipment.

International Collaboration and IMF Policies

More generally, and this may be the most critical message that we would like to convey, global problems of this kind and magnitude require global solutions, international cooperation, and coordination. As noted, several times in the reports, the crisis is affecting the whole world, with very few exceptions. Advanced economies have much more economic and financial space to face the pandemic and its consequences. Low-income countries, as well as emerging and developing economies, are generally in weaker positions to face it. In addition, we commend the efforts deployed by the Fund so far, but we encourage it to redouble efforts to better and further assist its member countries, not only through financial assistance and capacity development, but also by being innovative, flexible, and creative in designing alternatives aimed at alleviating the burden of countries in this difficult period.

The Fund must coordinate, participate, and sustain multilateral actions as required. Strong multilateral action is critical, not only to coordinate global fiscal and monetary stimulus, but also to synchronize health issues, such as production of and financing for medical equipment and kits and for prevention and treatment. We support the Fund's continued work towards economic recovery, resilience, and sustainability. We are confident that the role of the Fund on macro-critical issues, such as man-made climate change, is substantive.

IMF Governance

The Fund's lending facilities are adapting very quickly to the membership's needs. Changes to access ceilings of the Rapid Credit Facility and the Rapid Financing Instrument have been introduced and a new instrument the Short-term Liquidity Line is in the process of being adopted. It is imperative that all IMF country-members be considered for financial support on humanitarian grounds. We welcome the high-speed procedures to give response to the more than 80 financial requirements of the membership. We also ask the IMF to continue discussions for a general SDR allocation to increase international liquidity.

We agree with and support the Managing Director's Global Policy Agenda and the IMF Work Agenda and Operations, and the actions to help members improve their policies to respond to the crisis and create the conditions for recovery. As this crisis requires an aggressive fiscal response, this will increase public debt levels, augmenting debt vulnerabilities in many countries. Thus, the Fund must support countries in resolving unsustainable debt situations while containing debt vulnerabilities. Furthermore, the Fund should continue examining recent challenges in sovereign debt resolution, as planned. We support the joint IMF-WB initiative to provide debt service relief for the poorest countries so they can successfully deal with the impact of Covid-19.

Social spending policies, to reach the poor and the informal sectors, should be emphasized, as well as policies to improve income and wealth distribution at country and at global level. We hope that the 16th General Review of Quotas really ensures that the process of governance reform will continue.

Southern Cone Countries

Argentina

The Difficult Economic and Financial Situation the Country Inherited

In December 2019 a new administration took office with the country in a very fragile economic and financial situation:

- Inflation was at a record annual level of 53.8 percent last year and the credibility of monetary policy was severely affected, after a series of failed experiments that included the establishment and abandonment of an inflation-targeting regime.
- The public debt was running at a record high in both amount and maturity concentration. This year alone capital payments represented the equivalent of USD 48,968 million, plus USD 14,838 million in interest payments, around 16 percent of GDP.
- Tax policy severely decreased the collection capacity of the public sector, particularly after the 2017 tax reform. Between 2015 and 2019 tax revenues decreased 2.6 percent of GDP and total income of the national public sector excluding extraordinary items decreased 2.8 percent of GDP.
- Fiscal consolidation came from a severe adjustment in spending, which fell by 5.5 percent of GDP, affecting the state's operation. 60 percent of public works was paralyzed and the debt of the national government to public works was equivalent to more than USD 580 million.
- GDP accumulated two successive years of decline, industrial activity has not grown in more than 19 months and idle capacity was close to 40 percent of installed capacity.
- Unemployment was running at 9.7 percent and in 2015-2019 more than 250,000 jobs were lost in the private sector.
- The poverty rate rose to 35.5 percent, almost 10 million people, while extreme poverty reached 8 percent, with 2.2 million people.

Policy Strategy – Achieving Sustainability

The new government is firmly committed to restoring the Argentine economy to a sustainable path. The economic program aims at addressing Argentina's macroeconomic challenges. The program relies on a pragmatic and flexible approach, taking into consideration the country's binding constraints. Economic policy is guided by the overarching objective of establishing a sustained trend of economic growth and, on that basis, addressing the social ills that have been afflicting the country. That implies breaking the recurrent pattern of stop and go, booms and busts, illusions, and broken promises that have so painfully

characterized Argentina. The consequent process of lengthening decision horizons, public and private, must bridge a transition, starting from a present state where attention is focused on the very immediate future, as the economy was already in the midst of a crisis when the global shock hit.

