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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 external environment is characterized by an exceptionally high level of uncertainty. In this context, strong institutions and strong policy frameworks are more important than ever. The outbreak of war in the Middle East has entailed severe humanitarian costs and damage to infrastructure, as well as disruptions in maritime and air traffic. The increase in oil prices will affect fuel-importing countries more heavily with limited fiscal space and weaker external buffers. Monetary and fiscal policies should be carefully calibrated to cope with this shock, considering country-specific characteristics, including institutional capacity, economic structure, macroeconomic cycles, and sources of vulnerability. Clear, timely, and credible communication is critical to anchor inflation expectations, while reinforcing policy credibility and effectiveness. Central bank independence remains crucial, together with a strong and comprehensive monetary policy framework. Short-term policy measures should not undermine medium-term objectives; on the contrary, these should be firmly embedded in a sound medium-term framework. Strengthening banking supervision and regulation is critical to preserve financial stability, alongside comprehensive oversight of the non-bank financial intermediaries. The latter requires data collection, cross-sector analysis, and the use of system-wide stress tests.

Structural reforms remain essential to boost productivity; meanwhile, global cooperation is key to ensuring economic prosperity and stability and tackling common shocks and challenges. Country-specific structural reforms remain essential to continue supporting private-sector-led growth. Improving the business environment by reducing regulatory bottlenecks and fostering credit access to small and medium-sized firms is critical to promote growth in most jurisdictions, however others should also address governance weaknesses. Moreover, enhancing human capital while modernizing labor markets remains vital to enabling a broad-based and balanced adoption of Artificial Intelligence (AI). The benefits of increased AI use, including financial innovation, should be supported by appropriate regulatory frameworks and robust digital infrastructures. In addition, multilateral efforts are essential to preserve the stability and effectiveness of the international monetary system, as well as to ensure the gains of AI. Addressing excessive global imbalances requires country-specific measures, but also global coordination, in order to prevent costly adjustments that could entail capital flow reversals, asset price corrections, and weaker economic growth.

The current external environment is challenging, and it requires a strong and agile IMF. We support the streamlining exercise led by Management and welcome the continued progress on the Fund's key policy and toolkit reviews, including those aimed at strengthening surveillance, program design, and the lending framework. Advancing these reviews in a timely and integrated manner will be essential to ensure that the Fund remains agile and fit for purpose in this rapidly evolving global landscape. By expanding and modernizing capacity development (CD), countries are better equipped to implement effective policies, undertake structural reforms, and build stronger institutions. A country-tailored CD is consistent with the Fund's mandate. 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

Two years into this administration, the initial results of the comprehensive economic reform program are clearly evident. In contrast to the situation at the end of 2023—when Argentina's economy was on the brink of a full-blown balance-of-payments crisis, facing the risk of hyperinflation amid economic stagnation—current economic indicators point to a stabilizing and expanding economy.

Notable achievements include rapid disinflation, with inflation declining from 211 percent in 2023 to 31.5 percent in 2025; the establishment of sustained fiscal surpluses in 2024 and 2025 for the first time in more than two decades; a swift return to economic growth, moving from a contraction of –1.3 percent in 2024 to an expansion of 4.4 percent in 2025; a significant strengthening of the Central Bank's balance sheet, including the elimination of endogenous sources of monetary expansion; and the continued implementation of key structural reforms.

In 2026, economic activity remains on a positive path. In January, the Monthly Economic Activity Estimator (EMAE) increased by 1.9 percent year-on-year, while economic activity stood 9.1 percent above its December 2023 level, reaching an all-time high. Social indicators have improved further, with poverty declining to 28.2 percent at the end of 2025 (10 p.p. down from December 2024) and extreme poverty declining to 6.3 percent. This outcome was achieved as the authorities prioritized the protection of the most vulnerable segments of the population. Net social transfers were doubled in real terms, notwithstanding a strong fiscal consolidation equivalent to a 30 percent reduction in public spending in real terms.

