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Statement by Mr. Caputo
Argentina

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

Statement by Governor Luis Caputo, Minister of Economy, Argentina

On behalf of the Southern Cone Constituency

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

Global Outlook and Policy Challenges

Rising trade policy uncertainty has heightened the downside risks to both near- and long-term economic growth, while also elevating the likelihood of inflationary pressures and sustained higher interest rates. These dynamics have eroded consumer and investor confidence globally. It is advisable to de-escalate trade disputes from all sides, and we welcome the recent signs of progress in this direction. At the same time, it is essential to address the structural imbalances that underpin these disputes. In an integrated global economy, the uncertainty surrounding upcoming trade rules—rather than the rules themselves—remains the most significant threat to business and economic activity.

Emerging Market and Developing Economies (EMDEs) face significant hurdles driven by both external and domestic vulnerabilities. On the external front, elevated debt levels in foreign currency and rising debt-servicing burdens remain persistent challenges. Tight global financial conditions—and the increasing likelihood of a 'higher for longer' scenario—further exacerbate these difficulties, narrowing fiscal space and necessitating difficult trade-offs. Domestically, a lack of strong fiscal frameworks hinders the capacity of economies to address external shocks and to support policies that enhance productivity and competitiveness. The accumulation of external and fiscal imbalances, driven by global adverse financial conditions and public spending pressures that surpass revenues, continues to undermine macroeconomic stability in EMDEs.

We believe that, now more than ever in this challenging juncture, robust and effective domestic policies serve as the foremost line of defense**.** Pivoting toward fiscal consolidation to set debt on a sustainable path and rebuild buffers, while advancing with productivity-enhancing market-orienting structural reforms, must remain priorities for domestic policymaking. Many emerging markets, including in our own constituency, have already done their homework of reducing inflation toward target levels, implementing an effective and data dependent monetary policy, consolidating the fiscal position accordingly with their fiscal framework, and updating their financial regulatory framework according to international standards. Additional efforts should be made in maintaining growth momentum, increasing private sector led growth potential with targeted private and public investments, and rebuilding buffers.

Anchoring Stability and Promoting Balanced Growth

Against the backdrop of growing uncertainty, rising trade and geopolitical tensions, low productivity growth, and increasing risks from unsustainable public debt levels, we welcome the IMF's focus on macroeconomic and financial stability, while stepping up support for policies that boost productivity, investment, and job creation. In other words, the focus on the Fund's core areas of expertise seems to us to be the right approach.

Sharpening the Focus of Surveillance. In times of rising trade and geopolitical tensions and systemic risks, economic analysis is key to conduct informed polices, and it is also crucial to be effective in crisis prevention to avoid the need for crisis resolution. Thus, the IMF plays a unique role providing bilateral and multilateral surveillance, being as relevant today as it was when established 80 years ago.

Addressing Debt Challenges. The IMF's active role in promoting efficient and timely debt restructuring processes through platforms such as the Common Framework and the Global Sovereign Debt Roundtable continues to be relevant. These initiatives facilitate coordination among debtors, creditors, and international institutions, significantly reducing uncertainty and promoting sustainable debt management practices. The three-pillar approach to addressing liquidity pressures—emphasizing structural reforms, coordinated international financial support, and innovative debt instruments—provides a pragmatic and flexible framework to assist economies under financial strain.

Fortifying the Lending Toolkit and the Global Financial Safety Net. A robust and versatile lending toolkit ensures the IMF can swiftly and effectively respond to diverse economic crises, providing crucial financial support to stabilize economies experiencing balance-of-payment pressures.

Enhancing Capacity Development (CD). By expanding and modernizing CD, countries are better equipped to implement effective policies, undertake structural reforms, and build stronger institutions. Integrating demand-driven CD with program design is the optimal approach for countries that need it the most.

Maintaining a Strong and Agile Institution. Institutional agility, prudent resource management, and continuous operational efficiency improvements ensure that the institution remains capable of swiftly addressing emerging economic issues. The ongoing efforts to streamline operations, harness technological advancements, and cultivate a skilled workforce enable the IMF to consistently deliver high-quality support, advice, and services to member countries.

