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Statement by Mr. Dujovne
Argentina

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

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On behalf of the Southern Cone Constituency
(Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay)

Global Developments

The global economy continues to strengthen with subdued inflation. The upward revisions for growth to 3.6 percent in 2017 and 3.7 percent 2018, reflect more synchronized growth, with a gain in momentum in advanced economies and China, and a relatively good performance in large emerging market and developing countries (EMDCs). We are particularly encouraged by the improved performance in the Euro Area and Japan. Still, in most advanced economies, inflation remains subdued amid weak wage growth, while slow productivity growth and demographic headwinds weigh on medium-term prospects. Meanwhile, several EMDCs continue to adjust to a range of factors, including lower commodity revenues.

In Latin America, the recovery is ongoing and growth is expected to strengthen next year, even though it would remain below potential. Adjustment to lower terms-of-trade took a toll in recent years and while energy exporters may still need to undertake corrective policies, other commodity exporters will fare better given the brighter outlook for non-fuel commodities and the conduct of domestic reforms. Monetary policy can provide support, as inflation appears to have peaked in many countries. While Argentina and Brazil are expected to add strongly to the region's growth momentum, we remain concerned about the situation in Venezuela, which is facing an economic, humanitarian, and political crisis.

We agree with the World Economic Outlook and the Fund's Global Policy Agenda in emphasizing that the world economy has a window of opportunity to tackle significant structural reforms to increase productivity and potential GDP growth. In many advanced and emerging economies, an environment of subdued growth has inhibited structural reforms to strengthen labor and product markets, because of concerns about their short-term side effects. Taking advantage of current global conditions, it will be important to tackle structural issues that are going to pay off over time.

In the short term, we see risks as broadly balanced. Key policies in large economies are important for the continuation of the global recovery while some uncertainties remain. A key theme is the appropriate pace of monetary policy normalization in advanced economies. We have seen little impact on inflation from closing output gaps and a tightening of labor markets in the US, a development that deserves further study and may reflect ongoing structural changes. The Federal Reserve's announced plan regarding the unwinding of the balance sheet expansion has been well communicated and received without adverse repercussions in markets, which expect gradual increases in the policy rate. Still, we look forward to seeing more concrete details regarding the tax reform and its implication for the fiscal stance. In Europe, the strengthening of the cyclical recovery and the conclusion of elections in key large countries give the opportunity to proceed with structural reforms and work on resolving a number of remaining challenges. In China, upward revisions to growth constitute positive news. Credit growth, however, is well above the average of historical credit booms that preceded financial crises elsewhere and therefore continued policy efforts are needed to contain financial sector risks.

Even if the pace of interest rate normalization remains gradual, financial conditions can tighten suddenly. Financial markets have grown accustomed to the low-for-long environment and featured an important structural transformation, with risks migrating from banks to capital markets. As global growth becomes more synchronized over time, we are likely to see more synchronized tightening—or less accommodation—of monetary policy, and interest rate spreads may decompress from current low levels. In this context, policy missteps, materialization of geopolitical risks, or a sudden repricing of risk due to unexpected accidents in financial markets, may quickly alter the current calm. It is hard to generalize how a possible tightening of financial conditions can affect emerging markets. There are important differences among EMDCs in terms of official reserves, depth and liquidity of capital markets, ability to hedge credit and currency risk, among other factors. Hence, accessibility to external financing and credit conditions vary widely, and we should refrain from putting all EMDCs into a similar risk category.

Over the medium term, the global economy continues to face important challenges. A natural consequence of the policy response necessary to address the global financial crisis (GFC) is the observed accumulation of debt, both public and private, in many advanced and developing economies. Low profitability in global banks and pockets of high non-performing loans are also a source of vulnerability. Therefore, completing the financial reform agenda and dealing with remaining legacy issues from the GFC would be important.

International Collaboration and IMF Policies

Against this background, policy makers globally need to continue efforts to secure the recovery and improve medium-term prospects. A cooperative multilateral framework remains vital for achieving this objective. Globalization of trade and capital has contributed deeply to income convergence by boosting millions out of poverty and allowing major access to goods and services. Thus, we should strive to maintain the rules-based, open trading system, and we have to preserve the improvements in financial sector regulation to contain risks. At the country level, flexible macroeconomic policy frameworks, including sustainable fiscal policies, flexible exchange rate regimes and inflation targeting, complemented by sound regulation, supervision, and the appropriate use of macro prudential policies, have proven to be critical for reaping the benefits of global integration.

