International Monetary and Financial Committee

Twenty-Eighth Meeting
October 12, 2013

Statement by Honorable Hernán Lorenzino,
Minister of Economy and Public Finance of Argentina

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

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Minister of Economy and Public Finance of Argentina
Speaking on behalf of the Southern Cone Countries of Latin America
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I. The Situation of the Global Economy

Five years after the global financial crisis begun in 2008, "uncertainty" is the best word to characterize the current prospects of the world economy. The more acute scenarios of the crisis have subsided although global growth does not exhibit a firm recovery and still new alternative scenarios could emerge to assemble the risk of a perfect storm. The changing growth speed among major economic zones, as result of the effects of the rebalancing and the challenges associated with both the stimulus policies and the withdrawal of stimulus, are a clear example that downside risks remain important.

At the same time, some certainties with regards to the main players in the economic arena were underlined in the recent World Economic Outlook (WEO) report. Besides its immediately relevant problems, such as the debate on the budget and the debt ceiling, the United States (U.S.) is recovering and will start, sooner or later, to tighten its monetary policy; Europe, as a whole, may be out of a recessionary environment; in Japan, quantitative and qualitative monetary easing (QQME) has had impressive effects on growth if compared to former years; China will be trying to set up a different equilibrium between a slowdown of growth and other economic and financial variables; other BRICs are experiencing a slowdown, and several emerging economies are experiencing lower growth rates. It is significant to note that the negative difference from the latest WEO update for 2013 is completely attributable to the decrease in the GDP projections in Emerging Markets and Developing Countries (EMDCs).

Such projected slower growth in EMDCs is attributable to very high historical growth levels achieved in recent years and the prolonged slowdown, and difficulties and uncertainties in advanced economies. However, we tend to believe that most EMDCs are better prepared than in the past and resilience has been enhanced, thanks to the measures that have been undertaken, the state of public finances, the management and flexibility of the exchange rate systems, more and better-placed buffers and the level of international reserves. In particular, the major Latin American economies maintain strong fundamentals. In this context, we consider that there is an excess of generalization in the overall analysis on the diminishing strength of emerging markets without due distinction of regions with stronger positions and buffers. Furthermore, as far as most problems are of a cyclical nature, EMDCs as a group will continue to grow at a steady, sustained and strong speed to remain the driving force of the global economy.

Against this background, the global circumstances still pose critical questions which have no easy response and add to the unsolved "old problems", which could still trigger a new crisis, i.e., global imbalances, low growth and persistent unacceptable high unemployment, the

fragmented financial system in the euro area and the financial system reform, and unsustainable public debt dynamics in many advanced economies. Perhaps the most difficult scenario at this stage, as seen in the rehearsal by the financial market anticipation, could be related to the "day after" the Fed makes the decision to start tightening monetary policy with a true economic slowdown in the most representative emerging markets.

Nonetheless, other questions could be raised about risks and uncertainties of the future of the global economy, in particular:

- Will the U.S. be able to reach appropriate agreements at the political level that allow the country to attain a proper balance between avoiding jeopardizing incipient growth and reinforcing fiscal sustainability?

- How will Europe be able to definitively leave behind the risk of a more prolonged recession and attain higher growth rates? Will a virtuous cycle finally take place in the periphery and in countries with IMF programs (where we do have significant reservations due to the continued prescription of "internal devaluation" for deficit countries), to replace the vicious cycle we have so far observed? In this regard, we do agree with one of the WEO conclusions that growth in European surplus economies should be driven by domestic demand to support, in turn, stronger demand in the euro area, thus helping to increase exports from deficit economies.

- How can Europe deal with the detrimental effects that the very high rates of youth and long-term unemployment and the migration of human capital among its countries will have in the future? Will an eventual recovery in Europe delay the much-needed reforms, such as the Banking Union?

- A question which we always ask ourselves in view of our past experience is, would the Fund maintain the same flexible approach to access and disbursements, without consideration of the outcome of programs if similar economic and financial problems were to arise outside Europe?

- What would happen if Japan's QQME loses efficiency? What would be, in that case, the pillars of Japan's growth and higher medium-term inflationary expectations?

- How would a stronger-than-expected slowdown in China affect emerging markets? In this regard, the Annex Commodity Market review provides an interesting approach to this question, although since most of the analysis was based on energy and metal prices, it would be helpful to have a further elaboration, particularly taking into consideration the effects of FDI-related flows on the trade balance.

- How the systemic impact of the Argentine litigation will be dealt with, and what effects will it have on Sovereign Debt Restructuring issues, in particular in light of the "too little, too late" assessment.

We take note that the recent Fiscal Monitor describes important longer-term developments, such as the reduction in top marginal tax rates and a gradual shift from direct to indirect taxation. It is not a surprise that these developments have coincided with a concerning increase in income inequality, which is particularly pronounced in the share of national income going to the top 1 percent of the population. As most of this analysis focuses on advanced economies, we would be interested to learn how other countries have fared in this regard.

As countries in our region continue their process of inclusive growth and development, they are dealing with ways to provide higher-quality public services. In keeping with our recent tradition of fiscal responsibility, it is generally accepted that these reforms must be accompanied by a corresponding increase in permanent revenue mobilization in some countries. There is a healthy debate, of course, about how to go about this with due consideration to income distribution and fairness objectives.

