International Monetary and Financial Committee

Twenty-Third Meeting
April 16, 2011

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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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The world economy is growing unevenly and is subject to many tensions. Most advanced economies (AE) are still recovering from the crisis and have weak fiscal positions. In contrast, emerging market economies (EM) have been growing strongly and some of them face the need to prevent overheating. At a global level, the buoyancy of EMs has contributed to higher commodity prices. This poses significant challenges to the membership and also to the IMF. How to keep bilateral and multilateral surveillance relevant under current circumstances, and how to ensure a well-functioning International Monetary System (IMS) going forward are key issues we currently face.

I. Global Rebalancing: Policy Challenges

High commodity prices and risks of overheating in some parts of the world suggest that the recovery phase has ended in several economies. Although growth remains markedly uneven, and thus appropriate policies differ according to country circumstances, there is a case for further moderation of the fiscal stance. In those AEs with high public debt burdens, short-term negative effects of fiscal consolidation on aggregate demand might be inevitable, but the trade-off between short-term gain and long-term pain will become increasingly unpalatable. In other economies where high growth and inflation are testing macroeconomic stabilization, a shift towards a more neutral fiscal stance should lessen the burden on monetary policy, and mitigate the risk of policy inconsistencies. However, given the rigidities in fiscal policy implementation, monetary policy adjustments geared towards price stability and sustainable growth should not be delayed.

More debated tools are intervention in the foreign exchange market and the use of capital account policies. Regarding the former, its monetary effects should be sterilized, so as to shield the conduct of monetary policy, and should not limit real exchange rate adjustments in accordance with fundamentals. Economies with risks of internal overheating and structural surpluses in external accounts should allow their real exchange rate to appreciate as part of the adjustment.

Regarding capital account policies, they can play both a macroeconomic role, if they succeed in reducing current account deficits and buoyant domestic demand, and a macro-prudential role, if they help avoid the build-up of financial vulnerabilities. However, their actual effectiveness in these areas is still a matter of debate. Apart from limitations to their effectiveness, capital controls bring about clear distortions, such as redirecting capital inflows from regulated segments of the financial system to unregulated ones, fostering the shadow banking system, and increasing market segmentation in terms of access to finance across households and firms.

II. Implications for Surveillance

Current global developments have a bearing for the Fund's approach to multilateral surveillance. Too often we see the divisive discussion on current accounts and real exchange rates take center stage in our debate. We should acknowledge that these are the results of saving and investment dynamics across economies, the true underlying forces driving global rebalancing. We encourage the Fund to include these trends in multilateral surveillance, for instance, by institutionalizing the monitoring of the indicators that it already provides in the context of the Mutual Assessment Process (MAP).

Regarding capital account policies, we remain skeptical that eventual surveillance principles can have useful traction now. First, domestic financial systems are widely heterogeneous across countries. Cross-country portfolio shifts can occur through channels, such as cross-border derivative contracts, where our knowledge is still limited. Second, the dividing line between capital account policies and macro-prudential tools is blurred, and it is not obvious that precise guidelines can be usefully applied to this whole range of instruments. Third, history shows that financial integration has proceeded apace, in spite of short-term turmoil, without specific guidance or a structured multilateral process. The benefits of financial integration are strong enough that members will continue to embrace it, at a pace that has been, and will continue to be, dependent on country circumstances.

We encourage the Fund to focus its efforts on understanding the actual implications, spillover effects, and distortions brought about by capital account and macroprudential measures. This would go a long way to prevent the collective action problem that arises from policies that spill across borders through financial interlinkages. If all countries apply policies which, at the margin, keep net capital flows constant, global adjustment will be impaired. At a later stage, when sufficient knowledge has been accumulated, the Fund can refine the rules of the game for policies that have cross-border financial implications. Thus, we welcome the preparation of spillover reports on an experimental basis under the Article IV Consultations for the five major economies.

III. The International Monetary System (IMS)

The financial crisis in core advanced economies led to a significant monetary expansion and a weakening of fiscal positions, putting pressure on the IMS in two related ways. The first is that while the supply of reserve currencies is mostly driven by country-specific circumstances, limited convertibility and flexibility prevail in several large dynamic economies. The second is related to the uncertainties on whether the IMS can provide for an adequate safety net to confront future international financial instability.

The Fund is well placed to promote adequate collaboration between the main economic zones to face these challenges successfully. Insofar as furthering the role and changing the composition of the Special Drawing Rights (SDR), or the formalization of liquidity provision arrangements, do not replace realistic global policy coordination and dialogue, these initiatives should be welcomed.

