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Statement by the Honorable Carlos Fernández,
Minister of Economy and Production, Argentina

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

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Speaking on behalf of the Southern Cone Countries of Latin America
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I. The Global Economy and Financial Markets – Outlook, Risks and Policy Responses

1. **The world economy is still facing the unprecedented challenge of trying to avert a deeper worldwide recession**. Regardless of the significant individual and collective efforts to stabilize the financial system and support demand, the crisis has assumed global proportions, dragging advanced countries into a hefty recession, while the growth prospects of developing countries are under serious threat from the ongoing contraction of international trade and reduced access to external financing.

2. **Therefore, the fate of future generations now depends on two major policy options: either we strengthen our actions to curb the vicious cycle between the real economy and the financial sector through further concerted policy actions with due regard to its impact on other countries, or the global economy will be dragged into a protracted and painful recession with asymmetrical consequences for different groups of countries**. Regardless of where the crisis originated, taking partial action or no action at all will immediately result in the socialization of its costs and social inequity. Already, this is no longer a theoretical discussion but an irrefutable reality. Without genuine cooperation and coordination at an international level to rebalance the global economy, it will be impossible to overcome the crisis. We could deal with its symptoms by increasing the resources of the International Financial Institutions (IFIs) but the root of the problem will still need to be dealt with: the crisis has derailed the engine of world growth, namely excessive consumption in advanced countries fuelled by speculative financial intermediation. Consequently, concerted action from all countries is needed to ensure an orderly transition to a new world order.

3. **After 20 months of ongoing crisis, we must come to a new agreement containing concrete actions and specific timeframes so as to achieve global economic recovery.** I am confident that this process of greater dialogue and consultation will consolidate during these Spring Meetings. **Making more promises will not suffice**. The monetary, fiscal, and financial policies of advanced countries are being stretched to their limit, fueling a continuous fall in public confidence. Developing countries are being hurt by the crisis, unfairly crowding out their access to scarce international credit. **To date, despite the strong efforts and leadership of the G20, coordination remains incomplete**. Stimulus packages have been attuned to the political situations and realities of each country, creating doubts as to the timeframes for their effective implementation. Failure to adequately recognize financial losses has led to ongoing uncertainty about the viability of systemic financial institutions. Progress has been made on providing liquidity but, in many cases, the problem is really one of insolvency. Coordinated action is, therefore, urgently needed to tackle toxic assets in a concerted manner and to ensure the recapitalization of financial institutions, as needed, through the injection of public funds and by bringing them under state control.

Subsidies to industrial sectors in advanced countries create asymmetrical conditions that are hurting production and employment in developing countries.

4. **As the crisis continues to deepen, the capacity for individual responses narrows and the political will to act begins to fade, increasing the pressure for protectionist financial and trade measures which could, in turn, exacerbate the international crisis. Particularly, we need to prevent shifting the burden onto the working classes as a means of dealing with the crisis. Structural reforms aimed at promoting labour flexibility and reduced wages will only further deepen the crisis. The International Labour Organization (ILO) must observe its impact on unemployment levels and be able to participate in the context of the G20 discussions.**

5. **Up until now, the world has been on a path of unbalanced capital flows whereby resources from developing countries streamed to advanced countries.** For many years, this propelled growth to exceptional levels, accompanied by low inflation, as workers massively joined the global productive system. Although the distribution of wealth worsened in this globalized context, sustained growth buoyed hopes for future social progress. Indeed, many voices heralded the triumph of the free market economy. **The problem, though, was that this liquidity was being irresponsibly channeled within advanced countries based on the erroneous ideological premise that financial markets are self-regulating and can promote an efficient allocation of resources.** Financial deregulation and the irrational exuberance of the markets, therefore, resulted in the biggest financial crisis of the globalization era. Given that the crisis originated in advanced countries, destroying the bank credit channel in its wake, moving forward entails a complex transition in which mature financial markets will take longer than expected to stabilize, rising corporate and private default rates will continue to drive down asset prices putting increased stress on bank balance sheets, which could, in turn, trigger new systemic events and further depress public confidence. Deflation in advanced countries and the severe crisis in Central and Eastern European countries seem to pose an imminent risk that could unleash a new wave of financial destruction.

6. **One of the main uncertainties going forward is the impact of the financial crisis on global external imbalances.** The risk of a disorderly unwinding resulting from an abrupt change in exchange rate parities cannot be ruled out. **Systemic countries with large external deficits, such as the US and the UK, have seen their domestic demand plummet as the private sector has moved to cut expenditure and boost savings, given the high levels of indebtedness and the prevailing negative wealth effects.** The repatriation of capital to rebuild bank balance sheets and/or reduce interest rates has not encouraged the needed recovery in lending, with credit contracting instead. Hence, **the need for strong fiscal action to support demand and jobs.** Indeed, a strong increase in fiscal deficit has been the natural and necessary response to avoid an adverse scenario. **Nonetheless, we must all acknowledge that substituting private overconsumption with public overconsumption will only be a transitional measure towards a genuine rebalancing of the world economy.**

