2. Outlook and Policy Challenges for Latin America and the Caribbean

Economic activity in Latin America and the Caribbean (LAC) is undergoing a protracted slowdown, in tandem with weaker underlying fundamentals. Growth is projected to decline again in 2015, turning negative before rebounding modestly in 2016. Externally, renewed weakness in commodity prices has further deteriorated the region's terms of trade, reflected in widening current account deficits, exchange rate depreciation, and weakening investment. Financial market strains have also risen to varying degrees, with retreating capital flows placing additional downward pressure on currencies, thus testing the credibility of existing policy frameworks. Domestically, headwinds to growth owing to country-specific factors are also mounting. Policy responses depend on country circumstances, including the depth of the downturn and degree of domestic rigidities. Some countries have already embarked on policy adjustment, but others will need to tighten policies further to address fiscal or external sustainability concerns. Net commodity importers can use the breathing room from lower commodity prices to deepen fiscal adjustment. Exchange rate flexibility remains instrumental for external adjustment, while structural reforms are crucial to address low trend growth.

Protracted Slowdown

Economic activity in Latin America and the Caribbean (LAC) has been slowing steadily since 2010 (Figure 2.1). After several years of high commodity prices and strong regional growth, a period commonly referred to as the "commodity super-cycle," commodity prices have been decreasing since 2011, in tandem with a deceleration in Chinese economic activity, weakening the region's terms of trade. Moreover, this external shock is likely to be persistent. In addition, financial market pressures have risen recently to differing degrees across economies depending on their fundamentals. Concomitantly, important domestic vulnerabilities or constraints have further weighed on growth in key economies.

Against this backdrop, a sharp deceleration is projected in economic activity for LAC in 2015 implying a slight real GDP contraction (–¼ percent), followed by a modest rebound in 2016. The deceleration reflects underlying weaknesses in both aggregate demand and supply, in the context of a less benign external environment. This said, the magnitude and duration of the slowdown is not unusual from a historical perspective (Box 2.1). Obviously, this broad outlook does not apply to every single country in LAC, with net-commodity importers of Central America and the Caribbean benefitting from improved terms of trade and a recovering U.S. economy.

Terms-of-Trade Shocks

Lower global prices for energy, metals, and agricultural goods have been a key factor behind the slowdown. The steady reduction in the region's commodity terms of trade over the last several years has lowered national incomes, reducing private investment[1] and consumption. For example, the drop in commodity terms of trade resulted in more than 20 percentage points of GDP loss for Venezuela, close to 10 percent for Ecuador, about 7 percent for Bolivia and Chile, 5½ percent for Colombia, and about 4 percent for Peru (Figure 2.2). The terms-of-trade shocks to Argentina, Brazil, and Mexico have been weaker; around 2 percent of GDP or less.

Note: Prepared by Marcello Estevão and Nicolas Magud with Ravi Balakrishnan, Carlos Caceres, Geoffrey Keim, Bogdan Lissovolik, Alla Myrvoda, Koffie Nassar, Julien Reynaud, and Marika Santoro and contributions from Ahmed El Ashram, Sebastian Acevedo, and Arnold McIntyre. Geneviève Lindow and Steve Brito provided excellent research assistance, with contributions from Anayochukwu Osueke.

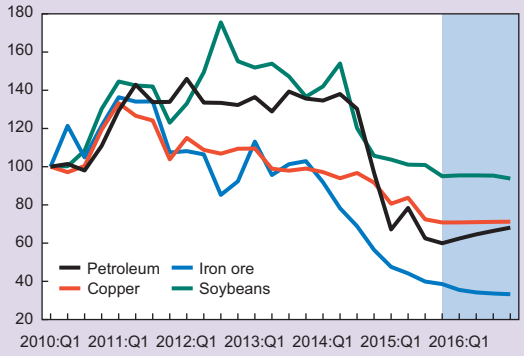
[1] *Regional Economic Outlook: Western Hemisphere*, April 2015, Chapter 4.

Figure 2.1

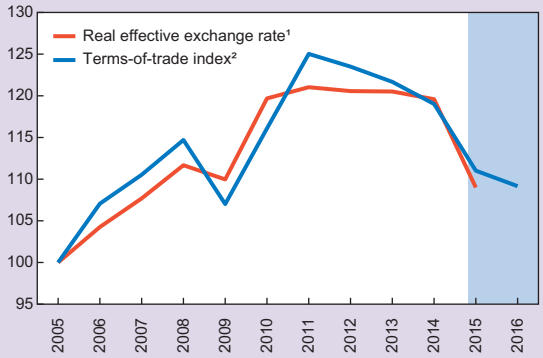
Economic Activity in Latin America and the Caribbean

Commodity prices have been deteriorating and weakening the region's terms of trade, resulting in decelerating activity and reduced medium-term growth projections.

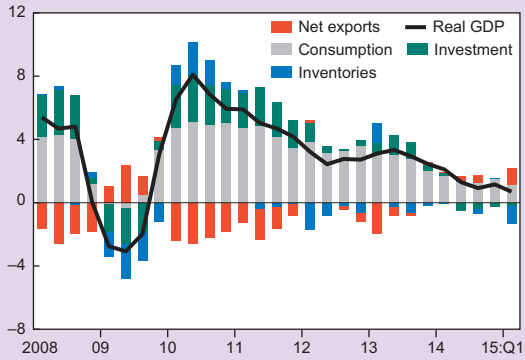
1. Commodity Prices
(Index: 2010:Q1 = 100)



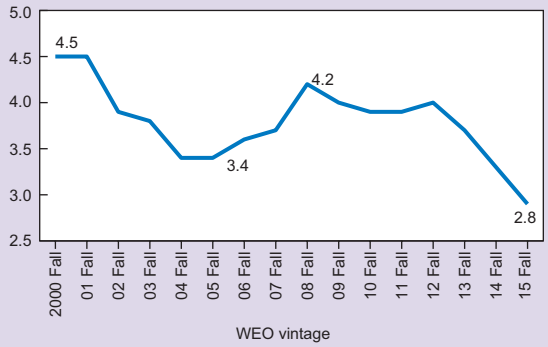
2. LAC: Currency and Terms of Trade
(Index: 2005 = 100)



3. Selected Latin American Countries: Contributions to Real GDP Growth[3]
(Year-over-year percent change)



4. LAC: Projections for End-of-Horizon Real GDP Growth by WEO Vintage, 2000–15
(Percent)



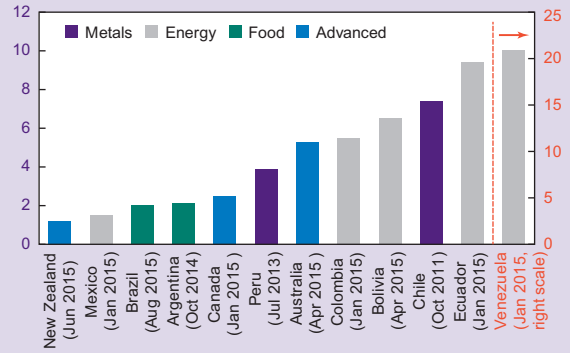
Sources: Haver Analytics; IMF, Primary Commodity Price System database, IMF, World Economic Outlook database; national authorities; and IMF staff calculations and projections.
[1]Purchasing power parity GDP-weighted average of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Data for 2015 are a projection.
[2]Purchasing power parity GDP-weighted statistics; sample includes all 32 LAC countries for which IMF staff estimates terms of trade.
[3]Seasonally adjusted. Purchasing power parity GDP-weighted averages of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru, and Uruguay. Inventories include statistical discrepancies. See Annex 2.1 for details on Argentina's GDP.

On the supply side, the dampened outlook for commodity prices has triggered a reevaluation of the region's growth potential,[2] including because of the impact of decelerating investment on capital accumulation (Figure 2.1).

For most economies in the region, current account and trade deficits widened, while currencies have weakened noticeably. The timing and impact of the shock have varied at the country level, largely because many commodity prices have been weakening since 2011 (for example, metals), while

[2] See *World Economic Outlook*, October 2015, Chapter 2, which finds that annual output growth for commodity exporters, and to some extent medium-term growth, tend to fall during downswings in commodity prices.

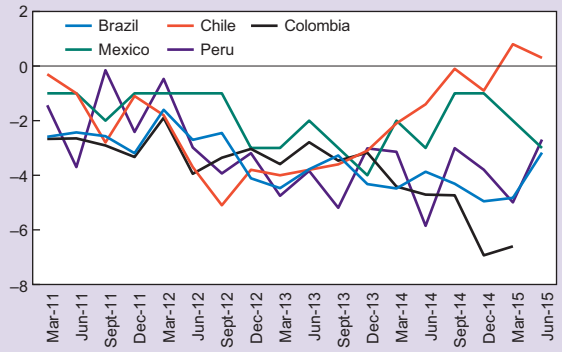
Figure 2.2
Peak-to-Trough Change of Commodity Terms of Trade
(Percentage points of GDP)



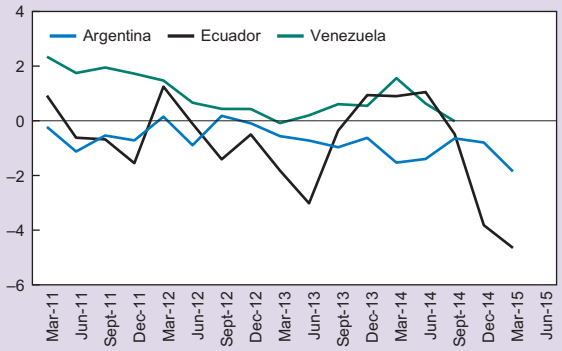
Sources: Gruss 2014; and IMF staff calculations.
Note: Through period of current commodity terms of trade cycle in parentheses for each country. Excludes precious metals, except in Bolivia, Colombia, and Peru.

Figure 2.3
Current Account Adjustments
Current account adjustment occurring at difference pace across countries depending on the type of main commodity exported, and the size and timing of negative price shocks.

1. LA5: Current Account
(Percent of GDP)



2. Other Commodity Exporters: Current Account
(Percent of GDP)



Sources: Haver Analytics, and IMF staff calculations.

others started to decline more recently (such as oil, since mid-2014). In turn, external adjustments to weaker commodity terms of trade are at different stages (Figure 2.3). Chile, being a major exporter of copper, for example, has already undergone significant adjustment in its external current account, with a deficit that is now closed. In contrast, Colombia is still in the midst of adjusting to more recent price declines in oil, its main export.

Adjustment to pressures in the external account has been facilitated by currency movements. Indeed, exchange rate developments have partly reflected weakening terms of trade and the timing of shocks to country-specific commodity prices, with larger depreciations for countries with greater exchange rate flexibility. In turn, more flexibility facilitated a faster response of exports and imports to softer terms of trade.

Some (for example, Chile) that have allowed their exchange rates to respond flexibly to the external shock have seen a significant narrowing of previously large external deficits. Adjustment has been slow in countries where exchange rate depreciation has proceeded at a more gradual pace and supply-side constraints have temporarily dented exports (for example, Peru).

In contrast, countries with dollarized economies (for example, Ecuador) or pegs to the U.S. dollar (for example, Bolivia) have had less room to maneuver—in these countries, current accounts have widened—making them more vulnerable. Net commodity importers in the Caribbean (which have pegs to the U.S. dollar, see Box 2.2) and dollarized economies of Central America have benefitted from lower oil prices, although they continue to post large current account deficits.

Domestic Headwinds

Although the main shock has been external, domestic factors have also played an important role in some countries. For instance, the region's largest economy, Brazil (for which the terms-of-trade shock has been relatively small), has relied too much on demand-bolstering measures in the past and finds itself with limited policy buffers. Moreover, the country is in a tough spot with a case of corruption and a political crisis adversely affecting confidence, thus playing a key role in the deepening recession. The weakening of the currency more recently, however, is expected to provide some relief to tradable sectors of the economy.

Some other countries are stuck in a rut of distortionary interventions and/or weak macroeconomic frameworks and policies. Venezuela is an extreme case, where microeconomic distortions combined with unsustainable macroeconomic policies have led to large imbalances, including very high inflation (indeed, the highest inflation rate in the world in 2014), a deep contraction in activity (the third largest in the world in 2014), and a widening fiscal deficit (the second largest in the world in 2014).

In Argentina, inflation remains high owing to the monetization of the fiscal deficit. Lack of market access is hurting activity and distortive macroeconomic and microeconomic policies are affecting the country's fundamentals. As a result, inflation in Argentina was the fifth highest in the world in 2014.

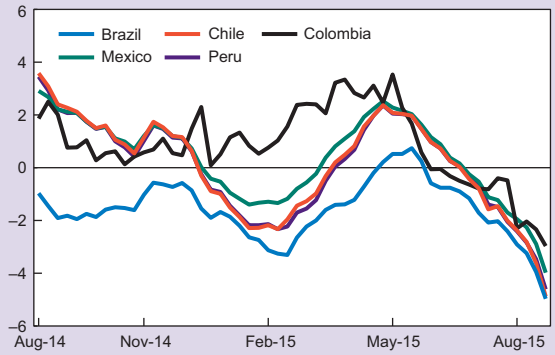
Financial Market Pressures

Financial conditions, meanwhile, have started to tighten in reaction to a changing external environment, although with differentiation depending on domestic realities. The worsening growth outlook for LAC economies, in general, and the strengthening U.S. recovery—with its implications for the Federal Reserve's interest rate tightening (see Chapter 1)—have moderated net capital flows to the region, exerting further exchange rate depreciation pressures (Figure 2.4). Going beyond terms-of-trade changes, currency depreciation has varied within the region, depending on macroeconomic frameworks and country-specific developments, including political stability and past policy decisions.

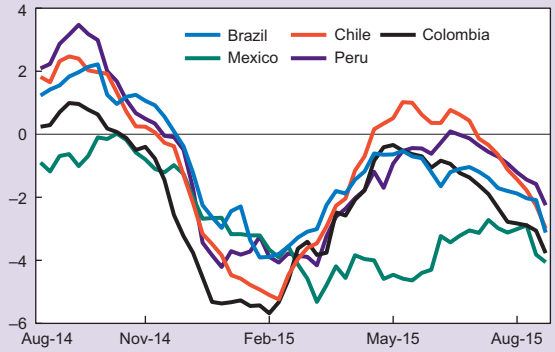
Financial market pressures, more broadly speaking, have been differentiated given underlying fundamentals. Equity prices have come down (Figure 2.5), while corporate spreads have risen, although currency depreciations *so far* do not seem to have caused noticeable balance-sheet strains from possible mismatches between corporate dollar

Figure 2.4
Capital Flows
(Three-month moving sum, percent of initial stock)
Some capital flows turned negative recently.

1. Bonds—Weekly Data



2. Equities—Weekly Data



Sources: Haver Analytics, based on EPFR Global; and IMF staff calculations.

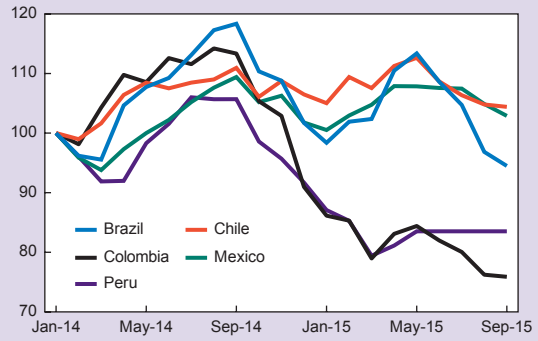
Figure 2.5

Market Valuations and Spreads

Stock market valuations have been receding along with increasing risk.

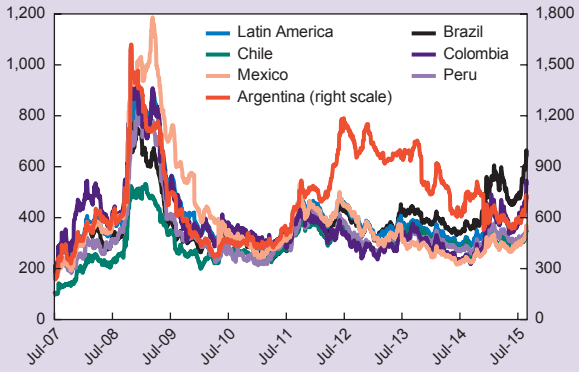
1. LA5: Equity Indices

(Index: January 2014=100)



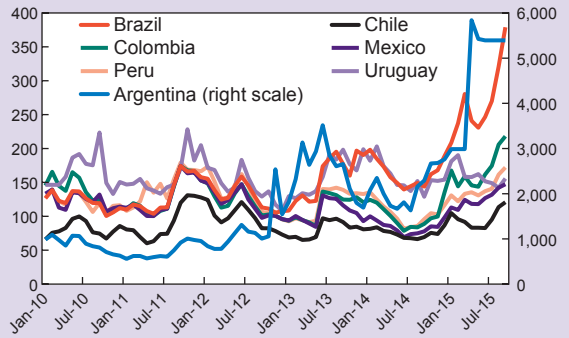
2. LAC: Corporate Spreads[1]

(Basis points, spread over sovereign)



3. LAC: Sovereign Credit Default Swaps[2]

(Basis points)



Sources: Bloomberg, L.P.; and IMF staff calculations.

[1] J.P. Morgan CEMBI Broad Diversified Indices; U.S. dollar-denominated corporate bonds.

[2] Five-year credit default swap sovereign spreads.

liabilities and assets.[3] Less financially integrated economies remained relatively shielded from volatility in financial asset prices but imbalances have surfaced in the form of rapidly deteriorating fiscal and external balances (for example, Bolivia and Paraguay) and a scarcity of goods in Venezuela.

Overall, changes in financial conditions in large swaths of the region have reinforced weaker economic fundamentals. Market pressures have further hurt consumer and business confidence and, in turn, amplified the downward adjustment in activity. These underlying forces intensified more recently as markets downgraded the outlook for Chinese economic growth and financial stability. Besides being a key source of demand for commodities, China is also an important trade partner for many countries in the region, including Brazil, Chile, Peru, Uruguay, and Venezuela. The volatility in financial conditions since August has added to the steadily worsening economic outlook for the region (Figure 2.6).

On the positive side, the economic recovery in the United States will provide some support to LAC's economic growth. That applies in particular to countries with strong links to the U.S. economy, including through trade (Mexico and Central America), remittances (Central America) and tourism (Caribbean).