The Central Bank launched its new monetary policy framework in January 2026. Since then, it has purchased more than US$5.5 billion in international reserves, well above the targets set under the new regime. At the same time, interest rates have fallen by 25 percentage points, depreciation expectations declined, inflation expectations have remained well anchored, and the exchange rate has stayed stable.

In contrast to the significant energy trade deficits that characterized Argentina for most of the previous two decades, the energy trade balance reached a historic high by the end of 2025. The sector's aggregate foreign exchange generation in the coming years is expected to approach a level of importance comparable to that of the agricultural sector. Against the backdrop of growing global demand for secure and reliable energy supply, and in combination with domestic legislation that strengthens the legal and regulatory framework for such investments, Argentina is well placed to consolidate its role as a stable and trusted energy supplier. This is expected to further increase the attractiveness of Argentina's energy sector to investors and unlock additional growth potential.

But even the agricultural sector, whose output has been falling short of its potential over the last decade, overburdened with high export taxes and excessive regulations, is expected to respond positively to the gradual lifting of export taxes and deregulations. This would further consolidate the strong rebound in 2024 and 2025 following the 2023 drought, with the increase in export value being driven mainly by higher export volumes.

Despite the implementation of significant spending cuts—including reductions in subsidies to public utilities—the government's approval ratings have demonstrated notable resilience. Evidence of this resilience was provided by the landslide victory in the 2025 national midterm elections, which effectively dispelled the political uncertainty that had prevailed prior to the vote. This electoral outcome constituted a new political milestone for the government. As a result, and in combination with allied parties, the administration secured sufficient legislative support in both chambers of Congress to pass key legislation.

Finally, progress on structural reforms has continued as part of the broader strategy to consolidate stabilization and raise Argentina's growth potential. A particularly significant step was taken in February 2026, with Congress' approval of a landmark Labor Modernization Law (Law 27.802), updating key aspects of the labor framework and creating the Incentive Regime for Medium-Sized Investments (RIMI). In parallel, the government has continued to advance its deregulation agenda and to strengthen the investment framework under the Large Investment Incentive Regime (RIGI), including through regulatory adjustments and the extension of the application period for an additional year. These measures are intended to reduce rigidities, improve the business environment, and provide greater predictability for large-scale investments in strategic sectors.

We believe that these developments, together with the economic objective of a gradual deepening of domestic capital markets, place Argentina in a more favorable position to meet future balance-of-payments requirements.

BOLIVIA

Bolivia has reached a critical inflection point. After many years of economic mismanagement and the accrual of chronic and severe fiscal, financial and balance of payments imbalances, the new administration which took office on November 8, 2025, has introduced a comprehensive stabilization program. The year 2026 marks the transition from a state of vulnerability to a path of macroeconomic resilience. This transition is anchored in fiscal consolidation, rebuilding international reserves, careful monetary policy, and prioritizing private investment as the main engine for growth.

Central to the strategy is a thorough fiscal consolidation process aimed at addressing structural rigidities. The fiscal deficit in 2025 reached 12 percent of GDP, reflecting previous expenditure inertia and historic budgetary pressures. The new administration is committed to a robust adjustment path, targeting a reduction to 8.4 percent of GDP by end-2026—a 30 percent decrease. This undertaking is underpinned by substantive reforms, most notably the elimination of fuel subsidies, the reduction and rationalization of current expenditures, targeting social assistance to low-income families, and reprioritization of capital expenditures. The medium-term goal is achieving primary balance levels consistent with macro-economic stability, supported by improved fiscal governance and a framework to ensure sustainability amid global price changes.