II. Implementation of Member Policy Priorities

The Managing Director's Global Policy Agenda (GPA)[1] takes stock of the policy priorities outlined in the last GPA (April 2013) for the membership in order to assess their implementation. We note in Table 1 on "Assessment of the Implementation of Member Policy Priorities" that although member countries have implemented many of their commitments, particularly emerging market economies and low-income countries (LICs), advanced economies (AEs) have uneven implementation and several of them have fallen behind their needed commitments. Arab Countries in Transition need more time to implement policies in special fiscal reforms.

In Table 2 on "Progress on IMF Deliverables", we note that some important work has been completed, such as the Financial Surveillance Strategy report, the Triennial Surveillance Review concept note, Reassessing Fiscal Policy, Supporting Regulatory Reform, Macroprudential Policies and the guidance note on Jobs and Growth. Others like Conventional and Unconventional Monetary Policy, the Early Warning Exercise and LIC Vulnerability Exercise reports, the Pilot External Report and the Spillover Report have been delivered but further work is planned. While other deliverables are ongoing, such as the Sovereign Debt Restructuring, some have been delayed, in particular, the needed review of lending programs in recent years, such as the Precautionary and Liquidity Line (PLL) and the Rapid Financing Instrument (RFI), the systemically important financial sector list, and, as a matter of particular concern, the approval of the 2010 reform package and the review of the IMF's quota formula, quota and governance structure.

The GPA identifies several remaining legacy issues of the financial crisis that need to be addressed. Progress in the growth rate is slow and unemployment, mainly among the young, continues to be unacceptably high in many countries. Long-term unemployment needs more policy measures to avoid becoming structural, particularly in many countries of the European

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[1] IMFC/Doc/28/13/2; October 7, 2013.

Union. Also, efforts to create quality employment are important in many EMDCs and LICs. Unsustainable public debt dynamics should be addressed and imbalances require stronger domestic demand, particularly in surplus countries of Europe. In the reform of the financial system, progress has been made but important gaps still remain, like in the areas of Over the Counter (OTC) derivatives markets where only 3.8 percent of a total of US$ 633 trillion (end December 2012), were traded in organized exchanges. Total OTC derivatives are equivalent to the astonishing figure of 8.8 times the Gross World Product (GWP) (in 2012, US dollars at market prices) or 7.45 times at the GWP-PPP. Other gaps are related to cross-border resolution, reducing reliance on CRAs, monitoring of shadow banking and accounting standards and financial fragmentation also remains a concern.

III. Tuning the Engines of Growth

The world is facing the challenge of recovering growth. We concur with the GPA that "[m]ore ambitious policy implementation is needed to achieve sustained, strong, and balanced growth with financial stability going forward." We support the Fund's intentions to tune the engines of growth, though the IMF should try to deal with it in a creative way. We believe that the Fund's policy advice has often led to a reduction of growth and an increase in unemployment. In this regard, it would be useful for the Fund to review experiences where countries have managed to create jobs and foster inclusive growth.

Furthermore, the Fund's approach to labor market flexibility and structural reforms related to the labor market, public employment, minimum wages, wages as an adjustment variable, productivity and the exclusion of labor migrations, should be reviewed. We support a deeper analysis, in collaboration with other relevant institutions, such as the International Labor Organization, of the growth and employment consequences of policy actions, and of ways to foster robust job creation and equity in income distribution. In EMDCs, including LICs, policies to encourage productivity-led growth are critical in order for countries to reach their development aspirations and quality job-creation needs. In this regard, knowledge transfer and learning, particularly hands-on learning, could drive the growth productive potential.

The real challenge is to achieve a higher growth rate without sacrificing employment and social inclusion. This means that the policies implemented to boost growth cannot give rise to a greater inequality. On the contrary, there is a need to revert the sharp rise in inequality that has taken place in recent decades. We must tackle this challenge, which not only involves a worsening in the distribution of income but also of wealth. Certainly, wealth is increasing vis-à-vis income and is more unevenly distributed than the latter, and the increase in the wealth/income ratio is another consequence of slower growth.

Indeed, there is a growing consensus on the need for more inclusive and job oriented growth, due to its importance *per se*, and also due to the social (and political) fatigue into which many countries have fallen. We note with satisfaction that international organizations are showing signs of change. In this regard, the IMF is referring more and more to the negative impact that unemployment has on the people in the short and long term, and is advising that growth without job creation and inclusion may not be sustainable. Nonetheless, some of the policies advised are contradictory with tuning the engines of growth, as for instance, fiscal

consolidation with no concern for potential social and employment impacts may not be sustainable. Besides the need to address high fiscal deficits and public debt to rebuild room for policy maneuver, inclusive growth and employment can be achieved through active policies with no or very reduced fiscal consequences.

Therefore, the challenge of inclusive growth demands a reassessment of policies, in which the growing weight of capital compared to the labor share in domestic income, even in AEs, calls for innovative approaches and distributive policies. In this regard, fiscal policy is a very useful tool from the revenue and expenditure side. To stress progressive levies on capital and income, the financial sector and financial transactions, and inheritance, taxation is warranted. However, taxation, in turn, will require a high degree of international coordination in order to prevent tax evasion and avoidance when wealth and profits are hidden in offshore tax havens or, as the October 2013 Fiscal Monitor, Box 5 "Tricks of the Trade" explains, many companies exploit complex avoidance schemes, and many countries offer devices that make them possible, thus, international cooperation should prevent tax competition from occurring. Otherwise, the evident unfairness of tax avoidance and evasion could create justified grievances among the population, and social unrest could be the result.