The current strategy is focused on flexibly managing immediate urgencies as they arise in this uncertain context, while keeping a longer-term perspective. The policy approach recognizes the requirement to attend to the ultimately complementary demands for macroeconomic stabilization, productive development, especially regarding the supply of internationally traded goods, and social inclusiveness, while dealing with the tradeoffs that will arise along the way. Flexibility with a clear longer-run purpose will also be the criterion here.

By achieving clear and realistic policy objectives, Argentina will provide a stable macroeconomic environment, which will in turn enable longer-term investments and sustained growth. In addition, ongoing developments related to the Covid-19 outbreak highlight the importance of policy flexibility in the face of an uncertain world.

Macroeconomic Scenarios

The macroeconomic scenarios that we have calibrated reflect the necessary conditions for a sound economic recovery, factoring in appropriate buffers to address any further domestic or external shocks. These scenarios also reflect what the government considers socially supportable.

- i. A steady-state real growth rate between 1.5 percent and 2 percent.
- ii. The growth scenarios are consistent with a trend of growth in exports corresponding to a trade balance in the range of 1.4 percent to 1.9 percent of GDP in the medium term.
- iii. This scenario proposes a gradual fiscal consolidation compatible with a shift in the composition of expenditures toward greater public investment as well as higher fiscal revenue. The steady-state primary balance is consistent with the parameters of economic recovery.
- iv. The Covid-19 outbreak will critically impact the economy, notably owing to the “social distancing” measures put in place across the globe, including in Argentina. Measures to address this crisis have been adopted in line with international standards and aim at protecting the most vulnerable factions of the population and economic sectors. Estimates of the impact of Covid-19 on the economy are still in preparation.

The policy measures of the new administration are part of a comprehensive program to resolve imbalances and redefine priorities to alleviate the situation of those who are most vulnerable taking into account macroeconomic consistency. In this context of high uncertainty and vulnerabilities, Argentina prioritizes the strengthening of social safety nets, the avoidance of a disorderly debt crisis, and the initiation of a fiscal consolidation compatible with a disinflation process.

Strengthening the Social Safety Net

In December 2019, a set of policies was put in place to strengthen transfer programs for the lower-income population and avoid an increase in unemployment of the most vulnerable sectors in the labor market.

A minimum and uniform salary increase for workers in relation to dependency on the private sector and the state sector, and the armed and security forces, was established. Retirees received an emergency bonus, provided in the months of January and December, and an extraordinary subsidy, after which 18.8 percent increase in minimum pensions was granted, free access to essential medicines was guaranteed, and interest rates of their loans were dropped along with suspension of fees. Interest rates for credit cards were decreased.

Tax moratorium for SMEs, self-employees, and non-profit entities was established and a new line of credit was arranged for SMEs. Double compensation for dismissals without cause was decreed. The Care Pricing Program, which includes wholesale sales, which was also extended to school products, was relaunched. A temporary freezing of rates, suspension of toll increases, suspension of increases in public transportation, and suspension of fuel increases were arranged. A Health Emergency was declared which allowed the rapid release of more than 12 million vaccines that had been held for months at Customs. An 8 percent reduction in drug prices in commercial pharmacies was also agreed.

All these relief measures currently in place have improved the situation of the poor after the former government policies sharply increased social problems for a large percent of the population. The pandemic and the subsequent lockdown imposed by the current government, which has almost stopped economic activity, has proved that all these measures had to be reinforced.

Economic Policies to Deal with the Pandemic

Argentina took early action to contain the virus by imposing a strict lockdown. Economic policy measures taken so far entail a fiscal stimulus, the amount of which will be conditional on the length and impact of the quarantine.

- i. Households relying on informal activities, domestic workers, or the self-employed that have suffered income losses will receive a one-off bonus in April. Additional conditional cash transfers to poor families include a one-off bonus targeting retirees and non-contributory pension beneficiaries with minimum pensions.
- ii. Public food programs are being expanded.
- iii. In sectors critically affected by the lockdown, such as entertainment, transport, restaurants, and hotels, the government will pay part of the salaries and exempt employers from social security contributions. Unemployment insurances have been reinforced for those workers who have been dismissed without fair cause during this period.
- iv. Public banks will support private companies with subsidized credit for up to 180 days.

- v. Public investment will be boosted by an increase of 40 percent in the budget allocation for capital expenditures.

