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Statement by Ms. Costa
Chile

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

Statement by Governor Rosanna Costa, President of the Central Bank of Chile

On behalf of the Southern Cone Constituency

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

The global economy continues to display remarkable resilience despite repeated shocks, but structural and emerging vulnerabilities should be addressed. Growth has held up, with greater dynamism in economies that are more involved in the technology value chain, while inflation remains above the levels observed before the onset of the conflict in the Middle East. Financial systems have proven to be resilient, despite significant market fluctuations; however, resilience should not be confused with absence of vulnerabilities. Many countries face rising debt, limited policy space, and evolving vulnerabilities. Moreover, financial risks are increasingly concentrated outside the traditional banking system, including among highly leveraged investors and other nonbank intermediaries. These risks deserve close attention, and we commend the work of the IMF in this direction included in the latest flagships. Also, these reports highlight the scale of the structural transformations ahead. AI, digitalization, demographic change, evolving patterns of globalization, and international cooperation will increasingly shape growth prospects and policy challenges. Capturing the benefits and addressing the challenges of these transitions will require strong institutions, effective supervision, and implementation capacity. Thus, we believe that the challenge now is to rebuild fiscal, financial, social, and institutional buffers before the next shock arrives. Furthermore, resilience is not only about buffers; it is also about preparedness. In a highly uncertain environment, we would like to stress that credible contingency planning is essential. We, as policymakers, cannot rely solely on a single baseline outlook and should ensure that policy frameworks remain flexible enough to respond if risks materialize more rapidly or persistently than expected.

There are several challenges ahead; however, elevated public debt and challenging fiscal outlooks remain one of the most critical. Higher interest rates pose significant challenges for debt rollovers. In this context, we would like to reiterate that it is crucial to restore fiscal sustainability by setting out a clear and robust medium-term plan. In the current context of significant global uncertainty, we stress the importance of containing expenditure —maintaining temporary and targeted measures to support the most vulnerable— as it is the most effective way to advance on fiscal consolidation. On the other hand, central banks should continue working toward preserving price stability. In our view, their independence is critical to achieving that goal, and we would like to emphasize the importance of eliminating monetary financing. Clear communication is warranted to ensure that inflation expectations remain anchored, which is critical for sound decision-making. We also believe that greater exchange rate flexibility is needed to absorb external shocks, while considering exchange rate interventions only to resolve disorderly market conditions. Furthermore, adjustments in financial regulation should be focused on emerging risks, particularly those related to digital finance and cybersecurity. Finally, addressing excessive global imbalances requires country-specific measures, but also global coordination, to prevent costly adjustments that could entail capital flow reversals, asset price corrections, and weaker economic growth.

An agile and well-resourced IMF is crucial to support the membership through a challenging external environment. We would like to stress that IMF policy advice and recommendations have been instrumental in enhancing the development of sound and resilient policy frameworks, while financial support has been crucial in supporting macro policies. In this respect, we welcome the toolkit reviews

aimed at strengthening surveillance, program design, and the lending framework. We see merit in providing integrated policy advice but reiterate the importance of tailoring it to country-specific frameworks, and we value that regional dimensions will be considered when prioritizing voluntary FSAP assessments; particularly for countries that have been reclassified but exhibit strong traction. Finally, we reiterate that implementing the 50 percent quota increase, agreed under the 16th General Review of Quotas, is critical to maintain a well-resourced and quota-based Fund at the heart of the global financial safety net.

ARGENTINA

Argentina continues to consolidate the economic transformation initiated in December 2023. Unwavering fiscal discipline, a sharp reduction in inflation and progress in normalizing the economy have established a stronger basis for growth. Our priority is to preserve these achievements while expanding economic activity, investment and exports. The program remains grounded in a predictable policy framework anchored to a strong commitment with fiscal responsibility and the rule of law, as well as a greater role for private sector initiative, with the aim to unlock Argentina's productive potential and sustain long-term growth.