IV. IMF Financing and Governance

After the approval of the quota and governance reform package late last year, we support the timeline for implementation by the 2012 Annual Meetings. We welcome the activation of the New Arrangements to Borrow (NAB).

We look forward to working with the new IMFC Chair towards increasing the effectiveness of the IMFC. Key elements in this path are to enhance the engagement of capitals in the IMFC process and strengthening the spirit of compromise. Macroeconomic and financial issues might become less pressing in the global political agenda over time, but the IMFC cannot lose sight of their importance. Practical steps that could be adopted are the exploration of synergies between multilateral processes such as the MAP and IMF spillover reports; increasing the number of joint G-20/IMFC activities, including restricted sessions; and scheduling the Deputies activities close to the date of IMFC meeting.

Finally, we would like to reiterate our support for the selection of Management under a transparent, open and merit-based process.

V. Economic Outlook for the Countries of our Constituency

In 2010, **Argentina** celebrated its Bicentennial anniversary as a free Republic. In 2012, it will celebrate another anniversary, the Centennial of the institution of universal, compulsory and secret suffrage. It took Argentina 100 years to achieve the political maturity to understand that rights and responsibilities need to be broadly shared in order to build a legitimate institutional framework. Similarly, in the past decade, Argentina's economy has achieved an unprecedented structural transformation. Since the 2001/02 crisis, Argentina has recorded eight consecutive years of growth, a sequence which has not been witnessed since the 1963-1974 period. Between 2003 and 2010, average annual economic growth was almost 8 percent. Nonetheless, the most important aspect of this unprecedented growth period is that it has been achieved together with a marked reduction in poverty, unemployment and inequality. From our own experience, we have learned that growth must be broadly shared in order to build a more mature and sustainable economic and social structure.

Indeed, since 2003 the country has followed a solid path of growth based on continuous external and fiscal surpluses, an unprecedented dis-indebtedness process, and a sound macroeconomic policy framework based on responsible fiscal and monetary policies, a stable exchange rate regime, and the accumulation of foreign reserves. In this way, we were able to avoid the historical pattern of stop and go that has characterized our economy since the post-war era.

This solid macroeconomic framework proved particularly successful when Argentina was hit by the latest international financial crisis, as we had the fiscal space and financial robustness necessary to implement a countercyclical policy that was able to sustain domestic demand and employment, while being able to protect the most vulnerable sectors of the population. GDP growth was close to 1 percent in 2009 and recovered swiftly in 2010 to reach 9.2 percent. Unemployment in the last quarter of 2010 fell to 7.2 percent. The financial system proved resilient and emerged unscathed from the international financial crisis. After collapsing in 2001-2002, the financial system is now solvent, liquid, and well-regulated and capitalized. In January 2011, non-performing loans were at a historic low of 2 percent of total loans, profits on net worth reached 25.1 percent y/y, and operative efficiency increased in line with financial revenues. Argentina was also particularly successful in guarding the most vulnerable sectors of its population, as well as its producers from the recent episodes of volatility in international commodity prices.

Within an economic growth consolidation framework, since 2003, Argentina has applied a set of measures aimed to progressively stabilize public debt, creating a sustainable repayment capacity. The outcomes show that financial policies have been effective. During the last eight years the relation between debt and GDP has been reduced from 166 percent to 46 percent, enhancing composition by currency, terms, interest rates, and types of creditors. In addition, Paris Club negotiations will enable our country to foster external financing for productive investment. Among said outcomes, it is important to highlight that 92 percent of creditors accepted Argentina's restructuring proposal in 2005 and 2010 debt swaps. These outcomes demonstrate not only Argentina's clear commitment to repay its debts, but also implies the possibility to point out those creditors, known as vulture funds, who seek privileged treatment through litigations within legal gaps even though they have acquired sovereign debt at abusive prices. Due to the lack of an international legal framework for sovereign debt restructuring, Argentina has to continue to deal with a minority of litigious creditors that impede the full completion of our debt restructuring process. During this desindebtedness process, Argentina offered not only very clear signs of its capacity and commitment to repay its debts, but, in addition, we sent positive signals to the markets in order to avoid the excessive reliance on credit rating agencies opinions. It is well known that credit rating agencies do not always reflect debtor solvency correctly, reacting slowly or overreacting. We believe it is necessary to continue rethinking the role played by credit rating agencies through concrete policies aimed at reducing reliance and enhancing supervision.