We support the Global Policy Agenda's three-pronged approach, with monetary, fiscal, and structural reforms, geared to strengthen growth and secure resilience. At the moment, continued accommodative monetary policy is needed in advanced economies with low inflation in line with the respective central bank mandates, with due regard of financial stability risks. Fiscal policy should gear toward long-term sustainability, using fiscal space where available to support reforms that boost productivity and promote inclusiveness. Efforts to raise potential output should be prioritized based on country-specific circumstances, including increasing the supply of labor; upgrading skills and human capital; investing in infrastructure; and lowering product and labor market distortions.

While global inequality has declined, the increase in inequality within many advanced and emerging economies has increased the demand for policy responses. More effort is needed to better understand the effects of technological change on income distribution. Technological progress is fundamentally reshaping labor markets, and while these changes may drive specific sectoral policy actions, they also create huge challenges for tax and benefit systems. We need to better understand these challenges to come up with appropriate solutions. Social safety nets remain important to protect those adversely affected by technological progress and other structural transformation. Improving the quality and access to education and health is key to reducing inequality and enhancing social mobility over time.

Another pressing international issue is the global infrastructure investment gap. There is a need to raise public spending efficiency and improve the business climate to catalyze private investment to help close that gap. This is even more important as we see large volumes of investible funds searching for investment opportunities. We consider that to bridge that gap, we need to work towards innovative financial tools to align public and private sector interests.

We value and support the work of the IMF on capital flows and macroprudential policies. This work should be geared towards helping members to capture the benefits of financial integration in a safe way, by appropriate management of risks arising from capital flow volatility.

Strengthening institutions and governance is of paramount importance to promote fairness, trust, and support for reform. Critical elements of a strong governance policy include better frameworks for public financial management aimed at more effective and efficient public spendig, combating tax evasion and tax avoidance, regulating markets appriopriately to promote competition, and fighting corruption, money laundering and the financing of terrorism.

A strong global financial safety net (GFSN) is critical for crisis prevention and to help countries adjust to economic shocks. We support IMF plans to continue exploring ways to enhance the GFSN, including strengthening collaboration with regional financing arrangements, maintaining precautionary lending for the broad membership, and assessing whether a broader use of the SDR can support the functioning of the international monetary system. The review of Fund-supported programs and conditionality would provide an ideal opportunity to discuss possible ways to reduce stigma associated with IMF lending.

IMF Governance

We are committed to maintaining a strong, quota-based and adequately resourced IMF, in line with statements by the IMFC and G20 leaders. Our view is that an increase in quotas is needed to improve the balance of permanent to borrowed resources, which remains low. This increase will enable a necessary realignment of member quotas to better reflect the current global landscape. But, more importantly, the quota increase needs to be able to leave the Fund in a strong position to face possible challenges in the next decade. We know that reaching an agreement will require some dosage of pragmatism and realism. We trust that we can find a solution and agree that issues related to the size of the Fund, potential quota increases and their distribution, and the new quota formula, will be considered as an integral package for concluding the 15th General Review.

Argentina

Considerable progress has been made in the last two years since the new administration took office. Policy efforts have been focused on establishing sound macroeconomic policies, restoring credibility, and laying the groundwork for inclusive, balanced, and sustainable growth. Price, currency, and trade controls were removed. Restrictions in the foreign-exchange market and excessive taxes on exports were abolished, long-standing disputes with private foreign creditors were settled, subsidies in the provision of public services were reduced, and a coherent disinflation strategy was designed. In parallel, the government put in place an immediate plan to rebuild the official statistics office (INDEC) which recovered its credibility.

These decisive actions are paying off.

Economic activity has been expanding in the last four quarters and growth is set to reach 3 percent in 2017. Up to the second quarter of this year, growth had been led by investment (7.7 percent year-on-year) and private consumption (3.8 percent). At the sectoral level, construction (9.7 percent year-on-year), agriculture (4.9 percent), financial services (4.4 percent), and transport and communications (4.0 percent) are among the most dynamic sectors.