Fiscal discipline remains the cornerstone of the program. After recording overall surpluses in both 2024 and 2025, the National Public Sector scored a primary surplus of 1.1 percent of GDP and an overall surplus of 0.2 percent of GDP during the first eight months of 2026. This performance reflects continued expenditure control and improvements in the allocation of public resources, while preserving targeted social assistance. At the same time, the tax burden was reduced by 2.5 percent of GDP during the first two years of the administration, easing the burden on households and firms.

Social policy has protected the most vulnerable throughout the stabilization process. Assistance to the poor through direct transfers, including the Universal Child Allowance (AUH) and other programs, has doubled. Together with lower inflation, this helped reduce poverty by more than 20 percentage points, lifting 12 million people out of poverty. This shows that fiscal discipline and stronger social protection are compatible, ensuring that the benefits of lower inflation and renewed growth reach the most vulnerable households.

Inflation continues to fall substantially from the levels prevailing at the outset of the administration. Annual inflation declined from 211.4 percent in December 2023 to 33.5 percent in August 2026, with monthly inflation standing at 1.7 percent. Monetary and exchange rate policies continue to support disinflation and the normalization of financial conditions, while strengthening international reserves remains a policy priority. During the first nine months of 2026, the Central Bank made net foreign exchange purchases of US$14.7 billion, supporting reserve accumulation.

Following growth of 4.5 percent in 2025, real GDP expanded by 2.2 percent year-on-year in the first half of 2026. Although economic activity declined in July due to temporary shocks affecting several sectors, the trend-cycle component rose by 0.8 percent to a new record high, confirming the underlying upward trend. Growth is sustainable and led by exports, and it rests on solid fundamentals: a current account surplus, a fiscal surplus and a well-capitalized banking system, with capital levels around three times the 8 percent minimum required under Basel standards. While agriculture, mining, and oil and gas remain the main drivers of growth, maintaining macroeconomic stability and improving the conditions for private business remain essential to creating employment and expanding dynamism to the other sectors of the economy.

Structural reforms are strengthening the foundations for private sector-led growth. The government has eliminated 18,000 regulations that restricted economic activity, removed non-tariff barriers to trade and implemented a general reduction of import tariffs. These measures are increasing competition and lowering the cost of inputs and capital goods for producers and consumers. In addition, the passage of a labor reform law has made labor market regulations more flexible, reducing the cost of formal hiring and supporting employment creation. The reform of the Glaciers Law provides greater legal certainty for mining investment within a framework of environmental protection, while the Fiscal Innocence Law simplifies tax compliance and encourages the use of household savings held outside the formal financial system. Together, these reforms are improving productivity and the business climate, and broadening the base of growth beyond the natural resource sectors.

The energy sector is strengthening Argentina's productive capacity and external position. Crude oil and natural gas extraction increased by 13.1 percent and 1.7 percent, respectively, in 2025, and oil extraction growth accelerated to 17 percent year-on-year in the first half of 2026. Higher domestic production helped generate an energy trade surplus of US$7.8 billion in 2025, up from US$5.7 billion in 2024, reversing years of energy trade deficits that had weighed on macroeconomic stability. Mining is also expanding strongly. Lithium production increased by 44.4 percent in 2025, while exports reached nearly US$1 billion. In the first eight months of 2026, lithium exports reached US$1.47 billion, up nearly 190 percent year-on-year from the same period of 2025, reflecting a significant acceleration in the sector's external performance.

Goods' exports reached a record high for the January-August period, boosting the country's foreign exchange earnings. Exports increased by 21.4 percent year-on-year during January-August 2026, with export volumes rising by 10 percent, and reaching an accumulated trade surplus of US$18.25 billion. Expanding energy and mining production, together with Argentina's agricultural export base, is increasing the economy's capacity to generate foreign exchange. Investments in production, transport and infrastructure are expected to support further expansion, diversify export earnings and strengthen Argentina's role as a global supplier of energy, food and strategic minerals.