ARGENTINA

Economic Developments and a Shift Towards the Right Direction

When the new administration took office in December 2023, Argentina's economy was teetering on the edge of a full-blown balance-of-payments crisis. The inherited landscape was marked by profound economic imbalances, a soaring fiscal deficit, rapidly escalating inflation, and critically depleted foreign reserves. The new administration rapidly implemented a comprehensive stabilization plan, anchored in a strong fiscal discipline, the elimination of all monetary financing to the Treasury from the beginning, and other FX and monetary policy adjustments, including an initial substantial currency devaluation followed by a crawling peg regime.

In parallel, the Milei administration launched an ambitious structural reforms program comprising three pillars: the Decree 70/2023 “Bases para la Reconstrucción de la Economía Argentina”, the Law 27742, known as the “Ley de Bases y Puntos de Partida para la Libertad de los Argentinos” and the creation of the Ministry of Deregulation and State-Reform, locally known as “Ministerio de Desregulación y Transformación del Estado”. These executive decisions and legislative achievements were conceived as an essential complement to the stabilization plan, improving the business environment, opening-up to international markets, and strengthening institutions are key for boosting productivity, competitiveness, and job creation.

The plan has already delivered results: in the first year, we achieved rapid disinflation, secured the first primary surplus in nearly two decades, saw a rapid resumption of growth at an estimated 5.5 percent this year, strengthened the Central Bank’s balance sheet, bolstered reserves, and implemented more than 1,700 structural reforms. While contractionary at the very beginning, the shock therapy that included a 30 percent cut in primary expenditure soon proved to be expansionary, leading to a recovery in real wages and a turnaround in social indicators, lifting more than 10 million people out of poverty.

New Phase of the Economic Program

Building on the impressive results of the economic program to date, the recently approved IMF Extended Fund Facility (EFF) agreement—totaling US$20 billion, with an immediate disbursement of US$12 billion, and a first review planned for June 2025 with an associated disbursement of about US$2 billion—ushered in a new phase of the stabilization and growth plan focused on achieving enduring macroeconomic stability, enhancing external sustainability, and advancing structural reforms to foster a more open and market-oriented economy. The program comprises three policy pillars.

The first pillar is fiscal policy. The program is anchored in the President's unwavering commitment to maintaining an overall fiscal balance policy. This approach aligns with current projections, which foresee the primary surplus rising from approximately 1¼ percent of GDP in 2025 to around 2½ percent of GDP over the medium term. Adjustments will be made as necessary to achieve the ultimate goal of a zero-deficit target. This remarkable fiscal consolidation has been accomplished in record time and will be sustained through rigorous expenditure control, enhanced public spending efficiency, and comprehensive structural reforms.

The second pillar includes the monetary and FX policies, comprising a gradual transition toward greater exchange rate flexibility, moving initially to a managed floating rate within bands. The program introduces a refined monetary framework with strict limits on the Central Bank’s net domestic assets, helping rebuild international reserves, stabilize inflation expectations, and enhance the Central Bank's monetary policy credibility. The elimination of exchange restrictions will boost activity, employment, investment, and productivity in the Argentine economy, reinforcing the ongoing recovery of domestic savings and credit to the private sector. The policy changes will increase predictability, enhance exchange rate flexibility, and lead to accumulation of international reserves.

The third pillar is the continuation and deepening of the structural reforms plan aimed at increasing productivity, competitiveness, and governance. Key priorities include labor market reforms to encourage formal employment and wage flexibility, reduction of administrative burdens and regulatory barriers for businesses, and implementation of legal and institutional changes to support investment in strategic sectors such as energy and mining. Public sector efficiency will be enhanced through the rationalization of state functions, privatization of non-strategic state-owned enterprises, and digitalization of government operations.

Unlike in the past, these three pillars lay the foundations to establish a lasting economic equilibrium. The robust fiscal and monetary anchors already in place as the first line of defense of the stabilization process warrant that disbursements will no longer serve to support the budget but will instead bolster the Central Bank’s balance sheet, thereby providing stronger support to the peso and consolidating the ongoing disinflation process. Furthermore, allowing a steadfast transition to a new FX framework will pave the way to re-gaining market access sooner.

With the IMF Board's approval of the new Extended Fund Facility (EFF) on April 11, the implementation of the new FX and monetary regime has prompted a very positive market response. As anticipated and expected by the authorities, the freely floating exchange rate fluctuated within the lower end of the band, while the markets welcomed the change with a significant reduction in sovereign spreads during the first week of operations under the new framework.