Inflation, which has been very high for many years, with peaks up to about 40 percent, is on a clear downward trend and will finish 2017 slightly above 20 percent, half the level observed last year.

The labor market has improved as well, reacting to the increase in output. The unemployment rate declined to 8.7 percent of the labor force in the second quarter of 2017 (from 9.3 percent in the same quarter last year), with 200,000 new jobs created during the year up to July 2017. Meanwhile, real wages have increased and the poverty rate decreased to 28.6 percent from 32.2 percent in the first half of 2016.

The external sector has started to recover with a surplus in the balance of payments leading to an accumulation of international reserves to more than US$ 50 billion, close to 10 percent of GDP and almost 10 months of imports.

Public finances are now on a sustainable path, with clear targets for the reduction of the primary deficit of the federal government to 4.2 percent of GDP in 2017, 3.2 percent of GDP in 2018, and 2.2 percent of GDP in 2019. Execution of fiscal policy this year is on target, with a real increase in tax collection supported by the economic recovery and a reduction of primary expenditure in terms of GDP—the second year of decline in the primary spending-to-GDP ratio. Utility tariffs are increasing to be better aligned with production costs and subsidies have been reduced and oriented towards those in need. The cost of public debt continues declining and is at historical lows.

Domestic credit availability is increasing. Total bank credit to the private sector is growing above 20 percent in real terms over the last 12 months, amid a decline in interest rates, particularly for mortgages, which are at historical lows. In a coordinated effort with the largest banks and the government, a new 30-year mortgage line has financed access to housing for around 150,000 middle-income families.

Building on this success, the authorities continue working on addressing the top medium-term government priorities.

Higher levels of investment are needed to sustain rapid growth and employment, to sustainably reduce poverty. The economy is expected to grow by 3.5 percent in 2018, a rate among the highest in Latin America and above the G20 average. Our goal is to maintain this level, which will result in a doubling of per-capita real income in 20 years. At the same time, the government is strongly committed to strengthening institutions and modernizing the state, enhancing the social safety net, and ensuring that social expenditures and public services reach the poorest sectors of society.

To that end, we are continuing with the implementation of strong macroeconomic policies.

In the fiscal area, the primary deficit of the federal government will decline to 3.2 percent in 2018. Primary spending will increase below the inflation rate, declining to 22 percent of GDP, about 2.5 points of GDP lower than in 2015. This result will be achieved while increasing the share of social and capital spending in primary outlays. The debt of the federal government with the private sector and international organizations will increase to 31 percent of GDP, among the lowest in the region.

A draft of a fiscal responsibility law has been submitted to Congress. The draft includes limits to the growth of public spending at the national and subnational levels and promotes the development of anticyclical funds. It carries strong support among subnational governments and would add certainty to the future fiscal path. In the coming months, we will present a draft for a tax reform, which will aim at gradually reducing the tax burden and the most distortive taxes.

In the monetary area, the central bank will continue operating an inflation targeting regime, with the objective of reducing inflation to 10 percent in 2018 and 5 percent over the medium term. Given still high inflation, monetary policy is expected to maintain its contractionary stance through high real policy interest rates.

In parallel, the central bank will work towards achieving financial stability and the sound expansion of the financial sector, promoting the use of local-currency saving instruments to finance credit expansion in local-currency at longer maturities and lower rates. In this context, priorities include increasing access to bank services by all segments of society and promoting the use of electronic payments, contributing to the formalization of economic activity.

Strong social policies will remain in place.

Income transfer programs will continue to be an essential tool for combating poverty, ensuring a minimum income for those who need it most. The “Asignación Universal por Hijo” (Universal Child Allowance) is an ongoing program that reaches 3.9 million children, and has been enlarged and enhanced, aiming to benefit an additional million infants over time. Moreover, 4.2 million children were reached by the Family Income Policy framework, of which 1.2 million were incorporated in 2017. The “Plan Nacional de Primera Infancia” (National Plan for Early Childhood) was launched at the beginning of 2016 to eradicate malnutrition in children under the age of four.