The Large Investment Incentive Regime (RIGI) complements our broader stabilization effort by providing a clear, predictable, long-term framework for investment. By providing legal certainty and predictable tax, customs and foreign exchange rules, the RIGI supports projects that require substantial initial investment and lengthy development periods. As these projects are implemented, they are expected to expand productive and export capacity, generate employment and strengthen domestic supply chains. As of September 2026, 23 projects had been approved, representing approximately US$49.8 billion in planned investment over their implementation periods, while another 24 projects worth US$160 billion are under consideration.

Argentina is on the right course, and we reaffirm our commitment to the economic program and its consistent implementation. For 2027 we project a real GDP growth of 4.0 percent, a further decline in year-on-year inflation to 18.0 percent by December, and an overall National Public Sector surplus of 0.2 percent of GDP. Our economic program remains firmly committed to fiscal discipline, continued disinflation, reserve accumulation, structural reforms and a predictable policy framework that encourages private investment. Building on these pillars, Argentina is well positioned to build sustained growth, expand economic opportunities and deliver lasting improvements in living standards for all Argentineans.

BOLIVIA

Bolivia's economy has continued to face significant challenges in 2025-26, reflecting the legacy of several years of macroeconomic imbalances, declining hydrocarbon production, and severe external financing constraints. Economic activity contracted by 1.6 percent in 2025, marking a second consecutive year of decline. For 2026 it is expected that growth could be weakened and particularly affected by the external shock of higher global oil prices after the war in the Middle East, the disruptions caused by domestic road blockages during May-June 2026, and continued declining natural gas production.

The new administration, which took office in November 2025, inherited large fiscal and external imbalances, critically low international reserves, acute foreign exchange shortages, and elevated inflation. In December 2025, the authorities initiated the implementation of a broad stabilization effort, including a front-loaded fiscal adjustment plan to preserve debt sustainability while protecting vulnerable groups, the ending of new central bank financing of the fiscal deficit, and a gradual tighter of liquidity conditions. The ambitious fiscal consolidation plan centers around reforming fuel subsidies, rationalizing spending, and strengthening its efficiency. In addition, building on earlier steps to liberalize foreign exchange market transactions, in June 2026 the administration unified the official and market exchange rates, transitioning to a more flexible exchange rate regime.

These policies have begun to yield tangible results, lowering inflation and contributing to stabilizing the foreign exchange market. Inflation fell sharply from about 20 percent at end-2025 to 5 percent by August 2026, although fuel and food shortages caused by the mid-year road blockages and the price liberalization of diesel in September temporarily renewed price pressures.

On the external front, favorable mineral prices, a strong soybean harvest, stronger gold exports, and import compression contributed to an improvement in the current account and helped ease pressures in the foreign exchange market. The authorities successfully returned to international capital markets through a US$1 billion sovereign bond issuance in May 2026, while support from multilateral financial institutions and a liability management operation strengthened market confidence and provided required financing.

Fiscal conditions remain challenging, but initial improvements are evident: the primary balance of the non-financial public sector (NFPS) recorded a surplus through end-of-July 2026. Progress has nevertheless been complicated by the sharp rise in global oil prices following the conflict in the Middle East, which has renewed pressures from fuel subsidies. Congress approved a revised 2026 budget targeting an overall NFPS deficit of 9 percent of GDP, down from 11.4 percent in 2025. This target is consistent with the deficit-reduction path under the authorities' three-year program submitted to the IMF Executive Board for financial support under the Extended Fund Facility (EFF). Under the program, the NFPS primary deficit is expected to be eliminated by 2028–29.

Overall, while Bolivia continues to confront substantial challenges, recent policy actions have helped stabilize conditions, reduce inflation, restore greater order to the foreign exchange market, maintain debt service obligations current, and begin rebuilding external buffers. At the same time, efforts to modernize and update the legal framework governing key productive sectors are underway with the aim of encouraging domestic and foreign direct investment and promoting export diversification.