BOLIVIA

Recent Developments of the Economy

Despite the complex external environment marked by uncertainty driven by the intensification of the trade war and the prospects of a global slowdown and/or recession, with an inflationary surge, and at the domestic side, a challenging scenario due to severe climate events, political tensions, dollar liquidity pressures, and the difficulty of accessing external financing because of the blockade in Parliament, the Bolivian economy remains resilient. This performance comes amid the authorities’ efforts to address the challenges, continue with the process of strengthening the productive apparatus, and protect the population’s quality of life.

In this regard, the country recorded GDP growth of 2.1 percent as of the third quarter of 2024, primarily attributed to the positive performance of activity in the financial establishments, agriculture, manufacturing, other services, and transportation and communications sectors. Similarly, labor market indicators remained dynamic, with an urban unemployment rate of 3.6 percent in the third quarter of 2024, accompanied by an increase in the employed population. On the other hand, during 2024, the severe effects of climate phenomena, roadblocks due to political tensions, reverse smuggling, speculation, and imported inflation generated significant pressures on prices. Thus, the country experienced an inflation rate of 9.97 percent at the end of the year. The government implemented various measures to contain these pressures and preserve the population’s purchasing power.

The financial system continued to show strength in 2024, with deposits growing by 5 percent and loans by 4 percent, significant growth in productive loans, and levels of non-performing loans that remained low. Furthermore, Bolivianization, which is the share of operation in local currency, persisted, reaching 91.5 percent for deposits and 99.5 percent for loans. Moreover, the sector recorded solid capitalization and profitability indicators, exceeding the minimum requirements in the former and with profits increasing by 27 percent compared to 2023 in the latter. The complex external outlook, roadblocks, and weather events that affected the harvest of important products impacted exports and the trade balance in 2024, also contributing to foreign exchange liquidity pressures. Nevertheless, it is important to note the stabilization and increase in net international reserves by 15.7 percent, closing the year at US$1,976 million.

Policies to Safeguard the Economy and the Population's Well-Being

Over 2024 and so far in 2025, the government continued implementing important actions to address the challenges and pursue the process of productive strengthening under the country's import substitution industrialization strategy. In this regard, efforts persisted on major public investment projects in various sectors such as mining, food, and manufacturing, among others, several of which will begin to show results this year. These projects will contribute to strengthening the national productive apparatus, as well as the generation of revenue and foreign currency, and the reduction of imports. Similarly, the authorities continued actions to promote and boost the productive capacity of the private sector in general and exporters in particular, through measures such as the permanence of exemption from tariffs and VAT for the import of capital goods, the SIBOLIVIA program with loans at an interest rate of only 0.5 percent, the agricultural sector support program known as Agro+BDP, the immediate delivery of Certificates of Domestic Supply and Fair Price to exporters, the new scheme and acceleration of tax refund certificates (CEDEIM), and the opening of new markets through important achievements in the Bolivian foreign policy, such as the country's accession as a full member of MERCOSUR and an associate state of the BRICS. Also noteworthy are the programs approved in the first quarter of 2025 to strengthen the trade, export, sugarcane production, and innovation sectors.

The government continued efforts to ensure the fuel supply to the economy and the population despite the complex scenario. Measures to structurally address the country's dependence on fuel imports remained by accelerating public projects for the construction and operation of biodiesel plants—the first one inaugurated in March 2024—, incentivizing the private sector through tariff and tax exemptions for the import of industrial plants and equipment for biofuel production, and allowing different fuel qualities to enter the market at higher than subsidized prices. In addition, the liberalization of fuel imports and commercialization was established, as well as the acceleration of processes for direct import of fuels for self-consumption.

The decline in hydrocarbon production, the complex panorama in the export sector, climate events, speculation, and the sustained blockage in the Plurinational Legislative Assembly to approve more than US$1.5 billion in external financing currently affected the availability of foreign currency. It is important to note that since 2023, the country has recorded, for the first time in 16 years, negative external debt transfers, with disbursements received below debt service payments. Against this backdrop, the government conducted various efforts to address the foreign currency liquidity pressures, fight speculation, and ensure its availability through measures such as the issuance of dollar-denominated central bank bonds, the authorization of the use of crypto assets, the creation of a single window for foreign trade, the facilitation of CEDEIM processes, and the establishment of maximum commission levels for transfers abroad, among others. Furthermore, and despite the difficult context, the authorities continued to regularly meet the country's debt service obligations.