Ensuring the transit from unemployment and informal employment to registered employment is a key policy to alleviate poverty and provide to the formalization of work. Plans are underway to avoid that the transition to formal employment results in the loss of social benefits. Besides, unemployment insurance was increased to around US$ 175 per month.

In education, the public system has, for the first time, covered all children over the age of three, benefiting more than 638,000 children.

Public pensions have been increased through the "Reparación Histórica a Jubilados", a legislation that brought pensions to the levels mandated by law, which were not met by previous administrations. This currently benefits more than one million pensioners and will reach almost two million pensioners in the near future.

Bolivia

The Bolivian economy has maintained sustained growth based on adequate fiscal, monetary and exchange rate policies implemented since 2006 to mitigate the negative effects coming from the global economic cycle. In the first quarter of 2017, GDP growth was 3.3 percent and it is estimated that, by the end of the year, it will be one of the highest rates in the region. The great economic performance is based on the outstanding performance of domestic demand which increased by 7.2 percent in Q1 compared with 4.8 percent in Q1 2016, supported mainly by public investment and household consumption. However, sectors related to external demand showed brief contractions: for example, a decrease in the hydrocarbons sector was caused by lower Brazilian demand for natural gas, while the mining sector experienced temporary delays in production.

On the supply side, growth is explained by production of the agricultural sector, increases in the non-extractive sector rates, including financial establishments, transport, public administration services, and the food industry, which were steered by the active role of the government.

Public policies and prioritized sectors focused on the use and generation of surpluses, income redistribution, the reduction of poverty and inequality and the creation of opportunities, strengthening the productive sector, and consolidating industrialization. This was possible through investment projects included in the Economic and Social Development Plan – PDES 2016-2020 and the 2025 Patriotic Agenda.

With regards to public finances, the Bolivian authorities, are projected to have a deficit of approximately 6.5 percent of GDP in 2017. This deficit can be mostly explained by capital expenditure in investment projects, such as infrastructure development, investment in state-owned enterprises (energy, electricity and natural gas), and strengthening the dynamism of the economy. All of this has been made possible through the expansion of the output base, greater productivity, closing gaps in physical infrastructure, and industrialization to add value on the exploitation of natural resources. The deficit will be financed by domestic savings and international borrowing to preserve macroeconomic stability. Additionally, the significant fiscal surpluses achieved in previous years allow the country to maintain social programs focused on redistributive policies to improve social indicators.

During the first part of the year, the monetary policy initiated in 2014 was still countercyclical to ensure adequate liquidity levels into the economy. These actions have been conducted to enhance the dynamism of credit from the financial system to the private sector, especially to productive and housing segments in accordance with the Financial Services Law and as part of the counter cyclical policies aimed to support domestic demand in the economy. However, inflation pressures did not arise because this year, the base inflation projection was revised downward from 5.0 percent to 4.3 percent, which shows it is controlled and such lower inflation would continue implementing a monetary impulse to the real sector.

Supported by income growth in the second quarter of the year, the financial intermediation operation continued showing dynamism and an expansionary stance generated an increase of public deposits in financial institutions. This, together with the monetary policy, registered a significant flow and substantially increased liquidity, which resulted in a significant increase in the credit portfolio to support private investment. The financial and credit policies applied by the authorities in recent years led to credit increases in the production and housing sectors and substantially helped domestic demand.

On the other hand, the process of the de-dollarization has continued in Bolivia. In effect, credit and deposits in domestic currency reached 97.2 and 85.2 percent respectively in June 2017. Indicators of solvency and liquidity of financial intermediaries reflect the soundness of the financial system and represent a remarkable achievement at the regional level. In this context, the current exchange rate policy, which is backed to the de-dollarization process, gives certainty to economic agents and has contributed to maintaining low levels of inflation.

The social policy is going to continue to follow its state-led model for economic development by redistributing income through social programs. Since 2007, the authorities have been applying policies to improve income redistribution through granting conditional and non-conditional cash transfers, along with other measures to support the most vulnerable of the population. The maintenance of these programs contributes to avoid reversing the progress achieved in poverty reduction in the last 11 years. Indeed, moderate poverty levels reduced from 60.6 percent in 2005 to 38.6 percent in 2015, while extreme poverty decreased from 38.2 percent to 16.8 percent in a similar period, which mostly impacted rural areas in Bolivia.