In support of the authorities' program, on October 2 the IMF Executive Board approved a 36-month Extended Fund Facility (EFF) arrangement for SDR 1.369 billion—equivalent to 570 percent of quota, or about US$1.9 billion. The EFF-supported program provides a framework for sequencing policies and

actions to consolidate macroeconomic stability and lay the foundation for sustainable, inclusive, private sector-led growth.

CHILE

Context and Outlook

Chile's economic activity moderated in the first half of 2026 and inflation rose; however, inflation expectations remained anchored. GDP growth was affected by supply-side factors related to natural resources and by weaker domestic demand during the second quarter. Gross fixed capital formation slowed more than anticipated; however, the latest survey by the Chilean Capital Goods Corporation continues to point to a favorable investment outlook, projecting a 15 percent increase for the 2027-2028 period. This outlook is supported by elevated copper prices —driven by strong demand linked to artificial intelligence, the energy transition, and increased defense spending— and by the National Reconstruction Plan (NRP), which is expected to boost private investment and raise potential output by gradually reducing the corporate income tax rate, providing tax invariability for large investment projects, and further streamlining the permitting process. In the labor market, recent data show job losses, particularly in the formal sector, with the unemployment rate rising to 9.6 percent. The labor market has continued to exhibit a weak performance in the post-pandemic period, reflecting several factors, including the significant increase in labor costs in recent years, the role of the automation process, and the lagged recovery in more labor-intensive sectors such as construction. Annual CPI inflation reached 4.1 percent in August, significantly influenced by fuel prices amid the conflict in the Middle East; meanwhile core inflation has been fluctuating between 3.2 percent and 3.4 percent. The two-year horizon inflation expectations —measured by economic surveys— remained around 3 percent.

The latest Monetary Policy Report (IPoM), issued by the Central Bank of Chile (BCCh) in September with an oil price around US$90 per barrel, revised downward the forecast for 2026 GDP growth from 1.0-1.75 percent to 0.25-0.75 percent, owing to the effects of weaker demand, the impact of adverse weather conditions on several sectors during the current quarter, and lower mining production. The inflation projection for December 2026 is at 4.3 percent, while maintaining its convergence to the 3 percent target from the second quarter of 2027. In the near term, inflation dynamics are expected to be shaped by offsetting effects of weaker demand pressures and significant upside cost shocks. The projection assumes that these shocks will be transmitted in line with historical patterns and that the real exchange rate will converge to its long-term level over the coming quarters, and that subdued domestic demand —with a negative output gap during 2026— will help contain these increased cost pressures. Looking ahead, economic activity is expected to strengthen. The current WEO report projects that GDP will grow 2.6 percent in 2027, while the latest IPoM anticipates a GDP growth range of 2.0-3.0 percent with the output gap closing gradually, supported by higher investment growth and its transmission to the rest of the economy.

In this context, the authorities have taken important steps to rebuild Chile's economic buffers and enhance the economy's resilience. These measures include: (i) expenditure adjustments by the Ministry of Finance (MoF) to address the weak fiscal outcome in 2025, and the MoF's program to sell unproductive state-owned assets to rebuilt fiscal buffers, (ii) the BCCh's three-year reserve accumulation program, which had accumulated US$6 billion by mid-September and raised international reserves to US$53.5 billion, and (iii) the increase in the counter-cyclical capital buffer (CCyB) to its neutral level at 1 percent of risk-weighted assets —with a 24-month implementation period—, strengthening financial sector resilience. In addition, in August the IMF Executive Board approved a new two-year arrangement for Chile under the Flexible Credit Line (FCL), for approximately US$11.8 billion. The country qualifies for

the FCL by virtue of its very strong institutional policy frameworks and sustained track record of very strong macroeconomic policies.

