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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 global outlook is recovering amidst emerging divergence observed between and within countries. This is one key message in the flagship reports. The world economic outlook has improved since last October and global growth projections have been upgraded. However, the upward revision is primarily due to better performance of Advanced Economies (AEs), while the revision for Emerging Market and Developing Countries (EMDCs) is modest. Further, this performance gap is projected to remain in the medium term. AEs are expected to quickly return to their pre-pandemic trend on the back of unprecedented policy support and vaccination completed in 2021.

Key areas to sustaining strong international cooperation to ensure a solid, sustainable, and broad-based recovery, are vaccine distribution, policy coordination, and international liquidity support. Multilateral collaboration is vital to ensure a fast rollout of vaccines across the world. Opening the vaccine formula to be produced with technical capability everywhere would hasten the recovery and limit the extent of scarring. International coordination of policies will be critical in a recovery at different growth rates. The calibration of future policy actions in AEs must carefully consider both domestic conditions and international spillovers into EMDCs. Also, the international community must ensure that those members facing severe financial constraints get adequate and timely access to international liquidity. These countries will need continued support to finance critical health expenditures, maintain adequate social policies and public services, support the recovery of their economies, and limit scarring and hysteresis effects. The Fund must remain well-resourced to provide additional liquidity support to its members and flexible to adjust its lending tools as needed. A new allocation of SDRs will help to alleviate the external liquidity pressures among the most vulnerable members.

We broadly concur with the WEO's assessment of the global economy but highlight the differences in the outlook and risks across country groups. World output projections for this year and next have been raised. Global GDP by the end of 2022 is now expected to be 2 percentage points above the level projected last October. However, we highlight that the upward revision primarily reflects the improvement in AEs (+3 pp), while the upgrade in EMDCs is more modest (+1½ pp). At the same time, downside risks remain significant, including new waves of infections and lockdowns, new vaccine-resistant variants, tighter financial conditions, extended scarring, intensified social unrest, as well as pre-pandemic risks such as natural disasters, geopolitical, trade, and technological risks. Upside risks are linked primarily to faster vaccine rollout. The analysis of the alternative scenarios seems to indicate that the balance for EMDCs is tilted to the downside due to late vaccination, reduced policy space to maintain fiscal and monetary support, and larger scarring effects.

Health spending and vaccine production cooperation are critical in the near term. Monetary and fiscal policies must remain accommodative whenever possible until the global recovery is firmly entrenched and broad-based. In the near term, fiscal strategies must remain realistic about institutional, debt vulnerabilities, volatile financial conditions, and high uncertainty regarding the length of the pandemic, especially in EMDCs. Monetary policy should also remain accommodative wherever possible, but again policy advice needs to be tailored to country-specific circumstances. Exchange rate flexibility, macroprudential policies, and, in some specific cases, capital flow measures can provide EMDCs' central banks with additional policy space. More importantly, clear forward guidance and communications from AEs' central banks will be crucial to avoid an abrupt reassessment of financial conditions, public debt sustainability, and capital flows to Emerging Markets (EMs). Finally, important pre-pandemic challenges remain to be tackled: sluggish productivity growth, climate change mitigation, inequality, market concentration, aging populations, and automation.

Medium-term scarring effects are more likely in EMDCs, but their scope can still be limited. We welcome the analysis in Chapter 2 of the WEO about scarring effects after the pandemic crisis. So far, unprecedented policy support has successfully minimized scarring effects in AEs. In contrast, they are more likely to happen in EMDCs where policy support has been more limited, lockdown measures have been more extensive, the economic and employment contraction has been deeper, and the recovery is expected to take longer. In these countries, high unemployment, weakened household and corporate balance sheets, and disruptive sectoral spillovers could produce long-lasting damage, as reflected in staff's medium-term projections.

Furthermore, at the national level, these scarring effects are likely to be concentrated in youth, women, informal, and less-skilled workers, which will increase inequality and poverty. We stress that it is still too early to reach definitive conclusions on the scope of scarring effects in EMDCs. Much remains to be done to improve the medium-term outlook. Staff's analysis provides useful advice on policies to contain the scope of scarring effects: targeted support in hard-hit sectors, strengthening unemployment support, retraining, job creation, efficient debt resolution schemes, among others. EMDCs will need technical assistance, capacity development and, in some cases, external financial support to implement these measures and minimize scarring effects.

Moreover, the recovery in 2021 will not be synchronized and will see many countries with less ammunition to support their social and economic programs. This starting point in 2021 may become much more complicated in emerging markets if financial tightening occurs sooner rather than later. Government, households, and firms' balance sheets could easily deteriorate if abundant liquidity is abruptly mopped up or key interest rates in AEs are suddenly increased. For that reason, regulatory and financial tools available in emerging markets are limited and must be used accounting for the delicate trade-offs associated with the macroeconomic goals and financing constraints. We go along with the idea to take early action and to tighten macroprudential tools to mitigate well-identified pockets of risks, bearing in mind not to tighten financial conditions that could jeopardize growth. In the same vein, tools for nonbank financial intermediation should be created and implemented to broaden the perimeter of the regulation and supervision of the economic system.

The labor share of income has been on a continuing descending trend since the 1980´s in AEs and the 1990´s in EMDCs, as reported and studied in the April 2017 WEO. The decline of the labor share sharpened last year as unemployment increased and wage pressures subsided for some important groups of workers, although in many countries declining labor income was offset by rising government transfers or unemployment insurance. Moreover, it must be noted that employment no longer lifts people out of poverty. Going forward, countries will need to strengthen labor market policies and salaries.

We welcome the focus of the Fiscal Monitor on the policy response to the pandemic and the call for maintaining fiscal support until recovery is firmly in place. We agree that a timely and aggressive fiscal response, in line with each country's policy space, was the right response to the pandemic. The lifeline to the most needed households, small and medium-sized business, and to the health system, including securing vaccines for the whole population, were the right priorities. The pandemic is a public health priority; we fully support the need to provide the necessary funding to health care systems everywhere and to ensure that vaccines are available to all countries at affordable prices. As staff clearly shows in the upside scenario with faster global vaccination, the global gain in GDP and tax revenues more than compensates for the investment needed to properly tackle the pandemic worldwide.

The analysis on inequality and poverty in Chapter 2 of the Fiscal Monitor is relevant. The pandemic helped to increase preexisting inequalities and poverty and has shown the importance of adequate social safety nets. As well pointed out in the report, inequalities are not only in income and wealth; inequalities include a variety of issues, like access to vaccines, health, education, digital infrastructure, finance services, and shelter, for instance. Economic inclusion, in a way, refers also to equal access to quality public goods. In a bidirectional causation, inequality and poverty have worsened due to the pandemic, and, in turn, the health and economic impact of the pandemic have increased due to poverty and inequality existing prior to the pandemic. When half the population of a country lives in a room with an average 4.5 people, contagion spreads quickly. With school closures, disadvantaged children have suffered the most, as they do not have notebooks or internet access, nor do they receive newspapers at home.