Growth and Employment Challenges for Emerging Market Economies

Some of these challenges refer to the impact of U.S. monetary policy unwinding on growth and employment. In particular, higher interest rates plus financing restraint could have negative impacts for emerging market economies. In this regard, we concur with the GPA that "policymakers need to respond proactively and flexibly". In the likelihood of such an event, International Financing Institutions (IFIs) should be able to play a larger role than historically has been the case. We are not thinking of IFIs as an alternative to market financing, but rather as catalyzing those resources, mainly for infrastructure and educational projects. It is important for IFIs to have streamlined facilities in place and the flexibility to meet the different needs of emerging markets. In a scenario of increasing (market) costs of financing and widening risk spreads, these institutions benefit from a "natural" advantage, which can be transferred to developing nations in terms of lower interest rates. Very closely related is the need to strengthen the lending capacity of IFIs, in particular that of multilateral development banks which will have to assume a more active role than in the past.

Moreover, risks of increasing turmoil in financial markets and worsened external positions in emerging markets underline once more the importance of implementing comprehensive strategies towards facing periods of excessive exchange rate volatility, limiting exchange rate under or over-appreciation, not related to fundamentals, avoiding credit creation that greatly exceeds the economy's capacity to profitably channel those resources and in general scenarios that complicate the management of monetary policy. As clearly explained in the October 2013 WEO: *"Recent research has provided a rationale for the use of capital controls ("capital flow management measures") and foreign exchange intervention, and the IMF has supported this approach in particular circumstances as part of a comprehensive economic management approach"*. These measures are not meant to impede necessary adjustments, but to smooth the path of key variables, particularly growth and employment so as to avoid harmful financial and external disruptions.

Arab Countries in Transition are dealing with particular difficulties due to their social and political situation and the nature of their transition process. The IMF in this case should demonstrate flexibility with regards to the design and conditions of their programs given the political and social constraints facing policy makers. Resources are needed to provide transfers to the poor, such as productive and infrastructure investments, which will create growth and employment. Donors should support the countries of the region, with external official financing and trade access. In the same vein, additional resources through the RFI or donors should be delivered to countries facing the influx of currently almost one million Syrian refugees.

IV. Policies for an Interconnected World

In a more interconnected world, international cooperation, coordination and coherent policies should tend to mitigate spillovers and stability risks, which in turn are expected to help support growth and increase employment. In this regard, cooperation and coordination are needed to deal with global imbalances, the stability of the international financial system and international taxation.

It was already pointed out that surplus economies should increase internal demand or should change their composition towards internal consumption while deficit countries, the friends of the world economy, as were seen by the Bretton Woods Institutions' founders, should concentrate spending on physical and human capital, R&D, and technology. The Fund in turn should continue its analysis on the multilateral consistency of policies and integrate the spillover risks in bilateral surveillance.

To provide stability to the international financial system the above-mentioned gaps should be addressed and the risk of dilution and inconsistencies across jurisdiction should be safeguarded. With regard to the membership, we concur with the commitments that need to be upheld, as mentioned in paragraph 15 of the GPA. The Fund should be consistent with the one-year old Financial Surveillance Strategy so to ensure the effective operation of the international monetary system and support global economic and financial stability.

The situation of around 800 million people living today in so-called fragile states is a very important challenge. The Fund has a responsibility to these countries as members and the Fund's mandate should be revisited to work in the best way possible in fragile states.

V. The Never Ending Task of Strengthening the Fund

In strengthening the Fund, the governance of the institution should be the priority issue. The Fund's legitimacy and effectiveness should be enhanced while strengthening the multilateral and cooperative nature of the Fund. The 2010 reform package should be adopted swiftly because it represents the pre-crisis world economic situation (the data used was up until 2008), that is, the global situation five years ago. Moreover, if the continued reform of the quota and governance structure is key to the Fund's legitimacy and effectiveness, the stagnant process for the 15th General Review of Quotas (GRQ) puts forward the deepened

democratic deficit of the institution and the need for a profound transformation of the Fund. The current governance of the institution does not represent the appropriate views and present weight of the whole membership in the world economy, particularly of EMDCs and LICs. If the 15th GRQ is expected to result in increases in the quota shares of dynamic economies, the definition of "dynamic" should be better discussed than in the 2010 quota reform.

We recognize the efforts the Fund has made on diversity, particularly on improving geographic and gender representation in senior and managerial positions. Further progress should be achieved to promote the diversity of staff, particularly in regard to academic backgrounds, approaches and experiences.

The second external evaluation of the Independent Evaluation Office highlighted the need to review the board-management-staff interrelation and, at the same time, the recommendations of the Ocampo Report were strongly endorsed in the March 2013 Executive Board discussion. We are still waiting for the implementation plan for the report's recommendations.

We support the efforts made on securing adequate resources to finance concessional lending to provide effective support to low-income members, thus making the Poverty Reduction and Growth Trust self sustained.

The Fund needs to permanently evolve to respond to the needs of its membership and the stability needs of the international economic and financial systems in its double role of countries' advisor and surveillance. The right balance between them is not easy for the Fund, nor for the membership. In both roles, outside-the-box thinking and innovation is important, as are the dialogue, collaboration and cooperation with the membership and with centers of excellence around the world. All activities should be focused on enhancing the global surveillance capability of the Fund and the capacity to identify, advise and help solve economic and financial problems at the global and country level when requested. We support entrenching a learning culture in the Fund and are open to discussing a proposal on this initiative.