Fiscal Consolidation Path Compatible with a Disinflation Process

- i. The tax policy (including the measures embedded in the Solidarity Law) aims at contributing to fiscal sustainability by strengthening tax resources, without neglecting the objectives of equity.
- ii. Progressive taxes on external transactions have been strengthened. The legislation introduced a special tax applicable to certain foreign exchange transactions. The reduction in property tax rates was eliminated and an over-tax has been introduced, taxing the holding of assets abroad. For the internal tax on motor vehicles, ranges were introduced for the sale price, with higher rates being imposed on high-end and luxury imported cars.
- iii. The reduction in employer contributions has been postponed (considering it had no effect on job creation) but favorable changes have been implemented for SMEs.
- iv. Tax on financial transactions has been eliminated to encourage savings in pesos.
- v. Measures have been implemented to improve tax compliance. A Facility Plan for SMEs has been established to encourage card payments. A cash withdrawal tax has also been introduced.
- vi. On expenditures, a review process of relevant policies has been initiated. The government is currently devising a new indexation formula based on the principle of shared growth and consistent with the macroeconomic framework presented by the Minister of Economy.
- vii. Public utility price policies are one of the tools to converge towards a sustainable disinflation path. Price-wage agreements should be consistent with competitiveness and inflation objectives. The Central Bank of Argentina has been following a strategy of persistent reduction in interest rates consistent with the comprehensive macroeconomic strategy that aims at productive reactivation and a gradual and persistent disinflation.
- viii. On the horizon, the goal is to reduce the inflation rate to a single digit, below 5 percent per year, and to minimize monetary financing, recovering the use of monetary policy for macroeconomic stabilization purposes. In the transition towards fiscal balance, the public sector will prudently resort, in a decreasing manner, to central bank financing. Fostering demand for peso-denominated assets is a high priority.
- ix. Capital account regulation is a necessary instrument in times of emergency. The current regulations will be to a large extent maintained in the early phase of the recovery program. The goal is to ease those regulations in an orderly way. Foreign exchange reserve accumulation targets are a necessary condition for achieving that goal.

Providing an Orderly Resolution to the Debt Crisis

- i. The government has passed a set of key legislative tools to resolve the debt situation in an orderly manner: (i) the “Solidarity Law” has authorized the Executive Branch to perform all necessary acts to recover and ensure the sustainability of Argentina’s public debt; and (ii) the “Debt Sustainability Bill” has authorized the government to engage with Argentina’s creditors to restore the sustainability of its external public debt, based on the principles of good faith, transparency, and equal treatment.
- ii. The government has also been authorized to issue debt securities to the Central Bank for an amount of up to USD 4,571 billion in exchange for reserves to be used to service Argentina’s foreign currency-denominated debt obligations.
- iii. At the end of January 2020, the Ministry of Economy published a timeline of actions to manage the process of restoring the sustainability of external public debt.
- iv. At the beginning of March, the restructuring perimeter of the private debt in foreign currency was defined by decree and the Ministry of Economy was authorized to carry out the necessary debt operations to resolve the current situation.
- v. On peso-denominated debt, the government has made significant progress since December 2019. The new administration started to issue short-term bills (the so called “Lebads”) linked to the BADLAR rate, enabling the government to roll over peso debt at sustainable rates while lengthening maturities. In that regard, the government has successfully swapped approximately USD 5 billion of peso-denominated debt. These operations have reduced the outstanding peso-denominated obligations for 2020 with private sector from USD 19 billion to USD 12.4 billion (decrease of 35 percent). Additionally, interest rates decreased sharply in primary debt issues from 73.55 percent in July 2019 (the last peso-denominated instruments issue carried out by the previous administration) to 35 percent in March 2020.
- vi. IMF staff have visited Argentina twice and exchanged views with the Argentine authorities on their macroeconomic plans and policies. After completing the first mission, IMF staff publicly evaluated that Argentina's public debt is not sustainable and that actions are required to re-establish sustainability with high probability.
- vii. After completing the second mission and at the request of the Argentine authorities, IMF staff produced and disseminated a technical report on debt sustainability analyzing the actions required to restore the sustainability of public debt with high probability. This note presented a feasible medium-term macroeconomic framework and the gross financing needs, including debt service in foreign currency that the Argentine economy can sustain in the coming years.

Bolivia

Bolivia closed 2019 after going through a political and social crisis, initiated by a series of fraud allegations during the October 2019 presidential elections. This caused citizen mobilization and

blockades that completely paralyzed most of the country for 21 days, resulting in the resignation of the former president and his subsequent departure from the country. Following the constitutional line of succession, the new acting president took office in November 2019 with the mandates to pacify the country and to call, in the shortest possible time, new elections, thus reestablishing social order and restoring the country's economic stability.

