2. Outlook for Latin America and the Caribbean: The Right Policy Mix for Sustaining the Recovery

Following a contraction in 2016, growth in Latin America and the Caribbean turned positive in 2017, owing to both a favorable external environment and improving domestic conditions. Growth is expected to gain further momentum in 2018 and 2019. The recovery is broad-based across the region. In the near term, Mexico, Central America, and parts of the Caribbean are benefiting from stronger growth in the United States, while potential implications of the US tax reform and ongoing renegotiations of the North American Free Trade Agreement (NAFTA) are creating uncertainties. Growth in South America is being led by the end of recessions in Argentina, Brazil, and Ecuador; higher commodity prices; and a moderation of inflation that has provided space for monetary easing. But economic adjustment remains unfinished business. In particular, further fiscal consolidation is needed in many countries to restore sustainability, notably by calibrating the quality, speed, and composition of fiscal adjustment. Elections this year across the region might lead to heightened economic and policy uncertainty. Looking beyond the near term, the region faces serious medium-term structural challenges. Despite the faster-than-expected recovery, Latin America's output growth is returning to an underwhelming mean, with downside risks to prospects over the medium term. This calls for a comprehensive structural reform agenda, aimed at strengthening institutional and policy frameworks, boosting productivity, and increasing trade and financial liberalization to help secure strong, durable, and inclusive growth.

This chapter was prepared by Carlos Caceres, with excellent research assistance provided by Genevieve Lindow. The section on Central America was coordinated by Prachi Mishra, Kimberly Beaton, Javier Kapsoli, and Gerardo Peraza, with excellent research assistance provided by Cristhian Vera. The section on the Caribbean was coordinated by Bert van Selm, with excellent research assistance provided by Lulu Shui.

Recovery Gaining Momentum

Following a contraction of –0.6 percent in 2016, growth in Latin America and the Caribbean (LAC) is projected to strengthen further from an estimated 1.3 percent in 2017 to 2 percent and 2.8 percent in 2018 and 2019, respectively (Figure 2.1). This is attributed to both a favorable external environment and improving domestic conditions, particularly in countries that experienced a recession in 2016.

Favorable External Tailwinds

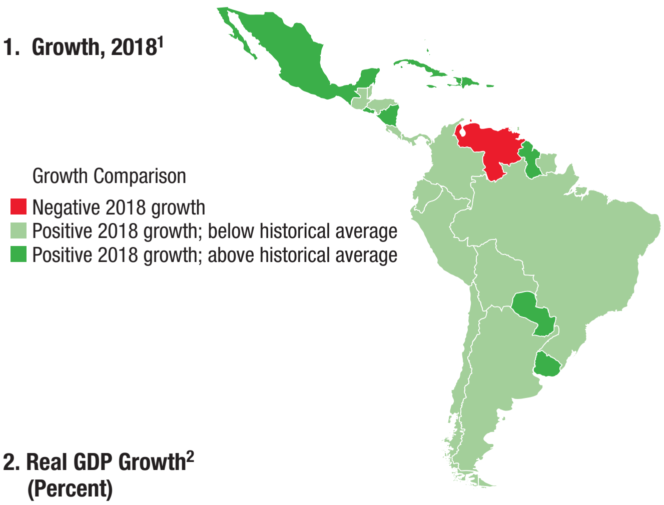
Latin American economies are benefiting from supportive external conditions that are providing significant tailwinds to the region's financial markets and real economy.

- *Strong global demand and world trade:* The global economy accelerated in 2017, driven by stronger growth in both advanced and emerging market economies. This momentum is expected to continue in the current year. World trade has been growing strongly, alongside buoyant external demand (Figure 2.2), and is providing support to the region's exports, contributing to growth and, in some cases, helping the external adjustment. That said, despite their recent acceleration, exports from the region are not fully reaping the benefits of the global trade boost, with real export growth in several countries not keeping pace with the growth of external demand. Moreover, Latin American exports are less responsive to favorable changes in relative prices compared to other emerging market regions, most notably Asia (see Chapter 3 of the April 2017 *Regional Economic Outlook: Western Hemisphere*).