We commend the efforts of the Fund to adapt to the future and to discuss long-term trends, such as youth and aging, income distribution at country and global levels and environmental sustainability, among others, and how these issues can be considered within the Fund's mandate and its advisory and surveillance role.

VI. Southern Cone Countries

Argentina

A Decade of Sustained and Inclusive Growth

During the twentieth century, Latin American countries, including Argentina, have witnessed several decades characterized by macroeconomic volatility and stop and go cycles. In

contrast, the 2003-2012 period of sustained and inclusive growth can be considered a successful decade for our country. After the worst crisis in its history, the Argentine economy initiated a significant structural transformation grounded on the active role of public policy. Between 2003 and 2012, GDP doubled, with an average annual economic growth rate close to 7.2 percent, which constitutes the highest average growth rate achieved in the country's economic history for such a long period. More importantly, this unparalleled economic growth has been socially inclusive, reflected in a clear reduction in poverty, unemployment, and inequality, making Argentina's GDP PPP per capita one of the highest in Latin America. In this regard, based in our recent experience, we strongly support the IMF's ongoing discussions on the need for a more job-oriented and inclusive growth.

Argentina's economic resilience is due to a resonant macroeconomic framework despite the economic uncertainties in Advanced Economies and their impact on the country. The main pillars are a strong domestic consumption tied to a competitive industry, the support given to employment policies and real wage increases, enhancing job creation and standards of living, promoting better levels of both public and private investments, together with solid external and fiscal results, maintaining external public debt at a low and sustainable level, a managed floating exchange rate regime, implementing a macroprudential policy framework to face volatile capital flows, among other countercyclical policies.

The government has focused on enhancing and guaranteeing income distribution to increase domestic demand and reorient private investments. The recent implementation of a program for the rationalization of subsidies, based on an income and wealth criteria, will allow the government to assign social spending more equally, guaranteeing the protection of the most vulnerable sectors of its population. As a source of social inequality, volatility in commodity prices is a menace which has historically threatened Argentina. In this regard, agricultural products play a very important role in the Argentine economy, as the country is a major producer, consumer and exporter of these goods. In order to protect rural families, the government implemented specific programs of rural investment in order to provide thousands of families with technical assistance and financial aid, in addition to enlarging the rural electrical supply system, developing the irrigation system and opening and improving kilometers of rural roads in order to enhance productivity and increase the sown area of the agricultural sector.

After a 9.2 percent growth rate in 2010, and 8.9 percent in 2011, in 2012 the economy only grew by 1.9 percent in a context of economic turmoil in AEs, the slowdown of growth in Brazil and a persistent drought that impacted heavily on agricultural output. Strong economic activity recovered in 2013 presenting for the seven first month of the year a 5.7 percent growth rate year-on-year, fueled by the construction and industrial sectors, a good harvest and growing exports. Exports grew by 5 percent during the first 6 months of 2013 compared with the same period of 2012, while imports grew by 11.3 percent, the trade surplus accounted for almost US$ 5 billon. The current account remained slightly negative due to the negative balance of the 1Q that could not be reverted by the positive balance in the 2Q of 2013. While exports to Mercosur grew by 15.9 percent in the first six months of 2013, exports to Europe fell by -20.3 percent which were compensated by the increase in exports to Asean countries + three (Korea, China, Japan) and India by 20.5 percent. Energy imports

with 19 percent of total imports continue to drive the fall in the external surplus. International reserves, which only made up for 12 percent of the total foreign debt at the beginning of 2005, at the end of June 2013 comprised 27 percent, with reserves representing US$ 37,005 million.

During the last decade, we have strongly believed that equality is an important ingredient in promoting and sustaining growth. Since 2003, key components of Argentina's growth model are the creation of quality jobs, the progressive reduction of inequality, social inclusion and better income distribution. During this period, 64 percent of new firms were set up; that is, almost 200,000 firms in industry, commerce and other services. Around 500,000 new jobs were created each year, and unemployment thus was reduced by 67 percent, decreasing from 18 percent in 2Q 2002 to 6.9 percent in 4Q 2012, with a strong increase in employment formalization. The number of workers with a formal job paying social security contributions grew by 92 percent during this ten-year period and the minimum wage grew to be the largest in Latin America. In turn, the average real wage increased by more than 37 percent and, as a consequence, the participation of wages in total income which was on average 40.2 percent in the period 1993-2001, increased to 54 percent in 2012. The end-result was a historic increase in living standards, which is reflected in the doubling of the middle-class between 2003 and 2009, as found by a recent report[2] by the World Bank. The report shows that nine years ago, only 24 percent of the population, that is 9.3 million inhabitants, were part of the middle class, whereas in 2009, the middle class increased to 46 percent of the population, which is 18.6 million inhabitants.

Another index widely used in Latin America, Unsatisfied Basic Needs (UBNs), shows deficiencies of households with access to education, health services, housing and measuring their economic capacity. This indicator for Argentina fell from 36.2 percent of UBNs households in 2001 to 9.1 percent in 2010 which is more than the reduction achieved in the previous 20 years from 1980 to 2001, and means that more than 330,000 households, equivalent to more than 1,400.000 inhabitants, stopped being structurally poor. In this regard, poverty and extreme poverty are indicators which measure only income. In 2003, the country recorded a poverty rate of 54 percent, of which 27.7 percent were in extreme poverty. Comparatively, at the end of 2012, only 6.5 percent of the population lived in poverty and 1.7 percent was classed as extremely poor.