7. **Fiscal stimulus packages are essentially being driven by deficit countries and the worsening of their fiscal-debt positions is greater and faster than in the case of surplus countries such as Germany, Japan, and China.** This means that external imbalances will persist, and the risks of a disorderly unwinding are rising, undermining the possibility for the deficit countries to close their external gaps at the needed low interest rates. **Hence, surplus countries need to reduce their excess domestic savings at a faster rate, fuelled in the short term by higher fiscal deficits as a bridge towards reactivating their own internal demand. The main public intervention is the short-term channel to redirect their economies from an export-driven model to actively expand domestic consumer demand.** Public confidence cannot be restored unless there is a shift in the composition and distribution of global demand capable of sustaining global growth. **Without a political agreement in this area, whether led by the G20 or the IMF under its almost worldwide representation, any solution to the present crisis will only be partial and inadequate. The result would be a synchronized worldwide recession between advanced and developing countries, with no possibility of "exporting" a way out of the crisis through a net increase in exports, as was the case in previous episodes.**

8. **Clearly, the G20 has played a key role in furthering these discussions.** Significant progress has been made in this enlarged decision-making forum, with the effective participation of developing countries. **However, technical and political agreements need to be strengthened in three key areas: 1) greater macroeconomic and financial coordination to ensure an orderly adjustment of exchange rates; a better rebalancing of global demand through larger and timely fiscal stimulus packages in surplus countries, as well as effective actions to stabilize the international financial system by managing impaired assets and actions to repair and recapitalize the banking sector; 2) assurances of ample and flexible financing flows for developing countries, consistent with the exogenous nature of the present crisis,** to allow for counter cyclical policies and to stimulate and support early recovery; **3) bringing the Doha Round to a successful conclusion with an emphasis on promoting development without penalizing low- and middle-income countries.**

9. **The challenge is to take immediate action in these three areas. A wait-and-see approach or simply hoping that the recovery will take place on its own is doomed to failure, given the depth and the systemic nature of the crisis**. Fiscal measures take time to take effect; hence, a preemptive stance in this area is vital. The later the implementation and the smaller the size of fiscal stimulus packages, the greater the need for future public intervention. In the context of the crisis, lack of fiscal coordination undeniably dampens the multiplier effect, as is evident from the strong interdependence of our economies. Likewise, it is a key priority that developed countries move swiftly to stabilize their financial systems and adopt unprecedented measures to separate toxic assets and recapitalize financial institutions with an emphasis on reactivating credit flow towards consumption and investment.

10. **Argentina has constantly underscored the need to ensure ample and flexible financial assistance for developing countries in the context of this crisis, without policy conditions imposed by International Multilateral Institutions. This will be of critical**

importance to ensure that the developing world will continue to be in a position to sustain global demand through active policy actions. Developing countries have accounted for 75 percent of growth in recent years. Given the fact that this crisis originated in advanced countries, the availability of flexible financial assistance in line with the needs of emerging countries is crucial. The sharp decline in world trade is a matter of concern, as is the tightening of external capital flows, its impact on macroeconomic and exchange rate stability, and the marked slowdown in growth that is weakening domestic demand, both in terms of consumption and investment. However, it would be difficult to consider capital outflows to advanced countries as a "flight to quality" given the critical financial situation prevailing in mature markets. The supply of credit is being artificially restricted by the broad guarantee schemes offered by industrialized countries and the repatriation of capital by foreign parent banks and companies. To pave the way back to prosperity, advanced countries will have to spend and borrow as never before. Further international cooperation is critically needed in this area.

11. In this regard, **I strongly welcome the decision to promptly proceed with a general allocation of Special Drawing Rights (SDR) in the amount of USD 250 billion.** This will prove to be an effective mechanism for boosting international liquidity without penalty by affording countries access to foreign currency to mitigate the impact of the crisis and support domestic demand through countercyclical actions. Priority must be given to a prompt and substantive SDR allocation. At the same time, mechanisms must be put in place to re-distribute these SDRs in favor of developing countries, as long as the current distribution of quotas determines that 60 percent will be allocated to developed countries. I propose that we work towards an ample agreement that allows a reallocation of SDR in order to effectively minimize the risks of a deep worldwide recession. Likewise, I would like to restate our call for a medium-term review of the international monetary and global reserve system whose present configuration generates inherently recurrent financial crises with potential universal implications.

12. **Lastly, we must boldly fix the asymmetries in the multilateral trading system under new rules that promote worldwide growth.** It is necessary to return to the original development goals of the Doha Round, with a reemphasis on modalities compatible with the principles of special and differential treatment for developing countries so as to facilitate adequate industrialization to support long-term sustainable levels of growth and employment. Doha Round talks must be resumed and should center on the needs of developing countries.