- *Accommodative financial conditions*: Spillovers to the region from the global equity market

Figure 2.1. Growth Outlook

1. Growth, 2018[1]



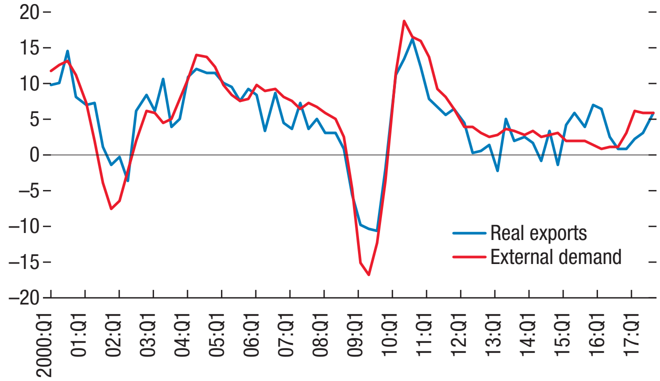
2. Real GDP Growth[2]
(Percent)

	2016	2017	Projections 2018	Projections 2019
LAC	**–0.6**	**1.3**	**2.0**	**2.8**
LAC excluding Venezuela	0.1	1.9	2.6	3.0
South America	–2.4	0.7	1.7	2.5
CAPDR	4.6	4.0	4.3	4.3
Caribbean				
Tourism dependent	1.6	1.3	1.7	2.1
Commodity exporters	–4.6	–1.5	0.8	0.9
Memorandum items:				
LA6	0.0	1.5	2.5	2.9
Brazil	–3.5	1.0	2.3	2.5
Mexico	2.9	2.0	2.3	3.0

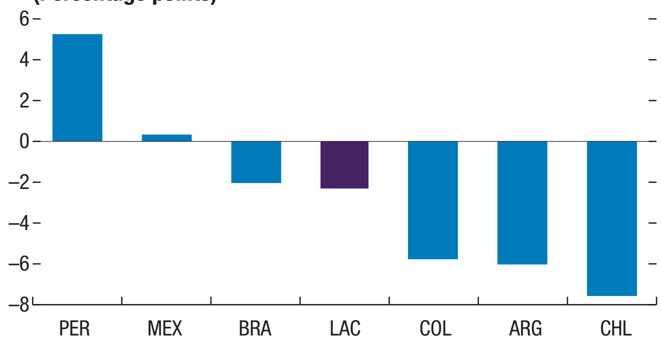
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: For country group information, see page 115. CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean.
[1]Historical average refers to the average growth during 2000–15.
[2]Purchasing-power-parity GDP-weighted average.

Figure 2.2. External Demand

1. LAC: External Demand and Real Exports Growth[1]
(Year-over-year percent change)



2. Export Performance Gap, 2017:Q3[2]
(Percentage points)



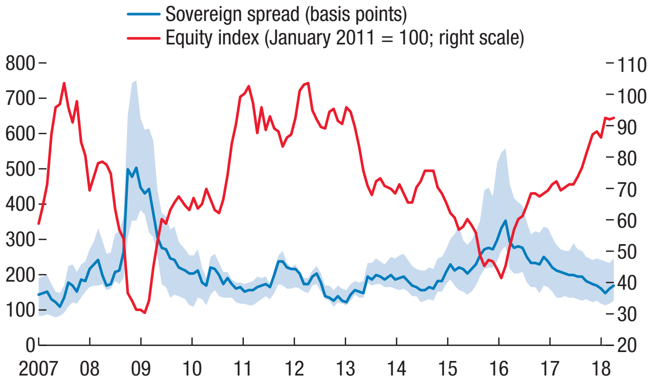
Sources: IMF, Direction of Trade Statistics database; IMF, Global Data Source database; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115. LAC = Latin America and the Caribbean.
[1]External demand is the country-specific component of import growth of trading partners, weighted by the share of exports to each trading partner. US dollar nominal GDP-weighted average of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
[2]"Export performance gap" is the difference between real export growth and its corresponding external demand component.