These goals were achieved through measures oriented to enhancing Argentina's social safety net and which is based on several programs: the Universal Child Allowance Program "Asignación Universal por Hijo" provides coverage for more than 1,700,000 families and 3.3 million vulnerable children; Universal Pregnancy Allowance Program "Asignación Universal por Embarazo" for mothers without health insurance and in a vulnerability situation; "Argentina Trabaja", provides social inclusion through work and within this the program "Ellas Hacen" is oriented to women; "Manos a la Obra", initiates productive projects for families and the self-employed; the Food Security Plan (Seguridad Alimentaria) has

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[2] *Economic Mobility and the Rise of the Latin American Middle Class*, Ferreira, Francisco H. G., Julian Messina, Jamele Rigolini, Luis-Felipe López-Calva, Maria Ana Lugo, and Renos Vakis. 2013, Washington, DC: World Bank.

improved the subsistence capacity of more than 1,500,000 families; and the program Actions for Social Promotion and Protection and the Plan for Pension Inclusion, among others. Two major initiatives deal with housing construction and renewal, Plan Federal de Viviendas, which has built almost one million houses, and PROCREAR, an innovative program to finance the construction and renewal of houses, which plans to finance 400,000 new houses in four years and that has just presented two new lines of mortgage loans. To deal with the hard core of poverty, the Plan Ahí has outreached 1,000 neighborhoods around the country and has served more than one million people.

Also, the social security system has increased its coverage from 3,158,000 beneficiaries in 2003, which represented 66 percent of the elderly, to almost 6 million beneficiaries, reaching 94.3 percent coverage. These beneficiaries of the system of social security have a legal right, beyond the will of the government authorities, to an increase in their pension twice a year, based on a formula that guarantees pensions' purchasing power. Social spending on non-contributory pensions has also been increased. Expenditure on education has risen to more than 6 percent of GDP, in line with the Education Law. Argentina's Connect Equality Program (Conectar Igualdad), launched by our president Cristina Fernández de Kirchner to distribute approximately 3.5 million laptops to secondary school students, is being implemented successfully and 100 percent of the laptops will be delivered at the end of this year. This policy has already helped integrate new generations and will have long-lasting effects in terms of equal access to information and technology. During this period, more than 1,500 new schools were built. Finally, health spending has also been raised to prevent pandemics and other diseases, and to develop actions to improve health and the quality of living of the population, with the criteria of equity and accessibility focusing on health regulation, preventive policies, primary health attention and essential health benefits.

During the 2001-2002 crisis in Argentina, the financial system almost collapsed. After more than ten years, it is now solvent, liquid, well-regulated and capitalized, and these factors allowed our economy to recover from the impact of the international financial crisis of 2008-2009 faster than others. It is resilient and effectively supervised, has large capital and liquidity buffers and the quality of their assets is strong. At the same time, the management of the impact of the global financial crisis was very appropriate. Liquidity and solvency levels remain high, in a context of reduced credit risk which is reflected in low levels of NPLs, 1.7 in July 2013, with respect to other emerging and developed economies with provisions/NPLs in July 2013 of 136 percent. Favorable prospects for economic growth help to strengthen the conditions for financial stability. Return on Assets (ROA) and Return on Equity (ROE) that were negative in 2003 (-2.9 percent and -22.7 respectively) have been positive since 2005, and in July 2013 were 2.8 percent and 24.7 percent respectively. The Central Bank of Argentina has a new charter, approved by law in 2012, which broadened its objectives to adapt to the new stage. These include the pursuit of monetary stability, financial stability, employment, and economic development with social inclusion.

The government understands that public investment is a key tool for industrial development, regional integration, employment creation and improving living standards of the population. Public investment in roads and highways, electricity, communications, housing and other public goods and services will be supported. In 2010, investment grew by a significant 15

percent, and by 13.5 percent in real terms in 2011, accounting for 24.5 percent of GDP; a performance explained by both private and public investment. Investments in 2012 were 22.8 percent of GDP, the same as in 2010, which is well above the historical average. Preliminary estimations for investments for the second quarter of 2013 are 22.7 percent of GDP. Long-term challenges are being addressed through the record rate of investments over the past 50 years and by doubling the percentage of expenditures in science and technology in relation to GDP, including thousands of fellowships per year for doctorate students. Investments in the provinces are supported by the government-established Federal Solidarity Fund (Fondo Federal Solidario), funded by a 30 percent export tax collection on soy complex, which has been oriented to infrastructure, such as building schools, housing, drinking water processing plants, and water and sewage networks.

Like many advanced and emerging countries, the government has implemented a range of policies to support the development of long-term financing for productive investments, particularly infrastructure and small and medium-sized enterprises (SMEs). These programs include, among others, the Bicentennial Program to Finance Production (Programa de Financiamiento Productivo del Bicentenario), the Productive Recovery Program (Programa de Recuperación Productiva), the so-called Inciso K whereby insurance companies have already provided more than US$ 1.54 billion in the first six months of the program to productive projects, and the active role of the FGS (Sustainability Guarantee Fund) as a provider of long-term finance. In particular, the FGS strikes to find a balance between markets return and risk tolerance criteria necessary to avoid the depreciation of the fund, and the social and economic return, which is ultimately what guarantees the payment of pensions in the long term. FGS investments contribute to the sustainable development of the real economy, which in turn boosts the virtuous circle between economic growth and the increase in social security resources. Following this mandate, the FGS has become the main provider of long-term financing through its support of productive and infrastructure projects. In turn, micro-enterprises have received more than 320,000 micro credits. On top of this, the new Capital Markets' Law will foster the development of a more integrated financial system that better serves the financing needs of the economy. The Plan for Industrial Development 2020 to foster technological development in the industrial sector is being implemented, along with a new Strategic Plan Agri-food and Agroindustrial (PEA), which aims to increase grain production by 50 percent by the year 2020.