The fiscal adjustment, alongside the implementation of prudent monetary policies, has supported a reduction in inflation and contributed to greater stability within the foreign exchange market. In 2025, the inflation rate reached 20.4 percent, by the first quarter of 2026, overall inflation had decreased to 0.5 percent. In the foreign exchange market, the gap between official and parallel rates substantially narrowed. Since November 2025, the market reference exchange rate has exhibited notable stability, averaging approximately Bs/USD 9. This realignment and the increased emphasis on market fundamentals have contributed to the stabilization of inflation expectations and enhanced confidence in the local currency, marking a significant advancement toward the gradual adoption of a more flexible exchange rate regime.

Bolivia continues to meet its international obligations with transparency and punctuality. In March 2026, principal and interest payments were made on the 2028 and 2030 sovereign bonds. A voluntary Liability Management Operation was executed with the Central Bank and the Public Pension Administrator, converting externally governed U.S. dollar-denominated debt into MVDOL-indexed instruments under domestic law. This operation significantly enhanced debt sustainability and provided immediate cash flow relief. Sovereign risk as measured by EMBI fell from 2,000 basis points in mid-2025 to 480–550 basis points by end March 2026.

The government is undertaking a strategic shift in the role of the state, moving toward a more efficient and market-oriented framework. As part of this initiative, comprehensive performance evaluations of state-owned enterprises are being conducted to address persistent deficits. These evaluations aim to identify inefficiencies and implement corrective measures that will enhance the financial and operational sustainability of these entities. At the same time, efforts to modernize the tax system 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.

The government remains firmly committed to a balanced policy approach that ensures long-term stability and inclusive growth, maintaining active collaboration with multilateral partners throughout this critical phase of economic transformation.

CHILE

The Chilean economy has evolved as anticipated, expanding at a pace consistent with its potential growth; however, the war in the Middle East is expected to deteriorate its short-term outlook. GDP grew 2.5 percent in 2025; in that period, private consumption was supported by a better performance of its fundamentals, and investment was boosted by mining and energy projects. The April WEO report projects that GDP will grow 2.4 percent in 2026, while the latest Monetary Policy Report issued by the Central Bank of Chile (CBC) in March anticipates a GDP growth range of 1.5-2.5 percent, which implied a reduction of 0.5 percentage points with respect to the previous report from December. This reflects the economic impacts of the external environment, with higher oil prices, and domestically the reduction of fiscal spending announced by the new government in mid-March and supply-side factors in mining and other sectors. In February, headline inflation was 2.4 percent YoY, meanwhile core inflation was 3.3 percent YoY. For the end of the year, the CBC projects 4.0 and 3.3 percent YoY for headline and core inflation, respectively. The upward revisions, with respect to previous report, acknowledge the impact that the war in the Middle East is having on fuel prices and other components of the CPI.

The CBC is committed to conducting a data driven monetary policy. The economic impact of the war in the Middle East depends on the duration, intensity, and scope of the conflict; however, currently, there is an exceptionally high level of uncertainty in any of these dimensions. Future adjustments of the policy rate will consider the evolution of external events and domestic policy response, ensuring that projected inflation remains at 3 percent over a two-year horizon. Moreover, the CBC has maintained a free-floating exchange rate (FX) regimen since 1999, and it remains committed to conducting FX interventions only on exceptional and limited occasions to address disorderly market conditions. Furthermore, the current reserves accumulation program has delivered USD 3.7 billion, enhancing Chile's external buffers. Thus, liquidity buffers in foreign currency (international reserves, access to Flexible Credit Line, other facilities) totalize about 20 percent of GDP. Finally, the latest Financial Stability Report issued by the CBC in November states that the banking system presented capital levels that are in line with the implementation of Basel III and would allow it to remain solvent in a scenario of severe stress. The report also emphasized that the main risk to local financial stability was a deterioration in the external conditions. In this context, the CBC decided to maintain the Countercyclical Capital Buffer (CCyB) at 0.5 percent of risk-weighted assets, consistent with the guidance it provided in November 2024, and to evaluate the need to converge to the 1 percent neutral level in the financial policy meeting of May 2026.