13. **In conclusion, this crisis is rooted at the heart of modern capitalism, driven by unbridled financial innovation and nourished by the creation of artificial wealth that results from speculative and unregulated entities. Exceptional, global solutions are therefore called for.** The 2009 Spring Meetings are vital to promote further coordinated actions to achieve orderly and sustainable solutions to the crisis. IMF projections for the world economic outlook point to a deep recession, with per capita GDP falling in the vast majority of countries. The impact of this crisis on developing countries cannot be measured in terms of loss of purchasing power but rather in terms of loss of human lives. Fast-rising unemployment, poverty, and inequality stand to jeopardize national economic, social, and political stability, particularly in low-income countries. The IMF expects recovery to begin

in mid-2010. However, a great deal of downside risk and uncertainty related to the capacity to implement both national and international policies is also expected. Consequently, **these meetings are a clear warning that we cannot afford to ignore. We must move forward to define a concrete strategy which would dispel doubts on how to promote a sustainable rebalancing of global demand.** In the transition period, there must be collective and coordinated fiscal stimulus efforts to ensure the stability of the international monetary system. **I believe that we must work together as a priority on the three areas outlined above and forge a new political agreement. While recognizing that significant progress has already been made, the ongoing crisis reminds us that more needs to be done to ward off this worldwide recession. Coordinated action to restore the engine of global growth is our main challenge ahead.**

II. The Role of the International Monetary Fund in the Crisis – Reform Agenda

14. **Ironically, the IMF has emerged stronger from the crisis, with a multilateral commitment to boost its resources by tripling its pre-crisis lending capacity under the pledge to advance the reform of its governance structure.** The international community has thus renewed the Fund's mandate as a key Institution aimed at safeguarding international financial stability. **Perhaps the severity of this crisis, the absence of alternative multilateral mechanisms or the Fund's tentative response could explain this outcome.** Disregarding its past flaws, the Fund has been asked to draw the lessons from the crisis, including with regard to its own past performance, and to refurnish its financing toolkit to meet member countries' needs.

15. **My country has expressed support for the increase in the Fund's resources. However, from the outset, we have stated the importance of considering on what terms the IMF is worth funding. In addressing this issue, a critical element has been the Fund's responsiveness to member countries' needs in the context of the crisis. We believe that a return to the Fund's initial cooperative nature is of critical importance, avoiding the exchange of financial assistance for policy conditionality,** which has proven to be markedly pro-cyclical in nature through structural adjustment programs that in many cases have worsened crises. **Since for the vast majority of developing countries this crisis is not of their own making, we proposed a significant easing of Fund conditionalities and the provision of ample and flexible financial assistance commensurate with members' needs in capital account crisis.** A substantial increase in regular levels of access to the Fund's resources, reduced lending costs, and increased financing options including contingency facilities that benefit all member countries should form part of a package of reforms aimed at ensuring an effective role for the Fund as a crisis prevention and resolution Institution.

16. **As a compromise solution, the IMF has revamped its lending function by introducing a new Flexible Credit Line (FCL), a high access precautionary facility and partially adjusting the monitoring scheme of conditionalities. In these discussions, we stressed the importance of avoiding an artificial differentiation among groups of countries under elusive eligibility criteria that not even advanced countries could meet**

or which could create double standards with respect to countries' policy responses. We underscored the importance of trusting in members' short-term policy actions as the best way for the Institution to shed the stigma traditionally associated with its lending function. Thus, believing that conditionality is the best way to safeguard the Fund's resources is anachronistic as it **hinges on the truly cooperative nature of this Institution, supported by the country's repayment capacity and its preferred creditor status.**

17. **I believe that the lending reforms adopted should be only viewed as a first step in the right direction. While having certain reservations about the depth of the changes introduced, I underscore that the Institution must apply its new lending instruments in a flexible and ample manner so as to prevent a regional spillover effect.** I am concomitant of the qualitative change recently introduced, in which the IMF is no longer envisaged as the "international firefighter" that financially rescues countries after a balance of payments crisis but also as a multilateral "insurance policy" which will help prevent deeper crises. We claim that the new lending framework, if properly implemented, will strengthen the cooperative nature and reason of being of this Institution. However, we underscore that **countries' macroeconomic policies must be judged by their outcomes, measured by their impact on growth, employment, poverty reduction, and external stability. It is still necessary to avoid a doctrinaire approach that only praises market-friendly policies or rule-based monetary and fiscal policies.** Indeed, the lessons of this crisis and consequences of market failures must still permeate in the Fund's assessment of members' policy responses to the crisis. **Government intervention has a key role to play in sustaining an inclusive development process in our countries.**

18. **Regarding the Fund's resources, I perceive countries' contributions to the NAB (New Arrangements to Borrow) as a bridge toward a permanent increase through quota subscriptions that should be completed by January 2011.** It is important to ensure that the IMF has sufficient resources to provide countries with actual or contingency-based assistance. **However, the Fund is a quota-based Institution and, therefore, bilateral loans can strengthen its liquidity position, yet change neither its decision-making structure nor its legitimate basis.** Given that only a general review of quotas was accepted at the G20 discussions and not a fundamental quota reform, I am concerned that the 2011 reform might turn out to be a new "cosmetic" reform, redistributing quota shares among countries on the basis of dubious criteria of over- or under-representation without ensuring a meaningful shift of quotas and voting power from advanced countries to developing countries as a whole, including the poorest ones. Quota realignment should be the main vehicle for guaranteeing the legitimacy and, therefore, the efficiency of this Institution. Increasing the voice of borrower countries is also critical to ensure a demand-driven Institution is able to meet members' needs and particular circumstances.

19. **I particularly emphasize the need to take immediate steps towards a general SDR allocation in the amounts agreed upon by the members of the G20.** Rapid implementation is of the essence in easing international liquidity constraints and assisting countries with their policy responses to sustain domestic growth and credit flows. **As proposed above, a post-reallocation of SDR could be valuable in order to stem the slowdown in developing countries and, therefore, prevent a synchronized global**

recession. I urge the Fund to give top priority to this issue soon after the Spring Meetings.