However, sound macroeconomic policies means little if long-term challenges are not addressed. Investment grew by a significant 15 percent in 2010, a performance explained by both private and public investment. However, in 2009, public investment played a central role in the stimulus package, recording a 46 percent increase. In order to support investments in the provinces, the government established the Federal Solidarity Fund (Fondo Federal Solidario), funded through the collection of 30 percent of the export taxes on complex soy, whose goal is to build schools, houses, drinking water processing plants, and drinking water networks.

The Argentine government has also strongly supported the increase in lending to the private sector, particularly small and medium-sized enterprises (SMEs). Indeed, financing to the private sector grew by 42 percent in 2010, and achieved a record for the Argentine economy reaching 22.7 percent of GDP. Moreover, the government has launched a number of programs to boost credit for investment and consumption, with a special focus on incentives and credit lines tailored for SMEs, in addition to working capital in general. Of these programs, the Bicentennial Program to Finance Production (Programa de Financiamiento Productivo del Bicentenario) is focused on financing projects that increase private production capacity and exports, as well as the net creation of employment. Other programs aim to support production, consumption and employment, such as the Productive Recovery Program (Programa de Recuperación Productiva) and the Local Development and Social Economy Plan “Manos a la Obra”. A new Plan for Industrial Development 2020 has been implemented to foster technological development in the industrial sector, the increase in value added, import substitution, the expansion of value chains, and fomenting the integration of Argentine products in international supply chains.

As pointed out in a recent IMF Working Paper by Berg and Ostry, high inequality can be particularly detrimental to sustained economic growth. In the case of Argentina, we are convinced that sustained high rates of growth are the result of the policy framework, established since 2003, which is based on job creation, fairness and social inclusion. As a key component of Argentina’s social safety net, the government has put into effect the Universal Child Allowance Program "Asignación Universal por Hijo", which has been extended to pregnant women, and other social programs, as well as the social security system, have been strengthened. These actions are key steps in fostering a more inclusive society and enhancing distributional fairness as part of the policies aimed at ensuring that the results of growth are shared by the whole of the population. The Program benefits workers in the informal sector, the unemployed, and workers in domestic service who have children younger than 18 years of age, and provides coverage for 3.5 million vulnerable children. The government has budgeted 1 percent of GDP under this program. Similarly, the social security system has also increased its coverage to 6.5 million beneficiaries and the government has consistently implemented a policy of pension increases to guarantee pensions´ purchasing power. Social spending on non-contributory pensions has also been increased. The Food Security Plan has improved the subsistence capacity of more than 1,500,000 families and expenditure on education has risen to 6 percent of GDP, in line with the Education Law. President Fernandez de Kirchner recently launched a program to distribute approximately 3 million laptops to secondary school students, which will also have a major beneficial impact on public education. Finally, health spending has also been raised to prevent the H1N1A flu and other diseases like dengue fever.

But again, sound macroeconomics and sound policies in general are not enough in today's integrated world economy. This is why Argentina is betting on regional integration and international coordination to help cope with the shared challenges of today and tomorrow.

Regarding the global challenges that we face together, we have deep concerns about the effects that price trend and volatility, which we have experienced in our history, have on our economies, and finally, on our people. Agricultural commodities play a very important role in the Argentine economy, as we are a major producer and exporter of these products. The topic is overarching, involving many perspectives. First, producers, at least in developing countries, have to deal with uncertainty related mostly to production cycles; therefore, they are in need of gaining access to innovative financial tools in order to mitigate risks. Second, food insecurity, which is rooted beyond food price itself. The world is showing a growing consuming trend fuelled by the steady growth of some emerging economies. Such fact needs to be mirrored on the supply side. In agricultural markets, this trend comes after long decades of depressed prices that have led to disinvestment and constrained production forces. In our view, an efficient response ought to come through an international call for cooperation and coordination of policies oriented to foster the global food supply. As food demand continues to grow we will need to focus on agricultural supply factors and promote the expansion of supply. This means, not only focusing on improving financial and technical assistance to vulnerable countries but also creating the necessary market conditions to enable agricultural development in producing countries.

Finally, we cannot avoid highlighting the fact that the IMF has decided to include in its last World Economic Outlook (WEO) a specific section on the risk of overheating, which singles out and even categorizes countries according to "traffic lights", without making a similar section on debt problems affecting developed countries. In our view, these are problems that pose much more relevant and potentially disruptive effects worldwide. The methodology used to carry out this evaluation is too simplistic and serves no useful purpose but to single out countries and generate market uncertainty. Particularly, Argentina has reduced unemployment from the 25 percent registered at the worst time of the 2001/2 crisis to 7.2 percent in 2010, and we do not consider this to be a sign of overheating.