The response to the various aspects of inequality and poverty must be comprehensive at the national and international level. It must consider general policies before redistributive taxation, and it must also consider government spending policies. In this regard, we support investment in human development, food, education, health, childcare and early childhood development, as well as policies to increase potential growth, quality jobs, and public revenues. Strengthening the social safety nets and active labor market policies are essential under the current circumstances, even though the immediate priority is vaccines for all. Another avenue is to enhance tax capacity and increase progressivity of income taxation, inheritance/gift taxes, property taxation and tax coordination at international level. In these pandemic times, some countries have implemented wealth taxes and excess corporate profit taxes. At the same time, a medium-term fiscal framework, improvements to public financial management, and transparency and accountability are of the essence.

Current macroeconomic policy responses will present new policy challenges in the near future that will have consequences on the distribution of income and wealth. While necessary expansionary fiscal policies are unlikely to create CPI inflationary pressures in the near term in AEs, they will create pressure on asset prices that would materialize in asset price inflation if the supply of financial assets does not increase proportionally to the growth in demand for financial assets that the creation of liquidity entails. With absent policy measures to tackle this phenomenon, the consequence would be an increase in the inequality of wealth. In those scenarios, appropriate taxing policies will be necessary to avoid the regressive and inequitable consequences that those dynamics would entail. On the other hand, countries with no reserve and non-robust currencies, as well as with tight credit access constraints, face more delicate trade-offs when designing appropriate macroeconomic policy responses to the crisis. The need for counter-cyclical fiscal policy runs against the financing constraints and the tensions that monetary financing poses for exchange rate stability and economic stability. In critical cases of distress, external liquidity support and debt restructuring become necessary conditions for avoiding economic and social destabilization—these conditions are likely to hold, not only in Low-Income Countries (LICs) but also in a number of Middle-Income Countries (MICs).

Bolstering the Recovery, Countering the Divergence, and the Managing Director's Global Policy Agenda

In the outlook, uncertainty remains high, as well as growth divergence among and within countries, and the impact of this pandemic on all countries is and will be a remarkable challenge to overcome. However, countries´ policy responses were very strong, and vaccination is under way, albeit with uneven distribution and not with the required speed, particularly in EMDCs, including LICs. We are not yet out of the woods, but recent data shows that the global economy is recovering from the deep recession. However, we should not be complacent; per capita income losses from end 2019 to 2022 for EMDCs, excluding China, could be 20 percent, twofold percentage points more than that of AEs.

We broadly agree with the analysis and main recommendations posed in the Global Policy Agenda. We would like to especially underline the importance to ending the pandemic as soon as possible. To achieve this, accelerating universal access to vaccines, and opening the vaccine formula to be produced with technical capability everywhere would be of the essence. The commitment by the Fund to support international cooperation are key to safely exit the crisis, and actions to reduce trade barriers on medical supplies and equipment are still important at this stage.

Challenges related to the pandemic are still immense and vast. Therefore, a strict prioritization is needed, trying first to concentrate on the immediate effects of the crisis, and then on what will remain once the main impacts of the pandemic wanes. We support that transformative policies should aim for fast convergence toward a green, digital, and inclusive future, while at the same time, continue enhancing the expertise areas of the Fund, namely fiscal, monetary, financial, and external policies as well as macrocritical areas, such as climate change, digitalization, and inclusive growth, including fragile states.

We support that the IMF continues to evolve to serve its membership in a rapidly changing and uncertain world. The proposal for a general special SDR allocation is an important step forward to facilitate liquidity at the international level and enhance resilience. The lending strategy should continue supporting EMDCs, including MICs and LICs' recovery needs. Surveillance should concentrate on systemic countries whose fiscal support during the pandemic exceeded 20 percent of GDP and whose public debt surpassed 100 percent of GDP. When monetary policy normalizes, we ask that adverse spillovers to EMDCs be extremely minimized to avoid jeopardizing the recovery. As always, Capacity Development (CD) will be of the essence, increasing the share of Fund-financed CD.

Within this background, we support the IMF work agenda and operations for the next semester as a step towards the medium term and a safe exit from the crisis by reducing risks. We stress that a flexible agenda to answer unforeseen reality requests is needed, while continuing to work to address financial inclusion, gender equity, and income and wealth inequality.

After more than a decade of a maximum constrained flat real budgets, we support a budget that allows the Fund to fully to fulfil its mandate, particularly in support of MICs including LICs, which is key at the current time. In this regard, MICs are the only contributors to the Fund's lending income. Lending operational income represents the bulk of Fund revenues and is almost threefold the yearly budget of the IMF. MICs pay lending income, i.e., the margin for the rate of charge, service charge, commitment fees, and surcharges. These payments exceed the current budget threefold. They should be heavily reduced at this time of negative interest rates. With regards to surcharges, we believe that these payments should be suspended during the pandemic and the recovery, while discussing their reduction or elimination. Thus, we ask to include in the Agenda for the next semester a Board Meeting to review Access Limits and Surcharges Policies. The last review was in 2016 and these reviews should take place every five years.

We believe that the process of governance reform would continue under the 16th General Review of Quotas and hope that this work will be concluded no later than mid-December 2023 by increasing the share of EMDCs in total quotas.

ARGENTINA

Argentina's economy is facing a challenging situation, made worse by COVID, and is now being aggravated by a second wave and the spread of new variants.

Economic challenges are long lasting. Before the pandemic, the gross domestic product (GDP) was smaller than eight years before. The lack of foreign exchange due to low exports' dynamism and the widespread propensity to save on foreign exchange to preserve value from high inflation, has led to repeated economic crises. After relying on credit markets between 2016 and 2018, the economy was exposed to a sudden-stop, and a deal with the IMF was agreed that entailed the largest credit ever disbursed in one year, almost USD 46 billion. However, the program failed, and confidence was not restored. The economy contracted in 2018 and 2019 and inflation accelerated. Debt did not become sustainable and the country, once again, faced a debt crisis with severe implications. In March 2020, a lockdown was implemented, and GDP continued to fall in 2020.

In this context, the government is firmly committed to putting the economy back on a sustainable path. Prior to the pandemic, policies were oriented to generate conditions to deal with the social and economic emergency, macroeconomic stabilization, and ensure the sustainability of the public debt. Despite the pandemic, several accomplishments were achieved in 2020 and during the first quarter of 2021. In this brief statement, we will explain the measures to shield the economy from the impacts of COVID-19, the debt situation and the ongoing negotiations with the IMF, and the macroeconomic policies adopted.