Downside Risks Dominate

Risks around the baseline are tilted to the downside. If the U.S. economic recovery falters, the economies of Mexico (the second largest in LAC), Central America, and the Caribbean would feel the largest

[3] Chapter 3 of the October 2015 *Global Financial Stability Report* finds that corporate leverage has edged up in Chile, Brazil, Mexico, and Peru. The chapter shows that global drivers have played a significant role in explaining the growth in emerging markets leverage and corporate spreads, suggesting that, in general, those countries must be prepared for a tightening in financial conditions as the U.S. Federal Reserve starts raising interest rates. This is particularly applicable to Latin America, which seems especially sensitive to financial conditions in the United States (Chapter 3).

Figure 2.6

LAC Growth

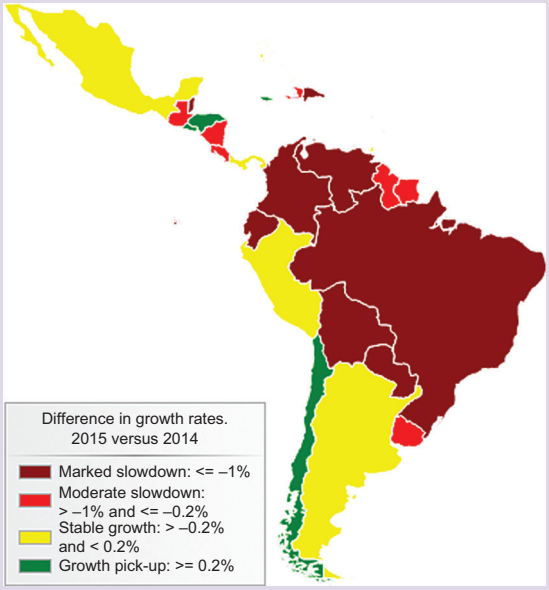
The regional growth deceleration started in 2010 is projected to continue in 2015.

1. LAC: Real GDP Growth[1]

(Percent)

	2013	2014	Projections 2015	Projections 2016
LAC[2]	**2.9**	**1.3**	**–0.3**	**0.8**
Financially integrated economies (LA6)[3]	4.0	2.4	1.5	2.1
Other commodity exporters[3]	6.0	2.0	–0.6	0.1
CAPDR[3]	4.2	4.4	4.0	4.1
Caribbean				
Tourism-dependent[3]	1.5	2.4	2.3	2.3
Commodity exporters[3]	2.8	2.5	2.0	2.5
Memorandum items:				
Brazil	2.7	0.1	–3.0	–1.0
Mexico	1.4	2.1	2.3	2.8

2. LAC: Growth Momentum, 2014–15



Sources: IMF, World Economic Outlook database; and IMF staff calculations and projections.
Note: For country group information see page 89.
[1]For definitions of the other country groups and details on the aggregation method, see Table 2.1.
[2]Purchasing power parity GDP-weighted average.
[3]Simple average.

pain. Of course, an upside to the U.S. recovery would be good for the world economy and there is some evidence that capital flows to LAC could grow if U.S. Federal Reserve policy rates were to rise owing to better growth dynamics, as long as the term premium embedded in long-term U.S. treasuries does not rise (Chapter 3).

More importantly, the expected lift-off of policy rates in the United States poses risks to the region. Previous U.S. monetary tightening cycles have been typically associated with a *declining* term premium on U.S. long-term yields. However, the term premium is currently well below historical averages (Chapter 1). That could reverse if markets perceive policy risks going forward. Stronger wage growth or another sign of growing inflationary pressures in the United States could also raise the term premium on top of a steeper path for expected changes in short-term rates. A sharper rise in longer-term bond yields in the United States associated with a larger term premium would trigger tighter financial conditions and lower economic growth in Latin America (Chapter 3).

China's recent stock market volatility and changes in currency management illustrate the potential for shocks from Asia. A harder-than-expected landing of the Chinese economy would have deleterious effects on external demand for LAC's exports and commodity prices more broadly. The latter would affect South America negatively but represent a boon to net commodity importers in the region (mainly Central American countries and most of the Caribbean). Moreover, this highlights the need for diversifying away from commodity dependence. Deeper integration into global value chains could raise diversification in LAC economies. But, we find that the direct trade impact on LAC of more integration into global value chains would likely be small (Chapter 4).

The potential for financial disturbances emanating from Europe is still alive despite the positive developments in the Greek negotiations. However, direct spillovers to asset prices in LAC would probably be minor, as seen during recent episodes, partly owing to the region's limited financial integration (Box 2.3).

Financially Integrated Economies

Developments and Outlook

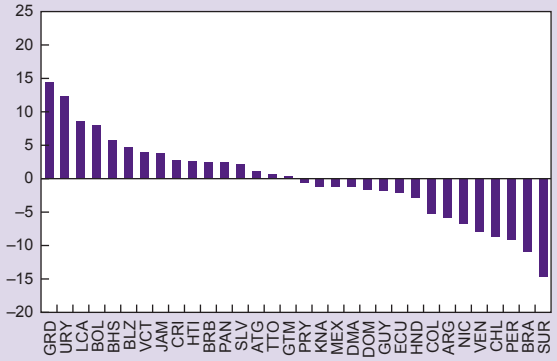
Economic activity among Latin America's financially integrated economies (LA6: Brazil, Chile, Colombia, Mexico, Peru, and Uruguay) has diverged, as external and domestic factors weigh differently in each country (Figure 2.7).

Figure 2.7

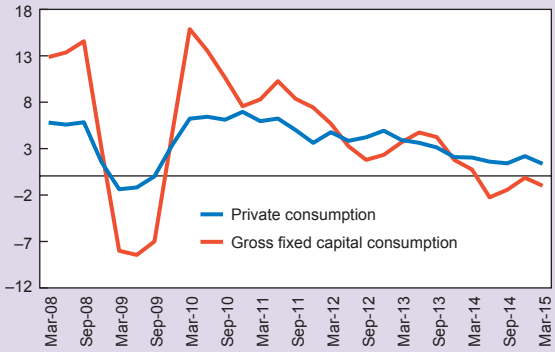
Effects of Worsening Terms of Trade

Worsening terms of trade have hit Latin America, weighing on domestic demand spending and real wages, impacting on private sector confidence and weakening real exchange rates. Economies linked to U.S. growth are holding up.

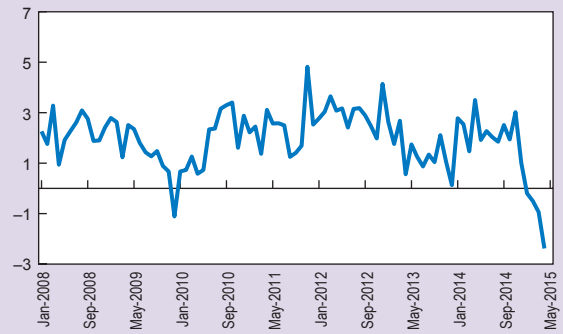
1. Terms of Trade, 2014 vs. 2011
(Cumulative percentage change)



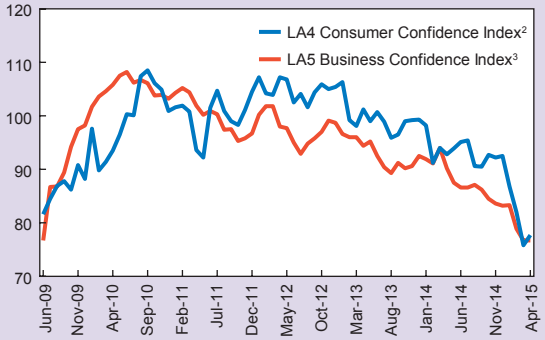
2. LA5: Private Consumption and Gross Fixed Capital Formation
(Year-over-year percent change)



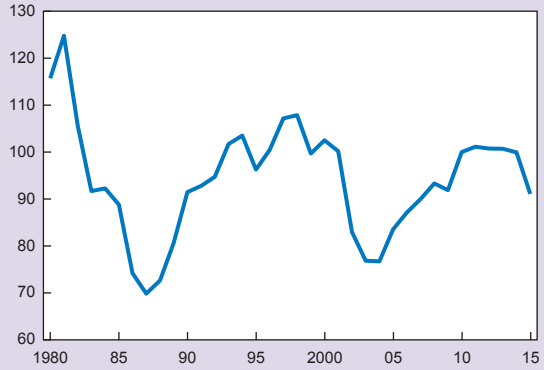
3. Latin America: Real Wage Growth[1]
(12-month percentage change, seasonally adjusted)



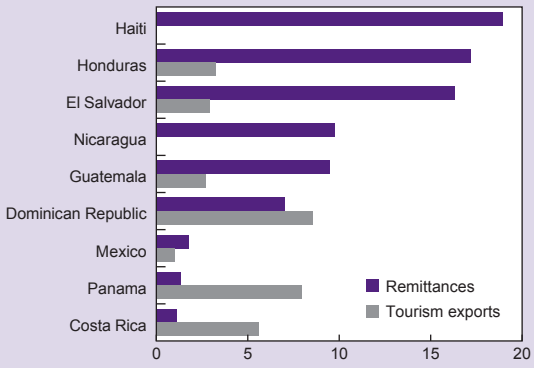
4. Latin America: Confidence Indices
(Index: 2011=100)



5. Latin America: Real Effective Exchange Rate[4]
(Index: 2010=100, increase=appreciation)



6. Remittances and Tourism Exports, 2013–14
(Average, percent of GDP)



Sources: Haver Analytics; IMF, International Financial Statistics database; IMF, World Economic Outlook database; national authorities; UN Comtrade; and IMF staff calculations and projections.
Note: For country acronyms see page 89.
[1]Purchasing power parity-weighted GDP averages of Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Uruguay. Peru data are minimum wage real index.
[2]Purchasing power parity GDP-weighted average of Brazil, Chile, Colombia, and Mexico.
[3]Purchasing power parity GDP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.
[4]Purchasing power parity GDP-weighted average of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela. Data for 2015 are a projection.

After stalling in 2014, the Brazilian economy is projected to contract noticeably by 3 percent in 2015 and 1 percent in 2016. While external factors such as deteriorating commodity prices explain some of the contraction in activity, domestic factors are the biggest drag. Brazil entered mid-2014 with large macroeconomic imbalances stemming from a diagnosis that the economic slowdown since 2010 was caused by lack of sufficient aggregate demand. With inflation well above the central bank target, public policies appropriately shifted to avoid a more severe economic crisis toward a tighter monetary stance and a fiscal adjustment to contain inflationary pressures and stabilize the trajectory of public debt.

At the same time, a serious political crisis has been triggered by a wide-ranging investigation of corruption involving Brazil's major oil company, Petrobras, its private sector contractors, and politicians; allegations of campaign finance irregularities during the 2014 presidential elections; and a review by the Federal Court of Accounts questioning the 2014 fiscal accounts. The interaction of the economic and political crisis has fueled uncertainty and driven consumer and business confidence to historical lows, further undermining current and prospective economic activity. The economic slowdown has depressed fiscal revenues well below the authorities' initial expectations and, together with lack of congressional support for further spending cuts, led to a marked downward revision of fiscal targets for 2015–17. This has raised market concerns about the sustainability of public debt, and triggered a sovereign downgrade to junk status by a debt rating agency this September.[4] Largely reflecting these developments, yields on government debt have risen steeply since July.

In Mexico, the economy is projected to expand by 2¼ percent in 2015 and 2¾ percent in 2016—more slowly than previously anticipated. The more gradual recovery is attributed largely to a further decline in oil production and a weaker-than-expected recovery in construction activity. Fiscal consolidation is projected to have exerted only a modest drag on growth. Looking ahead, a projected rebound in industrial activity in the United States should boost manufacturing output and overall growth in Mexico. On the negative side, low oil prices have forced the government to announce a restrictive fiscal budget for 2016 and underscore recent downward revisions in growth potential. The implementation of structural reforms is expected to work in the opposite direction and boost economic activity in the medium term through higher private investment and increased productivity.

In Chile, domestic factors have added to the drag on activity emanating from falling commodity prices. Private domestic demand is expected to remain subdued in 2015, with private investment affected by the large decline in business confidence reflecting both low copper prices (which fell by about 20 percent in the three months between May and August 2015) and the short-term costs from the structural reform agenda. Consumer confidence also weakened in 2015, on the back of slower growth in private sector employment and wages. Chile's real GDP growth is expected to pick up modestly in 2015 to 2¼ percent, mainly reflecting the large fiscal stimulus this year (in particular through greater capital spending). Growth for 2016 is projected at 2½ percent, over ½ percentage point less than that projected in April, on account of weaker copper prices. The recent depreciation of the peso (15 percent since May) is expected to slow the return of inflation to within the central bank's target range, but medium-term inflation expectations remain anchored around the central bank's 3 percent target.

Peru's growth slowed sharply last year as a result of a drop in private investment as well as subnational public investment and temporary supply disruptions in fishing, mining, and agriculture. As some of the shocks lingered into 2015, and were

[4] Specifically, on September 9 Standard and Poor's moved Brazil's sovereign rating below investment grade. A number of banks and nonfinancial corporations' credit rating was downgraded as well, in accordance with Standard and Poor's policies for rating other issuers in relation to the sovereign. So far, Fitch and Moody's have kept Brazil's sovereign investment grade credit rating.

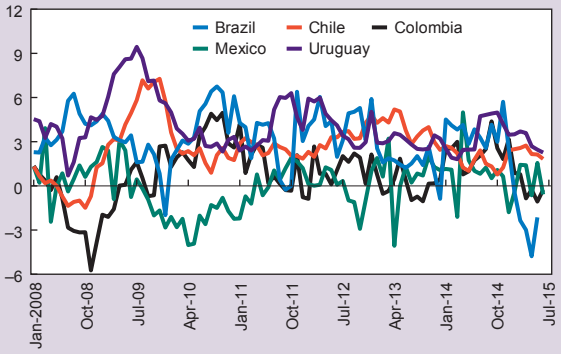
compounded by the renewed slide in metal prices, Peru's economy is projected to grow this year at a similar pace as in 2014 (about 2½ percent). Growth is expected to pick up to about 3¼ percent in 2016, supported by a rebound in mining production, although there is considerable uncertainty, including from a possibly stronger-than-expected negative impact from the El Niño weather phenomenon.

Whereas Chile and Peru have been adjusting to lower metal prices since 2013, the Colombian economy has been hit by the more recent sharp decline in oil prices. Real GDP growth is projected at 2½ percent in 2015, down from 4.6 percent in 2014, as the sizable worsening of its terms of trade since mid–2014 has hurt domestic income, business confidence, and private investment. As oil prices stabilize in 2015 and the U.S. economy continues to recover, growth is projected to rebound modestly in 2016. However, lower oil prices increase fiscal challenges owing to reduced revenues.

Negative spillovers from weak economic activity in Argentina and Brazil are expected to weigh on growth in Uruguay, projected at 2½ percent in 2015—about 1 percent lower than in 2014—slowing to 2¼ percent in 2016. Notwithstanding the deceleration in economic activity so far, inflation remains stubbornly above the central bank's target band.

Labor markets are weakening (with the rapid rise in the unemployment rate in Brazil in the past 12 months being particularly noteworthy) and real wages growth has slowed in most countries since end-2014 (Figure 2.8). Despite growing labor market slack, other indicators, such as large external current account deficits and relatively high inflation, suggest little space for active demand support in LA6 economies, though. The current account deficits have been financed in great part by sizable foreign direct investment (FDI), although portfolio inflows have also contributed and foreign ownership of domestic assets increased in most countries (Figure 2.9). This entails some risks if international financing conditions were to change abruptly.

Figure 2.8
Real wages have been decelerating.
LA6: Real Wage Growth
(12-month percentage change, seasonally adjusted)



Sources: Haver Analytics; and IMF staff calculations.
Note: Excludes Peru.

The LA6 financial sector appears reasonably sound, with low levels of non-performing loans (NPLs). However, corporate and household debt has been increasing in most countries, requiring vigilance, especially as international interest rates are set to rise.[5] For instance, in Brazil, NPLs for at least 90 days remain at 3 percent system-wide; nevertheless, for non-earmarked loans, which represent about one-half of bank loans, NPLs stood at 4.8 percent in July, their highest in 19 months. The ongoing recession and rising unemployment are expected to further affect loan performance in coming quarters. While banks' soundness indicators remain strong, their profitability is likely to be affected by the overall state of the economy. Credit has been decelerating for several quarters now, and in real terms credit to the private sector stopped growing in July.

Excess exchange rate volatility might pose additional risks to countries with larger exposure to foreign exchange credit (for example, Peru and Uruguay). In addition, a weaker currency could help boost exports noticeably in more diversified economies (for example, Brazil) but its effect could be more limited elsewhere, at least until investment can be directed to other tradable sectors. The negative income effect from lower commodity

[5] *Global Financial Stability Report*, October 2015, Chapter 3.

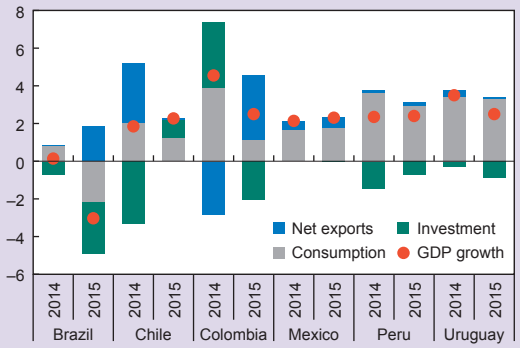
Figure 2.9

Growth Dynamics and Measures of Slack and Adjustment Divergence

Growth dynamics across financially integrated economies diverge, with mixed measures of slack. Lower wages suggest some softening in labor markets, though current account deficits are widening despite depreciating domestic currencies owing to weaker terms of trade—with some pass-through to inflation.