Chile

After growing 1.6 percent in 2016 the Chilean economy is projected to grow in the range of 1.25 to 1.75 percent in 2017. The central bank’s projections are cautious about the speed of recovery but assess that risks are balanced. Going forward, the economy is expected to grow at 2.5 percent during the first quarters of 2018, which is the current potential growth estimate. By year end, growth should further accelerate given a more favorable external environment, the end of the adjustment in mining investment, the absence of relevant macroeconomic misbalances and a still expansionary monetary policy. The latter explains the historically low cost of credit which, together with payroll employment back to growing at positive rates, are factors behind consumption dynamics. In fact, consumption growth is still above investments.

Annual CPI inflation is expected to close at 2.4 percent by December 2017, with a downward bias in the short term. Downward revisions are explained by a strong appreciation of the peso experienced since June and the unusual low inflation of fruits and vegetables. In the medium term, risks are balanced although the appreciation of the peso is expected to weigh in, keeping inflation below target. The economic recovery mentioned earlier is coherent with this projection, which also assumes a slight real depreciation of the peso.

Monetary policy has responded accordingly, maintaining the policy rate at 2.5 percent since May, while considering as an option a further decrease of 25 basis points. In the future, as has been always stated by the Board, decisions will be made taking into consideration the expected path of inflation over the policy horizon and the speed at which the output gap is closing. As of January 2018, for the sake of promoting a more detailed and transparent communication to the public, the central bank will be issuing longer communiqués and revealing, at the same time, each member's vote. The meetings will last one and a half days, to allow for a more thorough analysis, and will be restricted to eight throughout the year. This frequency of meetings is common in many countries, such as the United States, Canada, Japan, Israel, to name a few, and does not impair the capacity of reaction of the central bank, as extraordinary meetings can always be called upon.

The fiscal authorities remain committed to a gradual fiscal consolidation aimed at reaching a structural balanced budget position over the medium term, while allowing automatic stabilizers to operate. The 2018 Budget Law, currently in Congress, reduces the structural deficit by approximately 0.25 percent of GDP to 1.5 percent of GDP in 2018, from 1.7 percent in 2017. Effective expenditure will grow 3.9 percent in real terms, which together with the robust expected recovery in revenues, implies that the effective fiscal deficit would be 1.9 percent of GDP—down from an estimated 2.7 percent for 2017. Among the main assumptions is that the economy will grow at 3 percent, which is the mid-point of the central bank projection, a copper price of USD$2.88 per pound and 2.8 percent inflation by the end of 2018.

During 2017, some agencies downgraded Chile's long-term external debt rating, driven by concerns regarding the protracted slow-down in growth and its effect on fiscal revenues. Looking forward, agencies maintain a stable outlook based largely on their positive view regarding the existing macroeconomic policy framework. The risk premiums, exchange rate, and stock market had marginal and transitory movements around the dates of the announcements. The country's risk premium continues to be among the lowest in emerging markets and near historical lows.

The Chilean authorities have continued implementing an agenda of reforms aimed at increasing productivity and reducing inequality. Key among these is an ambitious reform aimed at improving the quality and equity of the educational system by strengthening primary and secondary public education and careers in teaching; and by reforming the post-secondary education system. Advances have also been made in the financial system—with a substantial revision of the supervisory architecture, the implementation of a new legal framework for low-value payments systems aimed at promoting inclusion and fostering competition; a forthcoming banking bill to adopt Basel III capital regulations; and the creation of an infrastructure fund to facilitate private investment. The authorities remain committed to trade as a key component of medium-term growth. Negotiations to expand and improve existing free trade agreements are underway, in addition to several initiatives to facilitate trade, in particular in the service sector. Finally, the authorities have introduced a series of bills aimed at strengthening the Pension System in a fiscally sustainable manner.