COVID-19 Measures

With the pandemic, the Argentine government has promoted health measures, along with a series of economic and social protection measures, which aimed at alleviating the effects of the unprecedented calamity that the world is experiencing. In March, as part the measures taken to shield the most vulnerable segments of the population, the Emergency Family Income (IFE in Spanish) was created, which consisted of cash transfers that reached more than 9 million people. Cuts to public services due to non-payment were suspended to vulnerable segments of the population. Regulatory limits were used to coordinate price increases in supermarkets for a set of basic products (mainly food, beverages, cleaning products, and personal hygiene) and utility rates were frozen. Dismissals without cause or "force majeure" were prohibited. The double compensation for dismissals was already in place since December 13, 2019.

The Emergency Assistance to Work and Production (ATP) program was created. 70 percent of employers in Argentina received assistance from the State through the payment of the complementary salary to their workers, subsidized loans, and/or a reduction or postponement of employer burdens. 99.5 percent of companies that received assistance were SMEs. Within the framework of the ATP an interest-free line of credit was also created for formal independent workers and the self-employed. Workers in the culture sector had a 12-month grace period.

In coordination with the provinces, municipalities, and social organizations, food supply was increased throughout community networks and public-school canteens to meet the needs of the most vulnerable population. Reinforcements were given to the food card program (Alimentar), the Universal Child Allowance (AUH), and minimum retirement payments. The initial programmed credit for food policies grew by more than 400 percent. In addition, the ProHuerta program supported 610,000 families, schools, and kindergartens. In August, the scope of the moratorium established by the Law of Social Solidarity and Productive Reactivation was extended. The Argentina Plan against Hunger was launched, with the deployment of the Alimentar card, which at the end of 2020 reached more than 1.5 million families with children up to 6 years of age or with disabilities. In addition, free medicines were delivered to retirees, reaching a more than 2.6 million people. The income of retirees was preserved by increasing their payments and granting them additional bonuses.

Benefit recipients and lower-income wage earners also received an increase in payments, and their public utility rates were frozen. The fluid social dialogue between unions and business organizations last year meant that almost all salaried employment included in agreements had salary increases established by the 2020 parity. After three payments, the IFE was replaced by a set of sustained policies more focused on the most affected sectors of the population. These policies helped to cushion part of the impact of the pandemic.

2020 saw the lowest global movement of people, with a significant drop in world trade, a seldom seen contraction of GDP in almost all countries, and an increase in global poverty. The World Bank maintains that because of COVID-19, extreme poverty will increase for the first time in more than two decades. Globally, expansive fiscal policies and a reduction in tax revenues have caused a sharp increase in fiscal deficits and public debt. The IMF expects an average increase in the global fiscal deficit of 8 percentage points of GDP compared to 2019 and an increase in global public debt to a record level of 100 percent of GDP.

For this reason, this battle is not yet over for any country. High levels of uncertainty remain and more needs to be done in terms of global cooperation—especially in terms of vaccine production and distribution.

The Debt Challenges

Argentina faces compounded challenges—on the one hand, those economic and social phenomena that are the result of global processes, such as the pandemic, and on the other hand, those that are the result of domestic economic policy decisions that have been taken and the evolution of expectations about the country's prospects, both domestically and internationally.

In 2018 Argentina was submerged into a new and deep balance-of-payments crisis. The country entered a recession, with a fall in activity levels and real income, and a significant increase in unemployment, poverty, and extreme poverty. When Argentina lost access to international financing, the previous government requested the largest loan in the history of the IMF (the Program entailed the equivalent in SDRs of more than USD 57,000 million). The effective disbursement that amounted to an equivalent of almost USD 46,025 million (more than 1000 percent of quota) was utilized to fund outflows and capital flights before the new government assumed office in December 2019.

The new government also undertook the reconstruction of the domestic capital markets (local law instruments had been defaulted) and the restructuring of the foreign currency denominated debt—both the domestic tranche and the international tranche. This bona fide restructuring effort of what clearly was an unsustainable debt load was carried out in the midst of the pandemic. During the process, the government had a very constructive dialogue with the IMF which allowed to put on the center stage the issue of debt sustainability and its constraints. The restructuring deals allowed Argentina to save USD 34,800 million of debt service between 2020-2030 with respect to the original debt contracts. Argentina especially appreciates the support of world leaders to achieve this goal and the support they continue to give to solve other pending challenges.

The 2018 SBA derailed due to diagnostic and assumptions errors. It left a debt timetable that will have to be rescheduled in a successor program that the government is currently negotiating with the IMF. This new Program will have to have ownership and be based on the necessary growth resumption that will be a tenet and a condition for a much-needed stabilization process. As an indicator of the unsustainable current amortizations scheme, the 2018 SBA would entail that in 2022 and 2023 the amortizations would be equivalent to around 56.3 percent of average yearly annual exports of the last decade. These figures are shown to help understand the magnitude of the problem.

Argentina continues negotiations with the IMF with the intention of achieving a program that is consistent with the goal of improving the standards of living of millions of Argentine families who have been plunged into the pit of poverty and vulnerability. Our negotiations with the IMF will continue, in a framework of respect and trying to reach a successful conclusion. The dialogue so far has been very constructive. The renegotiation of the terms of the agreement with the IMF will incorporate macroeconomic tenets that are different from the ones that were the core of the 2018 SBA and a common understanding of the specific needs of the local economy. There is no room for contractionary adjustments. Sustained economic recovery is a necessary condition for macroeconomic stabilization. The program agreed with the Fund will be sent to the National Congress to guarantee economic, social, and political sustainability and transparency as state policies.

Macro-economic Situation, Recovery, and Inclusive Growth

During the second quarter of 2020, in the context of the COVID-19 outbreak, GDP contracted by 19.0 percent (year-on-year) and -15.9 percent (quarter to quarter and seasonally adjusted). Activity started to recover during the third quarter, increasing 13.1 percent quarter-on-quarter and seasonally adjusted, and the trend continued in the fourth quarter (with an increase of 4.5 percent). Economic activity reached in the fourth quarter was only 0.6 percent below the pre-COVID level, closing 2020 with a fall in economic activity as an annual average of -9.9 percent. During the second quarter of 2020 all productive sectors fell, with double-digit declines in 13 of the 16 sectors surveyed and declines of more than 50 percent in construction, hotels and restaurants, and other service activities. The recovery was gradual and heterogeneous. In the fourth quarter, financial intermediation, commerce, construction, industry, electricity, gas, and water recorded growth, and in several cases, for the first time since 2018, but other sectors are still falling (although at a slower pace).