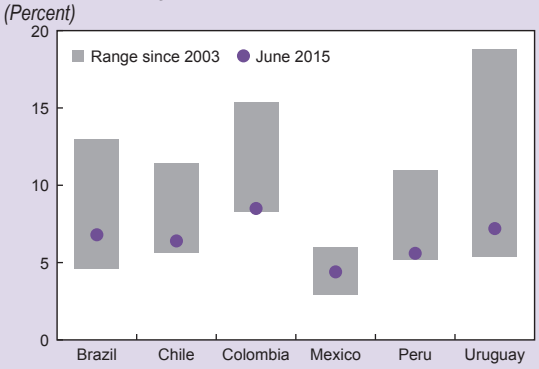
1. LA6: Real GDP Growth Contributions

(Percentage points)



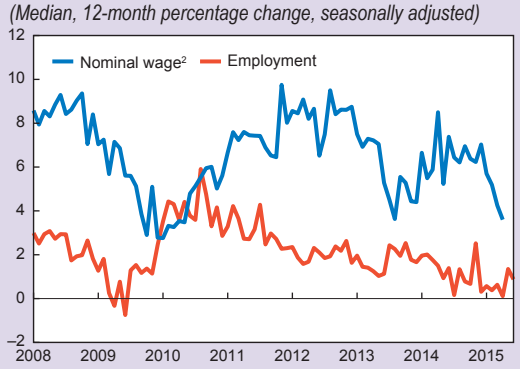
2. LA6: Unemployment Rate[1]

(Percent)



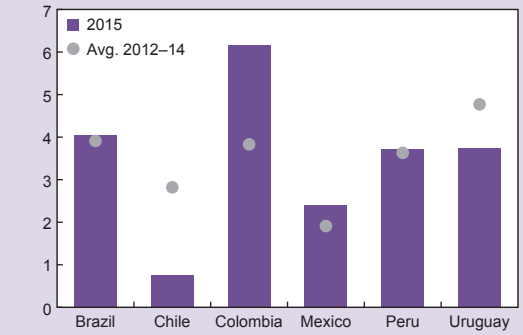
3. LA6: Nominal Wage and Employment Growth

(Median, 12-month percentage change, seasonally adjusted)

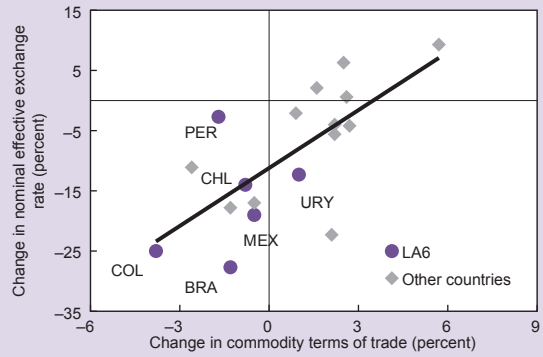


4. LA6: External Current Account Deficit

(Percent of GDP)

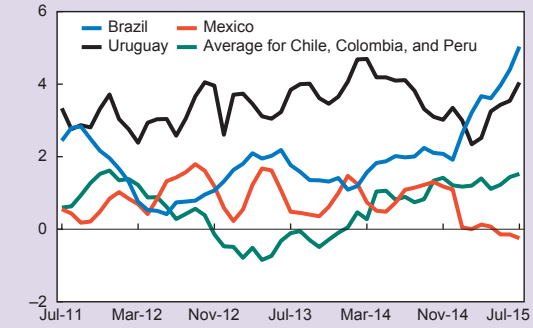


5. LA6: Change in NEER versus Change in Commodity Terms of Trade Since April 2013[3]



6. LA6: Headline Inflation Less Inflation Target

(12-month percentage change)



Sources: Bloomberg, L.P.; Haver Analytics; IMF, Information Notice System database; IMF, World Economic Outlook database; national authorities; UN Comtrade; and IMF staff calculations and projections.

Note: For country acronyms, see page 89; NEER = nominal effective exchange rate.

[1]Seasonally adjusted.

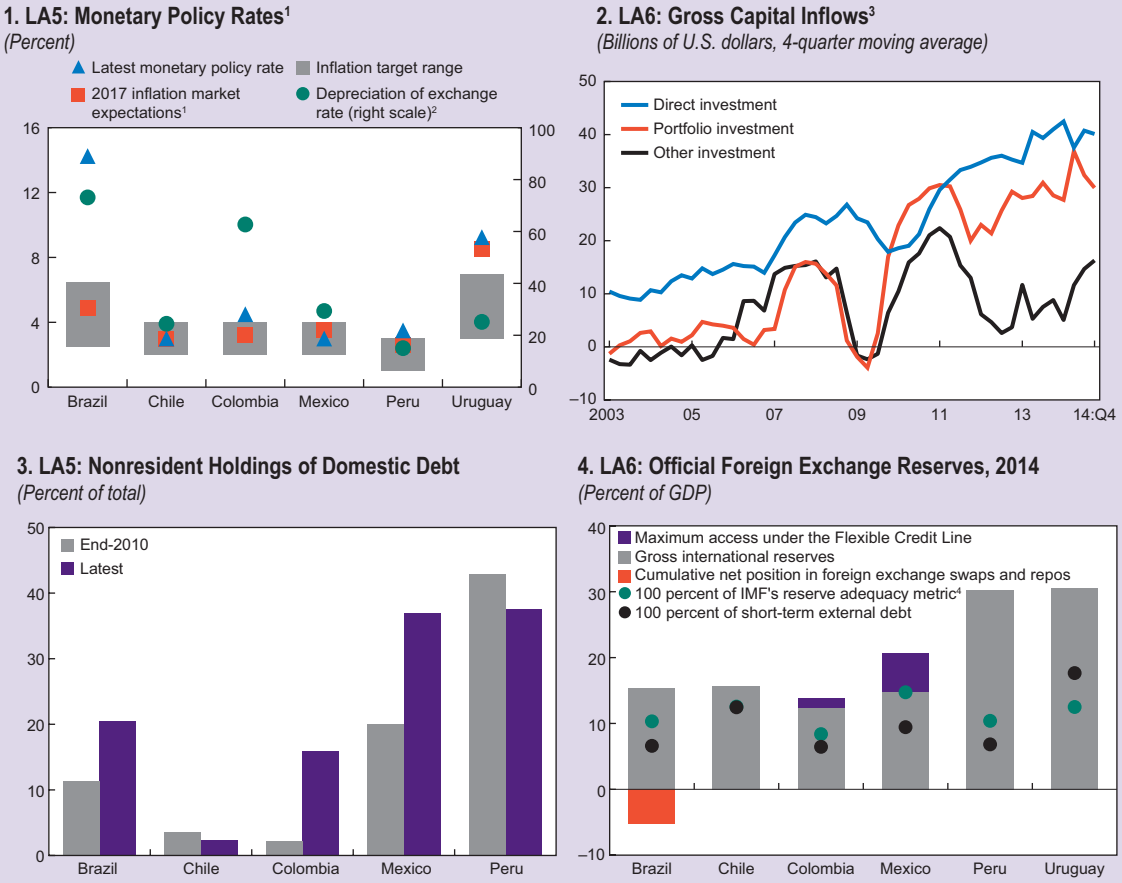
[2]Peru data are minimum wage.

[3]Data are through end-July 2015. Other countries include Hungary, India, Indonesia, Israel, Korea, Malaysia, Philippines, Poland, Romania, South Africa, Thailand, and Turkey. Commodity terms of trade are weighted by the share of commodity exports/imports in GDP; thus, a 1 percent increase can be interpreted approximately as an income gain of 1 percent of GDP. Indices exclude precious metals, except for Colombia and Peru. See also Gruss (2014).

Figure 2.10

Monetary Policy, Inflation, and Capital Flows

Inflation is on the rise, but inflation expectations remain well anchored. Though moderating, capital inflows have continued to finance LA6's widening external current account deficits. High shares of non-resident holdings of domestic debt remain a risk. However, large stocks of international reserves and exchange rate flexibility provide some protection from external shocks.



Sources: Bloomberg, L.P.; IMF, Balance of Payments Statistics Yearbook database; IMF, International Financial Statistics database; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: For region name abbreviations, see page 89.
[1]Data come from national authorities, surveys, and market participants.
[2]National currency per U.S. dollar. Percentage change on the average of June 2014 to the average of September 2015.
[3]Excludes Peru.
[4]Methodology described in Assessing Reserve Adequacy, Specific Proposals, IMF (2015).

prices, and, thus, lower domestic purchasing power would counteract some of the positive exports effect from a currency depreciation. The Latin American experience suggests that the net benefits of a currency depreciation associated with lower commodity prices are indeed limited.[6] Inflation rates are either near or above the upper bound of the inflation target range in LA6 but markets expect that 2017 inflation will fall within targeted ranges (Figure 2.10), with the exception of Uruguay, suggesting limited second-round effects from the currency depreciation so far.

[6] *Regional Economic Outlook: Western Hemisphere*, April 2015, Chapter 2.

Policy Priorities

Persistently weaker commodity prices have changed the outlook for LA6 economies. Financial conditions are expected to tighten and currencies could soften further. Against this backdrop, policymakers need to continue to allow exchange rate flexibility aiming at facilitating external adjustment, while keeping an eye on inflation targets.

The depreciation in regional currencies reflects a relative price shock and weaker underlying fundamentals and, thus, should be accommodated by the monetary authorities. Central banks should, however, remain attentive to possible second-round effects (for example, accelerating wage demands or unmooring of inflation expectations) and tighten the monetary stance if needed to preserve the credibility of their inflation target frameworks. So far, medium-term inflation expectations remain within the targeted ranges (Figure 2.9). Exchange rate flexibility comes with a risk, though, especially where the exposure to foreign exchange denominated-debt, in a context of increasing leverage, is relevant. While there are only a few indications of large corporate balance-sheet mismatches in LA6 countries to date, authorities in more dollarized economies (Peru and Uruguay) need to be especially attentive to excess exchange rate volatility. If needed, intervention in foreign exchange markets should be temporary and limited to smoothing short-term fluctuations in exchange rates, aimed at avoiding excessive volatility, possibly following a rules-based, sterilized operation.

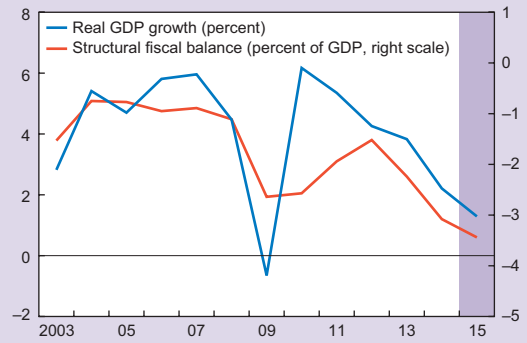
While the current debt outlook is generally manageable in LA6 countries, the incomplete reversal of the fiscal stimulus implemented during the crisis has reduced fiscal buffers to confront possible future downturns (Celasun and others 2015). Public debt in most of these countries remains above precrisis levels (Figure 2.11), primary balances have deteriorated, and, despite the still favorable global financial conditions, the difference between interest rates and GDP growth is larger than before. This heightens vulnerabilities to potential shocks and spending pressures, including from long-term social liabilities, guarantees to public enterprises, and natural disasters, while at the same time tests the credibility and strength of existing policy frameworks. In view of these risks, there is a clear case for rebuilding fiscal buffers across LA6 countries. Gaining fiscal space is also needed to protect the income redistribution policies that have served LA6 countries well during the last decade (Box 2.4).

More specifically, in Brazil, the focus of macroeconomic policies should be on bolstering credibility and addressing supply-side constraints. Fiscal consolidation should proceed without

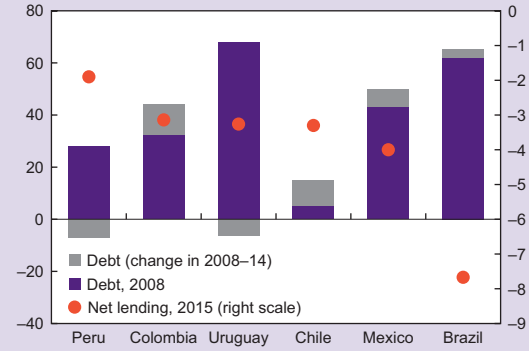
Figure 2.11
Deteriorated Fiscal Positions

Countercyclical fiscal deficits have increased public debt in recent years.

1. LA5: Real GDP Growth and Structural Fiscal Balance[1]



2. LA6: General Government Gross Debt and Net Lending[2]
(Percent of fiscal year GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations and projections.
Note: For country acronyms see page 89.
[1]Simple average of Brazil, Chile, Colombia, Mexico, and Peru.
[2]For definitions of government coverage, see Table 2.2.

delay and monetary policy should remain tight to bring inflation back toward the central bank's central target.

Strengthening fiscal and monetary policy frameworks and alleviating structural bottlenecks are needed to boost investment, productivity, and competitiveness. Within this broad contour, exchange rate flexibility should continue to be used as the main external shock absorber. The ongoing foreign exchange intervention through swap operations could be gradually unwound and limited to episodes of excessive market volatility. Lending by public banks should focus on missing markets only; in practice implying reductions from their current level of credit creation. The risks to banks' balance sheets from the effects of the recession calls for close supervision.

In Mexico, monetary policy has remained appropriately accommodative as inflation is slightly below the central bank target and output below potential. The depreciation of the exchange rate reflects deteriorating oil prices (and their impact on future oil investment). With the monetary stance well calibrated to business cycle conditions, fiscal policy consolidation (consistent with a lower world oil price environment) is critical to put the debt ratio into a downward path. A steady and transparent implementation of the proposed structural reforms is critical.

There is room for monetary policy to remain accommodative in Chile (given downside risks to economic activity and still well-anchored inflation expectations), while remaining attentive to second-round effects of the ongoing currency depreciation. Fiscal consolidation is warranted following this year's large fiscal impulse to help anchor inflation expectations and restore confidence. The structural reform agenda should be designed and implemented with the objective of minimizing potential short-term negative effects, including those related to policy uncertainty. Although the financial sector is generally healthy, prudential measures might need to be considered if corporate debt continues to grow rapidly. Strengthening the regulatory and supervisory framework for life insurance companies and financial conglomerates would buttress Chile's financial sector.

Monetary policy faces similar challenges in Peru, where the economy has also been adjusting to the protracted decline in international metal prices. Allowing some pass-through of exchange rate depreciation to consumer prices is sensible, but monetary policy should remain responsive to inflation expectations and external developments. Exchange rate flexibility should be the first line of defense against any additional external pressures, although intervention may be needed to avoid excessive market volatility given dollarization. Ongoing dedollarization efforts should be continued, with macroprudential measures being a useful tool to strengthen the financial system while dedollarization proceeds. Deepening structural reforms to raise productivity and economic diversification would leverage the benefits of currency depreciations when shocks hit the commodity sector. Although Peru has policy space to do more if the slowdown is protracted, the priority should be effective implementation of existing stimulus measures. Accelerating the execution of public investment is urgent, while hikes in non-priority current spending should be avoided. As the recovery takes hold, the gradual withdrawal of fiscal stimulus will be appropriate.

The Colombian economy is in an earlier phase of deceleration than the economies of Chile and Peru. Thus, so far, a broadly neutral monetary policy stance would be consistent with achieving the inflation target in the near to medium term, despite some near-term pressure on inflation from the currency depreciation. This said, inflation expectations need to be monitored carefully. Some fiscal tightening will be required to accommodate lower-than-expected revenues owing to weaker oil prices, however. Revenue mobilization will be needed to protect social and infrastructure spending, including through tax reform (increasing the rate and the base of the value-added tax) and better enforcement. Colombia's ambitious infrastructure program based on public-private partnerships is welcome, though contingent fiscal risks should be carefully assessed. With deepening

financial activity in the country also comes the need for stronger supervision of nonbank financial intermediation, while the derivatives market's regulatory regime could be further simplified.

In Uruguay, where inflation has exceeded the target range since 2010, a comprehensive disinflation strategy is needed to bring inflation to the mid-point of the target range. This would include maintaining a tight monetary policy stance, moving toward more restrictive fiscal policy, and reducing the extent of backward-looking wage indexation. While exchange rate flexibility continues to be a key adjustment variable, it would be useful to strengthen risk weights for foreign currency loans to unhedged borrowers and to incorporate a greater exchange rate stress scenario into the supervisory stress tests.

Other Commodity Exporters

Developments and Outlook

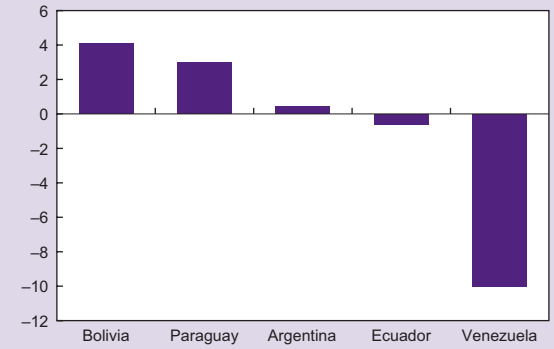
Weaker commodity prices have also affected most of the other commodity exporters of South America, which are less financially integrated (Figure 2.12). The abrupt drop in the price of oil since mid-2014, on the one hand, has had a marked impact, especially in Venezuela but also in Bolivia and Ecuador. On the other hand, lower oil prices have benefited Paraguay, a heavy hydrocarbons importer.

Venezuela has been pursuing unsustainable macroeconomic policies for several years on the back of widespread microeconomic distortions. This has resulted in high and rapidly increasing inflation (projected to be about 200 percent in 2015 and 2016), a severe scarcity of goods, and a black market exchange rate that is currently more than 100 times larger than the lowest official exchange rate (in a system of multiple exchange rates, but for which 95 percent of the transactions take place at the lowest official exchange rate). Against this backdrop, Venezuela was hard hit by the sudden fall in its terms of trade (which has also compressed fiscal revenues from the government-owned oil producer Petróleos de Venezuela

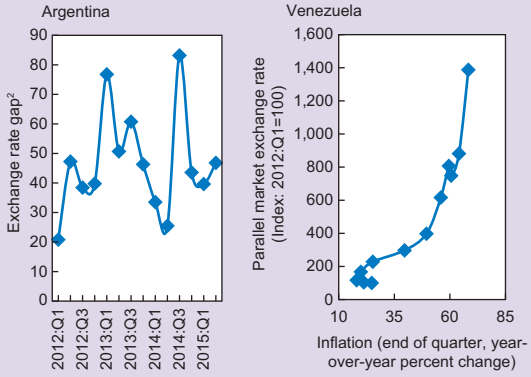
Figure 2.12
Real GDP, Exchange Rates, and Sovereign Spreads

Softer commodity prices strongly affected other commodity exporters. In turn, weaker terms of trade were amplified in countries with larger imbalances

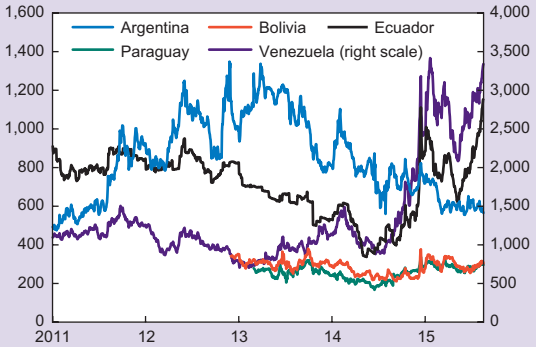
1. Other Commodity Exporters: Real GDP Growth
(2015, percent)



2. Parallel Market Exchange Rates
2012:Q1–2015:Q2[1]



3. Other Commodity Exporters: Sovereign Credit Spreads[3]
(Basis points)



Sources: Bloomberg, L.P.; Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
[1]Latest data for Venezuela are 2014:Q4.
[2]Difference of the parallel exchange rate and the official exchange rate as percentage of the official exchange rate.
[3]Refers to J.P. Morgan Emerging Market Bond Index.