20. **Argentina has long advocated that strengthening developing countries' voice and representation goes beyond quotas. Key elements that should be part of a package of reforms of the governance structure include consolidating the size of the Executive Board, safeguarding developing countries' representation and addressing the requests of the Sub-Saharan African countries, reviewing the system of special majorities for strategic decisions, delinking the position of Managing Director from the Chairmanship of the Executive Board, and guaranteeing that the process of electing Management is transparent, open, and without national bias. In this context,** I **believe that the activation of the Council of Ministers, as provided for in Schedule D of the Articles of Agreement, would not be advisable at this time**, as this would replicate the over-representation and a biased voting structure in favor of advanced countries. Indeed, I note that the current role of the International Monetary and Financial Committee could be strengthened by alternative procedural changes without modifying its decision-making process by consensus. Informal ad-hoc meetings or changing the format of the Spring and Annual Meetings so as to promote further dialogue among the authorities could be worth exploring. It should be observed that this is the first time a developing country has held the Chair of the Committee and this should be preserved. **The sequencing and substance of the governance structure reforms are essential. First, a significant realignment of voting power in favor of developing countries along with adequate representation should be promoted, and only then will it be appropriate to think about the role of the Council as a strategic decision-making body. Failure to fulfill this sequence could be counter-productive or result in a counter-reform.**

21. **Finally, I believe that the Fund's surveillance function should be further reformed in light of the lessons drawn from this systemic crisis. It is imperative to redress its deficiencies through more evenhanded and effective surveillance of systemically important advanced countries and financial markets.** This will bring about a more effective bilateral surveillance while enhancing its cooperative and egalitarian nature. We are convinced that emphasis should be placed on reforming this function through a review of the 2007 Decision with due regard to its operational guidance to the staff, strengthening regional and multilateral surveillance and revisiting the goals and scope of Financial Sector Assessment Programs (FSAPs) under a more useful, flexible and regional approach. **We are also concerned that the early warning exercise now under way at the Fund may be unduly tilted against developing countries under a skewed and doctrinaire approach, without paying due attention to the vulnerabilities arising from advanced countries that are of systemic importance, as clearly shown by this crisis. Overall, the Fund is stressing country members' obligations as a way to ensure effective surveillance. We claim that it should comprehensively reassess and reform its surveillance mandate ensuring evenhanded treatment to all members so as to guarantee international financial stability.** I therefore call on Management to move expeditiously in this area.

22. **To conclude, this crisis vividly shows that wider fundamental reforms are still needed to strengthen country members' confidence in a truly cooperative Institution capable of ensuring stability and global growth**. At this critical juncture, developing countries need upfronted, broad-base and flexible financial assistance without conditionality, given the exogenous nature of this crisis. Otherwise, the Fund will only exacerbate the crisis. **We cannot confront the future with policy recommendations from the past.**

III. Economic Outlook for the Countries in our Constituency

23. **The Argentine government has taken unique policy actions to contain the impact of the global crisis and is in a strong position to implement additional measures to sustain growth and employment while protecting the most vulnerable segments of the population. Our own past experience shows that no other development strategy than the one applied during the last six years would have withstood the brunt of this external crisis. Active public intervention has been, and will be, key to guaranteeing sustained and socially inclusive growth.**

24. Admittedly, we are living a global systemic crisis that has hit all countries Nevertheless, our **strong macroeconomic performance built up between 2003 and 2008 has placed Argentina in better position to weather this storm, providing policy space to deploy active fiscal and monetary policies as never before.** This is due, first and foremost, thanks to the result of the structural changes that took place in the last six years which boosted investment and economic productivity of the economy, diversified our productive structure, reduced unemployment and poverty, strengthened financial systems and bolstered high public and domestic savings,—the average overall fiscal surplus in the consolidated public sector from 2003 to 2008 was 3.3 percent of GDP—and second, due to the accumulation of international reserves that now total 16 percent of GDP, 84 percent of our annual imports of goods and services, and 62 percent of foreign-currency denominated debt.

25. **Our policy responses to the crisis are based on our assessment to its transmission channels into the Argentine economy**. On the **financial side**, the steep deleveraging process at the international level has dried up global liquidity and chocked off access to markets for the vast majority of developing countries irrespective to fundamentals. In Argentina, high fiscal surpluses, **the sheer reduction of public external debt—now equivalent to only 39 percent of GDP after reaching 140 percent in 2003— and the set of actions taken to avert this crisis will ensure the government's ability to meet its obligations.** Indeed, the success achieved in debt swaps (guaranteed loans) on the domestic and international markets and future action in this area will secure these results and financial buffers. **Our robust current account surplus —in 2008 the balance of payments surplus reached 2.3 percent of GDP and trade balance accrued a high historical surplus of 4.9 percent of GDP— spurred by a stable and competitive exchange rate allowed to continuously channel excess savings into the economy.** While trade and current account surpluses will most likely decrease in 2009 as a result of the international crisis, both will remain clearly positive, cushioning our economy.