The first economic activity data for 2021 are also showing signs of recovery. January's monthly Economic Activity Estimator shows an acceleration of growth to 1.9 percent month-on-month on a seasonally adjusted basis, the Manufacturing Industrial Production Index increased 4.4 percent year-on-year in January, and 1.7 percent monthly without seasonality, standing 5.3 percent above that of February 2020's pre-COVID level. In the same vein, capacity utilization is also recovering. In January 2021 it stood at 57.2 percent, with an increase of 1.1 percentage point compared to the previous year. The Synthetic Indicator of Construction Activity increased in January to 23.3 percent year-on-year and 4.4 percent monthly without seasonality, already surpassing the February 2020 level by 28.5 percent.

The lockdown had a deep impact on the labor market, which was characterized by a high level of inactivity. However, measures taken to support employment were successful in avoiding a fall in employment in percentage points equal to the fall in GDP, as in the 2001/2002 crisis. This time, registered workers continued to receive their salaries and unregistered workers continued to receive cash allowances. According to data from the Permanent Household Survey (EPH) the average activity rate in 2020 stood at 43.2 percent of the population (vs. 47.3 percent in 2019), the employment rate at 38.3 percent (vs. 42.6 percent in 2019), and the unemployment rate at 11.6 percent (vs. 9.8 percent in 2019). In the second quarter of 2020, the employment rate reached a low of 33.4 percent, with a more significant drop in employment among salaried workers without pension discount (-44.8 percent year-on-year) and self-employed workers (-30.7 percent year-on-year) than among registered salaried workers (-4.5 percent year-on-year). Along with the normalization of economic activity, the employment rate rose to 37.4 percent in the third quarter and 40.1 percent in the fourth quarter. The pandemic had an impact on workers' income. On the side of registered workers, with the suspension of workers and the delay in the negotiation of the bargaining agreements. On the side of unregistered and self-employed workers, isolation for health reasons implied the loss of income for workers who could not go out to look for work in the labor market, thus affecting aggregate demand. It is expected that for the rest of 2021, workers' real incomes will recover, a factor that will boost economic activity.

Inflation

Inflation in Argentina is a multifaceted phenomenon, and the government is working on several fronts to deal with it. Inflation in 2020 closed at 36.1 percent year-on-year, the lowest in the last three years, at -17.7 and -11.5 percentage points below its 2019 and 2018 levels, respectively. The stabilization of the exchange rate, in a context of stagnant economic activity, contributed to the deceleration of inflation, despite the large increase in the fiscal deficit (which was mainly financed via central bank assistance). After registering an average monthly inflation rate of 1.7 percent in the second quarter of 2020 and 2.5 percent in the third quarter, during the last part of the year the monthly inflation rate accelerated to 3.7 percent as a monthly average, reaching a peak of 4.0 percent monthly in December. This dynamic was maintained in January 2021 (4.0 percent monthly) and in February (3.6 percent monthly) and is associated with the progressive opening of activities in several parts of the country and an increase in commodity prices. As some of these factors are transitory, we expect inflation to fall in 2021.

Fiscal Situation

The fall in revenues (associated with the pandemic and some tax relief measures to mitigate its effects) and the increase in spending led to an increase in the fiscal deficit. The primary result of the National Public Sector closed FY 2020 with a primary deficit of 6.5 percent of GDP and a financial deficit of 8.5 percent of GDP. The primary result has been influenced by the income and expenditure measures implemented in an extraordinary effort to face the COVID-19 pandemic. The economic recovery had a favorable impact on tax revenues and the slowdown in the growth of primary expenditure, allowing the fiscal dynamics in the first two months of 2021 to record a primary surplus of 0.01 percent of GDP. The objectives set by the National Government in the 2021 Budget estimate that the primary deficit will be reduced to 4.2 percent of GDP and the financial deficit to 5.7 percent of GDP.

The restructuring of public debt in foreign currency and the normalization of the local currency debt market carried out in the second half of 2020 allowed the weight of interest on public debt to decrease within the total public expenditure. Net interest went from representing 3.4 percent of GDP in 2019 to 2 percent of GDP in 2020; and by 2021, the National Public Sector Budget estimates that it will be further reduced, reaching 1.5 percent of GDP.

Balance of Payments, International Reserves, and Foreign Exchange Market

In 2020 the reduction in international trade flows caused both exports of goods and services (-19.1 percent) and imports (-21.3 percent) to fall. A surplus in the trade balance of USD 12,045 million was recorded. However, net foreign exchange inflows from foreign trade operations in the foreign exchange market were USD 5,148 million lower (USD 6,897 million). The current account recorded a surplus of USD 2,985 million (0.8 percent of GDP) in 2020, as the trade surplus more than offset the outflows of the primary income account (USD 10,218 million). On the financial account side, there was a net capital outflow of USD 4,158 million, driven by the acquisition of foreign assets and cancellations of portfolio investment liabilities. At the beginning of 2020, the stock of International Reserves stood at USD 44,848 million. The consequences of the pandemic on trade coexisted with a process of deleveraging of the private sector and with levels of exchange rate gap that encouraged the demand for foreign currency, which led to a gradual deterioration of the stock of international reserves, which closed 2020 at USD 39,387 million.

In mid-October a comprehensive macroeconomic scheme was established with fiscal, financial, monetary and exchange measures. A harmonization was established between repo rates and Central Bank of Argentina (BCRA) bills (LELIQs), which had been reduced at the beginning of the outbreak to offer short-term liquidity, avoiding shortages at times of tension in the payment chain. In fiscal matters, it was announced that the Treasury would not be asking for financing from the BCRA above the distribution of profits. Assistance to families and companies was adapted to increase their targeting, while income was strengthened within the framework of the recovery of activity. A new order was established regarding access to financial and exchange operations, which simplified and made the regulatory scheme more flexible. The reorientation of the policy allowed the reversal of the selling position of international reserves by the BCRA, which bought USD 608 million in December.

The growth of agricultural commodity prices, which started in September 2020, enabled a comfortable foreign exchange buying position of the BCRA (which as of March 25, reached USD 2,132 million), and is presented as a determining factor that will allow for a decompression of exchange rate tensions. A higher-than-expected recovery of activity could partially mitigate the expected trade balance for 2021. In the first two months of 2021, foreign currency income through the foreign exchange market goods account (USD 2,495 million) was in line with the trade surplus accrued (USD 2,131 million).

BOLIVIA

Recessive Economic Policy and Pandemic

Since the breakdown of institutional order that occurred in Bolivia in November 2019, attributed to an alleged fraud—which was never proven—the country faced the conjunction of three crises: political, economic, and social. The transitional government, whose main objective was to call new elections, began to implement measures that deteriorated economic growth, which, in addition to continuous postponements of the elections, generated greater uncertainty among the population.