(PDVSA), private sector confidence has collapsed, and the economy has been in a deep recession since 2014. Venezuela's GDP is projected to contract by about 10 percent in 2015 and 6 percent in 2016.

Ecuador's economic and financial outlook has deteriorated substantially. Following a 3.8 percent expansion in economic activity during 2014, GDP is projected to contract by about ½ percent in 2015 and to remain flat in 2016. This sharp deceleration results mainly from the strong fiscal response to the drop in oil prices, but also to the contraction of liquidity in the financial system and weakening consumer confidence. The oil shock and worse terms of trade in the presence of dollarization have caused a marked deterioration of the external current account, which has led the authorities to impose trade restrictions.

In Argentina, a strong fiscal impulse has helped stabilize economic activity in 2015 but macroeconomic imbalances have worsened. Government spending has boosted private consumption and construction activity, while industrial production growth ceased to decline in June and July (in year-over-year terms) after two years of contraction. Balance of payments pressures have remained relatively contained so far in 2015, although the gap between the official and parallel exchange rates widened to about 50 percent as of September despite the central bank's attempts to increase the supply of foreign exchange and support the demand for the Argentine peso, including through higher deposit rates. The monetary and fiscal policy mix continues to be unsustainable, and macroeconomic imbalances, fueled by the greater monetization of fiscal deficits and exchange rate overvaluation, have deteriorated in 2015. Growth is expected to remain around ½ percent for 2015, with heavy foreign exchange controls continuing to depress investment and imports, while the weakening terms of trade, the ongoing recession in Brazil (Argentina's main trading partner), and the real appreciation of the peso weigh on exports and contribute to a further decline in the trade surplus.

In Bolivia, owing to weaker hydrocarbon prices, growth is projected to moderate to a still-robust 4 percent in 2015, down from 5½ percent in 2014. The external current account, which deteriorated from a surplus of 3½ percent of GDP in 2013 to a balance in 2014, is projected to further deteriorate to a large deficit of about 4½ percent of GDP in 2015. The slowing economy and weaker energy-related exports will further increase the public sector primary deficit in 2015 to about 5 percent of GDP. Although Bolivia has some prior buffers, the sharp deterioration in the external current account and the fiscal balance are worth monitoring.

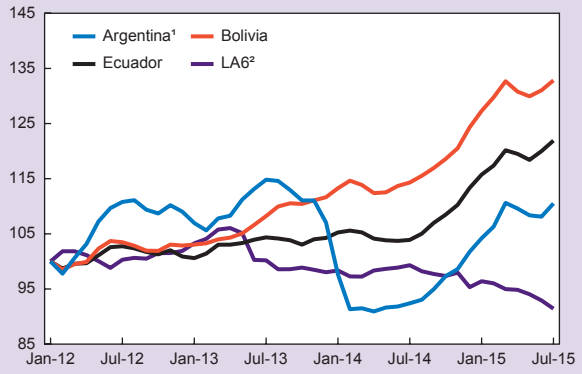
In Paraguay, economic activity has slowed in recent months, reflecting adverse spillover effects from the recession in its largest trading partner, Brazil, and the continued decline in agricultural commodity prices. Nonetheless, the broader outlook remains comparatively benign, underpinned by sound macroeconomic fundamentals, favorable demographics, and the potential from ongoing economic diversification. Growth is projected to decline to 3 percent in 2015.

Policy Priorities

First and foremost, greater exchange rate flexibility would allow these economies to better absorb the impact of weaker terms of trade (Figure 2.13). Countries with unsustainable fiscal expansions would need to go through the needed adjustment to put public finances in order.

Venezuela needs to correct several years of macroeconomic and microeconomic mismanagement to turn around dire economic and social conditions. On the macroeconomic side, this includes reducing the public sector deficit and ending its monetization, reigning in extremely high inflation, and correcting the many distortions in the foreign exchange market. Removing trade restrictions and price controls is important to alleviate the scarcity of goods, while relative price corrections through the removal of subsidies and controls will be necessary to bolster confidence and stimulate private investment.

Figure 2.13
Other Commodity Exporters: Real Effective Exchange Rates
(Index: January 2012 = 100)



Source: IMF, Information Notice System database; and IMF staff calculations.
[1]Real effective exchange rate using wage index for Argentina, CPI for trading partners and the official exchange rate.
[2]Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

In Bolivia, a key policy imperative is to improve the nonhydrocarbons primary balance. A progressive approach to meet this objective could be pursued, particularly since there are currently sizable buffers of low debt, large reserves, low dollarization, and a reasonably sound financial system. Other important reforms include strengthening the monetary policy framework and upholding the central bank operational independence and the primacy of its price stability mandate; adopting a strong medium-term fiscal framework; clarifying commodity-related investment regimes; and improving the business climate in general. Modifying credit quotas and interest rate caps under the financial services law may be warranted if financial stability risks become material. Greater exchange rate flexibility would facilitate the adjustment to a new external context.

Policy alternatives are more limited in fully dollarized economies, such as Ecuador. The authorities have adjusted to the new external conditions with a strong fiscal retrenchment, but any financing shortfall would have to be addressed with further fiscal effort. To regain competitiveness in the face of real currency overvaluation and prevent protracted slow growth, substantial real wage and price adjustments are called for. Diminishing liquidity in the banking system warrants close monitoring and rapid reaction if pressures continue, while eliminating restrictions and distortions in the banking system as well as enhancing supervision would make the system more resilient to shocks. The authorities' own timeframe for removing import surcharges is an important policy decision, so that resource allocation responds more effectively to new market realities. Bolstering private sector confidence by improving the business environment would be key to stemming deposit declines and preserving dollarization, as well as to sustaining healthy medium-term growth and reducing oil dependence. A broad structural reform agenda will be essential to foster productivity, crowd-in the private sector, attract FDI, and raise economic diversification.

Argentina needs to remove microeconomic distortions, which magnify the need for macroeconomic adjustment, in order to rekindle growth. In particular, foreign exchange controls have distorted relative prices, generated a parallel foreign exchange market, and eroded competitiveness. Utility prices have been frozen, driving a wedge between retail prices and cost recovery, while price agreements have temporarily contained deep inflationary pressures. Unwinding these distortions is crucial to a better allocation of resources and higher growth following price adjustments. Fiscal adjustment and a tighter monetary stance will be needed to contain the effects on inflation and limit the resulting depreciating pressures on the Argentine peso. In turn, eliminating distortionary subsidies and reducing inflation would pave the way for more equitable growth.

In the case of Paraguay, sticking to the 1½ percent of GDP deficit target will be important to build credibility for the recently enacted Fiscal Responsibility Law. Efforts should concentrate on further improving tax enforcement and containing current spending. Meanwhile, structural reforms are critical to secure sustained solid growth—the priority being to enhance the effectiveness of the public administration and provide better public

services, including in infrastructure, education, and the legal system.

Central America and the Dominican Republic

Developments and Outlook

Central America, Panama, and the Dominican Republic (CAPDR) have benefited from the recovery in the United States and the continued weakness in international energy prices, as the region is a net importer of hydrocarbons. This mix favors a "virtuous circle" of stronger demand, lower inflation, and a better external position. Yet, some of the hoped-for gains are still tentative, while strong policies are essential to reap durable benefits from the favorable conditions.

Growth has been robust at 4¼ percent over the year ending in the first quarter of 2015 (Figure 2.14), but slightly below that of 2014 (4½ percent). Among the possible explanations for this small deceleration in economic activity is a cooling of remittances in the first half of 2015. There have also been one-off country-specific drags to growth, including Intel's withdrawal from Costa Rica (particularly affecting its trade with the United States) and a deceleration of remittances to El Salvador. While the political crisis in Guatemala so far has not affected macroeconomic activity, the risks are tilted to the downside. On a positive note, Honduras' output picked up in early 2015, driven by investment and exports.

Headline inflation in these countries has dropped well below their central banks' targets, reflecting mainly the pass-through of lower commodity prices to domestic inflation (Figure 2.15). Core inflation has also been declining (except in Nicaragua). There were further modest policy rate reductions in inflation-targeting countries across the region.

Going forward, output in the region is expected to grow at around 4 percent in 2015–16, broadly in line with its medium-term growth potential. With output gaps almost closed, inflation is expected to bounce back but to remain contained

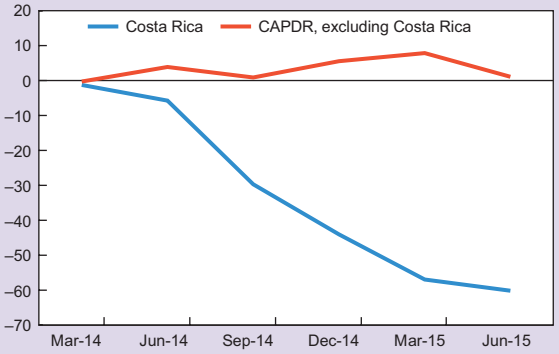
Figure 2.14

Growth and Remittances in CAPDR

Trade traction with the United States seems modest so far and strong remittance flows have eased. Output growth is robust but not accelerating.

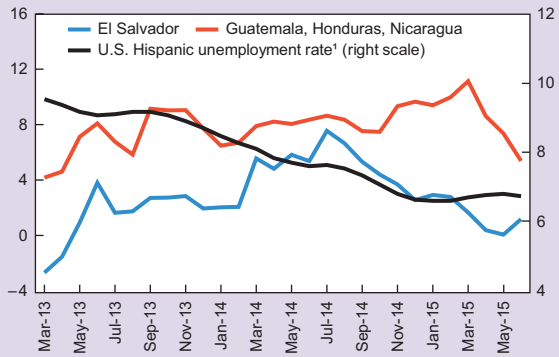
1. CAPDR: Goods Export Growth to the Untied States

(Year-over-year percent change, 3-month moving average)



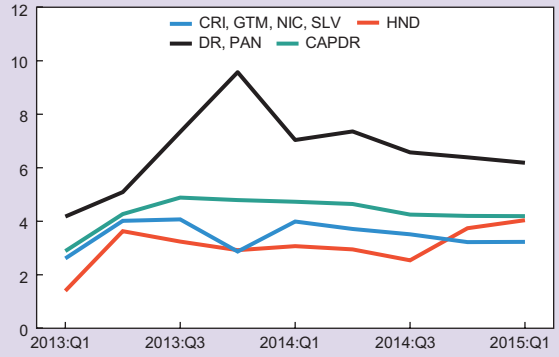
2. Remittances' Growth

(Year-over-year percent change, current U.S. dollars, 3-month moving average)



3. GDP Growth

(Year-over-year percent change)

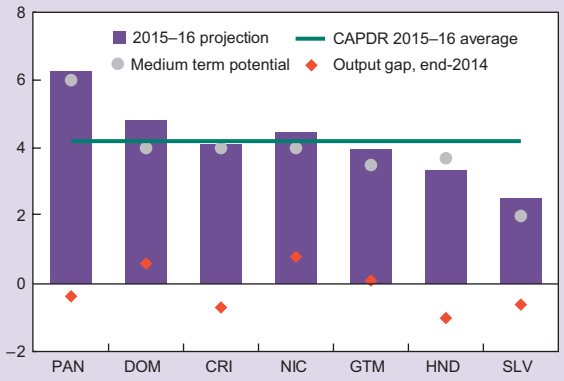


Sources: Central American Monetary Council; national authorities; St. Louis Federal Reserve; U.S. Census Bureau; and IMF staff calculations.
Note: Properly deflated corresponding volume data of trade with the United States are not available on a timely basis. The figure does not include services exports to the United States, which are important for some CAPDR countries. For country and region acronyms see page 89.
[1]Three-month moving average percentage change. CAPDR = Central America, Panama, and the Dominican Republic.

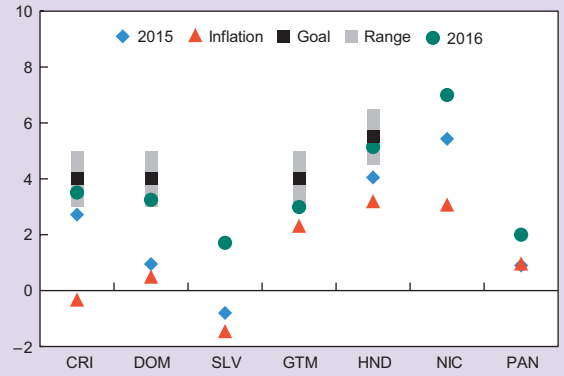
Figure 2.15
Growth and Inflation in CAPDR

Growth is projected to be close to potential, with inflation rebounding but under control.

1. CAPDR: Real GDP Growth and Output Gap
(Percent)



2. Target Range vs. Actual Inflation
(Year-over-year inflation as of July 2015, in percent; inflation forecasts are an annual average)

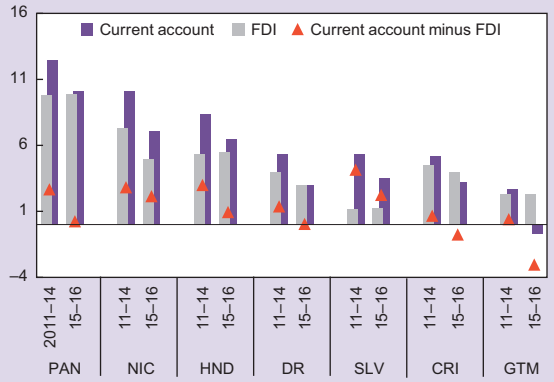


Sources: Central America, Panama, and the Dominican Republic (CAPDR) central banks; IMF, World Economic Outlook database; and IMF staff calculations.
Note: For country acronyms see page 89.

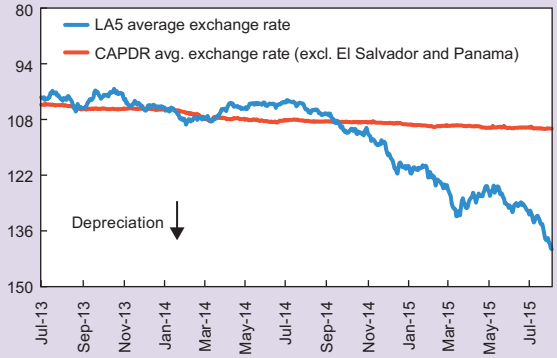
Figure 2.16
CAPDR External Position

The current account deficits are falling and largely financed by FDI; foreign exchange markets have been broadly stable.

1. CAPDR: Current Account Deficits and FDI
(Percent of GDP)



2. Exchange Rates
(Jan 1, 2012 = 100)



Source: Bloomberg, L.P.; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic; FDI = foreign direct investment. LA5 = Brazil, Chile, Colombia, Mexico, and Uruguay.

at the lower end of the targeted ranges. Risks include international (financial market or geopolitical tensions) and regional/national developments (natural disasters or lack of action to address political, economic, or security challenges).

The region's external position has been improving markedly (Figure 2.16). The external current account deficit declined by more than 1 percent of GDP in 2014 and is expected to fall sharply again this year, from 6 percent of GDP to 4¼ percent of GDP. This improvement reflects primarily a decline in the energy import bill, but also more robust exports of goods and services. Exchange rates have been broadly stable while international reserves have been rising. Still, there are pockets of vulnerabilities as external financing requirements remain sizable and bank financing flows non-negligible, while FDI is projected to moderate in a few countries. Over the medium term, the improvement in external current account deficits is expected to partially reverse owing to some recovery in international energy prices and

the dissipation of the precautionary saving of the private sector's windfall.

Fiscal vulnerabilities remain a primary concern, against a backdrop of large sustainability gaps and insufficient adjustment plans (Figure 2.17). Moreover, significant revenue underperformance in light of the tax corruption scandals is expected to be met by expenditure cuts, including capital and social spending. On current policies, public debt ratios are projected to rise in El Salvador, Costa Rica, Nicaragua, and the Dominican Republic (though fairly mildly in the latter two), carrying risks for debt sustainability.

Also, the favorable external environment is unlikely, by itself, to translate into fiscal improvements in some countries as the terms-of-trade windfall may not rule out a "revenue curse."[7] While sovereign spreads have reacted only slightly to the mid–2015 volatility in Europe, they remain high in most CAPDR countries—and broadly unchanged relative to large, financially integrated Latin American countries (despite higher market pressures on the latter). By contrast, Honduras' fiscal consolidation is being rewarded by markets with spreads improving by about 100 basis points in comparison with LA5 since the beginning of the year.

Bank credit has decelerated gradually but remains robust and supported by deposits. Loans to firms have continued to grow slower than loans to households. In some countries, banks have been increasing wholesale borrowing from abroad, but that continues to be well below precrisis levels while loan-to-deposit ratios remain healthy. Bank data suggest solid financial soundness indicators—dollarization has been edging down slightly but remains high at about 45 percent on average in non-fully-dollarized countries. Still-low access to finance by both households and firms exacerbates economic informality and social deprivation.

[7] This reflects a drop in the share of relatively easy-to-collect import taxes on petroleum products in favor of harder-to-collect domestic taxes on economic activity. El Salvador and Guatemala have seen particularly weak revenue growth so far this year.