Policies

The authorities remain firmly committed to fiscal responsibility and debt sustainability, supported by a very strong fiscal framework. Chile's fiscal policy is anchored in a dual rule based on the structural balance and a debt limit. Accordingly, the authorities are committed to the fiscal rule by setting a structural deficit target of 1.5 percent of GDP by 2030 and maintaining public debt at a sustainable level, with a prudent threshold of 45 percent of GDP. Fiscal consolidation has been supported by expenditure rationalization, better-targeted social spending, and measures to improve the efficiency of public enterprises.

The Board of the BCCh reaffirmed its commitment to conducting monetary policy flexibly to ensure that inflation reaches 3 percent over the two-year horizon, while maintaining the free-floating exchange rate (FX) regime. Inflation has followed a path consistent with the projections presented in June's IPoM, therefore, the monetary policy strategy outlined in that report remains appropriate. Accordingly, the Board decided to keep the monetary policy rate at 4.5 percent. The future path of the monetary policy rate will be assessed on a meeting-by-meeting basis, as conditions evolve. Moreover, the FX regime has served the economy well with FX interventions remaining exceptional and limited to episodes of disorderly market conditions. On all these occasions, the BCCh has implemented transparent programs, announcing them and publishing their financial conditions after market close. Finally, the FX framework is supported by comfortable external liquidity buffers, composed of international reserves and access to credit lines, including the recently approved IMF FCL.

The Chilean economy is supported by robust regulatory and supervision frameworks. These include tools to address exceptional scenarios and mechanisms for coordination among authorities and regulators. Banks have continued to strengthen their capital base, with solvency indicators improving in line with Basel standards. Currently, the CCyB requirement is set at 0.5 percent, and it will increase to its neutral level over a 24-month implementation period, and stress test exercises indicate that banks would maintain capital levels above regulatory requirements even under a scenario where activity drops abruptly and there is a significant increase in funding costs.

Several structural reforms, aimed at improving long-term growth, are under discussion. The recently approved NRP considers a broad set of measures to improve environmental and sectorial regulation based on micro-sectorial areas. It considers measures that could reduce processing times by at least one-third and provide greater legal certainty. Last month, a Capital Market Bill was submitted to Congress with the objective of deepening financial markets and their liquidity and strengthening the real estate sector by improving the access to housing. Finally, the Universal Daycare Center Bill seeks to eliminate distortions in the labor market and promote women's employment.

PARAGUAY

Economic activity continued to perform favorably in 2026. In the first half of the year, Gross Domestic Product (GDP) grew by 5.7 percent compared with the same period of the previous year, driven mainly by the expansion of the services, agriculture, manufacturing, and electricity and water sectors. From the expenditure perspective, growth was explained by net exports and, to a lesser extent, by domestic demand. For the year as a whole, GDP is projected to expand by 4.5 percent.

Inflation remained at low levels. In August, the year-on-year change in the Consumer Price Index (CPI) stood at 1.5 percent, while inflation measured by the CPI, excluding food and energy (IPCSAE), reached 1.3 percent, both below the rates observed in previous months. This evolution was mainly due to the behavior of non-energy goods prices, both food and non-food items. In contrast, fuel prices increased, in line with the evolution in international oil and petroleum product prices. For its part, services' inflation remained stable at around 3.5 percent during the past few months.

Inflation is projected at 3.3 percent for December 2026, converging toward the 3.5 percent target within the monetary policy horizon. Inflation expectations remain aligned with the target, while economic activity continues to show a solid performance. In this context, and considering the adverse risks from the international scenario, the Monetary Policy Committee (MPC) decided to maintain the Monetary Policy Rate (MPR) at 5.50 percent during the third quarter of the year.

The nominal exchange rate has shown an appreciation trend since mid-2025, which extended throughout 2026. This behavior was partly attributable to global developments in the U.S. dollar. Domestic factors also played a role, including robust economic growth, which averaged 5.5 percent between 2023 and 2025; the country's attainment of investment-grade ratings from Moody's and S&P; a reduction in the sovereign risk premium; dynamism of foreign investment; and a greater seasonal supply of foreign currency associated with soybean production.