The economic situation became critical due to the recessive measures implemented by the interim government, which deepened with the arrival of the coronavirus pandemic (COVID-19). Thus, in the second quarter of 2020, the Gross Domestic Product (GDP) registered a 11.1 percent drop, the urban open unemployment rate reached its highest historical value of 11.6 percent in July 2020, when in the same period of 2019 it was 4.7 percent.

The significant decline in economic activity during 2020 began with a set of inappropriate economic measures adopted by the transitional government since November 2019, as confirmed by the Global Index of Economic Activity (IGAE in Spanish) which already had registered a 12-month variation of -2.5 percent (date corresponding to March 2020) even though the arrival of COVID-19 in Bolivia, in mid-March 2020, had not yet shown its total impact; additionally, the appearance of the pandemic in the country only confirmed the misguided economic management with a deeper economic recession. The poor economic performance began in November 2019 with the pause in public investment, the flexibility and laxity in tax collection, which became widespread with the appearance of COVID-19, causing a sharp drop in public income that led to a fiscal deficit of approximately 12.0 percent of GDP, the highest since 1984.

In this recessive scenario, the transitional government requested a loan from the International Monetary Fund (IMF) in 2020, a credit that did not comply with current regulations on external indebtedness in Bolivia, which ended up being irregular and illegal.

Although it is not the obligation of the IMF to verify compliance with the internal regulations of each country regarding financing operations that are granted, it becomes necessary for the institution to exhort its member countries to comply with internal legislation, as well as international agreements when opting for IMF financing, considering that in April 2020, the IMF disbursed resources to Bolivia that did not comply with Bolivian legislation.

Regarding the management of the COVID-19 pandemic, unfortunately Bolivia did not prepare adequately to face the health emergency, and only after the first positive case was detected in March, the previous government established, as the only response, a rigid quarantine in the country, leaving the population most in need vulnerable and reducing family income. Furthermore, the quarantine time was not used to acquire biosafety supplies, equipment, medicines, or vaccines to face COVID-19. On the contrary, hiring processes to acquire some of them were marked by important acts of corruption, for example, the purchase of respirators with surcharge.

The Recovery of Democracy and Economic Reconstruction

In October 2020, the Bolivian people went to the polls hoping the new government could face the economic and health crises. The result was a victory in the first round of *Movimiento al Socialismo-Instrumento Político por la Soberanía de los Pueblos* (MAS-IPSP) with 55 percent of the votes.

With the investiture of the democratically elected president, Luis Alberto Arce Catacora, in November 2020, the Bolivian Productive Community Social Economic Model (MESCP in Spanish) was reestablished with the aim of reconstructing the economy and consolidating stability and economic growth. In this context, a series of measures have been implemented on both the demand and supply side.

In the demand area, public investment was reactivated—as being a fundamental driver of economic growth due to the positive multiplier effect in different sectors of the Bolivian economy—, a new social benefit was paid to unemployed people (a 1,000 Bolivianos bond, equivalent to approximately USD 150, benefiting more than 4 million people), the income of retirees was increased, a Reimbursement of Value Added Tax was established, whose purpose is to promote invoicing and formalization, in addition to favoring individuals with the refund of 5 percent VAT, and a Great Fortunes Tax was proposed, which taxes only people who have a high economic capacity.

On the supply side, credit lines were created to allow reactivation and development of the national industry, which substitutes imports for an amount of around USD 130 million, called "SI BOLIVIA" program. Similarly, a Guarantee Fund for the Development of National Industry was implemented, as well as measures to reactivate public companies. In the same way, national government modernized acquisition of State assets processes through the construction of electronic auction and a virtual state market.

Regarding the financial system, bank loan rescheduling and/or refinancing measures were implemented to provide relief to borrowers, without putting financial stability at risk. In addition, productive support and social interest housing access were resumed through private banking, as it had been developed before November 2019.

As a result of those policies, Bolivia's economy is showing signs of recovery. For example, the IGAE displayed a 12-month growth rate of 5.8 percent (date corresponding to November 2020), an increase of 11.1 percent in the accumulated public investment (date according February 2021), a rise in Value Added Tax collection, and a commercial surplus in the balance of payments in the first two months of this year, among others.

In the pandemic context, the constitutional government has acquired 2.2 million tests for COVID-19, managed the purchase and acquirement of more than 15 million of vaccines to immunize the Bolivian population, contracted 3,025 doctors and support personnel to strengthen the Health System, purchased medicines, and begun the process of immunization.

Perspectives and Challenges

According to the deterioration of the Bolivian economy, as a result of inefficient policies by the previous government and pandemic, Bolivia has the challenge to reactivate and reconstruct the economy. Then, the policies of the new and constitutional government are: to reactivate public investment, return to the process of industrialization, implement import substitution measures, promote productive sectors, guarantee the continuity of social policies, and continue improving the efficiency of public spending and safeguarding fiscal sustainability.

Based on these guidelines, for 2021, Bolivia anticipates to return to the path of economic growth at a rate of 4.4 percent, reduce fiscal deficit to a single digit (9.7 percent) as a result of public investment prioritization, and sustain controlled inflation at the end of the period of 2.6 percent.

CHILE

Overview

The Chilean economy has been steadily recovering from the major shock caused by the COVID-19 crisis. After a sharp drop of activity in the second quarter of 2020, the economy recovered fast in late 2020 and early 2021, propped up by companies and households adapting to the pandemic restrictions, and supportive economic policies. Although a setback is likely in the near term amid a new surge of infections and lockdowns, the outlook for the rest of 2021 and 2022 has strengthened, supported by a higher starting point, rapid vaccine rollout, a more favorable global environment, and the continuation of accommodative domestic policies. Real GDP is projected to grow between 6 to 7 percent in 2021, and 3 to 4 percent in 2022, after contracting 5.8 percent in 2020.

The Chilean authorities have provided unprecedented policy support to households and firms during the pandemic. Using buffers accumulated in previous years, the response to the COVID-19 crisis has been swift, strong, and wide-ranging. During the initial emergency phase, several measures were introduced to prevent widespread firm bankruptcies, and protect households' jobs and incomes. In contrast to historical downturns, corporate credit expanded during 2020 on the back of special liquidity measures, government loan guarantees, and temporary regulatory forbearance, supported by a solid banking system. As the economy entered a recovery phase, new measures have been introduced to support a robust and broad-based exit from the crisis and to limit the extent of scarring effects.