26. **The Central Bank has played a key role in containing the impact of the crisis and has sequentially adopted a serious of measures.** It reacted firmly to normalize money demand and stabilize the foreign exchange market; it ensured liquidity provisions to guarantee systemic stability and deployed an array of measures including reforms on the market for Central Bank securities, the development of additional mechanism for liquidity provision, changes to enhance future markets and instruments to facilitate the supply of US dollars. As a result, active monetary policy has successfully managed the exchange rate market without jeopardizing monetary and financial stability, highlighting the "buffer" role played by the Central Bank to limit effects of turmoil on the real economy. This strategy excels due to the consistency and validity of its four main pillars**:** 1) a robust monetary policy that ensures equilibrium between supply and demand in the money market; 2) a countercyclical reserve management approach to mitigate vulnerabilities; 3) a well-regulated and supervised financial system; and, 4) a managed floating exchange rate regime. By and large, two essential public goods have been ensured: monetary and financial stability.

27. **Argentina has a sound and well-capitalized banking system.** Prudential regulations adopted since 2003 have made bank balance sheets more robust. Together with the economic growth dynamic, this has produced structural improvements in the condition of local financial institutions. A profitable position accumulated over the last four years and the absence of exposure to impair assets is reassuring. In the first quarter of 2009, financial system liquidity was high (just under 30 percent of total deposits), with a public sector lending exposure of just 12.5 percent (an all-time low); the non-performing loans for private commercial banks was 3.3 percent of total private credit and there is a very low level of dollarization (only 17 percent of private deposits are denominated in dollars), which substantially reduce exchange rate risks.

28. Looking at the **real economy,** the sharp reduction in external demand has partially affected the tradable goods and services sectors that were geared towards international markets. **Our sustained growth, prompted by domestic absorption (consumption and investment) and financed through domestic savings (twin fiscal and external surpluses), has withstood the effects of the crisis but has not fully shielded our economy against the effects of this worldwide crisis. Having said this, it is noteworthy that in recent years there has been a diversification in Argentina's export destination with diminishing exposure to the industrialized economies while a significant share of our exports also faces low-income elasticity. Nevertheless, the Government has launched a set of policies to prevent the potential negative impact on the real economy.**

29. **The core of our strategy lies in countering the decline in exports, stimulating domestic demand, and avoiding distortions in the payments system, including liquidity or solvency problems in the corporate sector that could limit its capacity to generate employment**. The instruments used have been numerous and varied: a) tax holidays and rebates to stimulate private investment, strengthening agricultural production (especially the sectors most vulnerable to the decline in external demand and the recent drought by means of tax deferrals, withholding cuts, etc.) consumption stimulus, and the creation and maintenance of employment through systems to regularize tax debts; b) the launch of an unprecedented

public investment plan equivalent to approximately 6 percent of GDP, coupled with increased social spending targeting sectors with limited resources and a greater propensity to consume so as to stimulate aggregate demand; and c) loans equivalent to 2 percent of GDP to sustain and stimulate domestic production by providing low-cost financing for working capital, exports and consumption of durable goods, supported by the consolidation of a pension fund administration as a means of effectively injecting private savings into the economy.

30. **Rebuilding and strengthening the social structure continues to reign on the government agenda. The authorities are focused not only on sustaining growth but also on ensuring equitable social distribution of its benefits.** To keep unemployment low, preserve the purchasing power of minimum wage, and make headway in reducing poverty, active income policies have been implemented to benefit the most vulnerable sectors. In addition to the rise in the minimum wage, which accrued to 520 percent between January 2003 and December 2008, and the increase in family allowances for children and social plans, which amounts to approximately 0.5 percent of GDP, retirement spending has been increased under the Retirement Mobility Law approved in 2008 in an amount equivalent to 0.8 percent of GDP; thereby, extending benefits through the *Plan de Inclusión Previsional*, to 1.4 million people who were not previously covered.

31. **The initial impact of the actions taken has been promising.** The ambitious stimulus plans with financial advantages to foster the consumption of durable goods (automobiles, household appliances) met with a very good demand-side response and available stocks were quickly depleted. This experience shows that effective state intervention is the proper response to rebuild confidence in consumption and, eventually, investment. **The rest of the measures implemented are along the same lines with both direct and indirect positive effects in the real economy, with a natural lag in the main macroeconomic indicators**. The effects of both the external crisis and the drought will still thwart the action of the policies implemented.

32. **In the meantime, the economy continues to perform fairly well.** Domestic consumption, approximated by VAT tax collections, maintained a noteworthy average growth rate of 24.5 percent in the first quarter of 2009. Supermarket sales and the demand for public services continued to be buoyant and promising. **It is clear, however, that the international crisis has deepened in recent months and no country can escape its effects without implementing concrete measures to stimulate economic activity.**

33. **In conclusion, we are convinced that Argentina is well positioned to weather this crisis. We strongly disagree with the IMF's economic projections regarding our country, which are based on a weak methodological basis, which inexplicably underestimates the impact of fiscal and financial actions taken, thus, assuming a low-multiplying effect and are a result of models that use country risk premium or financial global conditions as main variables to explain projected growth without taking into account that our development process is financed essentially with its own domestic savings and not depending on foreign capitals, as was the case a decade ago.**

34. **In 2008, Bolivia showed a satisfactory performance**. Growth reached 6.15 percent and foreign direct investment increased vis-à-vis 2007. On the supply side, the main drivers were mining, construction, and hydrocarbons. Agriculture was affected by adverse climate conditions in the first quarter, but its growth recovered to 2.4 percent after being negative in 2007. The agricultural production frontier was extended in 2008. On the demand side, domestic consumption and investment supported such growth. Inflation in 2008 was similar to 2007 (11.8 percent), mainly driven by supply shocks (especially natural disasters that affected agricultural output), imported inflation, partial monetization of foreign flows, and expectations. Inflation in 2009 will be much lower due to a slowdown in international prices as well as lower expectations

35. **Fiscal performance was also positive in 2008**, supported by additional income from the tax and royalty structure on hydrocarbons approved in 2005, and the 2008 tax reform for the mining sector. The fiscal authorities managed to obtain a surplus in the last three years, which will allow fiscal room to overcome the effects from the current global slowdown.