A reduction in fiscal spending will improve the current fiscal position. In 2025, overall and structural fiscal deficits were 2.8 and 3.6 percent of GDP; meanwhile, total central government gross debt amounted to 41.5 percent of GDP. The latest Fiscal Report in February projected overall and structural fiscal deficits of 1.8 and 2.7 percent of GDP; however, these figures did not consider recent developments on the external front. In this context, the government is pursuing pro-growth reforms and prioritizing targeted support over broad-based measures to strengthen fiscal responsibility. Moreover, the new authorities are committed to meeting the fiscal rule by the end of their term, and the first phase of the fiscal adjustment plan envisages a USD 3 billion reduction for 2026.

PARAGUAY

Economic activity and domestic demand have remained strong. At the end of 2025, cumulative GDP growth stood at 6.6 percent, exceeding initial projections, while excluding agricultural and electricity production, the growth rate was 6.3 percent. On the supply side, the performance of services, manufacturing, construction, livestock, and the electricity and water sectors stood out. On the expenditure side, growth was driven primarily by private consumption and gross fixed capital formation. For 2026, GDP is projected to expand by 4.2 percent, driven once again by domestic demand.

Regarding prices, inflation closed 2025 at 3.1 percent, down from 3.8 percent in 2024. This behavior was mainly explained by the moderation of goods' inflation, particularly non-food items (durable goods and fuels), amid lower oil prices and appreciation of the local currency. In the first months of 2026, inflation evolved in line with forecasts and is expected to remain low for much of 2026, converging toward the 3.5 percent target by year-end. In this environment of moderate inflation and with expectations aligned with the target, the Monetary Policy Committee (CPM) decided to reduce the Monetary Policy Rate by a cumulative 50 basis points between January and February 2026, bringing it to 5.50 percent.

The nominal exchange rate appreciated by around 15 percent against the U.S. dollar in 2025, amid a global weakening of that currency. Since the onset of the conflict in the Middle East in late February 2026, the dollar has strengthened in international markets, and the Guaraní, in line with other currencies of the region's economies, has depreciated somewhat, albeit moderately.

The financial system continues to show a solid performance, supported by adequate levels of liquidity, solvency, and profitability. In this context, credit to the private sector maintains favorable growth, in line with the strong momentum of economic activity and positive outlooks for various sectors. Regarding funding, deposits have continued to grow steadily, with a greater share of longer-term instruments, in both local and foreign currency. Meanwhile, profitability indicators remain at high levels, similar to those observed in the pre-pandemic period, while the system's solvency comfortably exceeds the regulatory minimum requirements.

It is worth noting that, in December 2025, the international rating agency Standard & Poor's Global Ratings assigned the country an investment-grade rating, raising its sovereign rating to BBB- with a stable outlook. As a result, Paraguay has achieved investment-grade status with two of the three leading credit rating agencies.

In terms of transparency and risk management, the Superintendency of Securities moved forward with the creation of a data portal, the publication of corporate bond yield curves, and the launch of the Securities and Products Market Information Center, thereby strengthening the quality of and access to information. Likewise, the BCP approved general guidelines for the risk rating of banks, financial institutions, and insurers, reinforcing the supervision and soundness of the financial system.

Finally, the Paraguayan Payment System (SIPAP) continues to evolve as a pillar of financial inclusion. Recently, the BCP updated its regulations to raise the daily limit for instant transfers (SPI). This modernization is reinforced by the approval of new regulations for Payment Service Providers (PSPs), which formally integrate fintech companies under supervised security standards. This regulatory framework, combined with cybersecurity and operational regulations, consolidates an efficient, secure, and well-adapted payment infrastructure in line with the demands of the digital economy.