Economic Outlook

The outlook for the Chilean economy has improved in recent months. Output projections have been upgraded since last October on the back of a faster recovery in late 2020 and early 2021, the improved global outlook, rapid vaccination drive, and the continuation of accommodative monetary and fiscal policies. Also, firms and households have adjusted fast to the sanitary constraints, on the back of online sale channels, remote work, logistic services, and the adoption of protocols to safeguard workers in several activities.

Rapid vaccine rollout is underway. As of April 1st, about 36 percent of the population in Chile has received at least one dose of a COVID-19 vaccine and nearly 20 percent has received two. If the vaccination campaign continues unfolding as planned, most of the adult population would be fully vaccinated by mid-2021. Based on the limited international experience, this should reduce the severity of cases, alleviate the pressure on emergency services, slowdown contagion, and allow a more sustainable opening of the economy in the second half of the year.

The Chilean economy will benefit from the improved global outlook. As a small, open economy, Chile will receive an external boost from global conditions. Besides favorable financial conditions and robust growth of trading partners, terms of trade are expected to be—on average—more than 10 percent higher than in 2020.

Domestic absorption is expected to lead the recovery of demand in 2021. After a sharp contraction in the second quarter of 2020, consumption turned around in the second half on the back of greater liquidity from government transfers and pension fund withdrawals. This impulse will last well into 2021, adding to the gradual reopening of the contact-intensive sectors, for a real growth above 10 percent. Investment is expected to bounce back with support from public infrastructure investment and large mining and energy projects under way. Non-mining private new starts are still moving slowly due to high uncertainty and heavier financial burden of many companies.

Although the economic recovery has gained traction, the labor market still lags, especially for contact-intensive sectors. Employment is lagging output and only half of lost jobs have recovered. Labor-intensive activities, like commerce, services, and transportation activities, suffered the most in the early stages of the crisis and have not fully recovered due to continuing social distancing and adoption of new, less labor-intensive, delivery modalities. Inactivity remains high for women who left paid employment for child-care and housework in the face of suspended services.

There are still important risks related to the COVID-19 shock. The pandemic path at the global and local level is still highly uncertain. The recovery continues to be uneven across sectors, with significant lags in contact-intensive sectors, which reflects negatively in employment. The extent of medium-term scarring remains to be seen. At the global level, exit policies in advanced economies may trigger negative spillovers into emerging market economies.

Inflation and Monetary Policy

Headline and core inflation are expected to converge to the 3 percent target by the end of 2022. Inflation has remained close to 3 percent in recent months, although with some fluctuations related to short-term supply constraints. In the coming months, headline inflation is expected to post a transitory increase to nearly 4 percent, mainly due to higher prices of energy and other volatile items, to resume converging to the 3 percent target in the second half of the year. This is granted by the combination of currency appreciation and a still large output gap. Core inflation (excluding volatile items) is expected to fall to 2.6 percent by year-end, and then return to 3 percent.

The Central Bank of Chile has implemented a broad set of measures aimed at boosting the monetary impulse, stimulating credit, easing the adjustment of financial markets, and gaining policy space. The monetary policy rate (MPR) completed a year at its technical lower bound (0.5 percent), while unconventional measures have mobilized resources of 13 percent of GDP. This has allowed the economy to navigate this crisis with interest rates at historical lows and a countercyclical behavior of corporate credit.

Monetary policy will remain highly expansionary. The MPR will remain at its 0.5 percent minimum until the economic recovery takes hold and spreads to the more lagging components of expenditure, which will take several quarters. The unconventional measures will continue to operate under the stated conditions.

Fiscal Policy

Since the beginning of the pandemic, the government has taken bold actions to protect lives and livelihoods. It has delivered an unprecedented multi-year fiscal stimulus amounting to 13 percent of GDP to safeguard health, protect jobs and household incomes, buttress credit supply to SMEs, and boost a safe exit from the crisis. During the emergency phase, fiscal measures included direct transfers to vulnerable and middle-class households, tax deferrals, adapted unemployment insurance to support suspended workers, and credit guarantees for SMEs and housing mortgages. Recent measures aim at supporting recovery, including tax incentives for investment, hiring incentives, and an ambitious public investment program.

Fiscal policy will continue to support the economy in 2021. Although the headline fiscal deficit is expected to decline in 2021, as revenues are bolstered by the recovery of the economy and higher copper prices, the structural deficit is expected to increase, reflecting an accommodative stance. The composition of fiscal expenditures has adjusted to the evolving needs of the economy, including those emerging from the reimposition of lockdown measures in recent weeks. Going forward, these extraordinary and transitory policies will be phased out while the fiscal budget returns to a consolidation path to stabilize the public gross debt burden below 45 percent of GDP towards 2024.

Ongoing Engagements with the IMF

In May last year, the IMF approved a two-year Flexible Credit Line arrangement for Chile by virtue of its track record and sustained commitment to maintain very strong fundamentals and institutional policy frameworks. The Fund has also collaborated with the authorities in the review of the tax system, a pioneer assessment of the Central Bank Transparency Code, as well as ongoing FSAP and fiscal transparency assessments. The Chilean authorities express their appreciation to Management and staff for the continued support as trusted advisors during the difficult global circumstances since the outbreak of the pandemic crisis.

PARAGUAY

In Paraguay, the GDP growth forecast for 2020 was initially 4.1 percent. This figure was significantly revised in April (-2.5 percent) and in July (-3.5 percent) as a consequence of the containment measures implemented to moderate the spread of the coronavirus contagion. However, with the relaxation of sanitary restrictions, the economy experienced a faster recovery than expected, due to the significant boost in public and private construction and the rebound in some branches of the manufacturing sector linked to the production of food and supplies for construction. Likewise, the good performance of the primary sector, particularly agriculture, contributed to mitigating the negative impact of the pandemic on the economy. However, some activities in the service sector, especially those that require social interaction, were strongly affected in 2020. On the expenditure side, with the beginning of the gradual deconfinement, the reopening of some economic sectors, the rapid adaptation to health protocols by the population, along with the support of fiscal, monetary, and financial measures, the economy exhibited a milder deterioration than what was expected, prompting an upward revision (lower fall) in private consumption. Likewise, investment was positively affected by the recovery of construction. In this context, the GDP growth projection was revised upwards to -1.5 percent in October and to -1.0 percent in December. Indeed, the most recent data available for economic activity support the latter figure. With such results, Paraguay was among the countries least affected by the pandemic in 2020.