sell-off in early February 2018 were generally limited and short-lived, with asset prices across most countries returning to their preshock levels by the end of the month. Market views on Latin America were mixed—upbeat about near-term economic momentum but worried about medium-term growth prospects (Box 2.1). With a heavy election calendar in the region, this includes concerns about political risks and rising populism, as well as external risks for countries with higher dollar financing needs. Despite increased volatility, global financial conditions remain accommodative, with global equity prices near all-time highs and long-term interest rates remaining subdued. This is providing easy financing to the region. Sovereign and corporate spreads remain low, and equity prices are elevated. Capital inflows to the region stabilized and started to increase moderately in 2017, after falling sharply in the previous two years. Similarly, the region's freely floating currencies have broadly stabilized, and over the past 24 months some have partially regained some of the previously lost ground (Figure 2.3).

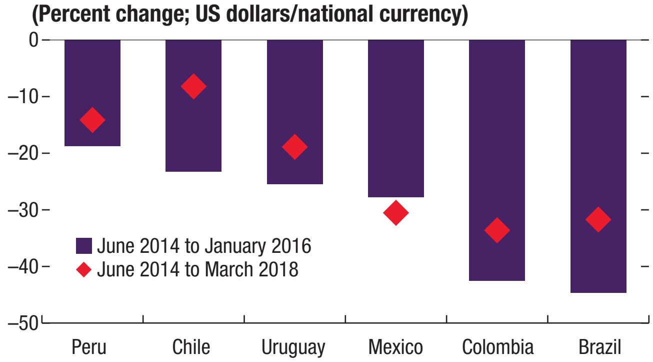
- *Partial rebound in commodity prices*: Commodity prices worldwide fell sharply following the end of the commodity super-cycle. Energy and metal prices essentially halved between their peak in

Figure 2.3. Financial Indicators

1. Sovereign Spread and Equity Prices[1]



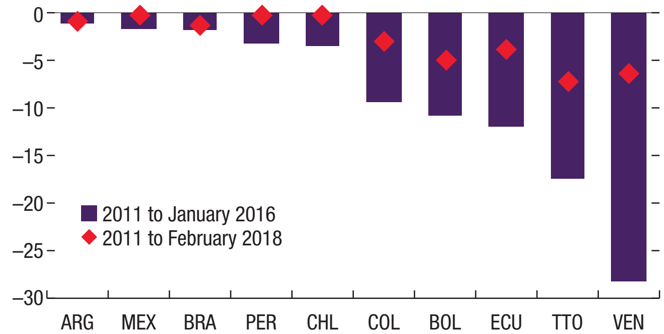
2. Bilateral Exchange Rates
(Percent change; US dollars/national currency)



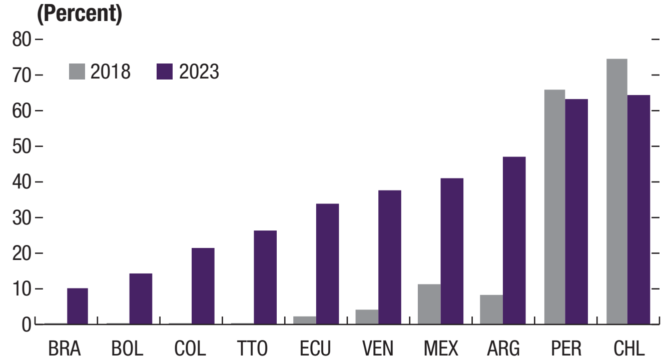
Sources: Bloomberg Finance L.P.; Haver Analytics; national authorities; and IMF staff calculations.
[1]Sovereign spread refers to the median of LA6 J.P. Morgan Emerging Market Bond Index Global spread; US-dollar-denominated sovereign bonds. Shaded area refers to the min-max range. LA6 is Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Figure 2.4. Commodity Terms of Trade

