

## 1. Read the extracts and answer the questions that follow.

### Text A — Inflation and fiscal policy in the Eurozone

1 In 2023, **inflation** in the Eurozone remained above the European Central Bank's (ECB) target of 2 %. Higher energy and food prices, coupled with strong labour markets, placed upward pressure on costs. The ECB raised its policy interest rate from 0.5 % in 2021 to 4.0 % in 2024. Fiscal support measures for households were gradually withdrawn as governments sought to reduce budget deficits.

2 Despite slowing growth, unemployment in several member states remained close to historic lows. Some economists warned that continued monetary tightening could increase debt servicing costs for governments already facing high levels of public debt.

### Text B — Chile: exchange rates and fiscal consolidation

1 In Chile, inflation peaked at 12 % in 2022 before falling to 5 % by 2024. The central bank maintained high interest rates to anchor inflation expectations. Fiscal authorities announced spending cuts and a plan to increase tax revenues to rebuild fiscal space.

2 Chile's currency, the peso, appreciated slightly in 2024 as copper export prices recovered. The improvement in the **current account** balance supported the peso despite continued capital outflows. However, higher borrowing costs have slowed private investment growth.

### Text C — International coordination

The International Monetary Fund (IMF) recommended that advanced and emerging economies coordinate policies to reduce volatility in exchange rates and capital flows. It also advised that monetary and fiscal authorities should work together to manage inflation expectations without undermining economic recovery.

Table 1: Selected economic indicators (2024)

Economy	Real GDP growth (%)	Inflation rate (%)	Policy interest rate (%)	Government debt (% of GDP)	Unemployment rate (%)
Eurozone	0.8	5.6	4.0	91	6.3
Chile	2.3	5.0	7.5	37	7.2

Table 2: Consumer Price Index (CPI), base year = 2020 (index = 100)

Year	Eurozone CPI (index)	Chile CPI (index)
2022	111.7	115.4
2023	119.2	123.6
2024	125.9	129.7