Since 2003, after the country's worst financial crisis that led to the default, Argentina applied a set of measures aimed at progressively normalizing public debt and creating a sustainable repayment capacity. These measures involved a successful debt restructuring process that reached a substantial level of acceptance—more than 92 percent of the eligible debt—which was tendered to the two-phase exchange process that had taken place in 2005 and 2010. Over the past ten years, the public net debt-to-GDP ratio has been reduced from 164.2 percent in 2002 to around 18.8 percent at the end of 2012. At the same time, external public debt was reduced from 95 percent of GDP to 13.7 percent in the same period. In terms of debt with the private sector in foreign and local currency, the debt-to-GDP ratio was 13.1 percent as of December 2012. The current public debt stock shows a balanced composition in terms of currency, duration, interest rates and types of creditors.

Furthermore, Argentina is facing an extraordinary challenge dealing with creditors known as vulture funds, who seek privileged treatment through litigations within legal gaps even though they have acquired sovereign debt at cents on the dollar. Due to the lack of an international legal framework for sovereign debt restructuring, Argentina continues to deal with a minority of litigious creditors that impede a full completion of the debt-restructuring process and who are jeopardizing all future debt restructuring processes in any country. The Argentine Congress recently authorized the Executive power to reopen the exchange for an unlimited time, reinforcing again Argentina's willingness to normalize its debt and continue to pay performing bonds at the agreed terms.

The recent focus of the IMF on debt sustainability issues and debt restructuring experiences is both timely and welcomed. Recently, in an inter-departmental IMF staff paper, it was stated that: "Recent developments in a long litigation odyssey involving Argentina could have implications for sovereign debt restructurings. (…) the Argentine decisions, if upheld, would likely give holdout creditors greater leverage and make the debt restructuring process more complicated for two reasons. First, by allowing holdouts to interrupt the flow of payments to creditors who have participated in the restructuring, the decisions would likely discourage creditors from participating in a voluntary restructuring. Second, by offering holdouts a mechanism to extract recovery outside a voluntary debt exchange, the decisions would increase the risk that holdouts will multiply and creditors who are otherwise inclined to agree to a restructuring may be less likely to do so due to inter-creditor equity concerns".[3]

The debt normalization process, as well as the current policy of Argentina based on the goal of a strong debt reduction, is a positive signal giving the markets confidence in the country's ability to continue servicing its public debt on regular basis, despite the strong attack of hold-out creditors. In the same vein, it is well known that credit rating agencies do not reflect debtor solvency correctly; and in our case, current credit ratings do not reflect our country's effort in this regard. Argentina is conducting a substantial reform of its CRA (Credit Rating Agencies) regulation that builds on international best practices and country experiences. However, it is necessary to continue discussing the role of credit rating agencies in international fora, particularly in the G-20, to propose concrete policies aimed at reducing dependence, enhancing supervision and increasing competition.

Argentina continues to advance step by step in strengthening its relations with the IMF. Argentina has demonstrated its commitment on working together on the bilateral agenda. More recently, relations with the IMF involve ongoing technical assistance to develop a new CPI on a national basis, the ROSC that has been completed and published, and the FSAP report, after a joint mission to Argentina by the World Bank and IMF staff in March 2013, which was discussed at the Executive Board in July.

An important lesson has been learnt the hard way throughout Argentinean history: the crucial and active role that the State must play to achieve a steady, sustainable and inclusive path of

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[3] IMF, "*Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework*", April 2013.

economic development and that the development process should be focused on the development of the people and the improvement of their living standards. Indeed, Argentina has strengthened its policy framework built upon a broad-based productive and socially inclusive development, a strong domestic demand, a balanced fiscal policy, a solid banking system, a sustainable debt, the accumulation of international reserves and the promotion of regional integration and international cooperation. Growth has been sustained and social indicators have improved considerably. Due to the structural transformation of the economy since 2003, Argentina is now well placed to address the challenges of an uncertain world economy. The government has put the country back on track and has restored its potential for economic, human, and social development. The main objectives for the future will be strengthening, broadening and continuing with these outcomes.

Bolivia

After reaching a strong growth in 2012 (5.2 percent), the Bolivian economy is maintaining momentum and it is likely that the growth rate by the end of 2013 will be around 5.5 per cent. As of the first quarter of 2013, the most dynamic sectors were hydrocarbons, financial services, transport and agriculture. The mining sector is also showing signs of recovery. On the spending side, the evolution of domestic demand has spurred the growth rate, in which the natural gas consumption by the manufacturing sector is notable. The external demand is keeping steam even though the global environment is once again showing increased volatility. Natural gas exports over performed due to additional volumes exported to Argentina.

On the external side, the external accounts are remaining favorable in 2013. Bolivia is continued to record a positive trade balance during the first quarter (2.6 percent of GDP) following a strong tendency for more than eight years allowing a positive balance in the current account.

Exports continued the upward trend more rapidly than in 2012, with increases both in value and volume. Likewise, imports experienced a positive growth, attributed primarily to purchases of raw materials, intermediate products and capital goods accounting for about 80 percent of the total imported. Net foreign investment also picked up, primarily in hydrocarbons and manufacturing. The evolution of the external accounts is allowing the country to continue building a comfortable level of international reserves which by mid-September 2013 reached $14.5 billion (net international reserves), and they will likely be around 51 percent of GDP by the end of the year. This substantial buffer is concomitant with the trend of growth since 2006.