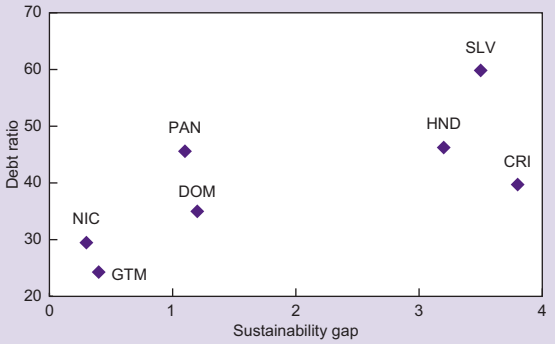
Figure 2.17

Fiscal Sustainability and Sovereign Spreads in CAPDR

Fiscal imbalances remain a problem for some countries; sovereign debt spreads have not closed the gap with LA5 countries (except Honduras).

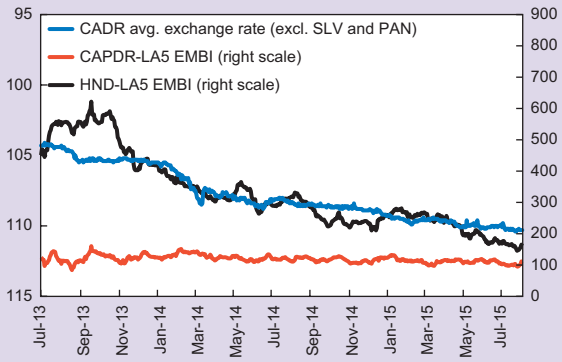
1. CAPDR: Fiscal Sustainability Gap vs. General Government Debt[1]

(Percent of GDP)



2. Difference in Sovereign Spreads

(Basis points)



Source: Bloomberg, L.P.; national authorities; and IMF staff calculations.
Note: For country and region acronyms, see page 89.
[1]Debt ratios refer to 2014.Fiscal sustainability gaps are defined as the difference between the 2014 primary deficit and the primary deficit that would stabilize debt by 2020, except for Costa Rica, Honduras, and El Salvador, where lower debt levels are targeted.

Policy Priorities

Fiscal consolidation is a priority in countries with high and rising public debt ratios. In particular, Costa Rica and El Salvador should flesh out credible plans to close high sustainability gaps. In this context, the experience of Honduras' ongoing recovery despite the sizable fiscal adjustment suggests that fiscal multipliers in Central America

may not be large, with consolidation efforts geared toward addressing sustainability problems inducing investor confidence effects.[8] The current external environment offers an opportunity for adjustment with limited social tensions. Thus, countries seeking consolidation, but also those in need of financing additional social or infrastructure spending (for example, Guatemala), could capture part of the oil windfall through well-calibrated tax-policy and tax-administration measures. Rationalizing poorly targeted energy subsidies would contribute to the fiscal adjustment (while reducing inequality) and limit dependence on PetroCaribe financing, particularly in Nicaragua. These measures could be buttressed by adopting or enhancing fiscal rules, advancing public financial management, and tackling future imbalances from population aging (including in El Salvador, where a pension reform is being discussed, and in Nicaragua, where partial progress was recently made).

The monetary policy framework (except for the two fully dollarized economies) should aim at improving credibility, and anchoring inflation expectations. Where relevant, countries should continue to transition to inflation-targeting regimes. Monetary policy should focus on underlying price pressures, thereby avoiding unwarranted relaxation in response to temporary price declines. At the same time, greater exchange rate flexibility should be fostered as an important shock absorber.

Further progress in implementing prudential measures, including those aimed at reducing dollarization and improving bank supervision on a consolidated basis, would be essential to enhance central banks' monetary transmission mechanisms and promote sound growth of the financial system.

Pursuing productivity-enhancing structural reforms is important for raising potential output growth. Key regional challenges include boosting the investment climate and addressing insecurity, which is accentuated by the recent spike in violence in El Salvador. Additionally, the region would benefit from reforming labor markets through better taxation while bolstering incentives to work in a formal, more productive, sector. Fostering financial development, while incentivizing the use of large remittances flows for investment and not just consumption, could have significant benefits for inclusive growth.

[8] See Estevão and Samake (2013).

The Caribbean

Developments and Outlook

Similarly to Central America (and unlike South America), low commodity prices and a strengthening U.S. economy imply a brighter outlook for most of the Caribbean. More specifically, in 2014 the tourism sector was a strong contributor to growth in the tourism-intensive economies of the Caribbean (The Bahamas, Barbados, Jamaica, and the countries of the Eastern Caribbean Currency Union, ECCU), owing to strengthening visitor arrivals (buoyed by the U.S. recovery). Tourism contributed to stronger-than-expected growth in these countries, except in Jamaica, where a drought significantly undermined growth. Recent mixed tourism-sector performances and idiosyncratic developments in agriculture and construction point to still decent real GDP growth of about 2¼ percent in 2015 and 2016 (Figure 2.18). Inflation is expected to dip temporarily to 1 percent in 2015; some countries are experiencing short-lived deflation largely owing to the full-year impact of lower fuel prices. Upside risks from favorable fuel prices (Box 2.2), external demand, and citizenship-by-investment programs are balanced by the possible adverse effects from real effective exchange rate appreciation, U.S. Federal Reserve policy tightening, and easier access to Cuba for U.S. tourists.

Growth in commodity exporters (Belize, Guyana, Suriname, and Trinidad and Tobago) is projected at about 2 percent in 2015 before rising to 2½ percent in 2016. The projections are based on expected small improvements in commodity terms of trade and prospects in other sectors. Inflation for this group of countries is expected to pick up somewhat in 2015–16, owing to higher food prices

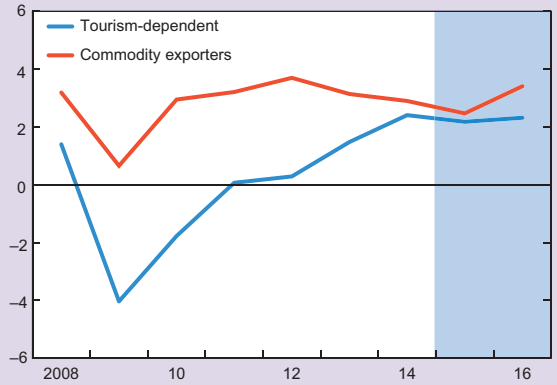
Figure 2.18

Economic Activity in the Caribbean

Tourism-dependent economies are recovering on the back of tourism arrivals, while fiscal positions have been deteriorating in commodity exporters. Financial risks have increased in some countries.

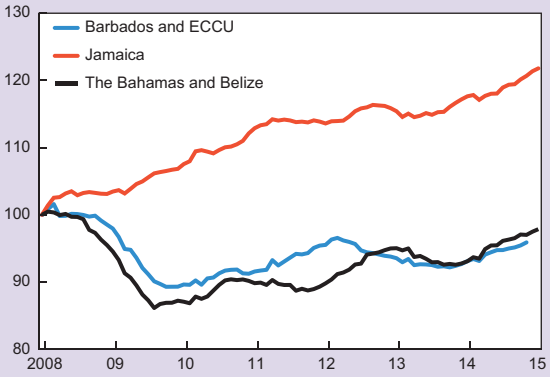
1. The Caribbean: Real GDP Growth[1]

(Percent change)



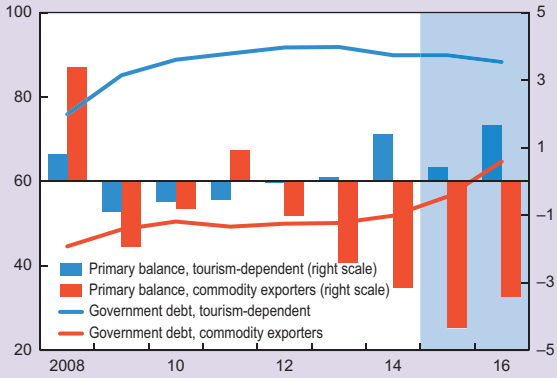
2. The Caribbean: Tourist Arrivals

(Index: 2008 = 100; 12-month moving average)



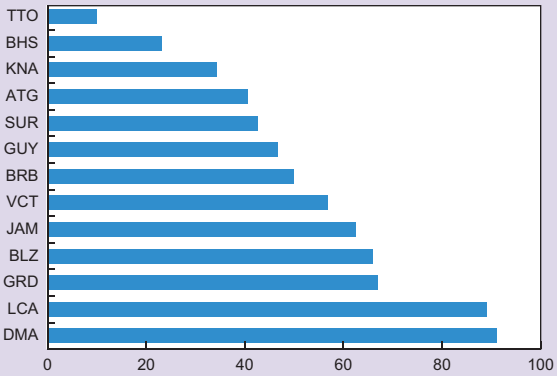
3. The Caribbean: Fiscal Accounts

(Percent of fiscal year GDP)



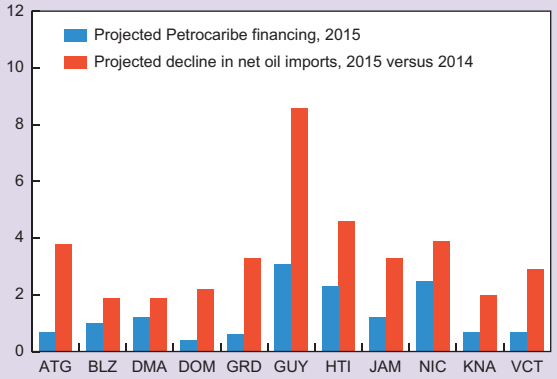
4. The Caribbean: External Debt, 2014

(Percent of GDP)



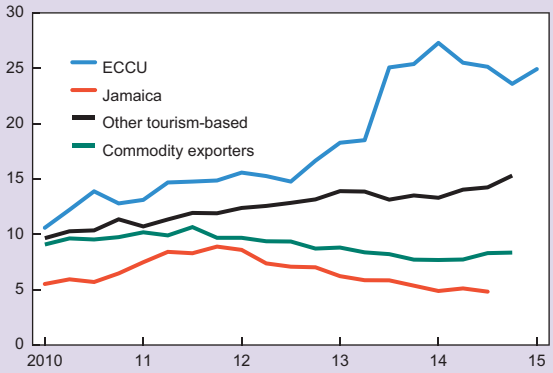
5. The Caribbean: Petrocaribe Exposure

(Percent of GDP)



6. The Caribbean: Nonperforming Loans[2]

(Percent of total loans)



Sources: IMF, World Economic Outlook database; national authorities; Caribbean Tourism Organization; Eastern Caribbean Central Bank; and IMF staff calculations.

Note: For country and region acronyms, see page 89. Commodity exporters = Belize, Guyana, Suriname, Trinidad and Tobago; Tourism-dependent economies = Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines; Eastern Caribbean Currency Union (ECCU) = Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines.

[1]Simple average.

[2]Simple average of countries in group, as available. Observations are shown only if more than half of countries in group reported non-performing loans data.

and other country-specific factors, but should remain below levels observed in recent years.

The large external current account deficits in most of the tourism-based countries are expected to improve owing basically to lower fuel import bills (all countries in this group are net oil importers) and to stronger tourism receipts. Foreign reserves have stabilized or begun to grow. In contrast, lower gold and fuel prices have weighed on commodity exporters' external current account balances, with deficits projected to rise on average by about 2 percent of GDP in 2015.

Policy Priorities

Most Caribbean countries should take advantage of low commodity prices to deepen fiscal adjustment aiming at improving debt dynamics. The countries with current and recently expired reform programs supported by the IMF (Grenada, Jamaica, and St. Kitts and Nevis) have made substantial progress in addressing vulnerabilities from high debt levels. Notably, Jamaica is expected to have lowered its public debt by about 15 percent of GDP by end-2015. It bought back U.S. $3 billion in debt it owed to Venezuela's PDVSA under the PetroCaribe agreement, at a discount, financed through issuing an external bond (with an estimated net present value gain of about 2.1 percent of GDP). However, fiscal sustainability challenges have yet to be definitively tackled in most other tourism-based Caribbean countries. High debt—averaging about 82 percent of GDP in 2014—remains a major vulnerability. While a number of countries, including The Bahamas and Barbados, recently implemented welcome fiscal adjustment measures, public debt levels in the Caribbean are still set to rise to an average of 85 percent of GDP in 2015. The commodity exporters of the region have generally lower debt burdens, but strong policies are required, especially to increase revenues following the adverse effects of lower commodity prices.

In the bank-dominated financial sectors of the tourism-based countries, elevated levels of NPLs continue to be a major headwind. Indeed, NPLs are only slightly below recent peaks. The slow pace of balance-sheet cleanup contributed to a contraction of credit to the private sector in many economies last year, blunting the support to economic growth from prudent lending to creditworthy borrowers. In the ECCU, policymakers have made some progress under their strategy to strengthen the indigenous (locally incorporated) banks. Most ECCU members have passed revised legislation to enhance the framework for bank supervision and regulation. Asset-quality reviews have also been conducted. Nevertheless, determined efforts to continue the process will be needed going forward.

Despite the recovery in the tourism-based economies and the resilience of commodity exporters, the Caribbean continues to face significant challenges that have manifested themselves in low potential growth and stagnant productivity. Improved long-term prospects require stronger implementation of structural policies going forward. In particular, policymakers in many Caribbean economies should redouble efforts to mitigate high production costs, such as better aligning wage setting with productivity trends; strengthening regulation of utility tariffs; and addressing pressures to the finance costs of businesses. Measures to boost structural competitiveness should aim to improve educational attainment and mitigate skill mismatches, accelerate contract dispute resolution processes, and reform insolvency regimes. Finally, and critically, policies will need to build stronger resilience to natural disaster events, such as Tropical Storm Erika, which struck Dominica in August with tragic consequences.

Box 2.1

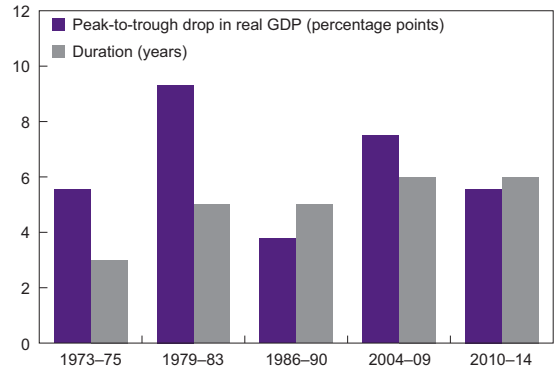
Historical Perspective on the Deceleration of Real Economic Activity in LAC

GDP growth in LAC has been declining steadily since 2010. Based on current projections for 2015, this year will mark the worst performance in more than 30 years (excluding the global financial crisis of 2009). The magnitude and duration of this deceleration is in line with previous episodes, and near the upper limit of the historical experience. However, given the improved fundamentals and macroeconomic frameworks engineered since the late 1990s, a deceleration of a magnitude and duration similar to past episodes raises more concerns than relief. It should be mentioned, though, that the size of the shocks need not be the same, except shocks to the terms of trade during the 1970s and 2000s.[1]

Decelerations in the 1970s and 1980s lasted from three to five years (Figure 2.1.1). During the 2000s, the duration was six years. Based on the current real GDP projections for 2015–16, the current episode would last five years. The ongoing episode has so far produced a peak-to-trough drop in GDP growth of about 6 percentage points since 2010. Other than the short deceleration of the early 1970s, other growth declines in LAC have been somewhat larger. The late 1970s episode saw a reduction in real GDP growth of more than 9 percentage points over its 5-year duration. More recently, the early 2000s event posted a slow-moving deceleration, which ended with a sharp drop in 2009.

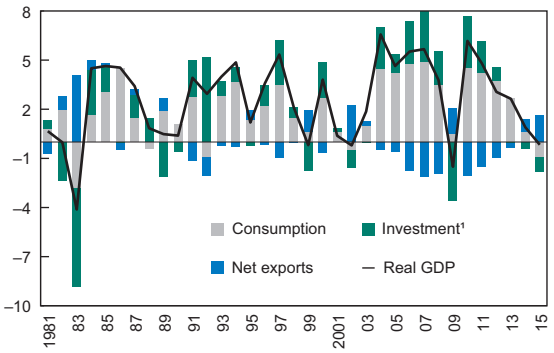
The main demand-side drivers of growth declines have changed over time. Investment declined the most during the late 1970s–early 1980s (Figure 2.1.2). In the second half of the 1980s, it was consumption that declined the most. For 2004–09, consumption and net exports (as imports, presumably owing to investment, were growing faster than exports) drove the deceleration. The current slowdown is driven by investment and consumption. A salient feature of the ongoing episode is that the deceleration is taking place as the contributions from the external sector are improving—potentially suggesting a strong effect from import compression.

Figure 2.1.1
Past and Current Activity Decelerations
(Percent; number of years)



Source: World Economic Outlook database.
Note: Purchasing power partiy GDP-weighted averages of the 32 countries of Latin America.

Figure 2.1.2
Selected Latin American Countries: Contributions to Real GDP Growth
(Year-over-year percent change)



Sources: World Economic Outlook database; and IMF staff calculations and projections.
Note: Purchasing power parity GDP-weighted averages of Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay, and Venezuela.
[1] Investment includes inventories and statistical discrepancies.

Note: This box was prepared by Nicolas E. Magud, with contributions from Steve Brito.
[1]See Adler and Magud (2015) for details.

Box 2.1 *(continued)*

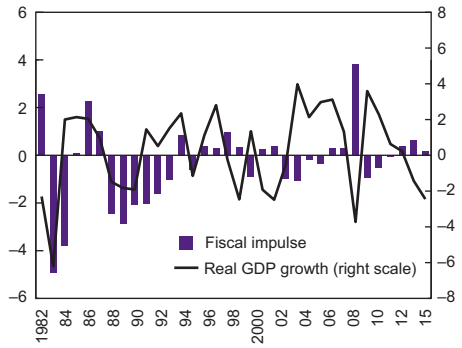
The role of the public sector has also changed over time. Through the late 1970s to the early 2000s, real GDP drops occurred along with negative fiscal impulses (Figure 2.1.3). Fiscal policy was procyclical. The year 2009 marked a change, being the first time in recent history that LAC was able to implement a countercyclical fiscal policy in response to a crisis. More recently, the fiscal impulse has been decreasing, raising doubts about whether fiscal policy will return to its historical procyclicality.