Bolivia's economy slowed down in 2019. The new transitional government gradually began the fiscal adjustment, through rigorous control and prioritization of spending, hence halting projections of the fiscal deficit of around 9 percent of GDP and closing 2019 with a deficit of 7.2 percent of GDP, improving the 8.1 percent of 2018. Preliminary macroeconomic figures from 2019 show that the current account deficit reached 3.4 percent of GDP, year-end inflation averaged 1.47 percent, and real GDP growth slowed to 2.2 percent.

As several countries impacted by COVID-19, a contraction is expected in Bolivia's economy for 2020 (-3.4 percent) with a rapid recovery in 2021 (3.7 percent), and with the same trend in 2022 (3.4 percent). Bolivia's perspectives for 2020 are affected by the deep social and economic impact caused by the pandemic, which demands taking emergency measures to protect the population.

The financial system faced a brief but significant period of withdrawal of deposits, in addition to a growing demand for foreign currency during the 2019 crisis. The adequate intervention of the Central Bank of Bolivia, the installation of the new government, and the soundness of the financial system allowed for an almost immediate reversal of the fall of deposits and their return to the system.

Although it is expected to continue with the correction in the medium term, the challenges imposed by the current scenario immediately demand the execution of highly expansive spending measures and policies to establish social protection networks for the most vulnerable. The aim is to preserve human lives, protect the most needed, while preparing a long-term development plan to return to the path of growth that has characterized Bolivia for more than three decades, which will be implemented as soon as the effects of the spread of the virus have been mitigated.

Aware of internal weaknesses and in order to avoid the immediate collapse of the health system, the authorities have implemented a series of mitigation measures and policies to contain the spread of the virus, protect the population, and ensure the stability of the financial system.

Chile

1. Overview

As in many countries, Chile's economy has significantly weakened under the impact of the COVID-19 pandemic. This has overshadowed the recovery after the social unrest that hit the economy in the last quarter of 2019.

The government started preparations to face the virus well in advance of its arrival and adopted non-pharmacological containment measures immediately after the first confirmed case. Social distancing, suspension of classes, border closures, sanitary barriers, and territorial quarantines have curtailed contagion and fatalities at a cost estimated at 12-15 percent of monthly GDP per month. This is about half

the OECD estimate given the more targeted nature of containment measures in Chile. These measures should last during most of the second quarter, followed by a gradual roll out in the third quarter. As a result, GDP is expected to contract between 1.5 and 2.5 percent in 2020, concurrent with a world recession. After starting to recover in the second half of 2020, the economy should grow between 3.75 percent and 4.75 percent in 2021, converging to trend growth of 3-4 percent in 2022. To secure this outcome, the authorities have taken major social, fiscal, monetary and regulatory measures, aimed at supporting firms and jobs during the emergency.

As a small open commodity-exporting economy, Chile is affected by the global crisis through various channels: First, a significant drop in trade flows, including those from China and its trading partners and the world recession, plus the fall in commodity prices.

Second, through tighter financial conditions. The global increase in risk perception and large adjustments in financial prices limit access to external financing. Against this background, sound policies and Chile's institutional framework have facilitated continued access to international capital markets on favorable terms motivating various central banks—including the Central Bank of Chile (CBC)—to take action to ensure the proper functioning of the markets. Among other measures, the CBC adapted the operations of the liquidity programs that have been applied since November 2019, incorporated corporate bonds as eligible collateral for all CBC's liquidity operations in pesos, and launched the purchase of bank bonds from participants in the open market operation system, for the UF equivalent of up to USD 4 billion. In the last CBC's Monetary Policy Meeting, the limit was raised to up to USD 8 billion. Additionally, for the remaining balance, —USD 5.5 billion—the term restriction on eligible instruments was eliminated. To facilitate access to credit for individuals and companies, especially smaller ones, the CBC established the *Conditional Financing Facility* (FCIC) granting 4-year loans to banks at the minimum Monetary Policy Rate (currently at 0.5 percent), which grows with refinancing and credit operations to corporates and households. The facility starts with a basic grant equivalent to 3 percent of the bank's loan portfolio, which can expand to 15 percent with the lending-multiplier. This mechanism combines with a broad government guarantee program for SMEs.

A third transmission channel is business and consumer expectations, which affect investment and consumption. Both were already at pessimistic levels and a reversal now seems unlikely. A special survey carried out by the CBC revealed a significant deterioration in the outlook for employment and activity. Incoming information reveals that layoffs are already taking place, mainly affecting workers without a formal contract, with fixed-term contracts, or with less seniority in their jobs.