PERU

Economic activity expanded by 3.4 percent in 2025, driven primarily by robust private spending. On the supply side, growth was led by construction, commerce, and services, with additional support from agriculture and primary manufacturing, in line with favorable external demand for fishery and agricultural exports. On the demand side, private investment increased by 10 percent, its fastest pace since 2013 excluding the post-pandemic rebound, supported by historically high terms of trade.

GDP is projected to grow by 3.2 percent in 2026, with domestic demand remaining the main driver. Growth in private spending—underpinned by continued employment gains, a recovery in real wages, and record-high terms of trade—is expected to sustain the expansion of non-primary activity. By contrast, growth in the primary sectors is expected to moderate as a weak El Niño event weighs on output. The economy is forecast to expand by 3.2 percent in 2027 under normal weather conditions, with output growing close to its potential over the medium term.

Inflation in Peru has been among the lowest and least volatile in LAC since 2001, averaging 2.9 percent between 2001 and 2025. Twelve-month inflation rose from 1.4 percent in November 2025 to 2.2 percent in February 2026, driven by higher food prices and water tariffs, but remained within the Central Reserve Bank of Peru's (BCRP) target range of 1–3 percent. Core inflation, which excludes food and energy, also increased over the same period, from 1.8 percent to 2.2 percent. Twelve-month inflation expectations remained close to the midpoint of the target range, at 2.1 percent in February 2026. Inflation is expected to rise to 2.4 percent in 2026, reflecting higher food prices driven by weather conditions, the recent increase in international fuel costs, and temporary local restrictions on natural gas distribution. Inflation is expected to gradually converge to the BCRP's 2 percent target midpoint in 2027.

Credit to the private sector grew by 6.5 percent in 2025 and rose to 7.2 percent year-on-year in January 2026, reflecting the recovery in economic activity. Credit growth is expected to reach 8 percent in 2026, consistent with trends in domestic demand.

The fiscal deficit narrowed from 3.5 percent of GDP in 2024 to 2.2 percent in 2025, reflecting reduced expenditure and a rebound in current revenues. In the year through February 2026, the deficit remained broadly stable at 2.1 percent of GDP. Public debt is projected to reach 29.5 percent of GDP by end-2027, remaining among the lowest in LAC. Fiscal consolidation is expected to continue in line with the deficit ceilings established under the fiscal rule (1.8 percent in 2026 and 1.4 percent in 2027).

The current account surplus widened from 2.2 percent of GDP in 2024 to 3.1 percent in 2025, driven by a marked improvement in the terms of trade. The surplus is projected to increase to 3.2 percent of GDP in 2026, as these gains continue. By 2027, this exceptionally high current account surplus is expected to narrow, reflecting stronger growth in domestic demand than in output and a decline in the terms of trade. Overall, the balance of payments is expected to remain sustainable and financed by long-term capital inflows.

The BCRP kept its policy rate steady at 4.75 percent in January, February, and March. As a result, the real policy rate remained around 2 percent, broadly in line with estimates of the neutral rate. In its monetary policy statements, the BCRP's Board has reiterated its commitment to taking all necessary actions to keep inflation within the target range.

Peru maintains an FX buffer equivalent to about six times its short-term external liabilities and 27 percent of GDP, reflecting the BCRP's precautionary reserve accumulation strategy. Supported by strong fundamentals and ample FX reserves, Peru's external position remains among the most resilient in emerging markets, significantly limiting its vulnerability to external financial shocks.

Peru's strong and well-coordinated policy response during the pandemic was underpinned by sound macroeconomic fundamentals, including low public debt, one of the largest fiscal buffers in LAC, and substantial FX reserves. Amid ongoing global uncertainty, Peru's consistent track record of prudent macroeconomic management over the past three decades remains a key anchor of policy credibility.