In sum, the steady deceleration in economic activity is comparable with past episodes, which could be seen as somewhat disturbing (instead of comforting) given the improved macroeconomic institutions in the region. The external sector has actually been contributing positively to growth in recent years, including because currency depreciation has been suppressing domestic purchasing power. Domestic aggregate demand is adjusting to negative external shocks (for example, lower commodity prices) and domestic shocks, and looks relatively weak when compared with external demand. Fiscal policy provided a significant boost to economic activity in 2009 but the space for further fiscal expansion has been narrowing.

Figure 2.1.3

Selected Latin American Countries: Fiscal Balance and Real GDP Growth[1]

(Percent of fiscal year GDP)



Sources: IDB, Structural Fiscal Balances database for LAC; IMF, World Eonomic Outlook database; Rojas-Suárez and Weisbrod (1995); and IMF staff calculations.

Note: 1981 to 1992 fiscal balance data come from Rojas-Suárez and Weisbrod (1995).

[1] Purchasing power parity GDP-weighted averages of Argentina, Chile, Colombia, Mexico, and Peru. Fiscal balance represents general government primary net lending/borrowing. Fiscal impulse is calculated as fiscal balance in period $t-1$ minus fiscal balance in period t.

Box 2.2

Macroeconomic Fluctuations in the Caribbean: The Role of Oil Prices

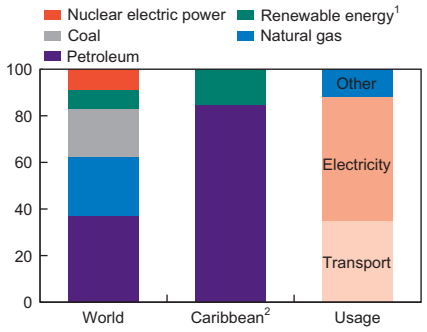
Caribbean economies are characterized by their overdependence on imported fossil fuels. Except for Trinidad and Tobago, which is the single net exporter of oil and natural gas in the Caribbean, all other Caribbean countries are net importers of oil. Suriname is the most energy independent owing to its crude oil production and significant wealth of hydropower. Of the remaining countries, about 87 percent of primary energy consumed is imported petroleum products, mostly diesel fuel for electricity generation, gasoline for transportation, and liquefied petroleum gas (Figure 2.2.1). Hydroelectric power, harnessed through facilities in, Belize, Dominica, St. Vincent and the Grenadines, and Suriname, supplies 2½ percent of energy consumption in the region.

Over the past decade, persistently high oil prices have increased macroeconomic pressures in oil-importing Caribbean countries. The average value of net oil imports has doubled, widening the trade and external current account deficit by an average of 3.7 percent of GDP annually over 2005–14, compared with the previous decade. Terms of trade worsened and pressure on foreign exchange reserves increased (Figure 2.2.2).

The energy bill has been absorbing a growing share of households' discretionary real income, reducing consumption spending in other sectors of the economy. High and volatile electricity prices have raised the cost of doing business in the region. About 40 percent of Caribbean firms identify electricity costs as a major constraint to doing business, above the average of the LA6 and other developing countries in the world.[1] This has increased uncertainty of investment planning, with unfavorable repercussions on capital formation, the inflow of foreign direct investment, and therefore long-term growth.

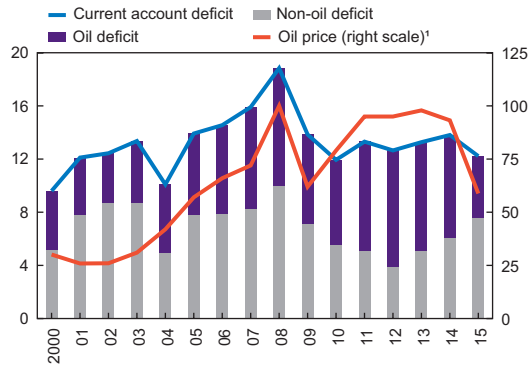
Fixed exchange rate regimes in many Caribbean countries limit the extent to which the exchange rate can cushion the impact of oil price shocks on external balances. Large and persistent inflationary shocks, as the ones resulting from higher fuel prices, expose these countries to episodes of real exchange rate appreciation, triggering a difficult-to-reverse loss of competitiveness in the region (Figure 2.2.3). Moreover, the tourism industry is exposed to spillovers of international oil price shocks through potentially lower tourism receipts as higher oil prices dampen demand from key source markets and could increase the cost of airfare, encouraging a substitution effect to other tourist destinations.

Figure 2.2.1
Primary Energy Consumption by Source and Use
(Percent of total)



Source: US. Energy Information Administration; IDB Energy Matrix Country Briefings for the Caribbean (2013); and IMF staff calculations.
[1]Includes hydroelectric power, geothermal, solar/PV, wind and biomass. For the Caribbean, renewables include hydropower and biomass.
[2]Excludes Trinidad and Tobago and Haiti.

Figure 2.2.2
Average External Current Account Deficit in the Caribbean
(In percent of GDP)



Source: Country authorities and IMF staff calculations.
Note: Excludes Trinidad and Tobago and Haiti.
[1] Average in U.S. dollars.

[1] The LA6 includes Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Box 2.2 *(continued)*

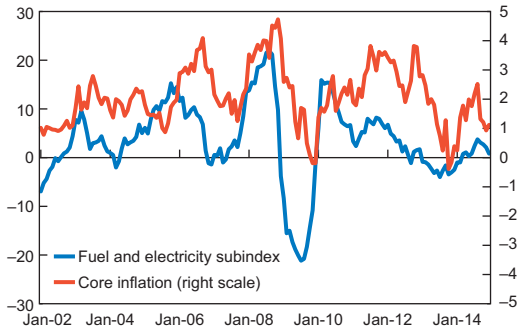
More broadly, external shocks have been an important source of business cycle fluctuations in the Caribbean, accounting for an average of 30 percent of output fluctuations at medium-term horizons (Figure 2.2.4):[2] about 35 percent of business cycle fluctuations in tourist-dependent economies and only 20 percent in other Caribbean economies. In the former, the largest contributor is external demand, as proxied by real GDP growth in advanced economies, with a contribution of about 25 percent. Oil shocks rank second, accounting for an average 7 percent of business cycle fluctuation across the sample. Domestic factors play larger roles in business cycle fluctuations for commodity producers.

More recently, oil prices have come down, which is an expansionary shock for most countries in the region. A 1 percentage-point increase in advanced economies' real GDP growth increases real GDP growth by 1 percentage point, on average, in tourism-dependent economies and 0.5 percentage point in commodity producers.[3] After five years, the average cumulative increase in real GDP growth comes to 2.4 percentage points and 1.2 percentage points, respectively. A 10 percentage-point decrease in real oil prices increases real GDP growth in the first year by 0.2 percentage point in tourism-dependent economies and 0.05 percentage point for the rest of the sample. Suriname and Trinidad and Tobago are oil exporters and lower oil prices reduce their real GDP growth. After five years, the average cumulative increase in real GDP growth in tourism-dependent economies is 0.5 percentage point and 0.1 percentage point for the rest of the sample, showcasing the high sensitivity of tourism-dependent economies to oil price shocks.

Figure 2.2.3

OECS: Energy Price Volatility vs. Core Inflation

(Year-over-year percentage change)

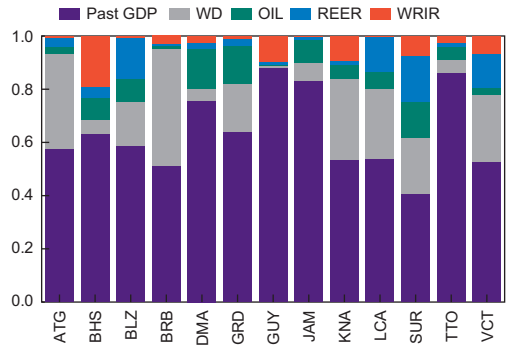


Source: Eastern Caribbean Central Bank Monthly Inflation Statistics, and IMF staff calculations.
Note: OECS = Organization of Eastern Caribbean States. Core inflation excludes food and fuel; weights are based on St. Lucia consumption basket.

Figure 2.2.4

Variance Decomposition of Real GDP

(Percent)



Sources: IMF, Information Notice System and World Economic Outlook databases; national authorities; and IMF staff calculations.
Note: GDP = Past real GDP growth. WD = World demand which is the real GDP growth of advanced economies. OIL = the percent change in real oil prices, and it is deflated by U.S. oil production costs. REER = the percent change in the real effective exchange rate. WRIR = world interest rate which is the interest rate, six-month London interbank offered rate (LIBOR), period average, deflated by advanced economies' consumer price Indices. For country acronyms see page 89.

Note: This box was prepared by Julien Reynaud with contributions from Ahmed El Ashram, Sebastian Acevedo, Arnold McIntyre, and research assistance from Anayochukwu Osueke.

[2] The empirical framework is based on Cashin and Sosa (2013). It consists of country-specific vector autoregressive (VAR) models with block exogeneity restrictions for the period 1976–2013. The model contains an external block including foreign economic variables—the real oil price growth rate, advanced economies real GDP growth rates, and advanced economies real interest rate; and a domestic economy block—including real GDP growth rates and real effective exchange rate growth rates. The model also controls for the effects of natural disasters and assumes that all foreign variables are exogenous to the small domestic economy and complete exogeneity of natural disaster shocks.

[3] These results are in line with Osterholm and Zettelmeyer (2008) who find that increases in world growth are passed on to Latin America about one-to-one, and Cashin and Sosa (2013), who found that a 1 percent increase in advanced economies growth translates into a 1.5 increase in real growth in the Eastern Caribbean states.

Box 2.3

Financial Integration in Latin America

Regional financial integration in Latin America remains relatively low (Figure 2.3.1) and is largely mirrored by weak trade performance, relative to potential (Chapter 4). Given the healthy profitability of financial intermediaries and the high interest rate spreads along with the low credit intermediation in the region, it appears that key Latin American financial institutions—as they continue to gain the necessary size and strength for cross-border expansion—could take advantage of the favorable financial conditions to enter other markets in the region and fill in existing credit intermediation gaps (Figure 2.3.2). Indeed, this unrealized potential in the financial services industry suggests the existence of ample opportunities for regional financial integration.

Financial integration continues to be curbed by a number of natural and institutional barriers to entry. The lack of sufficiently large financial players has posed the greatest impediment to regional integration. Colombian banking groups, for instance, have a significant presence in Central America, but are absent in the larger South American market. Only recently has the rise of a few Brazilian financial institutions and Colombian asset managers triggered regional mergers and acquisitions (M&A) activity in the banking, pension fund, and insurance industries. Other barriers, however, affect regional and global players alike. Cultural and linguistic differences, as well as lack of familiarity with foreign markets have hindered both regional and foreign integration, especially for global players. Low levels of efficiency, depressed credit demand owing to a history of financial crises, low financial literacy, and inefficiencies in the judicial systems are further barriers to cross-border activity.

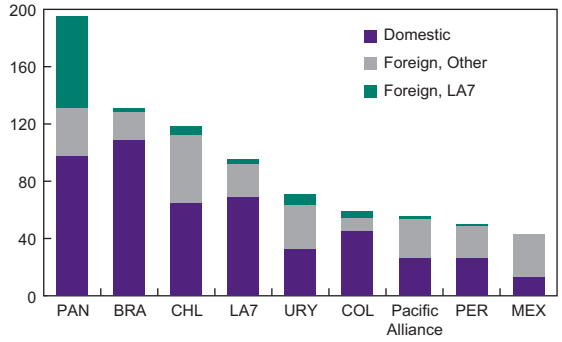
Figure 2.3.1

LA7 Commercial Bank Ownership and Pension Funds under Management

Regional financial integration through the presence of regional banks and pension funds—the largest financial intermediaries in Latin America—remains limited relative to the large share of assets held by domestic and foreign (extra regional) institutions. Foreign bank entry in Latin America has been largely the result of the history of financial crises…

1. LA7: Commercial Bank Ownership, 2014[1]

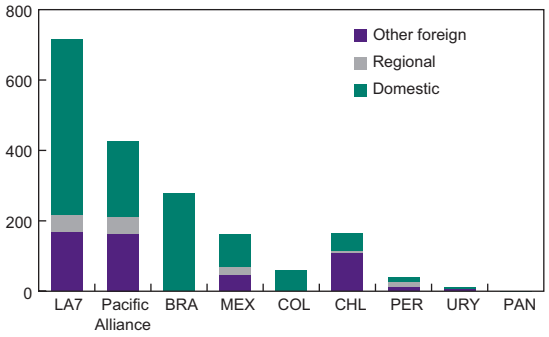
(Bank assets in percent of GDP)



Sources: National authorities; Bureau van Dijk; and IMF staff calculations.
Note: For country acronyms, see page 89. LA7 = Brazil, Chile, Colombia, Mexico, Panama, Peru, and Uruguay. The Pacific Alliance is comprised of Chile, Colombia, Mexico, and Peru.
[1] Year-end 2014 or latest available. Data for some countries may include partial estimates depending on avaliability. Ownership definition may vary by country.

2. LA7: Pension Fund Assets Under Management, 2014[1]

(Billions of U.S. dollars, by type of ownership of asset manager)



Sources: National authorities; Bureau van Dijk; and IMF staff calculations.
Note: For country acronyms, see page 89. LA7 = Brazil, Chile, Colombia, Mexico, Panama, Peru, and Uruguay. The Pacific Alliance is comprised of Chile, Colombia, Mexico, and Peru.
[1] Year-end 2014 or latest available. Data for some countries may include partial estimates depending on availability. Ownership definition may vary by country.

Note: This box was prepared by Carlos Caceres and Alla Myrvoda (WHD).

Box 2.3 *(continued)*

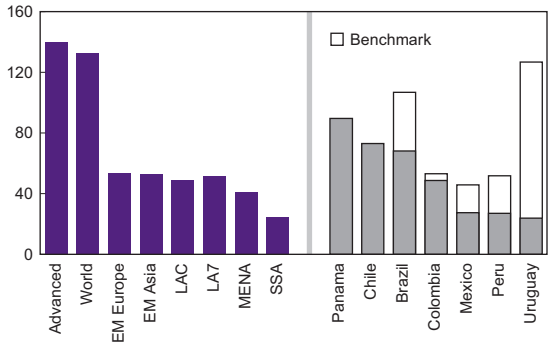
Figure 2.3.2

Credit Intermediation Gap and Profitability

and less so inspired by the unrecognized potential of the domestic financial industry, as indicated by the healthy banking profitability, attractive interest rate spreads, and existing credit intermediation gap …

1. Credit Intermediation Gap

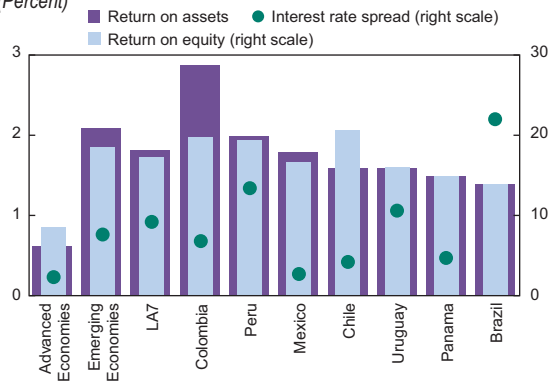
(In percent of GDP, domestic credit to private sector)



Sources: World Bank, WDI,"Emerging Issues in Financial Development", 2014; and IMF staff estimates and calculations.
Note: LA7 = Brazil, Chile, Colombia, Mexico, Panama, Peru, and Uruguay. Latest available, sample varies based on data availability. Benchmark based on proportions using World Bank private credit gap estimates. EM = emerging and developing economies, For country acronyms see page 89.

2. Profitability

(Percent)[1]



Sources: National authorities; IMF, FSI, and staff estimates and calculations.
Note: LA7 = Brazil, Chile, Colombia, Mexico, Panama, Peru, and Uruguay.
[1] Latest available. Lending-deposit interest rate spread. Sample varies based on data availability.

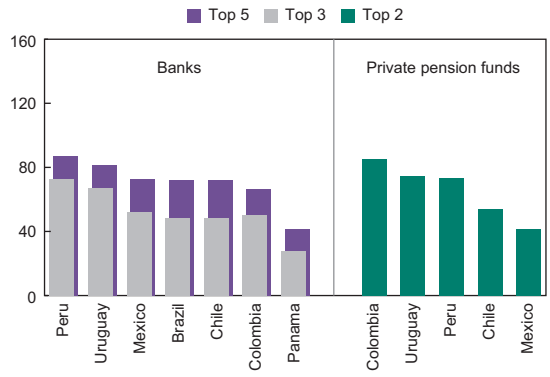
Figure 2.3.3

Bank and Pension Fund Concentration and Pension Fund Asset Allocations

… which is largely a result of explicit and implicit barriers to entry, including high concentration within potentially oligopolistic markets, and regulatory barriers, such as the restrictions on pension funds and insurance companies' foreign asset investments, among others.

1. Concentration[1]

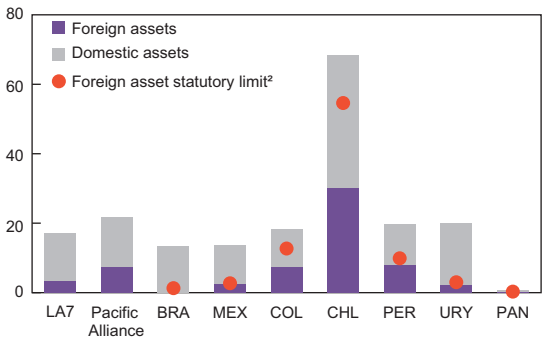
(Percent of total assets)



Sources: National authorities; AOIS; and IMF staff estimates and calculations.
Note: Data availability varies by country.

2. LA7: Pension Fund Asset Allocations, 2014[1]

(Assets in percent of GDP)



Sources: National authorities; Bureau van Dijk; and IMF staff calculations.
Note: For country acronyms, see page 89. The Pacific Alliance is comprised of Chile, Colombia, Mexico, and Peru.
[1]Year-end 2014 or latest available. Data for some countries include partial estimates depending on availability.
[2]Statutory limits on holdings of foreign assets (in percent of total pension fund assets) are: Brazil (10%); Chile (80%); Colombia (40–70%); Mexico (20%); Panama (45%); Peru (50%); andUruguay (15%).