During this period, the currency has depreciated, the stock market has fallen significantly, sovereign risk spreads have widened, and long-term interest rates have risen moderately. Unlike massive outflows in other emerging market economies, capital outflows have been contained due to confidence of foreign investors and the weight of domestic institutional investors. Chile's ability to contain economic deterioration will depend on—but not exclusively—the depth and duration of containment policies, which so far have been gradual; the degree of distortion in global production chains, and the support given to the corporate sector to withstand the drastic erosion of companies' income. The mining sector has not been hit severely, as the spread of the virus has been particularly mild in the mining regions in the North. While investment projects have been suspended, operations are continuing, albeit with special protection measures for workers.

Markets positively assess the strong macroeconomic fundamentals of the Chilean economy, the key role of the flexible exchange rate regime that allows it to act as a shock absorber, and the swift and bold fiscal and monetary policy response to the social and pandemic crises. The authorities are committed to continuing support based on the deep-rooted, credible, and rule-based fiscal and monetary policy frameworks, the availability of sovereign buffers and CBC international reserves, coupled with a sound and adequately capitalized financial system that allows for efficient monetary policy transmission.

2. Macroeconomic Forecasts

The legacy of the 2019 social unrest in some sectors provides a weaker starting point to face the sanitary emergency. The CBC's most recent forecast was made under even greater uncertainty than that at the end of last year. The -2.5 and -1.5 percent range assumes that by the third quarter of this year sanitary measures will be eased and the recovery of the economy will begin.

On the external front, the expected lower growth of Chile's trading partners will have an impact, but it should not significantly hurt non-mining GDP given its lower elasticity to world GDP. Chile's main trading partner, China, is reactivating before others, with a likely pick up in infrastructure investment, which is intensive in copper, Chile's main export to that country. In fact, while the fall in copper prices is having a negative effect, it has been mostly through the financial rather than the trade channel, which seems less hurt despite the crisis.

In 2021, GDP activity will increase between 3.75 and 4.75 percent, while in 2022, between 3 and 4 percent. This assumes some relaxation of the restrictive measures towards the second half of the year, large-scale investment projects reinstated, and the institutional channeling of the social crisis reducing uncertainty and avoiding new episodes of violence, effective fiscal stimulus measures, the expansionary stance of monetary policy, and credit markets functioning normally. However, the economy may disappoint if the control of the sanitary emergency and the containment measures around the world last longer than expected and if the significant financial needs of agents are not met by the supply of credit. Such scenarios would imply solvency problems and bankruptcies, with a greater loss of jobs and a slower recovery for the next two years.

3. Inflation and Monetary Policy

In the current juncture, medium-term inflationary pressures have been significantly reduced. The 2019 year-end inflation was 3 percent (2.5 percent excluding food and fuel components), thus convergence to the 3 percent target requires monetary policy to remain in this highly expansionary position for an extended period. Consequently, on top of the extraordinary liquidity provision measures already in place, in March the CBC reduced the monetary policy rate by 125 basis points, to 0.5 percent—its estimated effective lower bound—and signaled it would keep it at that level for a long time. If growth were to deteriorate below expectations in 2021-22, the CBC would assess the need to use instruments that go beyond the usual management of monetary policy, giving priority to financial stability considerations.

4. Fiscal Policy

In March, the Chilean government announced an Economic Emergency Plan that involves resources of up to USD 11.75 billion (roughly 4.7 percent of GDP). This fiscal package follows other extraordinary fiscal measures of up to USD 5.5 billion that were announced in December 2019, in the aftermath of the social unrest. The Plan includes a comprehensive set of measures to safeguard health, protect household incomes and jobs, and transitory policy measures that free up working capital to the private sector.

To protect jobs and boost consumption, new legislation allows companies to reduce their wage bill by temporarily suspending the worker-employer relationship, with workers' wages paid out from the Unemployment Insurance Fund. In addition, to alleviate income and liquidity constraints, roughly 2.7 million informal workers will receive an extraordinary cash transfer from the government and a new municipal fund will help small and medium enterprises. These additional measures could inject up to 2 percent of GDP in the second quarter of the year. Also, the government has postponed a series of tax payments, which were due in the second quarter, while advancing tax refunds through the next few months. These measures will inject almost 2.4 percent of annual GDP in the economy, mostly in the second quarter, but will automatically roll back over the next 12 months.

More recently, the government has announced a broad guarantee scheme for micro, small and medium enterprises, covering up to 85 percent of loans to cover cash shortfalls. Bank loans will be funded by the CBC FCIC, will be conditional on commercial banks rolling over short-term debt repayments, and supported by regulatory adjustments.