To conclude, the Argentine economy's unprecedented resilience in the face of the global financial crisis and the extended period of economic growth has clearly shown the validity of a lesson the country has learnt the hard way throughout its history: the crucial role the State must play to achieve a steady, sustainable and inclusive path of economic development. Indeed, Argentina has strengthened its policy framework based on a broad-based productive and socially-inclusive development, a solid banking system, a substantial debt reduction, the accumulation of international reserves and the promotion of regional integration and international cooperation. This explains that growth has been sustained and that social indicators have improved considerably. Argentina is now well placed to address the challenges of the post-crisis world based on the structural transformation that the economy has undergone since 2003. The government has put the country back on track and has restored its potential for economic, human, and social development.

Bolivia's economy showed a satisfactory performance in 2010. In fact, the GDP growth rate was 4.2 percent, greater than envisaged (4 percent), notwithstanding the extensive drought, subsequent wildfires and an unusually cold June and July which affected harvests and farm output in eastern parts of Bolivia. Notably, there was also an outstanding flow of foreign investment. In addition, Bolivian balance of payments broadly reached positive results, with increases in exports exceeding imports; the current account again showed a positive stance of 4.8 percent of GDP. International reserves are at a very comfortable level, reaching almost 50 percent of GDP. In the fiscal sector, Bolivia's economy once again managed a positive result (2 GDP percentage points) mainly due to lower expenditure. However, in 2011, the authorities are projecting a fiscal deficit, deriving from a substantial increase in investment in public enterprises in order to further boost growth and reduce unemployment. The authorities are considering a growth rate of 5 percent in 2011.

Domestic prices, although higher in 2010 than 2009 (7.2 percent), do not signal an overheating of the economy, since public expenditure is completely under control and credit is expanding at reasonable rates. Supply shocks particularly affected agriculture and, consequently, strong pressures on food prices emerged. Increasing international food prices also affected domestic inflation in this conjuncture. The surge in expectations played a major role in Bolivia's inflation rate by the end of 2010, which related somewhat to the attempt to remove fuel subsidies, which was reversed a few days later. The upturn in inflation in 2010 is not translating to 2011, since it was not domestic-demand driven. The authorities envisaged an inflation rate of 6 percent at the end of 2011. After applying an expansionary monetary policy to boost the economy in response to the international financial crisis in 2009, the Central Bank of Bolivia is normalizing the monetary policy gradually in order to absorb excess domestic liquidity through open-market operations and domestic currency appreciation, while applying incentives to induce credit for investment. The exchange rate policy kept its objective of controlling excessive volatility. Such policy is allowing confidence in the financial system and preserves the de-dollarization process, reflected in a stable demand for foreign currency and dissipated expectations about sudden movements in the exchange rate. The banking system is strong and was tested by a sudden bank run in December 2010 that originated in politically-induced rumors, after the announcement of the removal of fuel subsidies.

The Bolivian authorities highlight the need to attain greater equality, **transparency, and accountability** underpinned by cautious macroeconomic policies. They are assigning a greater state role in mining and hydrocarbons activities in order to use the fiscal revenue coming from these activities to improve education, health, and sanitation that will help reduce poverty and inequality and strengthen infrastructure for competitiveness enhancing. The authorities are aware that private investment is important for growth and job creation, so they emphasize that public investment will be complementary to private investment. In this vein, the Bolivian government attaches great importance to the diversification of the economy to gradually reduce, in the future, the high dependence on the hydrocarbon and mining sectors and, consequently, lessen the economy's vulnerability to external shocks.

Over 2010 and 2011, the **Chilean** authorities tailored the policy tools so as to face the new challenges after the 2009 recession. On the one hand, the devastating earthquake and tsunami in February 2010 led to a significant reconstruction burden on the economy that had to be adequately financed. On the other hand, the underlying economic recovery proceeded apace, with a swift expansion of domestic demand and the gradual absorption of economic slack. Overall, output expanded 5.2 percent in 2010, but with a significant baseline statistical effect due to the immediate impact of the earthquake, and it is forecast that growth will be between 5.5 and 6.5 percent in 2011.