As shown in recent years of the current administration, the authorities are showing their strong commitment to macroeconomic stability both in terms of fiscal and monetary policies. Tax revenue continued to grow in 2013, while control of expenditure was exercised, prioritizing capital expenditure and pursuing public debt sustainability. The fiscal accounts are showing a strong fiscal stance, as evidenced by the continuous surplus of the combined public sector for the seventh consecutive year. For 2013, the authorities expect that the

public sector will end the year with a surplus of 1.5 percent of GDP. Fiscal policy continues to support economic activity through increasing public investment, which by the end of 2013 would probably be at 13.9 percent of the GDP, while in 2012 it was 13.5 percent of GDP.

As part of the development policy of the current administration the Central Bank of Bolivia is financing key pubic enterprises in strategic sector of the Bolivian economy, such hydrocarbons, electricity and mining. With these financing strategies these public enterprises will enhance their operations and output capacity which eventually will impact positively on the growth rate of the economy. On the other hand, the Banco de Desarrollo Productivo (BDP) is supporting small and medium-sized private enterprises.

The sustainability of public debt was strengthened in 2012 as balances of external and internal public debt—as a percentage of GDP—are declining. This trend, as well as the prudent management of fiscal accounts, kept Bolivia's credit rating stable with positive outlook. In August 2013, Bolivia again issued sovereign bonds for $ 500 million, reflecting its strong solvency and strength, as well as its capacity to use the financial markets any time if resources were needed. Resources coming from external indebtedness are mainly for financing infrastructure and supporting industrialization in key strategic sectors in Bolivia.

In the first months of 2013, inflationary pressures emerged as credit and liquidity had been increasing rapidly and inflationary expectations surfaced as the economy became more dynamic. To address this situation, the monetary authorities gradually increased the open market operations along with new types of instruments aimed at reducing liquidity while keeping vigilant of interest rates in the financial rates. The fiscal policy was already helping to lower inflationary pressures through its positive balance, while policies that induce "bolivianization" of banking operations also contribute to a more effective monetary policy. The nominal exchange rate was maintained given that the real exchange rate did not present significant misalignment. In the beginning of the second half of the year there were hikes in certain food items of the price index which originated in adverse climate conditions that affected some key crops; thus inflation, by the end of August climbed to 4.2 percent. However, the authorities immediately adopted policies to address these shortages. They expect that inflationary pressures—as a result of these measures, in addition to monetary policy—will recede in the coming months and inflation will not be greater that 5.5 percent by the end of the year.

Since 2007, the authorities have been continuing to applying policies to improve income redistribution through granting conditional and non conditional cash transfers along with other measures to support the most vulnerable. Thus, moderate poverty levels in the country reduced from 60.6 percent in 2005 to 48.5 percent in 2011, while extreme poverty decreased from 38.2 percent to 24.3 percent in a similar period, which mostly impacted rural areas. At the same time, unemployment decreased in 2013 to reach 5.8 percent, consistent with the greater dynamism of the economic activity and historic levels of public investment.

Chile

Despite recent volatility in global financial markets and a slowdown in global growth centered on emerging economies, the Chilean economy's strong institutional framework, healthy external buffers and substantial room for maneuver have allowed for a balanced moderation of growth towards trend. Following a period of vigorous expansion during 2010-2012, the economy has begun to decelerate, with output expected to expand by 4.0 to 4.5 percent in 2013. Despite a tight labor market and the recent depreciation of the exchange rate, inflation has remained subdued on the lower side of the central bank's inflation target range of 2-4 percent, with expectations firmly anchored around the center at 3 percent.

Throughout this transition the authorities have maintained the monetary policy rate steady at 5 percent, and have stated that they stand ready to ease monetary policy should the external scenario deteriorate further or domestic demand decelerate faster than expected. The authorities perceive that the flexible exchange rate regime, within an inflation targeting framework, a fiscal rule, and a sound financial regulatory system, has served the economy well. Alternative policies within this framework, such as foreign exchange interventions, could be deployed in case of extraordinary circumstances, and in ways consistent with the flexible exchange rate regime.

The appreciating pressures that predominated last year have eased considerably, and the real exchange rate is now estimated to be broadly in line with long-run fundamentals. The current account deficit is expected to reach 4.5 percent of GDP in 2013, as private consumption eases more slowly than other components of demand. The authorities are mindful of the risks posed by this situation; particularly should the country's terms of trade deteriorate faster than expected. These risks are mitigated by the fact that the deficit is funded primarily by stable foreign direct investment and has not generated a substantial accumulation of foreign liabilities. Moreover, the depreciation of the exchange rate, growing export volumes and declining capital imports as the investment cycle in the mining sector matures are expected to contribute to a gradual reduction of the deficit.

The government has consistently met its commitments in line with the fiscal rule. Having steadily withdrawn the stimulus implemented following the crisis, the government is on track to achieve a structural deficit of 1 percent in 2013. The Executive has recently presented a proposal for the 2014 budget to Congress, featuring an expected modest rate of increase in revenue collection and spending. Within this setting, the real growth of spending is expected to be below GDP expansion, and the fiscal accounts are on target to achieve a 1 percent structural deficit in 2014, in line with the administration's stated objectives. As part of the government's agenda to continue perfecting policy institutions, a new Fiscal Advisory Council has been established to increase the transparency of the fiscal rule's implementation. The government has also made important progress in improving the efficiency of public spending, with the country now ranked 13th in the world by the World Economic Forum.