In the use of its policy room, Chile's government could introduce new measures as the economic situation may require. The government maintains stable access to funding in domestic and international capital markets anchored in a relatively low gross public debt, sizable sovereign wealth funds, and a solid track record of fiscal discipline. Still, the impact of these measures on the fiscal accounts could be significant, while public revenues will fall along with the economy and international copper prices. Prudent fiscal policy is a signature of public management and will continue to be so as the government is committed to maintaining debt sustainability and compliance with the fiscal rule, as long as the global crisis permits.

5. Final Remarks

Chile faces this juncture with important strengths. First, its health system is competent in epidemiological management, more professionalized and equipped than most countries in the region. The number of COVID-19 tests applied is high and growing, allowing to isolate the confirmed and potentially infected cases. Second, Chile has built economic buffers over the years thanks to prudent monetary and fiscal policies. Thus, Chile has more fiscal, monetary, and financial policy space than other countries. Third, the social protection system has the means to quickly reach low-income households, and workers at risk of losing their jobs.

Thanks to its strong economic policy framework Chile is one of the countries that has responded more quickly and forcefully by adopting measures to contain and mitigate the economic impact of COVID-19. In

the case of the CBC, this translates into the adoption of more than ten measures to increase the monetary stimulus, strengthen credit, and reduce financial volatility—a fact that has been recognized by the markets. So, Chilean asset prices have deteriorated less than those of other comparable economies. The coordination between economic institutions grown vigorously, in order to align regulations and incentives so that credit flows to the companies and households that need it the most. The challenges faced by policy makers require intensifying this coordination, including a response from the banking system to measure up to the circumstances.

Paraguay

In 2019, the Paraguayan economy was significantly affected by the deterioration of weather conditions. A drought substantially reduced agricultural production, especially soybean, which also led to a weakening of some branches of the manufacturing sector and other sectors linked to agriculture. At the same time, a drought in the area of the Paraná River basin, on the Brazilian side, severely influenced the generation of electricity from binational hydroelectric dams. Subsequently, the floods registered towards the second half of the second quarter negatively impacted livestock and construction sectors.

Additionally, external shocks, such as the drop in commodity prices and the deterioration of the global and regional environment, exacerbated the effects of climate shocks. In the first half of 2019, the soybean price fell 11 percent compared to the same period in 2018. In addition, the weakness of regional economies, especially the Argentinian economy, reduced the dynamics of trade across borders and sectors linked to tourism.

In this context, growth forecasts for the annual GDP were revised downwards substantially throughout 2019. After an initial forecast of 4.0 percent of annual growth, the latest revision in December 2019 was 0.2 percent.

For 2020, the first forecast showed an expansion of 4.1 percent, mainly explained by the recovery of agriculture, electricity generation, manufacturing and construction, while it was expected that the services sector would record a better performance than 2019. On the expenditure side, an upturn in private consumption and investment was expected, as well as a positive contribution from net exports. Furthermore, the data observed in the first months of 2020 was consistent with the estimated projection. However, this estimate currently has a significant downside risk given the latest events related to the Coronavirus outbreak. In recent days, the global and regional economic outlook has become even more uncertain, affecting financial markets, the real economy, and employment. This situation has generated a scenario of greater uncertainty regarding the length of social isolation measures and their consequent impact on economic activity. Thereby, fiscal and monetary policies will be crucial to lessen the negative impact on households and firms.

Regarding prices, total inflation and its trend measures registered low rates during 2019. At the end of the year, the annual variation of the Consumer Price Index (CPI) was 2.8 percent, standing at the lower zone of the tolerance range of 4.0 percent +/- 2 percentage points (between 2 percent and 6 percent). Likewise, in the first months of 2020, inflation remained low. The average year-on-year inflation for January through March was 2.6 percent.

Given the lower inflationary pressures, as well as the evolution of economic activity and domestic demand indicators in 2019, the Central Bank of Paraguay (BCP) considered it appropriate to relax the monetary policy stance, lowering the reference rate by 25 basis points in the meetings of February, March, July, August, and September. Thus, the reference rate went down from 5.25 percent to 4.00 percent annually, keeping at that level until the end of the year.

The nominal exchange rate of Paraguay exhibited a similar behavior to the dynamics observed at the regional context in 2019. As of December 2019, the Paraguayan guaraní depreciated by 8.5 percent vis-à-vis the U.S. dollar, in annual terms. The participation of the BCP in the exchange market has been limited to the attenuation of sharp volatilities of the exchange rate, without shifting the trend in market fundamentals. As of February 2020, the Paraguayan guaraní depreciated around 0.9 percent year-on-year against the U.S. dollar. On the other hand, Net International Reserves (NIR) stand at consistent liquidity levels to face any sudden fluctuations in the exchange rate. As of December 2019, the NIR reached USD 8.0 billion, while in March 2020, it totaled USD 8.6 billion (21 percent of GDP).