URUGUAY

Economic growth moderated in 2025 amid a more challenging global environment. Against a backdrop of elevated global uncertainty and trade tensions, real GDP grew by 1.8 percent in 2025, marking a fifth consecutive year of growth following the impact of the COVID-19 pandemic. Growth was driven by manufacturing—reflecting the resumption of oil refining and the dynamism of food processing—as well as trade, accommodation and food services, and financial services. These gains were partly offset by weaker construction, linked to reduced execution of infrastructure projects, and a decline in electricity generation due to less favorable climate conditions.

Labor market conditions remain strong, with continued improvements in employment quality. Activity and employment rates reached historically high levels in January 2026, at 64.6 percent and 59.8 percent, respectively. Unemployment declined to 7.4 percent, down from 8.1 percent a year earlier. These gains were accompanied by reductions in underemployment and in non-registration with the social security system. Overall, these developments point to robust job creation, ongoing formalization of employment, and enhanced job quality.

The new dual fiscal rule is designed to strengthen fiscal discipline and enhance institutional credibility. In 2025, the central government fiscal deficit (GC-BPS) stood at 3.7 percent of GDP, in line with the National Budget. After adjusting for inflows to the Social Security Trust II (FSS II) and for the BPS advance transfer to collection networks covering benefits due in January 2026, the underlying deficit was 4.1 percent of GDP. The National Budget Law introduced a dual fiscal framework anchored by a medium-term net debt objective and supported by two operational targets: the structural fiscal balance and a legal ceiling on net borrowing. The reform also aimed to strengthen fiscal institutions, granting greater autonomy and powers to the Autonomous Fiscal Council and increased the frequency of consultations with the Committee of Experts. Within this framework, the structural fiscal balance reached 3.9 percent of GDP, exactly meeting the budget target. Net borrowing remained comfortably below the legal ceiling, without recourse to the safeguard clause, reinforcing fiscal prudence and intertemporal consistency.

Inflation has been brought under control in Uruguay, enabling the ability to use countercyclical monetary policy. Consumer price developments have been well anchored around the target range for nearly three consecutive years, with inflation expectations among economic analysts anchored at the 4.5 percent objective for several months. Headline inflation fell to 2.94 percent year-on-year in March

2026 —its lowest in decades —alongside a broad-based easing of core inflation. After maintaining a restrictive stance in early 2025, the Central Bank of Uruguay gradually adjusted its policy stance, lowering the monetary policy rate to 5.75 percent by March 2026. This adjustment aimed to bring inflation back to target while supporting the economic activity in an environment of moderating growth.

The banking system remains sound, profitable, and highly resilient. As of December 2025, Uruguay's banking sector recorded strong profitability, with returns of 1.9 percent on assets and 15.7 percent on equity. The ratio of nonperforming loans declined to 1.68 percent, close to historical lows, while solvency averaged nearly twice the regulatory minimum. Stress tests conducted by the Superintendence of Financial Services confirmed that the system could withstand a severe recession while preserving adequate capital buffers. Liquidity conditions also remain highly favorable in the short and long term, as reflected in strong Liquidity Coverage Ratio and Net Stable Funding Ratio indicators.

Uruguay's external position is robust, supported by ample reserves and improving external balances. Central bank reserve assets continued to rise in December 2025, reaching 21.1 percent of GDP. The current account deficit narrowed further to 0.4 percent of GDP in 2025, from 0.8 percent in 2024. This improvement reflects sustained surpluses in goods and services as well as a smaller primary income deficit in the private sector. Collectively, these factors provide important buffers against increased global volatility.

Strong institutions and proactive environmental policies continue to underpin market confidence and access. Uruguay distinguishes itself in a volatile global environment throughout its high-quality institutions, as reflected in top-tier rankings on political rights, civil liberties, and control of corruption. On the environmental front, electricity generation is virtually decarbonized, with renewable sources accounting for roughly 98–99 percent of output. Uruguay was also a pioneer in issuing a sovereign bond with a step-up/step-down coupon structure linked to environmental performance, anchored in its commitments under the Paris Agreement. These strong foundations have supported strong market access and very low sovereign borrowing spreads.