For 2021, the outlook remains positive. The first forecast of GDP growth in 2021 is an annual rate of 4 percent, which is supported by the expected expansion of services, manufacturing, construction, and livestock. Regarding the agricultural sector, a lower production is expected relative to the record level reported in 2020. It is important to highlight that, although agriculture will have a lower production, the international prices of commodities exported by Paraguay have increased significantly, especially for soybeans. On the expenditure side, growth will be explained by the upturn in private consumption and investment, while public consumption will continue to grow, although at a slower pace. However, net external demand is expected to have a negative impact, due to higher growth of imports compared to exports. However, it should be noted that the uncertainty associated with the worsening of the health crisis and its repercussions in other areas may slow down the recovery of certain economic sectors, especially those linked to services that require social interaction. As the vaccination process advances, this uncertainty could dissipate and improve the expectations of economic agents.

The deterioration in domestic demand during 2020, especially in consumption, was also reflected in prices. At the beginning of the year, the inter-annual rate in the Consumer Price Index (CPI) was 2.8

percent, then it slowed down to 0.5 percent in June. Low inflation rates were mainly due to price reductions in food and energy (fuels). Subsequently, together with an improvement in domestic demand, inflation rebounded to 2.2 percent in December, closing the year with an inflation rate located in the lower tolerance range of the target of 4.0 percent +/- 2 percentage points (between 2 percent and 6 percent). Regarding core inflation and core X1, the rates for 2020 were 2.2 percent and 3.4 percent, respectively. As for 2021, inflation remains low, standing at 2.5 percent year-on-year in February. Likewise, the different trend measures are in the lower zone of the target range. In recent months, a rebound in food inflation has been observed, coinciding with the increases in international prices of commodities. However, lower inflation in services, consistent with the sector's fragile performance, has kept domestic inflation contained. Likewise, as the vaccination process advances and economic activity is restored, inflation is expected to gradually converge towards the center of the target range by the end of 2021.

Given the lower inflationary pressures, as well as the evolution of the indicators of economic activity and domestic demand during 2020, the Central Bank of Paraguay (BCP) considered that there was enough room to adopt a more accommodative monetary policy stance. Thereby, the BCP reduced the reference rate at the March, April, and June meetings of 2020 by a total of 325 basis points. Consequently, the monetary policy rate was reduced from 4.00 percent to 0.75 percent annually, remaining at this level as of February 2021.

The nominal exchange rate maintained a behavior consistent with the dynamics observed at the regional level in 2020. Thus, as of December 31, 2020, the Paraguayan Guaraní depreciated around 6.9 percent year-on-year against the US dollar. The participation of the BCP in the foreign exchange market has been limited to attenuating sudden exchange rate volatilities, without shifting the trend in market fundamentals. On the other hand, it is appropriate to point out that net international reserves (NIR) remain at high levels for the country and allow for a comfortable margin of liquidity to face possible sudden fluctuations in the exchange rate. As of December 31, 2020, NIR totaled USD 9.49 billion, which represents approximately 27 percent of GDP. In 2021, reserve levels have increased, reaching USD 9.87 billion as of February.

Regarding public finances, the economic downturn negatively affected tax collections, including those from imports. The accumulated results for 2020 showed a 3.8 percent annual drop in tax revenues, while expenses increased by 15.6 percent. The fiscal result for 2020 was a deficit of 6.2 percent of GDP. This deficit is mainly explained by the fall in revenues and the expenses associated with measures adopted to mitigate the effects of the pandemic and an increase in public investment. As of February 2021, there was a year-on-year increase in tax revenues of 1.5 percent and a decrease in expenses of 1.8 percent.

Despite the adverse economic context, the financial system has remained stable, solvent, and with adequate levels of liquidity. However, the indicators of credit quality and profitability have weakened, in line with the recent economic and financial situation. The favorable macroeconomic and financial conditions of the country at the beginning of the spread of COVID-19 have allowed the BCP and other public financial institutions to act proactively. These actions have been reflected in the adoption of multiple measures to address the financing needs of households and companies. In this regard, there have been several financial measures of easing credit conditions in order to maintain customer credit quality in the financial system and to facilitate the granting of new loans, mainly to MSMEs and independent workers. In addition, the terms for the sale of assets awarded or received in payments by financial entities were extended so that they can carry out transactions under more favorable conditions and maintain the value of the assets, among other measures.

Regarding the credit situation, since June 2020, the interannual growth rate of total credit showed a greater dynamism driven by the performance of loans in local currency, which have shown certain signs of recovery in line with the financial measures that have been implemented. In February 2021, total loans expanded 9.8 percent year-on-year, explained especially by the growth of loans in local currency (18.7 percent year-on-year), which was attenuated by the contraction of loans in foreign currency (-5.9 percent year-on-year).

PERU

Peru's real GDP registered a record contraction of 11.1 percent in 2020, after 21 consecutive years of growth, due to one of the most stringent lockdowns in the world, introduced to contain the spread of COVID-19 during the first half of the year. As a consequence, GDP experienced a sharp fall (-30 percent yoy) in the second quarter of 2020. However, the implementation of fiscal and monetary stimulus contributed to a higher-than-expected recovery in Q42020, with economic activity coming much closer to its pre-crisis level (-1.7 percent yoy).

GDP during the first quarter of 2021 was affected by new measures geared to contain the second wave of COVID-19. However, recovery is expected to continue during the rest of 2021, as these measures are lifted, and a massive vaccination campaign is rolled out over the second half of the year. Under these assumptions, real GDP is expected to reach double-digit growth in 2021.

Inflation in most countries in the region shows a moderate upward trend in the first months of 2021, in line with the recovery of economic activity and some supply shocks, such as the increase in food prices and exchange rate depreciation. Although Peru's February inflation (2.4 percent) was also affected by these shocks, it remained within the target range (1 percent-3 percent) of the Central Reserve Bank of Peru (BCRP). In contrast, Peru's core inflation (excluding food and energy) fell to 1.57 percent in February, consistent with other trend inflation indicators. Total inflation is expected to reach 2.0 percent at end-2021, as supply shocks gradually dissipate.

The expansion of credit to the private sector accelerated from 6.9 percent in 2019 to 10.0 percent yoy as of February 2021, driven by the expansionary monetary stance, liquidity injection operations, and the Government-Guaranteed Loan Program known as *Reactiva Peru* (targeted to firms experiencing liquidity constraints under the pandemic).

The fiscal deficit increased from 1.6 percent of GDP in 2019 to 8.9 percent in 2020, due to lower government revenues, associated with the contraction in economic activity, and higher expenditures related to the expansionary fiscal measures implemented to cope with the COVID-19 shock. As a result, public debt increased from 26.8 percent of GDP in 2019 to 35.0 percent in 2020. The fiscal deficit is expected to decrease in 2021 due to higher commodity prices and a gradual economic recovery.

The current account registered a surplus of 0.5 percent of GDP in 2020 (from a 1.5 percent deficit in 2019) due to a contraction in the earnings of foreign-owned firms operating in Peru; the effect of weak domestic demand on imports; and a positive terms-of-trade impact on exports. The current account is expected to register a null result in 2021, supported by the positive result of the trade balance.