On the other hand, in the face of growing price pressures, the government persisted in efforts to guarantee the supply of basic food and other products through the permanence of subsidies on fuel and food, fairs for direct commercialization from producers to consumers, the actions by the Food Production Support Company (EMAPA), control of speculation and reverse smuggling, temporary tariff deferrals on the import of various food products and inputs, among others. These measures, which continued in the first months of 2025, aim to help limit the impact of price pressures on the population's purchasing power.

Economic Outlook

The Bolivian economy is expected to grow by 3.5 percent and inflation to reach 7.5 percent in 2025. The government will continue to boost public investment, with a budget of US$4,024 million. The authorities acknowledge the growing uncertainty regarding the external and domestic context, the latter also marked by the expectation of political tensions ahead of the presidential elections in August of this year. Therefore, they remain vigilant and will continue to conduct the necessary efforts to achieve the country's productive transformation and guarantee better living conditions for the Bolivian population.

CHILE

The Chilean economy is growing around its potential, and inflation is expected to converge to the target within the monetary policy horizon. During 2024, real GDP grew 2.6 percent, above authorities' projections and market expectations. The main driver behind this was exports, which grew 6.6 percent, influenced by shipments of copper, fruit, and pulp, as well as the performance in tourism and transportation services. This development contributed to the reduction in the current account deficit to 1.5 percent of GDP. Domestic demand grew 1.3 percent, mostly explained by consumption—both private and public—, and by a positive effect from the change in inventories. According to the Central Bank of Chile (CBC), GDP is projected to grow between 1.75 percent and 2.75 percent in 2025, and it is expected to reach 1.5-2.5 percent in 2026, around estimated long-term growth. Headline inflation was 4.9 percent in March, with a significant contribution from the energy component, which includes the adjustment of electricity rates and higher figures for fuel items, given the depreciation of the Chilean peso and the increase in international prices in previous months. Inflation expectations indicate around 4 percent and 3 percent for the end of 2025 and 2026, respectively; meanwhile, the target level of 3 percent is expected to be achieved within the monetary policy horizon.

The financial system remains resilient, and significant steps have been taken to enhance the financial regulatory framework. In January 2025, the banking capital adequacy ratio was 16.8 percent of the risk weighted assets, well above the 12 percent requirement that includes both the conservation and the countercyclical buffers, and the systemic and Pillar 2 charges. The non-performing loan ratio is low, meanwhile loan-loss provisions returned to their pre-pandemic level; however, total loans have decreased in real terms, totaling $266 billion in March 2025. The Financial Market's Resilience Law is expected to strengthen the infrastructure and functioning of financial markets, and the introduction of the Fintech Law will support the development of fintech to foster innovation in the financial sector.

The monetary policy stance is in accordance with the macroeconomic scenario, and the CBC will continue to conduct monetary policy in a data-dependent manner in order to ensure the convergence of inflation to the target. The evolution of inflation is in line with previous projections; however, the level is high and external risks are elevated. The tariffs imposed by the USA during the first week of April have had strong impacts on the global financial markets, also maintaining high levels of uncertainty regarding future trade policies. It is expected that inflation will remain above the target level for several advanced economies, tightening global financial conditions. The flexible exchange rate regime works as a shock absorber, meanwhile international reserves and the CBC's access to liquidity in foreign currency provide additional cushioning against the impact of external shocks.

Further adjustments on fiscal spending are planned for 2025, projecting fiscal convergence for 2026. The overall fiscal deficit for 2024 was 2.9 percent of GDP, meanwhile, the cyclically adjusted deficit was 3.2 percent of GDP. For the current year, the overall and the cyclically adjusted deficits were projected at 1.7 percent and 1.6 percent of GDP, respectively. However, additional measures will be applied in line with the law that promotes Accountability and Transparency in the Financial Management of the State. For the medium term it is expected that fiscal policy will be consistent with both the cyclically adjustment balance target and the debt anchor, maintaining overall debt below the prudent level of 45 percent of GDP.

The impacts of recent US-imposed tariffs will be crystalized through different channels. In the case of Chile, the 10 percent tariff rate has a direct impact on the exports sent to the USA, which is the country's second largest commercial partner, representing 16 percent of total exports. Nevertheless, a third of these are copper exports, which so far are exempted from the tariff. The ability to take advantage of the broad network of trade agreements puts Chile in a position to diversify trade towards other partners. However, there are other indirect channels that should be assessed, including a reduction in the global demand and lower copper prices. The Chilean authorities are committed to swiftly deploy the policy instruments at hand within the US-Chile Free Trade Agreement institutionality to mitigate the impact of potential external shocks.