36. **The balance of payments and capital flows have been strong**. Capital good imports increased more than 43 percent, enhancing the production capacity for the incoming years. Exports increased to USD 6.1 billion and the trade surplus was USD 1.1 billion, as a result of a positive international environment—reflected in higher prices—as well as increases in quantum, especially in the mining sector. This trend led to a historic level of international reserves of USD 7.8 billion (around 45 percent of GDP in 2008 while in 2005 they were approximately 21 percent).

37. **Monetary policy will continue to attain lower inflation rates** through Open Market Operations (OMOs), but will stand ready to adjust the money supply in light of the global financial crisis and its effects on the Bolivian economy. In 2008, the Central Bank of Bolivia (CBB) absorbed liquidity through non-indexed and indexed domestic currency instruments and by lengthening maturities, since inflation was a matter of concern at that time.

38. **The CBB considers that the real exchange rate is in equilibrium** backed by a strong level of international reserves and supported by a positive stance both in the fiscal and the balance of payments positions since 2006. In addition, they are convinced that the current level is consistent with the prevailing internal and external equilibrium. The authorities will continue using the crawling peg regime and exercising greater flexibility, as needed, to avoid undermining the external stability but also preventing inflationary pressures. The appreciation of the exchange rate in 2008 caused a substantial decrease in dollarization, especially in banking deposits, reaching a low of 50 percent and it also helped to control inflationary pressures. The authorities intend to avoid a reversal of the dedollarization.

39. **The authorities recognize that the country will not be immune to the global financial and economic downturn but positive growth is attainable**. They have started to apply the necessary stimulus to boost the economy and offset the negative effects from such a crisis. They consider that GDP for 2009 will be greater than projected by the Fund, since public investment will be used as a stimulus for the economy. The authorities envisage USD 1,850 million in public investment (around 9.8 percent of GDP), as budgeted, along with an

increase in private investment. Public investment will be even greater given that the state oil company, Yacimientos Petrolíferos Fiscales Bolivianos (YPFB), has started to implement a billion-dollar investment, financed by a loan from the Central Bank of Bolivia.

40. **On the political side, a new constitution was approved.** An ample majority in the referendum approved the New Constitution in January 2009, and the authorities have started to prepare laws and regulations to implement it. The Organizational Executive Branch Law and the Electoral Law have been the first in the New Constitution framework. General elections are scheduled for December 2009.

41. In **Chile**, output grew 3.2 percent in 2008. Although on average this was below potential output growth, the pace over the year showed the sharp impact on confidence of the changing global conditions. Over the first half of the year, the economy grew at a rate close to 5 percent, reflecting the still favorable external environment. Growth was most dynamic within the communications and construction sectors, while the transportation and retail sectors exhibited more moderate growth. Throughout the earlier part of the year, the lesser availability of hydrological resources, coupled with ongoing restrictions in the imports of natural gas and higher prices of oil, constrained the output of the energy sector, which had a direct impact on industrial output. Thanks to the significant dynamism of investment and consumption, domestic demand grew briskly up to the third quarter of 2008. In the last half of 2008, but particularly over the last quarter, the economy showed a sharp slump, driven by the impact on expectations and confidence of the drastic worsening of the global scenario. Thus, inventory accumulation, house sales, and imports of durables all fell sharply. On the supply side, the tightening of credit conditions and postponements of investment projects affected construction and industrial output, while lower oil prices and improved hydrological conditions provided some cost relief to energy generation and manufacturing.

42. Going forward, output growth was initially expected to be between 2 to 3 percent for 2009, but downward revisions due to the significant changes in the macroeconomic outlook of recent months are most likely. Thus, this shows the materialization of downside risks that were considered a few months ago, due to a worsening external environment stemming from the recession in the world economy, as well as the unresolved complications from the financial crisis and the remaining uncertainties associated with it. The main downside risks are related to the contraction in global growth and how it will impact emerging economies, which include the size and extension of the recession in the US and other trading partners, the possibility of new, unfavorable, shifts in the prices of copper and/or oil, as well as protracted global uncertainty and lack of confidence.