1. Commodity Terms of Trade
(Percent change; index weighted by GDP)



2. Probability of Commodity Terms of Trade Returning to or Staying above "Boom Levels" by 2018 and 2023[1]
(Percent)



Sources: Caceres and Medina 2015; Gruss 2014; UN Comtrade; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115. CTOT = commodity terms of trade.
[1]The bars denote the probability of each country's CTOT reaching or exceeding by the end of a given year the average level observed during 2011:Q1–14:Q1, based on stochastic simulations (1 million iterations) using the Geometric Brownian Motion model of Caceres and Medina 2015.

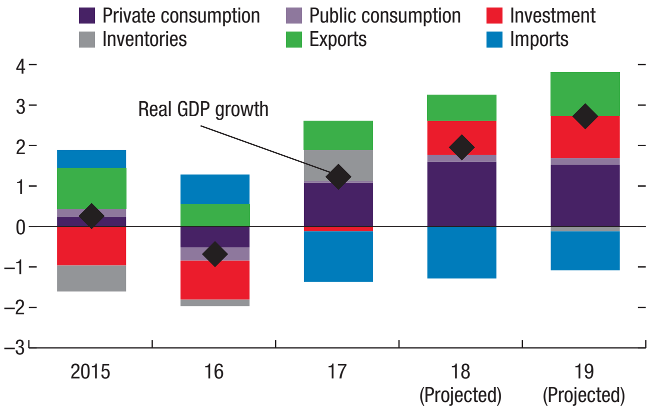
2011–12 and early 2016. This represented a significant terms-of-trade shock for Latin America's commodity exporters (Figure 2.4). Commodity prices have, however, partly rebounded since early 2016. In some cases, net commodity terms of trade have essentially reverted to their boom levels—reflecting relative price developments of commodity imports and exports—notably in metal commodity exporters that, at the same time, are net oil importers (Chile, Peru). Moreover, the likelihood that commodity terms of trade will return to—or stay above—their boom levels both in 2018 and over the medium term has increased for most countries in the region.

Domestic Investment Boosting Growth

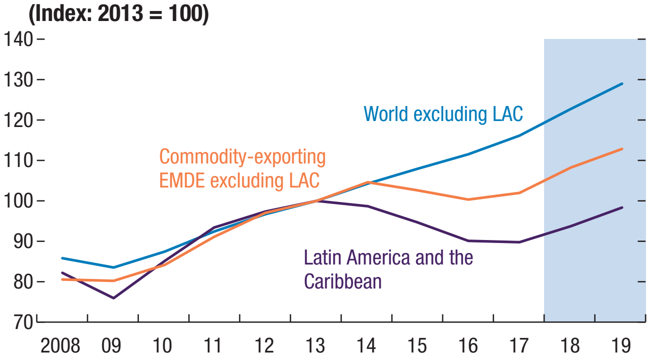
The favorable external tailwinds are complementing an improvement in domestic conditions. A significant contributing factor to the region's growth rebound in 2017 is the end of recessions and subsequent recovery in some of the major economies, most notably Argentina and Brazil. A notable exception is Venezuela, where the economic crisis continues to weigh heavily on growth, and the economy is estimated to have contracted by a further 14 percent in 2017. Excluding Venezuela, the average growth estimate for the region in 2017 is 1.9 percent.