Credit to the private sector continued to expand at a dynamic pace, with a year-on-year growth of 15.6 percent in July reflected in higher placements in different economic sectors. At the same time, the non-performing loan (NPL) ratio remained favorable at 2.9 percent. Deposits increased by 19.4 percent year-on-year, with longer-term instruments accounting for a significant share in both domestic and foreign currency.

The financial system's solvency indicators remain comfortably above regulatory requirements. The total regulatory capital ratio stood at 16.9 percent, while the Tier 1 capital ratio reached 13.5 percent. Meanwhile, the system's profitability continued at high levels, with return on equity (ROE) at 18.7 percent and return on assets (ROA) at 2.4 percent, driven mainly by favorable developments in financial margins.

In July 2026, the international credit rating agency Moody's Ratings reaffirmed Paraguay's investment-grade sovereign rating at Baa3, with a stable outlook. The decision was based, among other factors, on the performance of the economy, the credibility of monetary policy, favorable inflation dynamics, and the country's institutional stability.

In the area of financial regulation, transparency, and risk management, the Superintendence of Securities continued to make progress in the development of the Central Information Center for securities and Products Market. Within this framework, the mandatory use of the Database of the Central Bank of Paraguay (BCP) was established as the sole source of identification, which will allow consolidating exposures, identifying linkages and strengthening the quality of regulatory information. Likewise, in line with Basel III standards, the BCP approved the Liquidity Coverage Ratio (LCR) regulation, with the aim of strengthening liquidity management of banks and financial companies, thereby contributing to the stability of the financial system.

Paraguay's Payments System continues to promote the modernization of the payment infrastructure through interoperability, digitalization, and the incorporation of new technologies, favoring more agile, efficient, and secure transactions, and promoting financial inclusion. In April, the BCP introduced the SIP brand, the system's new identity, and in July it approved a new general regulation that updates its

operational framework in line with Law No. 7503/2025 on the National Payments System. Likewise, a tariff regulation was approved that strengthens cost transparency and promotes equitable conditions between comparable services. In addition, since September, the Digital Savings Deposit Certificate System (CDA-d) has been fully operational, which allows the electronic management of these instruments with lower costs and operational risks. Taken together, these advances, supported by the new legal framework, strengthen the BCP's commitment to a more solid, competitive, and inclusive financial system.

PERU

Real GDP growth slowed to 2.6percent year-on-year in Q2 2026, from 3.6 percent in Q1. Non-primary sectors expanded by 5.0 percent, supported by strong private spending, particularly in services, trade, and construction. In contrast, primary sector output contracted by 5.2 percent, reflecting declines in fishing, primary manufacturing, agriculture, and hydrocarbon production.

Private investment and consumption grew strongly, supported by a resilient labor market, favorable terms of trade and credit conditions, and positive private sector sentiment, offsetting slower growth in public spending. Domestic demand is projected to expand by 6.2 percent in 2026 and 4.1 percent in 2027, while real GDP growth is projected at 3.2 percent and 3.0 percent, respectively. The outlook incorporates a sharper contraction in primary sector output in 2026 owing to an exceptionally severe El Niño event, alongside slower growth in non-primary manufacturing and construction over the remainder of the year. Adverse weather conditions are also expected to weigh on growth in 2027.

Inflation in Peru has been among the lowest and most stable in Latin America and the Caribbean, averaging 2.9 percent over 2001–25. However, headline inflation rose from 1.5 percent year-on-year at end-2025 to 4.4 percent in August 2026. Core inflation, which excludes food and energy, increased from 1.8 percent to 4.5 percent over the same period, reflecting higher local transportation fares since March and seasonal increases in education costs. Excluding transportation, core inflation stood at 1.8 percent year-on-year and has remained below 2 percent since April 2025. Headline inflation is projected to remain above the target range in the coming months, reflecting the effects of price increases in March and April 2026, primarily for local transportation and fuel. El Niño-related disruptions are expected to generate additional inflationary pressures in late 2026 and early 2027. Inflation is projected at 4.2 percent in 2026 before converging to the midpoint of the target range in 2027.