As for public finances, the fragile performance of economic activity and domestic demand in 2019 was reflected in a drop in tax revenues, from imports. The fiscal deficit of 2019 was around 2.9 percent of GDP; however, this fiscal result was also largely explained by a significant increase in public investment, which reached around 3.0 percent of GDP.

Regarding the credit situation, despite the lower dynamism of economic activity, total credit granted to the private sector maintained a significant growth rate in 2019, increasing 9.2 percent in annual terms. Loans in local currency expanded by 14.0 percent year-on-year, while loans in foreign currency registered a year-on-year change of -0.6 percent. In February 2020, total credit expanded 5.3 percent annually, driven by the 10.2 percent annual growth of loans in local currency, and partially attenuated by the -2.3 percent annual change of loans in foreign currency.

Financial intermediaries are maintaining their financial soundness indicators at adequate levels, despite the weaker economic activity observed during the first half of 2019. In this context, the government implemented a set of measures to boost the economy, including a package of transitory financial measures to support the most affected sectors. As regards the regulatory framework, the scope of supervision of the BCP has been extended to include individuals and/or legal entities that operate in the credit market with their own resources or from third parties without taking deposits. Likewise, there was a relevant change in the Consumer and User Defense Law to enhance the transparency of the Total Cost of Credit. It should be noted that in December 2019, following the recommendations of FATF-GAFILAT, the government enacted a series of laws to deal with money laundering, terrorist financing, and organized crime. On the other hand, some bills that are still being studied are: the creation and regulation of the Credit Bureaus, Protection of Personal Data, Crowdfunding, Exchange Brokers, and the modifications of the Charter Law of the National Institute of Cooperatives (INCOOP) and the Cooperatives Law, Factoring, among others. In addition, the Executive Branch presented a package of laws to the National Congress that aims to contribute to improving the business climate in Paraguay, including the Secured Property Project, Resolution of Insolvency, and the recently enacted Simplified Share Companies Act.

Given the confirmation of Coronavirus cases (COVID-19) in Paraguay, the health authorities promptly promoted some isolation measures to decrease the rate of infection. In this context, the government

immediately launched a series of economic actions to alleviate the economic impact on families and businesses. The promulgation of a National Emergency Law must be highlighted. This will allow the government to contract loans of up to USD 1.6 billion (4 percent of GDP). These resources will be allocated especially to the health sector (USD 515 million) and social protection (USD 408 million), while the remaining amount will be used for the operation of the State, for transitory subsidies of some public services and for loans to Micro, Small and Medium-sized Enterprises (MSMEs).

Likewise, a series of monetary and financial measures were implemented by the BCP to mitigate the economic impact. In March, the Monetary Policy Committee (CPM) decided to reduce the monetary policy rate (MPR) by 25 basis points in a first meeting, 50 basis points in an extraordinary meeting, and 100 basis points in a second extraordinary meeting, accumulating a reduction of 175 basis points of the MPR, placing it at 2.25 percent annually.

Moreover, in order to provide liquidity to the financial system, the BCP made available an important part of the legal reserve requirement in national currency (MN) and foreign currency (ME) for an amount equivalent to USD 740 million. Likewise, it created a liquidity window called the Special Credit Facility (FCE) for a value of USD 760 million, which will be particularly focused on meeting financing needs of MSMEs. Together, these two measures amount to around 4 percent of GDP. Other measures that will also facilitate liquidity have been the reduction of the penalty rates for the cancellation of Letters of Monetary Regulation (LRM) and the cut of interest rates from short-term liquidity facilities.

Regarding the flexibilization measures of financial conditions, the BCP issued a resolution that will allow the interruption in the calculation of default for renewals, refinancing, or restructuring of loans, in order to avoid the deterioration of clients' credit ratings, allowing them to continue to access to credit. Another resolution issued refers to the extension of the term for the sale of foreclosed assets, which will enable financial entities to carry out the transaction under more favorable economic conditions and maintain the value of assets.

Peru

Economic Performance

In 2019 growth decelerated to 2.2 percent, in part due to temporary supply shocks (which affected primary sectors) and lower public investment. Still, Peru achieved 21 years of continuous expansion, the longest since 1921 and among the longest in the LAC region. Average growth was 4.9 percent in the last two decades, twice the LAC average. Inflation in Peru has been one of the lowest and less volatile in LAC since 2001 (2.6 percent in 2001-2019). In 2019 inflation was 1.9 percent, close to the center of the target range (1 percent-3 percent) of the Central Reserve Bank of Peru (BCRP).