Paraguay

Economic activity showed strong momentum in the first quarter of 2017, with an annual growth rate of 6.6 percent, based mainly on the favorable performance of the service, manufacturing, construction, and agricultural sectors. In this context, growth estimates for 2017 were revised upward from 3.7 percent to 4.2 percent. However, according to short-term indicators, the pace of expansion has moderated since April, as a result of specific sectors weakening due to adverse weather conditions (livestock and construction). Likewise, some manufacturing and services subsectors that are not strictly related to climatic factors also weakened since the end of the second quarter. Despite this, in the first semester, the cumulative growth rate stood at 4 percent. Regarding internal demand, the indicators linked to private consumption and investment in machinery continued to show a favorable evolution in recent months.

Inflation remained relatively low during the year, within the tolerance range. The average annual growth rate between January and July 2017 was 3 percent, largely explained by the foodstuffs category. On the other hand, the underlying inflation measures showed an upward trajectory until May, although this was mainly explained by the price increases of certain products (dairy, meat, and sugar). Nevertheless, a reversal of this upward trajectory was observed in recent months. Given this scenario of lower inflationary pressures, together with a lower economic activity and the slow recovery of loans, at the August CEOMA meeting, the monetary policy rate was reduced by 25 basis points to 5.25 percent annually.

The exchange rate remained in line with the behavior observed throughout the region. Following the Presidential election in the United States, the main regional parities weakened in the short term; however, during the greater part of 2017 currencies remained relatively stable and even with an appreciation trend. Between January and August, the Guarani appreciated around 2.7 percent. During this period, the US dollar depreciated about 9.4 percent with respect to the currency basket of the United States' main trade partners. In this context, the participation of the Central Bank of Paraguay (BCP) in the foreign exchange market has been limited to compensatory sales. This refers to those gradual and programmed sales carried out as a counterpart to the net purchases of currency conducted by BCP from the Ministry of Finance.

Public finances continue with a solid position. By July 2017 the cumulative growth rate of tax revenues reached 10.1 percent (5.6 percent in April), fundamentally explained by the recovery of foreign trade taxes. Regarding total expenditures, spending has increased with moderate rates in the context of an improvement in the composition of expenditures. In nominal terms, salaries in the public sector grew 4.2 percent, while infrastructure investment increased 22.3 percent by the end of July. The operational balance continues to be positive with the deficit being explained by greater investments. In this respect, the fiscal deficit in July stood at 1.2 percent of GDP in annualized terms, below the limit established by the Fiscal Responsibility Law.

The Paraguayan financial system remains stable and is in a comfortable position to resist the impact of stress scenarios. The main solvency indicators continue to surpass regulatory minimums with ease and liquidity is high. Since the beginning of 2017, a gradual recovery of loans has been observed, after the deceleration registered since 2015. On the other hand, work continues on proposals to legal reforms needed to advance in the implementation of better international financial regulation practices. This set of measures includes the modification of the BCP's Charter law, the creation of a Superintendency of Pensions, and the establishment of a Co-operatives Guarantee Fund.

Peru

Economic activity has been recovering in the last quarters, after being struck by El Niño and corruption scandals during the first four months of this year. Better external sector conditions reflected in higher and synchronized economic global growth and better terms of trade have helped the Peruvian economy to gain momentum. Domestic policies are supporting this recovery with more expansionary fiscal and monetary policies.

We are expecting a pickup in growth as of this quarter, with a projected growth of 3.3 percent in the second half of 2017 and 4.2 percent in 2018. The main drivers of the recovery will be the fiscal impulse associated with the capital expenditures in reconstruction, the recovery in private investment helped by the external environment and better metal prices, and the easing of monetary policy which will push domestic demand.

With a recovery of commodity prices higher than expected, we are now projecting a current account deficit of 2 percent for this year and next. We are expecting a continued recovery of the terms of trade in the next two years given the better perspective for copper prices due to low inventory levels and higher growth in advanced economies and China, which will help our exports, while a stabilized oil price, given the structural change imposed by the shale gas, will benefit our imports. Long-term capital inflows will continue to be the main source of financing of the balance of payments, largely exceeding the requirements of the current account.

The fiscal deficit will reach 3 percent this year and 3.5 percent next year due to the high expenditure in reconstruction of the damage created by El Niño Costero. The increase in capital expenditure will not only help to rebuild the damaged infrastructure but will also improve the living conditions of the population. Meanwhile, this will not only boost growth in the short term but also in the medium term. The government plans to start a fiscal consolidation in 2019 and reach a target of 1 percent fiscal deficit by 2021, basically reflecting less expenditure for reconstruction. It is projected to end this year with a net public debt of 10 percent of GDP, which will give the economy enough fiscal space to deal with reconstruction costs.