Credit to the private sector grew by 10.3 percent year-on-year in August 2026, driven primarily by lending to medium-sized, small and micro enterprises, and consumer credit. Lending to corporations and large enterprises, also contributed, consistent with the recovery in economic activity. Credit growth is projected at 9.5 percent in 2026, supported by strong domestic demand.

The fiscal deficit narrowed from 2.2 percent of GDP at end-2025 to 1.0 percent in August 2026 on a rolling 12-month basis, reflecting higher current revenue and lower nonfinancial expenditure. The deficit is projected at 1.5 percent of GDP in 2026, with stronger corporate income tax receipts and higher export prices supporting revenue. Public debt is projected to reach 27.8 percent of GDP at end-2026, remaining among the lowest in the region.

The current account surplus is projected at 4.0 percent of GDP in 2026. Favorable terms of trade are expected to support a larger trade surplus despite robust private spending and an El Niño-related decline in export volumes. The external position is expected to remain sustainable, supported by long-term

capital inflows. The current account surplus is projected to narrow to 3.4 percent of GDP in 2027, reflecting faster import volume growth and higher earnings of foreign-owned firms.

The Central Reserve Bank of Peru (BCRP) kept its policy rate at 4.25 percent in September 2026, unchanged since September 2025. Interest rates on domestic currency loans continued to track the policy rate, particularly for lower-risk borrowers and shorter maturities. The BCRP emphasized that future rate decisions would remain data-dependent, taking into account inflation and its underlying drivers, including core inflation, inflation expectations, economic activity, and the persistence of supply shocks. It also reaffirmed its commitment to taking the necessary action to bring inflation back within the target range over the forecast horizon.

The BCRP maintains ample international reserves, equivalent to 26 percent of GDP and six times short-term external debt, reflecting its precautionary reserve accumulation strategy. These buffers, together with sound macroeconomic fundamentals, underpin one of the strongest external positions among emerging markets and help mitigate vulnerability to external shocks.

Peru continues to benefit from strong macroeconomic fundamentals, including low public debt, substantial fiscal space relative to regional peers, and sizable external buffers. Its strong policy track record remains a key source of resilience amid a challenging global environment.

URUGUAY

While growth in Uruguay has moderated, the economy has demonstrated resilience, supported by strong institutions and credible policy frameworks. Real GDP grew by 1.8 percent in 2025, above the average annual growth recorded over the last decade. In 2026, activity expanded by 1.0 percent year-on-year in the first quarter before declining by 0.5 percent in the second quarter, largely reflecting the temporary impact of the drought on agriculture. Excluding agriculture, the economy grew by 1.4 percent, supported by construction, commerce, and manufacturing. Private consumption and investment also rose in the second quarter compared to the same period last year. The outlook for the second half of the year is more favorable, driven by resilient domestic demand and a gradual recovery in the goods and services sectors affected by temporary shocks.

Strong labor market conditions continue to support household income and domestic demand. Employment growth has been driven by continued gains in formal employment, more than offsetting a decline in informal employment. The unemployment rate fell to 7.0 percent in July, remaining at historically low levels. Average real household income rose by 4.3 percent year-on-year in the first half of 2026, supported by a strengthening labor market, rising real wages and pension income—reinforcing household purchasing power.