The BCRP has maintained a historically low policy interest rate of 0.25 percent since April 2020, equivalent to a negative real rate of 1.86 percent as of March 2021. Given the magnitude of the COVID-19 shock, the BCRP took the necessary steps to sustain the payments system and the flow of credit. Liquidity has been expanded through a range of monetary instruments. The balance of liquidity injection operations through repos is 8 times higher than the maximum balance of similar operations during the Global Financial Crisis (2008-2009) and twice the balance reached during the de-dollarization program of 2015-2016.

The BCRP maintains an FX buffer of around six times the country's short-term obligations and 37 percent of GDP thanks to a precautionary accumulation of international reserves. Additionally, Peru has been granted access to contingent funds, such as the USD 11-billion Flexible Credit Line agreed with the International Monetary Fund. With solid 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.

In sum, the strong and coordinated fiscal and monetary response during the crisis was made possible by Peru's efforts to build sound macroeconomic fundamentals and policy buffers over the last 30 years.

URUGUAY

Overview

Since the first cases of COVID-19 on March 13, 2020 were detected in the country, the government has focused all efforts to protect lives, to contain the spread of the virus, and to mitigate its social and economic impact. The response to the COVID-19 shock has privileged individual freedom with social responsibility and an effective coordination between the public and private sector and the scientific community. After having effectively contained the COVID-19 virus for most of 2020, Uruguay faced its first wave of cases in November 2020. Non-mandatory vaccinations started on March 1st, aiming to inoculate approximately 80 percent of the population.

The public health response to the pandemic was accompanied by fiscal and monetary measures to safeguard jobs, incomes, and the productive sector. To manage the resources and budgetary expenditures during the emergency, the COVID-19 Solidarity Fund (Coronavirus Fund) was created with strict requirements for timely disclosure of information, transparency, and accountability. Fiscal measures included protecting household income and human capital through direct income transfers, expanding unemployment and health insurance, and providing tax relief, among others. Social transfers increased by 60 percent in monetary terms in 2020 and 40 percent in terms of beneficiaries. Credit and financial support sought to preserve the financial health and credit quality of micro, small, and medium-sized enterprises (MSMEs), ensuring the functioning of payment systems and supply chains between producers, suppliers, intermediaries, and creditors. Credits of USD 690 million were provided through the National Guarantee System (SiGa). Overall, in 2020, resources in support of mitigating the impact of the pandemic amounted to USD 1,217 million or 2.3 percent of GDP.

Macroeconomic Outlook

While an incipient recovery is underway, the COVID-19 outbreak negatively impacted Uruguay's economic growth in 2020. After a contraction of 10.9 percent in the second quarter of 2020, the economy grew 8 percent and 1.7 percent in seasonally adjusted terms in the third and fourth quarters, respectively. Following a 5.9 percent contraction in 2020, a rebound of 3.5 percent is forecasted for 2021. As the economy recovers, labor market conditions are expected to improve. The unemployment rate was 10.7 percent in January, a slight improvement relative to the hardest hit months of the pandemic in mid-2020. The recovery of the labor market is of utmost importance to support household incomes and the well-being of the population.

In March 2021, annual inflation stood at 8.34 percent, according to data published by the National Institute of Statistics. According to the official projections and the expectations survey carried out by the Central Bank of Uruguay (BCU), the inflation rate will moderate significantly during 2021 and in the following years.

More efficient and better management of resources was instrumental in coping with the pandemic, targeting support to the most vulnerable sectors. Despite a loss of USD 2,000 million in public revenues stemming from the COVID-19 pandemic, the fiscal projections for 2020 established in the budget were all met without increasing taxes.

The government's financing strategy included disbursement of credit lines from multilateral institutions as well as bond issuance in both international and domestic markets. During 2020, the government drew down on available credit lines, as well as new emergency-type financing facilities for a total of USD 1,101 million. Uruguay issued a new CPI-linked global bonds maturing in 2040 for USD 1.6 billion equivalent at a real rate of 3.875 percent. It also reopened the dollar-denominated global bond maturing in 2031 for USD 400 million. In addition, a total equivalent of USD 2.6 billion was raised in the domestic market.

Reform Agenda

Despite the COVID-19 outbreak, the government moved forward with an ambitious agenda to address a pre-pandemic slowing economy, fiscal deterioration, and an increasing debt burden.

The 5-Year Budget Law 2020-2024 (approved by Congress in December) set out a credible medium-term fiscal consolidation plan and institutionalized fiscal prudence. Significant changes to fiscal policy decision-making and execution creates a foundation to stabilize the debt burden over GDP and foster sustainable finances over the medium term. The commitment to meeting fiscal targets is anchored in a new fiscal framework, including a new fiscal rule with its implementation based on the structural balance sheet and spending cap. In addition, the Law of Urgent Consideration (approved by Congress in July) set in motion a process towards a comprehensive pension reform with the objective of achieving an equitable and sustainable system.

To address long periods of above-target inflation and rebuild central bank credibility, a new institutional framework and practice of monetary policy was introduced. The enhanced monetary policy framework reaffirmed price stability as the primary mandate in normal times notwithstanding support to be provided to address emergencies. With that objective, the BCU announced the intention to lower the inflation target range from 3-7 percent to 3-6 percent by September 2022. The BCU also changed its main policy instrument away from targeting money supply growth to the basic interest rate, fixing it initially at 4.5 percent. The authorities reasserted a process of reducing financial dollarization and rebuilding local peso currency markets. To improve credibility, a new strategy to improve communications and enhance transparency was introduced.

To boost potential GDP, job creation, and competitiveness, the government is advancing structural reforms. The growth agenda includes updating the investment promotion regime providing tax incentives for employment creation and clean technologies, incentives for foreign investors, and productivity-enhancing microeconomic reforms, among other reforms.

Uruguay is committed to the fight for climate action and working on the implementation of specific measures. In particular, we have recently transformed into law our commitment to the Coalition of

Ministers for Climate Action, aimed at putting climate change at the center of the planning and design of economic policies and fiscal management.

Looking Ahead

Although the outlook for the global economy has improved, heightened uncertainty remains amid the lingering presence of the pandemic. The economic scenario in Uruguay continues to be closely determined by the evolution of the pandemic. In February 2021, the government announced new additional resources—to be managed through the Coronavirus Fund—an amount which will evolve as needed. Meanwhile, monetary stimulus will remain in place. At its first meeting of 2021, the BCU called for an expansionary stance through at least the first half of 2021 to help support economic activity. The government remains committed to continue fully supporting the most vulnerable sectors, small and medium-size enterprises, and to lay the foundation for sustainable economic growth.