The backdrop of high international commodity prices has had differentiated effects on the economy. While high export prices have boosted private and public savings rates, keeping the current account in a moderate surplus of 1-2 percent of GDP, the higher prices of fuels and foodstuffs have increased inflation. Although core and headline inflation remain moderate and well within the target, expectations have increased and official forecasts point toward CPI prints during the second half of this year and part of 2012 slightly above 4 percent.

Monetary policy normalization has proceeded gradually since June 2010, at a pace that has been dependent on external and internal macroeconomic developments. Since then, the monetary policy rate has been increased by 400 basis points, bringing it to 4.50 percent. The authorities assess that this process of normalization is preventive, and should continue during incoming quarters. An important element in gauging the pace of normalization will be the evaluation of the risks of higher commodity prices propagating to the rest of the economy, particularly in a context when the output gap has closed and expected inflation has increased.

Earlier this year, as the real exchange rate appreciated beyond what was deemed its long term fundamentals and global risk remained relevant, the Central Bank implemented a reserve accumulation program to last for the course of 2011. This program aims at boosting the external liquidity of the Chilean economy and to ease its adjustment to the current global monetary tensions. The implementation is through sterilized daily fixed purchases of foreign exchange and does not target a specific level for the real exchange rate. Currently, the authorities assess that the real exchange rate level is coherent with long term trends.

Fiscal policy is aiming at a structural deficit of 1 percent of GDP by 2014, the end of the current administration, once reconstruction spending is phased out. This target considers methodological improvements, taken on the advice of an independent commission of experts, thus improving the existing structural balance rule that has guided fiscal policy for almost a decade. Public spending grew 7 percent in real terms in 2010 (down from 18.2 in 2009), and is forecast to grow 4.5 percent during 2011. This later figure considers a recent reduction in planned budgetary outlays for 2011 of 0.4 percent of GDP, geared towards helping limit inflationary and exchange rate pressures in the economy.

Chile's sound regulatory framework has been instrumental in securing a healthy recovery and preventing the appearance of financial excesses. Notwithstanding this, and looking to profit from the accrued international experience from the 2008-2009 global financial crisis, the government appointed an independent commission to assess the scope for improvement in the financial regulatory and supervisory infrastructure.

Paraguay's real GDP growth reached 15.3 percent in 2010, by far the best economic performance since records began in 1950 and one of the highest growth rates in the world. The economy grew at a faster pace than originally envisaged thanks to an excellent agricultural production cycle and strong exports that had a positive impact on aggregate demand, which is characterized by high levels of consumption and investment. Although the extraordinary surge in agricultural output was the main driver of this expansion, growth was broad-based, propelled by a dynamic cattle-breeding sector, strong manufacturing and construction and a vibrant and profitable financial sector. Sound macroeconomic policies, supported by favorable domestic and international financing circumstances, good climate conditions, and a recovery of international commodity prices helped to achieve this record level growth.

The 2010 economic result confirms the positive growth rate trend of the last 8 years (with the exception of the 2009 crisis), an average of 5 percent annually. Last year's strong rebound also helped boost public finances, and the Central Government's overall balance ended 2010 with a 1.5 percent of GDP surplus, reflecting strong tax revenues and moderate spending growth. The projections for 2011 are promising since good weather conditions, rising commodity prices and improved productivity are expected to boost agricultural output to record levels.

The monetary policy stance was focused on maintaining adequate liquidity levels to keep inflation in line with the Central Bank's referential target of 5 ± 2.5 percent**.** Thus, the accommodative policies adopted during the crisis were reversed and tightened in a context of high liquidity, fast credit expansion and currency appreciation. Starting in the last quarter of 2010, the interest rates of the Central Bank's monetary bills steadily increased, and the frequency of placement auctions were increased to twice a week from twice a month. These measures helped contain inflation within the referential range set by the Central Bank in 2010. However, inflationary pressures caused by rising food and fuel prices pose a challenge, and monetary policies will continue to be vigilant in 2011. Consistent with this stance, the Central Bank has recently decided to increase banks' minimum reserve requirements as a measure to slow the pace of credit expansion.

The currency exchange rate was influenced by domestic and external factors. During the first three quarters of 2010, the nominal exchange rate was relatively stable, mainly because strong international liquidity pressures were compensated by an important current account deficit. However, in the last quarter of 2010, the guaraní started to appreciate, a trend that was recently reinforced by regional tendencies and better-than-expected prospects for this year's agricultural harvest. More recently, the Central Bank has intervened in the exchange market only to avoid sudden movements of the exchange rate without moving the trend. At the end of 2010, international reserves reached record levels, almost doubling the level of public external debt. The Paraguayan authorities consider this level of reserves an appropriate buffer to deal with the still fragile world economic recovery.