Box 2.3 *(continued)*

High industry concentration and entry barriers have limited M&A opportunities and green-field investments, while regulatory barriers hamper cross-border activity. In many Latin American countries, the largest three banks account for most banking sector assets, while the top two pension funds comprise the bulk of the industry assets. Many countries only allow foreign operations through subsidiaries, thus limiting spillovers via foreign branch activity. Some countries restrict ownership of financial institutions by foreign entities, as is the case for Brazil, where foreign bank entry is subject to presidential approval. Diverging regulatory and accounting standards, including in the form of different levels of implementation of Basel standards for banks and solvency-type regulation for insurance companies, impose additional compliance costs in some jurisdictions. Moreover, low regulatory limits on foreign asset and equity holdings for pension funds and insurance companies diminish capital market integration and hurt optimal portfolio allocation, given the small market size and the limited supply of securities in domestic capital markets (Figure 2.3.3). Capital markets' integration is further depressed by the absence of double-taxation treaties in some countries as well as the misalignments in the taxation regimes.

Harmonization of regulatory frameworks following best practices could enhance financial stability and performance and foster regional financial integration. Prudential measures adopted in response to past crises and low integration helped shield Latin American financial systems from the global financial crisis. However, low financial integration also reduces long-term growth. Countries should move forward in the implementation of international regulatory (for example, the Basel Committee on Banking Supervision, International Organization of Securities Commissions, International Accounting and Systems Association, etc.) and accounting standards (for example, the International Financial Reporting Standards). Intraregional agreements (for example, the Pacific Alliance) could also facilitate cross-border financial flows. Deeper regional markets would likely be more liquid, reduce costs, and increase portfolio diversification and investment opportunities. Stronger and better coordinated supervisory frameworks could promote regional integration and mitigate risks.

Box 2.4

Inequality and Commodity Booms in Latin America

Latin America has the highest income inequality in the world (Figure 2.4.1). There is higher income concentration among the top deciles of the income distribution in Latin America while the bottom 60 percent of individuals only holds about 20 percent of aggregate income. In the rest of the world, the bottom 60 percent of the income distribution holds around 30 percent of aggregate income. For the top decile, the share of income is the highest in Honduras (over 40 percent), closely followed by Nicaragua, Colombia, Brazil, Chile, Paraguay, and Mexico (all about 40 percent). Persistent inequality in Latin America has been linked to: (1) existence of strong elites, (2) capital market imperfections, (3) inequality of opportunities (in particular, in terms of access to high-quality education), (4) labor market segmentation (for example, owing to informality), and (5) discrimination against women and non-whites (see Cornia 2013, for a survey).

On the positive side, Latin America was the only region that registered a fall in inequality in the 2000s. Inequality fell across a whole range of country types: big, small, Central American, and South American (Figure 2.4.2). Two key factors appear to be behind the decline: (1) a decrease in the skill premium; and (2) better and more generous transfer programs (López-Calva and Lustig 2010; Lopez-Calva, N. Lustig, and Ortiz-Juarez 2013).

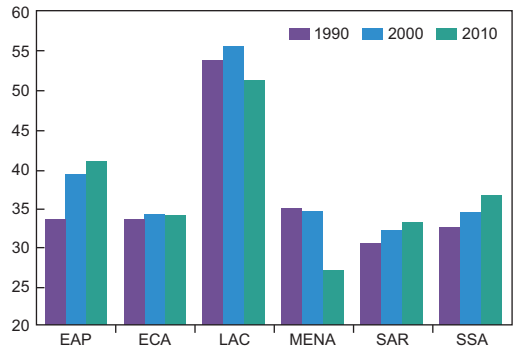
There appears to be a link between declines in inequality and commodity price booms in Latin America. The decline in the 2000s seems to have been larger in commodity exporters such as Argentina, Bolivia, Brazil, Chile, and Ecuador. Panel regressions using data since the 1980s for 154 countries also show that a 1 percent increase in commodity prices in Latin America is associated with a decrease of 0.5 percent in inequality, as measured by the income Gini coefficient.

Commodity booms could be influencing the distribution of income by reducing the skills premium and increasing the fiscal capacity for social transfers. Countries experiencing commodity booms saw larger real wage gains for all sectors and skills—especially unskilled workers—than in non-boom countries (Figure 2.4.3). Regarding the skills premium itself, higher commodity prices could lead to a reallocation of factors toward sectors where the skill premium is lower, for example the sector producing the commodity or the construction and transportation sectors, which may experience high growth associated with the commodity boom. There could also be larger fiscal revenues

Figure 2.4.1

Income Distribution Around the World

(Gini coefficients, population-weighted average)

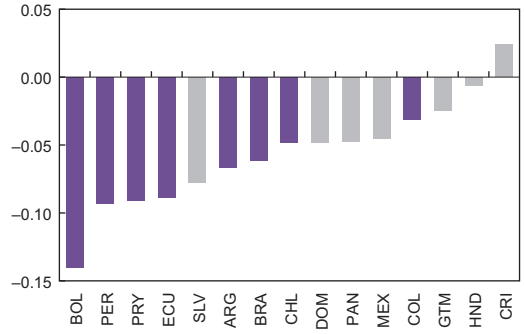


Source: PovcalNet, the on-line tool for poverty measurement developed by the Development Research Group of the World Bank.
Note: For country and region acronyms, see page 89.

Figure 2.4.2

Latin America: Inequality Reduction

(Difference in Gini Index from 2000–13, purple indicates commodity exporters)

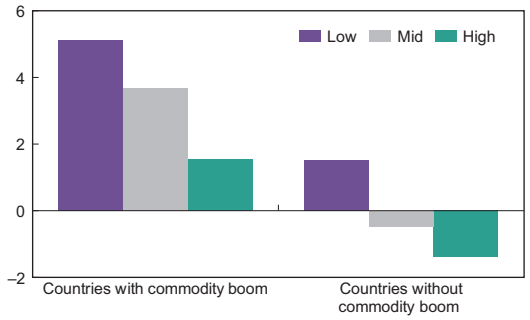


Source: SEDLAC (CEDLAS and the World Bank).
Note: For country acronyms, see page 89.

Box 2.4 *(continued)*

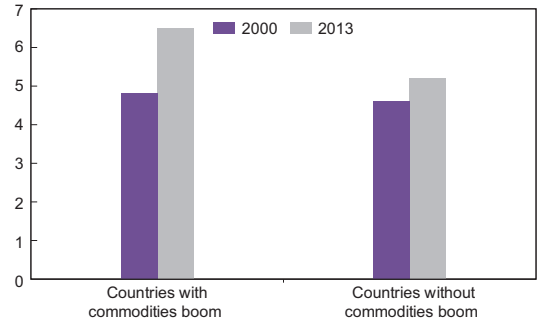
in commodity-boom countries (*Regional Economic Outlook-Western Hemisphere*, April 2015), leading to increased spending on social transfers that reduce inequality (Figure 2.4.4). Recent work disentangling the contribution of these factors to the fall in inequality finds that the decrease in labor earning inequality explains most of that decline (World Bank 2015).

Figure 2.4.3
Annualized Real Wage Growth by Education Level
(Percent)



Source: SEDLAC (CEDLAS and the World Bank).

Figure 2.4.4
Average Government Transfer in Latin America
(Percent of GDP)



Source: IMF, World Economic Outlook database; and IMF staff calculations.

Note: This box was prepared by Ravi Balakrishnan and Marika Santoro.

Table 2.1. Western Hemisphere: Main Economic Indicators[1]

	Output Growth (Percent)					Inflation[2] (End of period, percent)					External Current Account Balance (Percent of GDP)				
	2012	2013	2014 Est.	2015 Projections	2016 Projections	2012	2013	2014 Est.	2015 Projections	2016 Projections	2012	2013	2014 Est.	2015 Projections	2016 Projections
North America															
Canada	1.9	2.0	2.4	1.0	1.7	1.0	1.0	1.9	1.1	2.0	–3.3	–3.0	–2.1	–2.9	–2.3
Mexico	4.0	1.4	2.1	2.3	2.8	3.6	4.0	4.1	2.6	3.0	–1.4	–2.4	–1.9	–2.4	–2.0
United States	2.2	1.5	2.4	2.6	2.8	1.8	1.3	0.6	0.9	1.4	–2.8	–2.3	–2.2	–2.6	–2.9
South America															
Argentina[3]	0.8	2.9	0.5	0.4	–0.7	10.8	10.9	23.9	19.3	26.4	–0.3	–0.8	–1.0	–1.8	–1.6
Bolivia	5.1	6.8	5.5	4.1	3.5	4.5	6.5	5.2	4.2	5.0	7.2	3.4	0.0	–4.5	–5.0
Brazil	1.8	2.7	0.1	–3.0	–1.0	5.8	5.9	6.4	9.3	5.5	–3.5	–3.8	–4.4	–4.0	–3.8
Chile	5.5	4.3	1.9	2.3	2.5	1.5	2.8	4.6	4.2	3.5	–3.6	–3.7	–1.2	–0.7	–1.6
Colombia	4.0	4.9	4.6	2.5	2.8	2.4	1.9	3.7	4.2	3.3	–3.1	–3.3	–5.2	–6.2	–5.3
Ecuador	5.2	4.6	3.8	–0.6	0.1	4.2	2.7	3.7	3.7	2.5	–0.2	–1.0	–0.6	–2.6	–2.8
Guyana	4.8	5.2	3.8	3.2	4.9	3.5	0.9	1.2	1.0	3.5	–11.6	–13.3	–15.6	–14.9	–18.9
Paraguay	–1.2	14.2	4.4	3.0	3.8	4.0	3.7	4.2	3.8	4.5	–0.9	2.2	0.1	–2.0	–1.9
Peru	6.0	5.8	2.4	2.4	3.3	2.6	2.9	3.2	3.3	2.5	–2.7	–4.2	–4.0	–3.7	–3.8
Suriname	3.1	2.8	1.8	1.5	0.5	4.4	0.6	3.9	5.2	3.2	3.3	–3.9	–7.4	–9.4	–7.8
Uruguay	3.3	5.1	3.5	2.5	2.2	7.5	8.5	8.3	9.0	7.9	–5.0	–4.9	–4.4	–3.7	–3.7
Venezuela	5.6	1.3	–4.0	–10.0	–6.0	20.1	56.2	68.5	190.0	210.0	3.7	2.4	5.3	–3.0	–1.9
Central America															
Belize	3.8	1.5	3.6	2.2	3.2	0.8	1.6	–0.2	0.7	1.7	–1.2	–4.4	–7.6	–6.3	–7.1
Costa Rica	5.2	3.4	3.5	3.0	4.0	4.6	3.7	5.1	2.1	4.0	–5.3	–5.0	–4.9	–3.8	–3.9
El Salvador	1.9	1.8	2.0	2.3	2.5	0.8	0.8	0.5	–1.0	2.0	–5.4	–6.5	–4.7	–2.6	–2.9
Guatemala	3.0	3.7	4.2	3.8	3.7	3.4	4.4	2.9	2.8	3.3	–2.6	–2.5	–2.4	–1.7	–1.9
Honduras	4.1	2.8	3.1	3.5	3.6	5.4	4.9	5.8	4.7	5.2	–8.5	–9.5	–7.4	–6.5	–6.4
Nicaragua	5.1	4.5	4.7	4.0	4.2	6.6	5.7	6.5	5.7	7.0	–10.6	–11.1	–7.1	–6.6	–7.0
Panama[4]	10.8	8.4	6.2	6.0	6.3	4.6	3.7	1.0	3.0	2.0	–9.8	–12.2	–12.0	–9.8	–9.6
The Caribbean															
Antigua and Barbuda	3.6	1.5	4.2	2.2	2.1	1.8	1.1	1.3	0.5	1.6	–14.6	–14.8	–14.5	–10.5	–10.2
The Bahamas	2.2	0.0	1.0	1.2	2.2	0.7	1.0	0.2	1.6	1.3	–18.3	–17.7	–22.2	–12.9	–8.9
Barbados	0.3	0.0	0.2	1.0	1.1	2.4	1.1	2.3	0.6	1.1	–9.3	–9.3	–8.5	–4.8	–4.6
Dominica	–1.3	0.6	3.9	2.8	3.3	1.2	–0.4	0.5	0.8	0.3	–18.8	–13.3	–13.1	–12.8	–18.9
Dominican Republic	2.6	4.8	7.3	5.5	4.5	3.9	3.9	1.6	2.0	3.5	–6.6	–4.1	–3.2	–2.4	–2.5
Grenada	–1.2	2.3	5.7	3.4	2.4	1.8	–1.2	–0.6	0.3	2.2	–21.1	–23.2	–15.5	–13.7	–13.1
Haiti[5]	2.9	4.2	2.7	2.5	3.2	6.5	4.5	5.3	10.3	5.9	–5.7	–6.3	–6.3	–4.3	–3.4
Jamaica	–0.5	0.2	0.4	1.1	2.1	8.0	9.5	4.0	6.1	6.8	–10.7	–8.7	–7.4	–4.6	–2.9
St. Kitts and Nevis	–0.9	6.2	6.1	5.0	3.5	0.1	1.0	0.6	–2.2	1.7	–9.8	–6.6	–7.6	–12.6	–18.6
St. Lucia	–1.1	0.1	0.5	1.8	1.4	5.0	–0.7	3.7	0.5	3.7	–13.5	–11.2	–6.7	–6.6	–7.0
St. Vincent and the Grenadines	1.3	2.3	–0.2	2.1	2.5	1.0	0.0	0.1	0.5	1.6	–27.6	–30.9	–29.6	–26.9	–25.1
Trinidad and Tobago	1.4	1.7	0.8	1.0	1.4	7.2	5.6	8.5	7.8	5.9	3.4	7.0	5.7	0.7	–0.8
Memorandum:															
Latin America and the Caribbean (LAC)	**3.1**	**2.9**	**1.3**	**–0.3**	**0.8**	**5.4**	**7.4**	**8.2**	**12.0**	**10.5**	**–2.4**	**–2.9**	**–3.0**	**–3.3**	**–3.0**
Financially integrated LAC[6]	4.1	4.0	2.4	1.5	2.1	3.9	4.3	5.0	5.4	4.3	–3.2	–3.7	–3.5	–3.5	–3.4
Other commodity exporters[7]	3.1	6.0	2.0	–0.6	0.1	8.2	17.3	20.4	50.4	55.5	1.9	1.2	0.7	–2.8	–2.6
CADR[8]	4.7	4.2	4.4	4.0	4.1	4.2	3.9	3.3	2.8	3.9	–7.0	–7.3	–6.0	–4.8	–4.9
Caribbean															
Tourism-dependent[9]	0.3	1.5	2.4	2.3	2.3	2.4	1.2	1.3	1.0	2.3	–16.0	–15.1	–13.9	–11.7	–12.1
Commodity exporters[10]	3.3	2.8	2.5	2.0	2.5	4.0	2.2	3.3	3.7	3.6	–1.5	–3.6	–6.3	–7.5	–8.6
Eastern Caribbean Currency Union (ECCU)[11]	0.4	1.7	2.7	2.5	2.2	2.1	0.1	1.2	0.1	2.0	–17.2	–16.8	–14.3	–12.9	–12.9

Sources: IMF, *World Economic Outlook;* and IMF staff calculations and projections.
[1] Regional aggregates are purchasing-power-parity GDP-weighted averages unless otherwise noted. Current account aggregates are U.S. dollar nominal GDP weighted averages. CPI series exclude Argentina. Consistent with the IMF, *World Economic Outlook,* the cut-off date for the data and projections in this table is September 16, 2015.
[2] End-of-period (December) rates. These will generally differ from period average inflation rates reported in the IMF's *World Economic Outlook*, although both are based on identical underlying projections.
[3] See Annex 2.1 for details on Argentina's data.
[4] Ratios to GDP are based on the "1996-base" GDP series.
[5] Fiscal year data.
[6] Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.
[7] Simple average of Argentina, Bolivia, Ecuador, Paraguay, and Venezuela. CPI series exclude Argentina.
[8] Simple average of Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.
[9] Simple average of The Bahamas, Barbados, Jamaica, and ECCU member states.
[10] Simple average of Belize, Guyana, Suriname, and Trinidad and Tobago.
[11] Eastern Caribbean Currency Union (ECCU) members are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

Table 2.2. Western Hemisphere: Main Fiscal Indicators[1]