Activity and demand are expected to stabilize and grow around trend in 2014. Going forward, the Chilean authorities will continue to closely monitor both domestic and external risks so as to implement the policies required to secure the macroeconomic and financial stability of the economy.

Paraguay

Paraguay's economy is expected to expand by 13 percent in 2013 driven by a strong recovery in the agricultural sector, while maintaining inflation in line with the 5 percent inflation objective. The outlook for 2014 remains positive with real growth projection at 4.8 percent, despite the worsening in external conditions. The authorities are aware that as external conditions deteriorate, the need to rebuild buffers becomes a priority.

Fiscal performance continues its process of consolidation. After eight consecutive years of surpluses until 2011, the fiscal accounts deteriorated in 2012–13, due to higher current spending and acceleration of public investment. The 2014 draft budget submitted to Congress intends to reverse this situation by containing current spending, while preserving spending on social programs and investment.

Paraguay's macroeconomic conditions have improved substantially over the last decade. However, this has not been enough to reduce extreme poverty and improve infrastructure. The new government which took office on August 15 has embarked on an ambitious agenda of reforms that aims to reduce these gaps.

A new tax reform enacted on October 9 will broaden the tax base by incorporating 150,000 new tax payers from the agricultural sector, which were exempt of the value added tax. A fiscal responsibility law, submitted by the government and approved by the Senate, will maintain the fiscal account on a sustainable path over the medium term and a public-private partnership law, also approved by the Senate, sets the conditions for the private sector to invest in areas of mutual benefit with the public sector.

Peru

Growth in the first half of 2013 was 5.2 percent, somewhat lower than in 2012. Growth momentum continues to be driven by domestic demand (7.2 percent), notably investment (10.8 percent). Even though private consumption moderated, optimism is sustained and the markets show continuing confidence in Peru's fundamentals, low public debt and high international reserves.

At the same time, global risks (lingering problems in Europe and moderate recovery in U.S. and China) continued to weigh on the performance of emerging market economies. Declining exports resulted in a negative contribution to GDP growth. In this context, the authorities have adjusted their growth forecast from 6.1 percent to 5.5 percent for 2013. However, a recovery in both commodity and industrial exports is expected in the second half of the year, associated mainly with the start-up of new mining operations.

Twelve-month inflation increased from 2.65 percent at end-2012 to 3.28 percent as of August 2013, largely due to domestic supply shocks affecting food prices. Inflation is expected to return to the 2 percent±1 percent target band once these transitory factors recede in the third quarter of the year, supported by the central bank's prudent monetary stance.

In a volatile global context, the authorities are committed to preserving financial stability. In this regard, they focus on putting in place a set of macroprudential policies to limit systemic risks; and the central bank stands ready to use its considerable reserve buffer to offset potential exogenous shocks.

Uruguay

Uruguay is about to complete eleven consecutive years of positive growth, at an average much higher than the country's historic rate. The global economy is full of volatility and uncertainty, and prospects for emerging economies have deteriorated. Nonetheless, Uruguay has not only exhibited an impressive record of growth but has also built up substantial buffers on the economic, financial, and social sides. Among the positive developments, it is notable to cite: unemployment rates remain at record lows (currently 6.1 percent); the net public debt-to-GDP ratio has significantly decreased to 24 percent (on this indicator, as also noted by some other developing countries, the Uruguayan authorities reiterate that, under the current circumstances, the net public debt, rather than the gross public debt, is the most relevant indicator to assess a country's situation and prospects in terms of indebtedness, and they hope that the Fund can update and enhance its analysis by focusing more on this variable); the average time to maturity of public debt is about 11 years (among the longest in either emerging or advanced economies); Uruguay's financial system exhibits sound indicators, among others, in terms of capital, liquidity and quality of the assets of the system; poverty (from 25.7 percent in 2006 to 8.4 percent in 2012) and extreme poverty (from 1.5 percent in 2006 to 0.3 percent in 2012) have substantially diminished; and there has been considerable progress towards reducing inequality. Sound macroeconomic policies, appropriate frameworks (for instance, a flexible exchange rate system), more diversification and less dependence on regional developments, greater transparency, better governance and institutions (with critical transformations, among others, at the Central Bank of Uruguay, the supervision and regulation of the financial system, and revenue administrations) could explain the materialization of a process in which robust growth, high investment, as well as much less vulnerabilities, have gone hand in hand with critical social achievements and a better quality of life.

Admittedly, Uruguay is facing considerable inflationary pressures (in recent months, renewed impulses from private demand and some constraints on the supply side, under the context of a peso depreciation, have exacerbated pressures) and, in this regard, the authorities have implemented the necessary policies to address the above-referred pressures and, if needed, will reinforce policies and instruments in order to keep curbing pressures and maintaining economic and social stability; a key priority of the government. As underscored, prospects for emerging markets currently look more cloudy and the Uruguayan authorities are fully committed to continuing with establishing sound policies and progressing in their

structural agenda (for example, the authorities have underscored the positive effect that their planned financial inclusion process will have on the economy and Uruguayan society, especially on its most vulnerable sectors) and hope that developed economies understand the imperious need of having an appropriate transition with regard to the expected monetary tapering, and that these economies and also developing countries are not tempted by protectionist policies.