During the last quarter of 2010, a joint mission of the IMF and the World Bank conducted an FSAP update. The upcoming Financial Sector Stability Assessment is expected to confirm that the financial system remains sound and stable, as reflected in all financial soundness indicators.

Like most countries in Latin America, **Peru** has experienced a sustained recovery to pre-crisis levels. The economy grew 8.8 percent in 2010, one of the highest in the region, driven by private demand and inventory replacement. This performance has been accompanied by mounting job creation and diminishing poverty, and has been underpinned by the productivity gains achieved in recent years and by an increase in the investment-to-GDP ratio. In this light, the authorities forecast growth in 2011 and 2012 at 7 percent and 6.5 percent, respectively, close to potential growth.

Favorable credit conditions have contributed to this result and have reflected Peru's timely response to the international financial crisis. In a context of solid economic recovery and external shocks, as a precautionary policy the central bank started to withdraw monetary stimulus by increasing its policy rate eight times since May 2010, to a current level of 3.75 percent. Rate hikes have been accompanied by increases in reserve requirements in domestic and foreign currency, with an aim to lower the impact of capital inflows on liquidity and credit. To avoid excessive exchange rate volatility, the central bank intervenes in the foreign exchange market and has used non-conventional and macro-prudential instruments, such as increasing reserve requirements. Interventions in the foreign exchange market have resulted in an important precautionary accumulation of foreign assets (US$ 46.2 billion, equivalent to 5.6 times short-term foreign obligations).

Inflation was 2.1 percent in 2010, and it is expected to increase due to commodity shocks towards the upper end of central bank's inflation band (3.0 percent) by end- 2011, and to converge to the target during 2012. This forecast is supported by the anchoring of expectations to the target range, a moderation of fiscal stimulus, and the expected reversal of supply shocks. As during the thick of the crisis, Peru is expected to resist eventual negative external shocks thanks to its solid fundamentals and the authorities' ability to provide a swift policy response.

Policies and reforms undertaken in **Uruguay** in recent years have allowed the country to drastically increase strengths and reduce vulnerabilities in the economic, financial and social areas. Thus, Uruguay is well prepared to face the challenges posed by the global economy's new phase, which is still full of uncertainty and downside risks.

Among many strongly related aspects, it is worth noting the following: GDP is increasing robustly as new sources of growth have emerged and market diversification has increased; prudent policies have led to a sound fiscal position, which, for instance, has been enlarged by a drastic transformation of the revenue administration, resulting in an outstanding increase of its efficiency; market confidence on the government's policies and changes have driven to a substantial lengthening of debt maturity, and a critical reduction of debt dollarization; the soundness of Uruguay's financial system perfectly mirrors years of transformations with regard to the regulation and supervision of the system; a very low unemployment rate -at historical lowest records-, and a sound recovery of the population's income, together with well-targeted and transparent social policies, have led to a sizeable decline in poverty rates (the percentage of households below the poverty line has decreased from 25.7 in 2006 to 12.6 in 2010), while extreme poverty (at 0.6 percent) has almost disappeared, and critical advances have been achieved toward reducing inequality.

Of course, challenges remain considerable, particularly amid the current global economic situation, which is bringing about a high dose of uncertainty and, particularly, a significant increase in inflationary pressures. The authorities, well aware of this risk, have rapidly reacted to mitigate it. Thus, some days ago, Uruguay's Central Bank decided on a considerable interest rate hike (an increase of 100 basis points), in a movement which went beyond the market's expectation. Meanwhile, the Ministry of Finance has reaffirmed its strong commitment to accompany these efforts from the fiscal area. The authorities also believe that the country's flexible exchange rate system is the most appropriate one as a shock absorber in a small and open economy like Uruguay, limiting interventions to smooth volatility.

In conclusion, prudent policies, continued work aimed at further enhancing the investment climate and the country's productivity, protection of the most vulnerable groups and systematic efforts to enhance social fairness, appropriate shock absorbers, good governance, and political maturity, among other things, continue to be Uruguay's best shield to face the complicated international scenario. The above also highlights Uruguay as a good case to show that processes to attain higher economic growth and more social equality can go simultaneously. Beyond the obvious fact that each process entails intrinsic benefits, it is also clear that each one makes the other more sustainable.