PARAGUAY

Economic activity indicators have continued to show a favorable evolution in recent months. The Gross Domestic Product (GDP) grew 4.2 percent in 2024, higher than the last reported projection of 4.0 percent. For 2025, the GDP growth projection is 4.0 percent, higher than the previous estimate of 3.8 percent. The main driver of growth would be the services sector, supported by the good dynamics expected in its different branches, particularly trade, financial intermediation, and services to households and businesses. The secondary sector is also expected to have a positive impact, with a rebound in electricity production and positive performances of manufacturing and construction. As for the primary sector, livestock farming will continue to expand, while agricultural production levels are expected to be relatively similar to those observed in 2024. In line with the positive growth expectations, short-term activity indicators showed good dynamism at the beginning of the year. On the expenditure side, domestic demand is expected to have a positive impact on GDP, explained by the expected growth of both private and public consumption, and the higher level of gross fixed capital formation.

The inflation forecast for 2025 was adjusted slightly from 3.7 percent to 3.8 percent, with an expected convergence to the 3.5 percent target in 2026. In recent months, the rise in inflation was mainly explained by supply factors that have affected the prices of volatile components of the basket (vegetables), which registered significant increases. These effects are expected to be limited in time and are therefore likely to be reversed in the coming months. Additional pressures have also been identified in other subcomponents of the food group. Excluding these specific shocks, there is no evidence of significant domestic inflationary pressures. Economic activity is around its potential level and the recent depreciation of the exchange rate has not had a significant impact on inflation. From the external environment, no pressures are anticipated either from the output gap of the main trading partners, or from international food and energy prices. In this context, the Monetary Policy Rate (TPM) remained at 6.0 percent, a level consistent with the neutral range.

The local exchange rate has depreciated by around 2 percent as of March 2025. This behavior is partly attributed to external, exogenous, and seasonal factors. First, the lower soybean harvest, affected by adverse weather conditions. Second, the prices of the main commodities, especially soybeans, remain at low levels, which has a negative impact on foreign currency inflows. In addition, prices are expected to remain low in a scenario of lower demand associated with expectations of weaker global economic growth. Another relevant factor is the seasonality of exports, which is closely linked to agricultural production. Generally, the first months of the year present a relatively low flow of exports, especially soybeans. Going forward, pressures on the exchange rate are expected to moderate, considering the beginning of the period of higher inflows of foreign currency from soybean exports. Also, on the international front, further interest rate cuts by the Federal Reserve are anticipated, compared to what was expected a few months ago.

The financial system maintains a favorable performance, reflected in adequate levels of liquidity, solvency, and profitability. Credits granted continued to show positive dynamics, especially in local currency loans. Deposits have also evolved favorably, driven mainly by long-term deposits, both in guaraníes and dollars. In terms of soundness indicators, the profitability of the financial system remains at adequate levels, with figures similar to those recorded before the pandemic. In turn, solvency remains well above the minimums established by local regulations.

In the regulatory area, the modernization and integration of the financial system seeks to further consolidate the system's stability. In this regard, the Central Bank of Paraguay (BCP) has begun the process of updating the legislation of the insurance and securities markets, and plans are underway to adopt risk-based supervision and new technologies in these markets.

The Paraguayan Payments System (SIPAP) is performing in a secure, efficient, and competitive manner. The BCP accompanies the modernization and advancement of the electronic payments system with an appropriate regulatory framework. At the end of 2024, the socialization of the National Payments System Bill began, which promotes the efficiency, security, and proper functioning of payment services and systems in the country. This will provide a regulatory framework for payments and a digital and interconnected financial environment, in line with an investment grade country that promotes innovation and financial inclusion.

In addition, the BCP has begun the process of implementing a specialized depository for the issuance, custody, clearing, and settlement of electronic savings deposit certificates (CDA-e), in accordance with international best practices and with the objective of providing greater dynamism, transparency, and efficiency to the financial market. Recently, the BCP was honored with the "*Payments and Market Infrastructure Development 2025*" award, granted by *Central Banking*, recognizing the leadership of the Central Bank in the modernization of electronic payments in Paraguay. This recognition highlights the advances made in recent years, such as the implementation of the Instant Payment System (SPI), which, with its 24/7 availability (24 hours/7 days a week), has reduced dependence on the use of cash, enabled greater traceability of transactions, and allowed immediate transfers since its implementation.