	Public Sector Primary Expenditure (Percent of GDP)					Public Sector Primary Balance (Percent of GDP)					Public Sector Gross Debt[22] (Percent of GDP)				
	2012	2013	2014 Est.	2015 Projections	2016 Projections	2012	2013	2014 Est.	2015 Projections	2016 Projections	2012	2013	2014 Est.	2015 Projections	2016 Projections
North America															
Canada	37.7	37.4	36.3	36.6	36.4	–2.5	–2.3	–1.3	–1.3	–1.0	87.9	87.7	87.9	90.4	89.4
Mexico[2]	25.1	25.5	25.4	25.3	24.1	–1.2	–1.2	–1.9	–1.2	–0.5	43.2	46.4	49.8	52.0	52.1
United States[3]	34.5	33.7	33.1	33.4	33.2	–5.7	–2.7	–2.0	–1.8	–1.5	102.5	104.8	104.8	104.9	106.0
South America															
Argentina[4]	32.0	34.1	36.5	37.9	37.3	–0.5	–0.7	–1.0	–2.5	–2.2	37.3	40.2	45.3	52.1	55.1
Bolivia[5]	35.0	37.5	42.3	39.4	37.2	2.8	1.6	–2.4	–4.3	–4.6	33.3	32.5	33.0	38.0	41.9
Brazil[6]	31.5	32.5	33.9	33.1	34.6	2.0	1.8	–0.6	–0.4	–0.9	63.5	62.2	65.2	69.9	74.5
Chile	23.1	23.3	24.3	25.5	26.0	0.8	–0.4	–1.4	–3.1	–1.6	12.0	12.8	15.1	18.1	20.0
Colombia[7]	25.6	26.4	26.9	26.5	26.2	1.6	1.2	0.3	–0.2	0.0	34.1	37.8	44.3	50.9	48.9
Ecuador	39.6	43.0	43.2	35.6	35.3	–0.2	–3.6	–4.3	–3.7	–1.6	21.7	26.0	31.3	37.4	40.4
Guyana[8]	30.2	29.2	32.9	32.3	29.8	–3.9	–3.5	–4.4	–3.7	–2.9	62.5	57.3	65.8	70.2	70.2
Paraguay	24.7	22.8	22.8	23.2	22.8	–1.1	–0.7	0.3	–0.6	–0.1	16.2	16.8	19.0	22.5	24.2
Peru	19.2	20.5	21.5	21.5	21.6	3.0	1.7	0.6	–1.0	–1.2	21.2	20.3	20.7	22.4	24.6
Suriname[9]	28.0	30.1	27.8	29.0	27.1	–2.9	–5.4	–4.3	–7.8	–3.5	21.6	30.2	26.9	36.9	40.9
Uruguay[10]	27.9	29.1	29.3	28.8	28.9	–0.2	0.4	–0.6	0.0	0.1	57.9	60.2	61.3	64.1	65.3
Venezuela	37.3	35.0	39.8	39.4	39.1	–13.8	–11.6	–11.3	–21.3	–22.9	44.3	52.1	51.8	53.0	44.1
Central America															
Belize[8]	25.1	27.9	30.4	30.1	28.2	1.3	–0.2	–1.2	–2.6	–1.2	75.0	75.2	75.3	77.2	99.9
Costa Rica[8]	16.0	16.6	16.7	16.5	16.5	–2.3	–2.9	–3.1	–2.8	–1.9	35.2	36.3	39.7	44.0	46.3
El Salvador[11]	19.6	19.6	19.0	19.8	19.9	–1.7	–1.2	–1.0	–1.5	–1.4	55.2	55.3	56.8	59.8	62.1
Guatemala[8]	12.5	12.2	11.9	11.3	11.8	–0.9	–0.6	–0.4	–0.3	–0.5	24.3	24.6	24.3	24.8	25.5
Honduras	25.4	28.5	26.6	25.4	24.8	–4.3	–7.1	–3.8	–1.3	–0.4	34.7	45.3	45.7	48.4	50.1
Nicaragua[11]	23.2	23.7	23.9	24.4	24.9	0.5	–0.2	–0.7	–0.6	–0.8	28.6	29.8	29.5	30.6	31.5
Panama[12]	24.5	25.1	24.6	24.2	23.9	0.0	–0.5	–1.7	–1.7	–1.2	42.6	41.7	45.6	47.5	47.5
The Caribbean															
Antigua and Barbuda[13]	18.7	20.5	20.3	27.4	16.2	1.1	–1.7	–0.2	–6.6	5.2	87.1	95.5	98.2	105.5	101.1
The Bahamas[8]	20.0	19.3	17.9	17.7	17.9	–2.0	–3.0	–0.8	1.0	1.1	48.4	56.3	60.9	62.1	62.2
Barbados[14]	39.6	41.1	37.4	37.5	37.2	–4.0	–6.7	–2.0	–0.9	0.1	84.6	95.9	100.7	103.3	105.3
Dominica[13]	33.9	31.0	31.4	30.8	30.8	–3.4	–1.0	–1.5	–1.3	–1.4	72.6	74.7	76.4	77.8	79.3
Dominican Republic[11]	17.8	15.8	15.6	15.4	16.1	–4.2	–1.2	–0.5	2.3	–1.5	30.5	34.6	35.0	33.3	34.6
Grenada[13]	23.3	24.8	25.6	21.7	19.4	–2.5	–3.9	–1.1	2.1	3.5	103.3	106.7	100.5	90.3	85.9
Haiti[8]	27.8	27.6	24.9	22.3	21.2	–4.4	–6.7	–5.9	–2.3	–1.3	16.5	21.4	26.6	26.5	26.5
Jamaica[13]	20.4	19.5	18.8	20.1	19.9	5.4	7.6	7.5	7.6	7.5	145.3	139.7	135.7	124.8	120.5
St. Kitts and Nevis[13]	25.4	29.2	29.7	30.1	28.7	10.8	16.0	12.2	7.0	0.5	137.3	102.9	79.9	74.5	68.8
St. Lucia[13]	30.5	27.4	25.3	25.1	25.0	–5.8	–2.1	0.2	0.0	–0.2	73.7	78.6	79.4	81.7	83.2
St. Vincent and the Grenadines[13]	26.4	28.8	29.8	30.1	28.8	–0.3	–4.1	–1.5	–2.8	–1.1	72.0	74.3	76.7	77.0	78.8
Trinidad and Tobago[15]	32.1	33.8	33.6	34.1	34.6	1.4	–0.4	–2.4	–4.3	–5.3	40.7	39.1	39.3	43.9	50.6
Memorandum:															
Latin America and the Caribbean (LAC)	**29.1**	**29.7**	**30.6**	**30.0**	**29.9**	**0.0**	**–0.1**	**–1.4**	**–1.6**	**–1.6**	**47.9**	**48.7**	**51.9**	**54.8**	**56.3**
Financially integrated LAC[16]	25.4	26.2	26.9	26.8	26.9	1.0	0.6	–0.6	–0.9	–0.7	38.6	40.0	42.7	46.2	47.6
Other commodity exporters[17]	33.7	34.5	36.9	35.8	34.3	–2.5	–3.0	–3.8	–6.5	–6.3	30.6	33.5	36.1	40.6	41.1
CADR[18]	19.9	20.2	19.8	19.6	19.7	–1.8	–2.0	–1.6	–0.8	–1.1	35.9	38.2	39.5	41.2	42.5
Caribbean															
Tourism-dependent[19]	26.5	26.9	26.3	26.7	24.9	–0.1	0.1	1.4	0.7	1.7	91.6	91.6	89.8	88.6	87.2
Commodity exporters[20]	28.9	30.2	31.2	31.4	29.9	–1.0	–2.4	–3.1	–4.6	–3.2	49.9	50.4	51.8	57.0	65.4
Eastern Caribbean Currency Union (ECCU)[13,21]	26.3	27.2	26.7	28.1	24.5	–0.4	0.1	1.3	–0.9	1.5	85.9	85.0	82.8	82.3	80.4

Sources: IMF, *World Economic Outlook*; and IMF staff calculations and projections.

[1] Definitions of public sector accounts vary by country, depending on country-specific institutional differences, including on what constitutes the appropriate coverage from a fiscal policy perspective, as defined by the IMF staff. All indicators reported on fiscal year basis. Regional aggregates are purchasing-power-parity GDP-weighted averages, unless otherwise noted. Consistent with the IMF, *World Economic Outlook*, the cut-off date for the data and projections in this table is September 16, 2015.

[2] Includes central government, social security funds, nonfinancial public corporations, and financial public corporations.

[3] For cross-country comparability, expenditure and fiscal balances of the United States are adjusted to exclude the items related to the accrual basis accounting of government employees' defined benefit pension plans, which is counted as expenditure under the 2008 System of National Accounts (2008 SNA) recently adopted by the United States, but not so in countries that have not yet adopted the 2008 SNA. Data for the United States in this table may thus differ from data published by the U.S. Bureau of Economic Analysis.

[4] Federal government and provinces; includes interest payments on a cash basis. Primary expenditure and primary balance includethe federal government and provinces. Gross debt is for the federal government only.

[5] Nonfinancial public sector, excluding the operations of nationalized mixed-ow nership companies in the hydrocarbon and electricity sectors.

[6] Nonfinancial public sector, excluding Petrobras and Eetrobras, and consolidated with the Sovereign Wealth Fund (SWF). The definition includes Treasury securities on the central bank's balance sheet, including those not used under repurchase agreements. The national definition of general government gross debt includes the stock of Treasury securities used for monetary policy purposes by the Central Bank (those pledged as security in reverse repo operations). It excludes the rest of the government securities held by the Central Bank. According to this definition, general government gross debt amounted to 58.9 percent of GDP at end-2014.

[7] Nonfinancial public sector reported for primary balances (excluding statistical discrepancies); combined public sector inducing Ecopetrol and excluding Banco de la República's outstanding external debt reported for gross public debt.

[8] Central government only. Gross debt for Belize includes both public and publicly guaranteed debt.

[9] Primary expenditures for Suriname exclude net lending. Debt data refer to central government and government-guaranteed public debt.

[10] Consolidated public sector.

[11] General government.

[12] Ratios to GDP are based on the "1996-base" GDP series. Fiscal data cover the nonfinancial public sector excluding the Panama Canal Authority.

[13] Central government for primary expenditure and primary balance; public sector for gross debt. For Jamaica, the public debt in cludes central government, guaranteed, and PetroCaribe debt.

[14] Overall and primary balances include off-budget and public-private partnership activities for Barbados and the nonfinancial public sector. Central government for gross debt (excludes NIS holdings).

[15] Central government for primary expenditure. Consolidated public sector for primary balance and gross debt.

[16] Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

[17] Simple average of Argentina, Bolivia, Ecuador, Paraguay, and Venezuela.

[18] Simple average of Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

[19] Simple average of The Bahamas, Barbados, Jamaica, and ECCU member states.

[20] Simple average of Belize, Guyana, Suriname, and Trinidad and Tobago.

[21] Eastern Caribbean Currency Union (ECCU) members are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

[22] For Ecuador, public debt includes the outstanding balance for advance oil sales.

Table 2.3. Western Hemisphere: Selected Economic and Social Indicators, 2005–14[1]

	2014				2005–2014 Average					2014		Latest Available		
	GDP[2] (US$ Billion)	Population (Million)	GDP per Capita (PPP$)	Nominal Output Share of LAC Region[2] (Percent)	Real GDP Growth (Percent)	CPI Inflation[3] (Percent)	Current Account (Percent of GDP)	Domestic Saving (Percent of GDP)	Trade Openness[4] (Percent of GDP)	Gross Reserves[5] (Percent of GDP)	Unemployment Rate (Percent)	Poverty Rate[6]	Gini Coefficient[6]	Sovereign Credit Rating[7]
North America														
Canada	1,785.4	35.5	44,967	—	1.9	1.8	–1.3	22.4	64.1	4.2	6.9	—	31.3	AAA
Mexico	1,291.1	119.7	17,950	22.3	2.5	4.1	–1.3	21.4	60.6	14.8	4.8	11.4	49.1	BBB+
United States	17,348.1	319.1	54,370	—	1.5	2.1	–3.7	17.0	28.4	0.8	6.2	—	47.6	AAA
South America														
Argentina[8]	543.1	42.6	22,302	9.4	5.1	11.2	0.7	20.1	33.4	5.4	7.3	5.0	42.0	SD
Bolivia	33.2	11.3	6,224	0.6	5.0	6.2	5.9	24.8	72.7	40.8	4.0	14.4	46.5	BB
Brazil	2,346.6	202.8	16,155	40.5	3.4	5.4	–1.8	18.3	24.2	15.4	4.8	9.4	52.3	BBB–
Chile	258.0	17.8	23,057	4.4	4.3	3.6	0.1	22.8	70.8	15.7	6.4	2.0	50.8	AA–
Colombia	377.9	47.7	13,480	6.5	4.8	4.0	–2.8	20.2	35.6	12.3	9.1	15.2	53.4	BBB
Ecuador	100.5	16.0	11,303	1.7	4.4	4.2	0.7	26.7	60.5	3.5	3.8	10.5	46.2	B
Guyana	3.1	0.8	6,921	0.1	3.9	5.0	–11.8	7.1	132.9	21.8	—	—	—	—
Paraguay	30.2	6.9	8,476	0.5	5.0	6.2	1.2	17.2	102.1	22.1	5.5	8.3	52.6	BB
Peru	202.6	31.4	11,860	3.5	6.1	2.9	–1.4	22.3	50.7	30.2	6.0	10.0	45.3	BBB+
Suriname	5.2	0.6	16,261	0.1	4.1	7.8	3.8	—	104.0	11.0	8.9	—	—	BB–
Uruguay	57.5	3.4	21,055	1.0	5.4	7.5	–2.8	17.8	55.1	30.5	6.6	2.3	41.3	BBB
Venezuela	206.3	30.5	17,759	3.6	3.7	30.9	7.5	31.1	58.1	3.4	7.0	11.5	40.4	CCC
Central America														
Belize	1.7	0.4	8,333	0.0	2.7	2.0	–5.2	11.9	125.6	28.7	11.1	—	—	B–
Costa Rica	49.6	4.8	14,919	0.9	4.6	7.6	–5.1	17.2	67.1	14.6	8.2	4.6	48.5	BB+
El Salvador	25.2	6.4	8,060	0.4	1.9	2.9	–4.6	10.2	65.2	9.7	5.5	12.7	41.8	B+
Guatemala	58.7	15.9	7,550	1.0	3.7	5.5	–3.0	13.3	62.9	12.0	—	40.7	52.2	BB
Honduras	19.5	8.3	4,746	0.3	3.8	6.4	–7.3	18.9	90.5	17.6	4.5	39.6	57.2	B
Nicaragua	11.8	6.2	4,790	0.2	3.8	8.7	–11.6	15.8	94.8	19.3	6.8	29.3	45.7	B
Panama	43.8	3.9	19,546	0.8	8.5	4.1	–8.9	16.6	75.4	9.2	4.8	9.9	51.9	BBB
The Caribbean														
The Bahamas	8.5	0.4	25,075	0.1	0.6	1.9	–14.2	13.0	95.9	10.3	14.6	—	—	BBB
Barbados	4.4	0.3	16,365	0.1	0.9	5.1	–8.7	7.0	98.1	14.5	12.7	—	—	B
Dominican Republic	64.1	9.9	14,014	1.1	5.8	5.5	–5.3	20.2	58.9	7.6	6.4	13.9	47.4	B+
Haiti	8.7	10.5	1,757	0.2	2.1	8.2	–3.1	25.6	65.4	22.0	—	—	—	—
Jamaica	13.7	2.8	8,610	0.2	0.1	9.9	–11.1	12.4	90.4	18.0	15.3	—	—	B–
Trinidad and Tobago	28.9	1.4	32,170	0.5	2.7	8.0	17.3	32.6	97.8	41.2	3.3	—	—	A–
Eastern Caribbean Currency Union	5.7	0.6	15,587	0.1	1.6	2.7	–20.0	8.4	97.2	24.1	—	—	—	—
Antigua and Barbuda	1.2	0.1	22,998	0.0	1.7	2.2	–18.2	11.7	110.7	23.8	—	—	—	—
Dominica	0.5	0.1	11,163	0.0	2.1	1.9	–18.0	–0.2	87.8	19.4	—	—	—	—
Grenada	0.9	0.1	12,477	0.0	1.7	2.6	–24.9	1.8	78.6	18.6	—	—	—	—
St. Kitts and St. Nevis	0.9	0.1	21,474	0.0	2.3	3.4	–15.6	20.1	86.7	38.4	—	—	—	—
St. Lucia	1.4	0.2	11,644	0.0	0.9	3.0	–17.8	11.1	106.0	18.3	—	—	—	—
St. Vincent and the Grenadines	0.7	0.1	10,684	0.0	1.1	3.1	–27.8	–1.6	86.7	21.6	—	2.9	40.2	B–
Latin America and the Caribbean	**5,799.3**	**602.9**	**15,551**	**100.0**	**3.7**	**6.3**	**–1.1**	**20.4**	**43.1**	**14.4**	—	**11.3**	**49.6**	—

Sources:IMF, *International Financial Statistics;* IMF, *World Economic Outlook;* Inter-American Development Bank (IDB); national authorities; Socio-Economic Database for Latin America and the Caribbean (CEDLAS and The World Bank); and IMF staff calculations.

[1] Estimates may vary from those reported by national authorities on account of differences in methodology and source. Regional aggregates are purchasing-power-party GDP-weighted averages, except for regional GDP in U.S. dollars and population where totals are computed. CPI series excludes Argentina. Consistent with the IMF, *World Economic Outlook*, the cut-off date for the data and projections in this table is September 16, 2015.

[2] At market exchange rates.

[3] End-of-period, 12-month percent change.

[4] Exports plus imports of goods and services in percent of GDP.

[5] Latest available data from IMF, *International Financial Statistics*.

[6] Data from Socio-Economic Database for Latin America and the Caribbean (SEDLAC), based on the latest country-specific household surveys. In most cases, the surveys are from 2013 or 2014, though the vintage for Nicaragua (2009) is less recent. Poverty rate is defined as the share of the population earning less than US$2.50 per day. For Venezuela, poverty rate is defined as a share of the population in extreme poverty per national definition (INE).Gini index is calculated by the World Bank using pooled data for each country. For Venezuela, Gini index is based on official statistics (INE). Data for aggregateis population-weighted average from the IDB. Data for the United States are from the U.S. Census Bureau; those for Canada are from Statistics Canada.

[7] Median of long-term foreign currency ratings published by Moody's, Standard & Poor's, and Fitch.

[8] See Annex 2.1 for details on Argentina's data.

Annex 2.1. Data Disclaimer

GDP data for Argentina are officially reported data as revised in May 2014. On February 1, 2013, the IMF issued a declaration of censure, and in December 2013 called on Argentina to implement specified actions to address the quality of its official GDP data according to a specified timetable. On June 3, 2015, the Executive Board recognized the ongoing discussions with the Argentine authorities and their material progress in remedying the inaccurate provision of data since 2013, but found that some specified actions called for by the end of February 2015 had not yet been completely implemented. The Executive Board will review this issue again by July 15, 2016, in line with the procedures set forth in the IMF legal framework.

Consumer price data for Argentina from December 2013 onward reflect the new national CPI (IPCNu), which differs substantively from the preceding CPI (the CPI for the Greater Buenos Aires Area, CPI-GBA). Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNu data cannot be directly compared to the earlier CPI-GBA data. Because of this structural break in the data, average CPI inflation for 2014 is not reported in the October 2015 *World Economic Outlook*. Following a declaration of censure by the IMF on February 1, 2013, the public release of a new national CPI by the end of March 2014 was one of the specified actions in the IMF Executive Board's December 2013 decision calling on Argentina to address the quality of its official CPI data. On June 3, 2015, the Executive Board recognized the ongoing discussions with the Argentine authorities and their material progress in remedying the inaccurate provision of data since 2013, but found that some specified actions called for by the end of February 2015 had not yet been completely implemented. The Executive Board will review this issue again by July 15, 2016, in line with the procedures set forth in the IMF legal framework.