The current account deficit in 2019 was 1.5 percent, below the previous 10-year average (2.8 percent of GDP) and continued to be sustainable and fully financed by long-term capital inflows. The fiscal deficit reached 1.6 percent of GDP in 2019, from 2.3 percent in 2018. This reduction was due to both higher revenues and lower expenditures. Public debt as of 2019 reached 26.8 percent of GDP, one of the lowest in the region. For its part, the BCRP reduced its monetary policy rate by 0.50 percentage points in 2019, from 2.75 percent to 2.25 percent. Credit to the private sector increased 6.9 percent in 2019, mainly due

to higher consumption and mortgage loans (12.8 percent and 9.0 percent, respectively), in line with the expansionary monetary policy stance. As a consequence, the credit-to-GDP ratio reached 43.2 percent, a considerable improvement in financial deepening since the beginning of the century (24.8 percent in 2001).

In 2020, due to the spread of COVID-19, a temporary national lockdown was declared from March 16 to April 12. In this context, the BCRP has taken measures to reduce the cost of financing and prevent the disruption of the payments system: lowering the monetary policy rate by 200 bps to 0.25 percent (its historical minimum) in March and April; providing liquidity to the financial system (through longer-maturity repo operations); and easing reserve requirements (thereby releasing 0.3 percent of GDP to financial institutions). Furthermore, the BCRP aims to reduce exchange rate volatility and has extended the limits for additional reserve requirements in domestic currency associated with the use of financial derivative instruments. The BCRP maintains an expansionary stance in a context of anchored inflation expectations and growth below potential and will continue to take the necessary steps to support the payments system and the credit channel. Altogether, the government has announced a package of fiscal measures amounting to 12 percent of GDP (USD 27.2 billion). This package includes a loan program (up to USD 8.9 billion) with government guarantees and liquidity provided by the BCRP through repo operations to support working capital financing and the payments chain.

Additionally, the BCRP maintains an FX buffer of around six times the country's short-term obligations and 30 percent of GDP thanks to a precautionary accumulation of international reserves. 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 policy response was possible as a result of solid macroeconomic fundamentals, including low debt ratios, one of the largest fiscal spaces in Latin America, and significant external buffers relative to peers. In a context of unprecedented challenges, the country's solid policy management over the past three decades is being validated.

Uruguay

Like all countries worldwide, Uruguay's economy is suffering the consequences of the external shock that is severely hurting the global economy, as well as the repercussions of the needed domestic measures to contain the spread of the COVID-19 pandemic in the country. The authorities have committed to devote all the needed resources and policies to successfully respond to these immense challenges. In this regard, the government has immediately deployed measures aimed at preparing the country's health system to appropriately face the pandemic, while mitigating its economic and social impact, especially on the most vulnerable sectors.

The government has undertaken fiscal and monetary measures to preserve the chain of payments and keep the economy running to the extent possible; in turn, the economy could rapidly return to its potential once the crisis is over. It is worth underscoring the measures implemented by the Ministry of Economy and Finance, the Central Bank of Uruguay, and the Ministry of Labor, among other institutions, to support small and medium-sized enterprises and the income of the most affected workers. The fast and

unanimous—from all the political parties—approval in Congress of the law that created the *Fondo Solidario Covid 19* is illustrative; it reflects the cooperation and efforts of all the political parties and the soundness of the country's institutions.

Furthermore, the Ministry of Economy and Finance, along with the Ministry of Social Affairs, has been working to mitigate the impact on the most vulnerable sectors of the society by increasing their incomes and delivering a basic basket of goods. Meanwhile, they are identifying people that lack formal social protection in order to provide the needed resources that would allow them to lessen the consequences of the current negative circumstances.

At the same time, the authorities are continuing to work on measures—announced before the eruption of this global crisis—aimed at rationalizing the public sector and recovering levels of competitiveness and investment. In the coming days, the Executive Power will send to Parliament a draft of an Urgent Consideration Law which includes some of Uruguay's pending structural reforms: fiscal institutionalization, public enterprises' governance and management, social security reform, etc.

In sum, Uruguay is fully aware of the risks entailed by this global crisis and is decisively working to mitigate its severe impact by elaborating a consistent and dynamic set of policies that these very challenging times do require and, at the same time, is working on the recovery and medium-term agenda.