PERU

Following a contraction in 2023, GDP growth rebounded to 3.3 percent in 2024. The unwinding of 2023's adverse shocks drove a recovery in primary sectors, mainly agriculture and fishing, and in non-primary sectors including manufacturing, construction, and services. Stronger private consumption and a pickup in both private and public investment—supported by lower inflation, improved labor market conditions, and rising business confidence—fueled domestic demand.

GDP is forecast to grow by 3.2 percent in 2025, with domestic demand remaining the main driver. Private spending growth—underpinned by a recovering labor market, higher household purchasing power, and improved business sentiment—is expected to support continued growth in non-primary activities. Construction is set to accelerate on the back of increased public investment, while services should benefit from stronger private consumption. In contrast, primary sector growth is expected to moderate as production conditions normalize. The economy is forecast to expand by 2.9 percent in 2026, with growth near potential over the medium term.

Inflation in Peru has been among the lowest and least volatile in LAC since 2001 (3.0 percent on average in 2001-2024). Year-on-year inflation continued to decline within the 1-3 percent band targeted by the Central Reserve Bank of Peru (BCRP), from 2.3 percent in November 2024 to 1.3 percent in March 2025, largely due to lower food prices. Core inflation (excluding food and energy) also declined—from 2.6 percent to 1.9 percent—over the same period. Twelve-month inflation expectations fell to 2.3 percent in March, from 2.5 percent in December 2024. Inflation is expected to remain close to the BCRP's 2 percent target midpoint in 2025–2026.

Credit to the private sector grew by 0.5 percent in 2024, down from 1.3 percent in 2023, before rising 2.4 percent year-on-year in February 2025. This pattern reflects subdued credit demand and a cautious stance among financial intermediaries. However, credit growth is expected to recover to 5 percent in 2025, in line with domestic demand trends.

The fiscal deficit rose from 2.8 percent of GDP in 2023 to 3.5 percent in 2024, driven primarily by weaker current revenues. As of February 2025, the deficit held steady, reflecting relatively stable revenue and expenditure trends. Public debt is projected to reach 32.6 percent of GDP by end-2025—one of the lowest in LAC. Fiscal consolidation is expected to proceed in line with the deficit caps established by the fiscal rule (2.2 percent in 2025 and 1.8 percent in 2026).

The current account surplus rose from 0.7 percent of GDP in 2023 to 2.2 percent in 2024, supported by: (i) improved terms of trade and export volumes, which boosted the goods trade surplus; (ii) higher remittance inflows, reflecting favorable labor market conditions abroad; and (iii) a recovery in foreign tourist arrivals, which narrowed the services deficit. The surplus is projected to decline to 1.9 percent of GDP in 2025, as terms-of-trade gains moderate, freight costs normalize, and profit repatriation by foreign-owned firms increases. The balance of payments is expected to remain sustainable and financed by long-term capital inflows.

The BCRP reduced its policy rate by 25 basis points in January 2025 and held it steady at 4.75 percent in February, March, and April. BCRP monetary policy statements emphasize that future rate decisions depend on incoming inflation data and its underlying drivers. They also restate the BCRP Board's commitment to take all necessary actions to keep inflation within the target band.

Peru maintains an FX buffer equivalent to approximately six times short-term external obligations and 30 percent of GDP, reflecting the BCRP's precautionary reserve accumulation strategy. Supported by strong fundamentals and ample FX reserves, Peru's external position remains among the most resilient in emerging markets, significantly limiting exposure to exogenous financial shocks.

Peru's strong and coordinated policy response during the pandemic was supported by sound macroeconomic fundamentals—low public debt, one of the largest fiscal buffers in LAC, and substantial FX reserves. Amid ongoing global uncertainty, Peru's track record of prudent macroeconomic management over the past three decades remains a key anchor of policy credibility.

URUGUAY

Macroeconomic Performance

After 0.7 percent growth in 2023, weighed down by the effects of a severe drought, Uruguay's economic activity rebounded to 3.1 percent in 2024. This recovery was driven by several factors: the revitalization of the agricultural sector following the drought, increased pulp production due to UPM 2 opening, and higher hydropower generation. Increased exports and greater consumption—attributable to the narrowed exchange rate differential with Argentina—also contributed positively. As Uruguay looks toward 2025, the challenge will be to sustain growth without the temporary factors that boosted the economy in 2024. The latter will require strengthening internal growth drivers, improving productivity, and consolidating a stable, predictable macroeconomic environment that promotes investment, innovation, and quality employment.