The authorities remain committed to a gradual fiscal consolidation strategy, anchored on compliance with the fiscal rule´s operational targets and with fiscal guardrails that enhance transparency and accountability. In 2025, the structural fiscal balance and net borrowing targets were met without recourse to the safeguard clause, despite weaker-than-expected growth. Fiscal outturns through July 2026 have remained in line with budgetary plans, while the authorities' decision to maintain their fiscal targets despite a less favorable growth environment underscores their continued commitment to the fiscal framework. Looking ahead, net debt is projected to stabilize at 63.1 percent of GDP by 2030, below the 65 percent prudent anchor. The revamped fiscal framework was operationalized through a decree published in June 2026, introducing automatic correction mechanisms and a more stringent escape clause in electoral years. In addition, the Fiscal Council is now autonomous and has a broader

mandate, strengthening accountability. This fiscal strategy and framework preserve a path consistent with debt sustainability, while creating space to finance priority measures through a combination of expenditure reallocations and additional resources.

Strong debt management further reinforces fiscal resilience. Underpinned by a long-standing strategy to deepen domestic capital markets and increase the share of sovereign debt issued in local currency— with growing emphasis on nominal peso-denominated instruments— Uruguay maintains the lowest sovereign risk spread in Latam and an investment-grade rating with a stable outlook. Global issuances in pesos and dollars during 2026 confirmed continued market access at favorable terms despite tighter international financial conditions. The country´s pioneering work in climate finance, both in sovereign debt markets and multilateral lending, has broadened its investor base and supported innovative financing with multilateral institutions, including more recently on performance-based financial instruments for adaptation to extreme weather shocks.

Monetary policy has contributed to the firm anchoring of inflation expectations and has remained appropriately responsive to the domestic and global cycle. Inflation declined steadily throughout 2025 and fell below the Central Bank of Uruguay's 4.5 percent target, enabling the initiation of a monetary easing cycle in July 2025. After reaching a low of 2.9 percent in March 2026, inflation gradually converged toward the target, reaching 4.55 percent in August, supported by lower policy rates and the gradual alignment of domestic fuel prices with international parity prices at limited fiscal cost. Inflation expectations remain well anchored. The Monetary Policy Committee maintained the policy rate at 5.75 percent in August, preserving an accommodative policy stance.

The banking system remains sound and highly resilient, while financial de-dollarization is gradually taking hold. The banking sector remains profitable, with nonperforming loans close to historical lows and solvency levels well above regulatory requirements. Stress tests conducted by the Superintendency of Financial Services confirmed the system's capacity to withstand a severe recession while preserving adequate capital buffers. The countercyclical capital buffer remains in place, further strengthening resilience. Liquidity conditions also remain highly favorable, as reflected in strong Liquidity Coverage Ratio and Net Stable Funding Ratio indicators. The authorities are advancing efforts to reduce financial dollarization, stimulate peso-denominated credit, and deepen domestic capital markets.

Uruguay's external position remains resilient, supported by ample international reserves and favorable commodity export prices. The current account deficit remained small in 2025, at 0.5 percent of GDP, before widening moderately in early 2026. While the trade balance weakened, reflecting the temporary impact of the drought on agricultural exports, this effect was partially offset by elevated commodity prices. Meanwhile, exports in other sectors continued to perform favorably, highlighting the diversification and resilience of Uruguay's export base. International reserves remain ample, standing at 11¼ months of imports at end-August 2026 and well above reserve adequacy metrics.

Sound macroeconomic policies and a forward-looking microeconomic reform agenda continue to support sustainable and inclusive growth. The authorities are advancing an ambitious growth agenda centered on macroeconomic stability, microeconomic reforms for stronger competitiveness, greater trade openness, and improved public financial management. Priorities include updating investment incentives, cutting red tape, reducing logistics and energy costs, broadening market access, and aligning public policies and fiscal management with international best practices. The EU-Mercosur, EFTA-Mercosur, and Singapore-Mercosur agreements, together with others under negotiation, offer new opportunities to expand market access, attract foreign direct investment, and stimulate jobs and growth—key building blocks of a stronger, more resilient, and more equitable economy.