43. Over most of 2008, annual CPI inflation increased steadily, reaching a peak of 9.9 percent in October. Such increase originated from exogenous supply shocks, including a jump in global food prices and drought conditions affecting the prices of domestic food items, both of which proved to be deeper and more persistent than initially anticipated, coupled with increases in energy costs and disruptions in energy supply. Given these developments, inflation propagated beyond what was initially envisaged, and second-round effects provided additional impulse to the inflationary process. Core inflation measures and other inflation trend indicators increased well above the 3 percent target level. Short-term

inflation expectations increased, as well as medium- and long-term inflation expectations. In line with these developments, and in order to ensure inflation convergence to 3 percent the policy horizon and to anchor expectations, the Central Bank implemented a tighter monetary policy stance, and raised the monetary policy interest rate by 225 basis points throughout the year, bringing it to 8.25 percent in September 2008.

44. Since then, inflation has quickly and steadily declined. The slowdown in global output evolved into a global downturn with a direct impact on the price of commodities, which has fallen abruptly. At the same time, domestic demand contracted significantly in the last quarter of 2008. As a result, inflation decelerated rapidly, and is expected to reach the 3 percent target in the first half of 2009, much earlier than previously envisaged. Such change in the expected path for inflation, with a much faster convergence towards the target, warranted a shift in monetary policy towards an easing of the monetary policy stance. Therefore, since January of 2009, the Central Bank has aggressively lowered the monetary policy interest rate by 650 basis points, bringing it down to 1.75 percent in April 2009, keeping an easing bias. Further reductions in the monetary policy rate might be needed, and the pace of such loosening will depend on incoming information and its implications for the inflation forecast.

45. In line with the implementation of the structural budget rule and due to continuing high copper prices during most of 2008, the Chilean central government posted an overall surplus of 5.2 percent of GDP in 2008, with a real decrease of 8.1 percent in revenues, while public expenditure grew 7.8 percent in real terms in the same period. In order to manage windfall revenues prudently and in consistence with the Fiscal Responsibility Law, the Chilean government continued saving the surpluses into the Economic and Social Stabilization Fund (ESSF), which as of December 2008 had accumulated USD 20.2 billion. Surpluses have also been saved into the Pension Reserve Fund, with USD 2.5 billion. The government initially submitted the 2009 budget to Congress, which provided for public expenditure growth of 5.7 percent in real terms, a slower pace relative to recent years, but effectively increasing social spending in health, education, innovation, and social housing, with a strong focus on the execution and quality of public expenditure.

46. However, given the significant change in the macroeconomic scenario in the fourth quarter of 2008, the government announced in early January a fiscal stimulus plan equivalent to 2.8 percent of GDP (USD 4 billion) to support economic activity and employment. The plan includes direct transfers to families and individuals, an increase in public investment of up to USD 700 million, recapitalization of Codelco of USD 1 billion to support its investment plan, tax reductions and other incentives for private investment, strengthening small and medium-sized enterprise access to funding, and measures to protect employment. The plan would increase public spending by almost 1 percentage point of GDP, so that public expenditure growth is estimated to reach 10.7 percent in 2009. Such increase in spending arises from larger structural income derived from the exchange depreciation relative to the level envisaged originally in the Budget and from a reduction on a temporary basis in the structural surplus target from 0.5 percent of GDP to 0 percent of GDP. Given the size and scope of the fiscal stimulus plan, it is expected that the Chilean government will shift its

fiscal position to a deficit of 2.9 percent of GDP in 2009, after three consecutive years of surplus.

47. Having saved the surpluses derived from the windfall gains in the price of copper of previous years through the Sovereign Wealth Funds has provided plenty of fiscal space for the government to implement countercyclical fiscal policy under current circumstances, as funding of the fiscal stimulus plan will come from the Economic and Social Stabilization Fund. Therefore, the government announced that it will draw an equivalent of USD 4 billion from the ESSF, of which USD 1 billion will finance investment and expenditure directly in USD, while the other USD 3 billion will finance investment and expenditure in local currency (pesos). In order to conduct the foreign exchange operation, the Ministry of Finance instructed the Central Bank, as a Fiscal Agent, to conduct a program of competitive bids for the sale of USD 50 million on a daily basis since March 27, 2009.

48. In order to enhance access to credit for businesses and individuals, in December 2008, the government increased the capital of Banco Estado, the state-owned bank, with a USD 500 million injection to spur lending to small and medium-sized enterprises by up to USD 2.6 billion, and also increased the Small Enterprise Guarantee Fund by USD 130 million, to a total of USD 200 million. Recently, the government announced a pro-credit plan, which includes twenty measures to stimulate the provision of credit by banks as well as non-banking financial institutions, to promote competition in the financial system, and to widen the scope of available funding alternatives. The pro-credit plan involves three broad dimensions: support to micro-entrepreneurs; measures to facilitate access to bank funding, and measures to facilitate access to non-bank funding. The overall impact of the pro-credit plan is to generate an additional USD 3.6 billion in new credit to the private sector. This plan complements the fiscal stimulus plan announced in early January.

49. The **Paraguayan** economy has continued to expand at high rates and last year's GDP growth reached 5.8 percent, being the fifth consecutive year of positive economic growth. This positive outcome has also significantly increased the GDP-per-capita by 3.9 percent, which has reached its highest level in 47 years. Going forward, real GDP growth for 2009 is expected to decelerate considering that the global recession is affecting commodity exports and the severe drought that harmed the agricultural sector in the last quarter of 2008.