Labor Market Indicators

Both employment and activity rates increased in 2024, resulting in the addition of 34,000 net jobs, with 60 percent created in the formal sector. This occurred amid a sustained rise in the activity rate, which reached 64.6 percent—an increase of 0.8 percentage points compared to December 2023 and the highest level since March 2016. Meanwhile, nominal wages accumulated a 6.39 percent growth in the 12 months ending December 2024.

Monetary Policy and Inflation

In March 2025, the Central Bank of Uruguay (BCU) raised its benchmark policy rate by 25 basis points to 9.25 percent, reaffirming its goal of bringing inflation and expectations toward the center of the target range (4.5 percent) within the Monetary Policy Horizon (24 months).

The annual inflation rate closed at 5.49 percent in 2024, compared to 5.11 percent in 2023. Inflation expectations rebounded from recent historical lows, exceeding the upper bound of the target range. In March, headline inflation stood at 5.7 percent, and the last 22 consecutive months have been within the target range, the longest streak since the inception of the inflation targeting regime. Meanwhile, core inflation rose to 5.9 percent, primarily due to higher prices of tradable goods. Regarding exchange rates, the BCU remains committed to its free-floating regime.

Financial System

The banking sector remains sound, well-capitalized, and highly liquid. In December 2024, the banking system's profitability stood at 3.1 percent, measured on assets and 27 percent on equity, increasing from 2.5 percent and 22.6 percent in 2023, respectively. This improvement resulted from increased banking spreads and the US dollar’s appreciation against the Uruguayan peso at year-end. In an industry characterized by long positions in foreign currency, this appreciation generated positive valuation results. The potential medium-term effect of financing costs on debtors' payment capacity has not materialized in bank delinquency rates, which fell from 2.1 percent to 1.7 percent in 2024, approaching historical lows (1.5 percent).

The solvency of Uruguayan banks, measured by the capital-to-risk ratio, remains ample (averaging 1.92 times the regulatory minimum). Stress tests conducted by the Superintendence of Financial Services demonstrate that the banking system would, on average, withstand a severe crisis scenario while maintaining robust capital levels. Additionally, the system's liquidity remains very high.

Fiscal Policy

In the 12 months ending December 2024, the Central Government's fiscal deficit stood at 3.2 percent of GDP. When excluding the effects of the Social Security Trust Fund (0.1 percent of GDP), the adjusted fiscal deficit was equivalent to 3.3 percent of GDP. The Central Government's gross debt equated to 57.2 percent of GDP in December 2024, while net debt represented 53.3 percent of GDP—decreases of 1.32 and 1.48 percentage points, respectively, relative to December 2023.

After four consecutive years of meeting all three fiscal pillars (structural fiscal balance, primary spending, and net indebtedness), 2024 marked a significant deviation from this trend. For the first time in this period, two of the three pillars were not achieved. The structural fiscal balance stood at -3.7 percent of GDP against a target of 2.9 percent, and the real change in primary spending was 4.7 percent against a target of 2.8 percent annually. Regarding the legal cap on annual government net indebtedness (GNI), the third pillar of the fiscal rule, the government informed Parliament's General Assembly of its decision to invoke the legal safeguard clause, which permitted an increase in the GNI legal limit by up to 30 percent (to a revised limit of USD 2,990 million). Net indebtedness reached USD 2,644 million, utilizing 50 percent of the allowance provided by the safeguard clause.

Institutional and Environmental Governance

In today's volatile global landscape, Uruguay stands out through two institutional strengths that significantly reduce its risk profile. The nation maintains robust democratic credentials—ranking 15th globally among 167 countries and securing a place among only 25 full democracies worldwide, according to The Economist Democracy Index. This democratic foundation is complemented by Uruguay's position at the forefront of environmentally friendly policies. It remains a sustainability-focused country, ranking among the top performers on ESG (Environmental, Social, and Governance) fundamentals across emerging markets. These dual pillars of institutional strength contribute to Uruguay maintaining the lowest country risk spread in Latin America in an increasingly unpredictable global environment.