The inflation rate showed a downward trend after the impact of supply shocks during the first months of the year, reaching the target range of 1-3 percent. We are expecting a continued downward trend of inflation during the rest of the year, converging to 2 percent in 2018, given the reversal of some prices affected by supply shocks and the negative output gap. Core inflation is currently 2.5 percent, continuing the downward trend shown since 2016.

In this context, the central bank has increased the accommodative stance by reducing the benchmark interest rate from 4.25 to 3.50 percent, which implies a real interest rate of 0.8 percent. This position is consistent with a still negative output gap, inflation expectations which are very-well anchored, and the recent downward trend of inflation. The monetary authority has continued reducing reserve requirements in foreign currency in order to preserve the domestic financial conditions in an environment of gradual normalization of monetary policy in advanced economies.

Uruguay

Many facets of Uruguay's growth are novel for the country, for instance, in terms of its durability, robustness, and context. The Fund's World Economic Outlook projects Uruguay's growth rate at 3.5 percent for 2017, which will constitute the 15th straight year of positive growth. Although the rate is below the period's average, it exhibits a significant and sound acceleration compared with the two previous years, and is much higher than the country's historic growth. At the same time, it is worth mentioning that growth over the past couple of years took place amidst significant recessions in Uruguay's biggest commercial partners in the region, which reflect the country's regional decoupling and resilience.

The authorities recurrently underscored that growth is the necessary condition for the welfare of Uruguayan society as a whole, although, they note, growth alone is not sufficient. Policies and reforms aimed at attaining inclusive growth in a sustainable manner have been essential and, in this regard, the persistent reduction of poverty rates, which declined from 32 percent in 2006 to 9.4 percent in 2016, is noteworthy. Meanwhile, the country continues to show relevant progress towards lower levels of inequality and, in that vein, the Uruguayan authorities welcome the Fund's current emphasis on the need to tackle inequality, as reflected in the prominence given to this in the Fiscal Monitor; beyond its ethical dimensions, it is clear that inequality tends to negatively affect social cohesion, political stability, and economic growth.

Inflation has been one of the most important macroeconomic challenges for the authorities; in June 2016, it had reached 11 percent in annual terms. After a process, which comprised, among other things, tight monetary policies, inflation—currently at 5.4 percent—declined, to stay well within the central bank's target range. Meanwhile, after some quarters with good news in terms of growth and, especially, positive expectations and increasing confidence, Uruguay's labor market has reacted favorably. Admittedly, the country's fiscal deficit is relatively high; however, the authorities have been implementing substantial policies and reforms with the aim of reducing fiscal imbalances and maintaining debt sustainability. Evidently, coherence and credibility paid off; for instance, besides positive developments in terms of credit ratings and Uruguay's solid debt profile, it is worth noting that in June 2017 Uruguay issued its first-ever nominal fixed-rate local currency issuance in international markets, while in September the country issued another benchmark-sized Global Nominal Peso Bond at 10-year maturity (with a yield of 8.625 percent).

In times where political uncertainty prevails, Uruguay exhibits and constantly ratifies its firm and unambiguous adherence to full democracy and strong institutions. Among other indicators, The Economist Intelligence Unit's Democracy Index classifies Uruguay as a full democracy, and governance indicators from different organizations placed the country in high positions. A recent blog from the IMF about "Corruption in Latin America: Taking Stock" underlined that "corruption perceptions in some countries, such as Chile and Uruguay, are similar to levels seen in advanced economies. Interestingly, Chile and Uruguay also score well in other institutional and governance indicators, and have relatively higher income per capita levels".

As expressed on other occasions, positive results incentivize further efforts. There are substantial challenges lying ahead, for instance, in terms of education, infrastructure, and increasing potential growth. Macroeconomic prudence, policies aimed at attaining higher inclusive growth, full respect for the rule of law, and strong institutions are, among others, solid pillars that allow Uruguay to face challenges and risks from a position of strength.