50. Despite the deceleration of the second semester, last year's imports and exports registered record levels, reaching 47 and 64 percent increases, respectively. Although the global slowdown is affecting the Paraguayan terms of trade, the external position remains stable. As of December 2008, international reserves amounted to nearly USD 2.9 billion, equivalent to 4.25 months of imports, which places Paraguay in a solid position to confront possible external shocks as a consequence of the global economic crisis. The floating exchange rate has acted as an anchor to commodity price fluctuations and strong regional linkages. After a strong appreciation of the *Guarani*, which reached an annualized 17 percent in September 2008, the trend has since reversed. The CPI inflation reached 7.5 percent year-on-year in December 2008, within the upper limit of the Central Bank referential range. At end-March 2009, annualized inflation dropped to 3.4 percent, thanks to a coordinated management of monetary and fiscal policies.

51. The authorities have reacted promptly and appropriately to the adverse economic conditions. The monetary policies have been eased, and the Central Bank has injected liquidity into the financial system by lowering reserve requirements and by decreasing its interest rates and the volume of its sterilization bills. The banking system remains solid and has become more stable following improvements of prudential regulations. Although credit growth has decreased, it is still growing at year-to-year rates above 30 percent, adequate to cope with the financing needs of consumption and the productive sector. However, as a consequence of the global financial turmoil, lending rates have increased and banks are more cautious and discerning when granting credits.

52. The Central Government registered a fiscal surplus, which permitted an important deposit increase in Central Bank accounts in 2008. The external public debt has continued to decrease for the sixth consecutive year, from a debt-to-GDP ratio of 52 percent in 2002 to 16 percent in 2008, owing to a lower level of the debt balance and a strong and steady increase in GDP. Thanks to prudent macroeconomic policies and the fiscal surpluses in recent years, the authorities are in a position to implement anti-cyclical policies focused on public investment and social-targeted programs, which would alleviate a lower economy expansion. The government's fiscal stimulus plan will entail a small budget deficit in 2009 and will be mainly financed by international development institutions. Although the fiscal expansion will be limited, it is expected that the public sector will be an important driving force of the economy.

53. **The Peruvian economy** continues to perform well, supported by strong economic fundamentals and consistent implementation of sound economic policies. Peru grew 9.8 percent in 2008 and the authorities foresee a 4.0 percent for 2009 after accounting for the most recent downwards revision of growth forecast for the main trading partners. Peru will be among the few selected countries that will still enjoy a sizable economic activity in the midst of the worst global crisis since the Great Depression. The Central Bank's anti-inflationary stance has limited the pass-through from significant increases in international food and oil prices into domestic inflation, which is expected to decline further and converge to the Central Bank target range of 1 to 3 percent by end 2009. The longest economic expansion on record has contributed to historical low levels of unemployment of 8.4 percent, and poverty decline to 39.3 percent. Peru's strong external position, healthy public finances and declining debt burden not only provide adequate buffers against the financial crisis, but it also provides room for an ongoing economic stimulus package, totally financed by public savings, equivalent to 2.5 percent of GDP. The high level of international liquidity and the strength of the external sector have qualified Peru as a member of the Fund Financial Transaction Plan. Peru became a member beginning the quarterly budget for February-April 2009. After almost 20 years of continued Fund-supported programs, all of them precautionary arrangements, Peru "graduated" from program mode in February 2009. This is consistent with the recently obtained investment grade rating and the new role that Peru is seeking in the international fora.

54. **Uruguay is already reaping the benefits of years of implementing prudent macroeconomic policies, establishing a well-targeted and transparent social safety net,**

undertaking critical structural reforms, and maintaining the country's long tradition of respecting the rule of law. In the last four years, Uruguay's economic activity increased somewhat above 7 percent on average. During this period, unemployment rates have shown a constant decline, reaching historic record lows, coupled with the government's social policies aimed at protecting the most vulnerable sectors of society. Social inclusiveness is the result of Uruguay's sound institutions but it is also a key explanation of that soundness. The authorities' budget has been strongly focused on education (one of the distinctive investments in this regard is related to the Plan Ceibal, which provides a laptop for every child in public schools) and health, which is consistent with the government's priority of critically boosting opportunities for everyone as a way to increase social conditions and potential growth in a sustainable manner. Despite the imperious necessity of restoring social and infrastructure conditions after the 2002 crisis, as well as the need to mitigate strong shocks (especially caused by the combination of droughts and very high oil prices), Uruguay has exhibited a robust fiscal performance and, in this area, it is worth mentioning the comprehensive reforms undertaken by the government with regard to the tax system and the revenue administration. Debt-to-GDP ratios have significantly declined and the debt maturity has been dramatically extended, due to an efficient debt management and, more broadly, the country's excellent reputation of honoring debt and commitments in general. Prudent fiscal policies and the debt strategy have allowed financing needs to be well covered. Inflation has also been affected by the above-referred shocks, but the authorities' strategy has been successful in avoiding the activation of indexation mechanisms and leading it back to the Central Bank's target range, as it is currently happening. Meanwhile, Uruguay continues to attract an important amount of foreign direct investment and its financial system is exhibiting sound indicators as a result of critical reforms—the Financial System Stability Assessment prepared by the IMF and the World Bank was an important contribution in this regard—aimed at further strengthening the regulation and supervision of the system. Of course, as a small and open economy, Uruguay is being affected by the global crisis; nonetheless, the country's solid performance over recent years allows it to face the crisis from a sound position.