Figure 2.5. Growth and Investment

1. Latin America and the Caribbean: Contributions to Real GDP Growth[1]
(Year-over-year percent change)

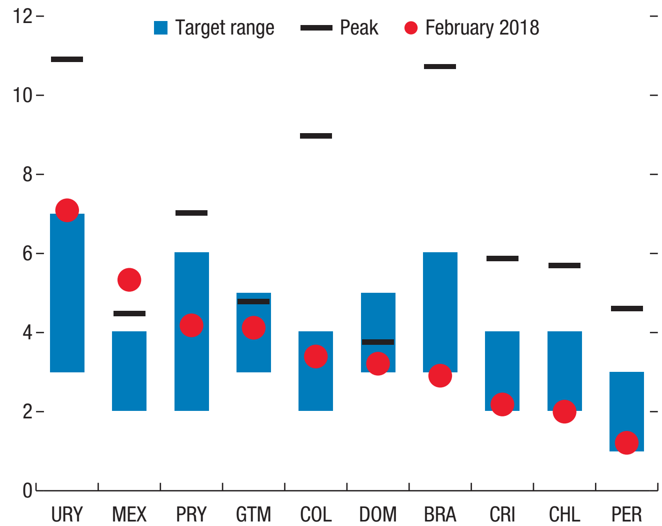


2. Real Investment Levels
(Index: 2013 = 100)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean.
[1]Excludes Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines due to data limitations. Inventories include statistical discrepancies.

Figure 2.6. Inflation
(12-month percent change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Includes countries with an inflation-targeting framework. Peak over December 2013 to December 2016. Peak dates are Brazil, Peru (January 2016); Chile (October 2014); Colombia (July 2016); Costa Rica (November 2014); Dominican Republic (December 2013); Guatemala (October 2016); Mexico (January 2014); Paraguay (May 2014); and Uruguay (May 2016).
For International Organization for Standardization (ISO) country codes used in data labels, see page 115.

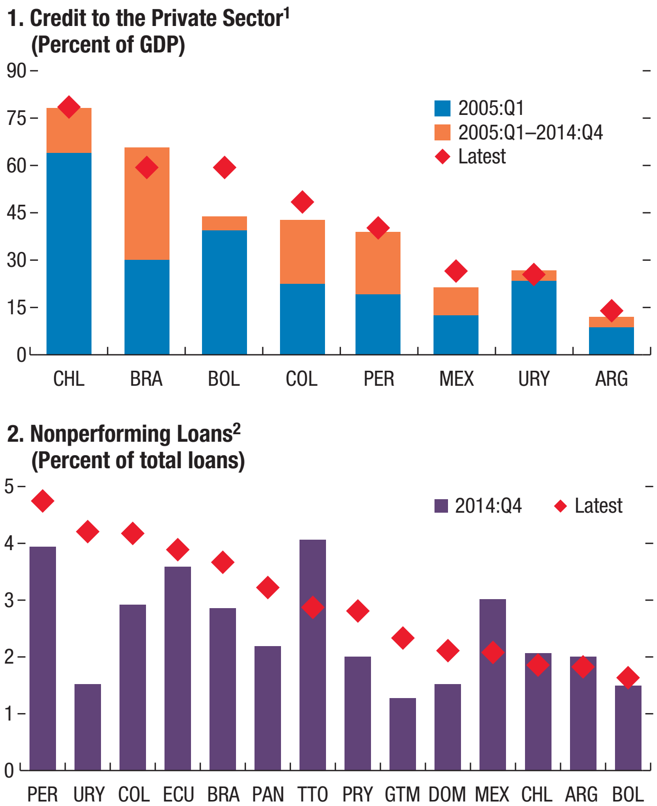
Going forward, growth heterogeneity in the region is expected to decline, and a broad-based acceleration in economic activity is expected. Relative to 2016, when seven Latin American and the Caribbean economies, representing roughly half of the region's total GDP, experienced an output contraction, real GDP growth in 2019 is projected to be positive in all but one country (Venezuela).

Following the recovery in private consumption in 2017, the highly anticipated investment recovery is now beginning to materialize. Having contracted for three years in a row, private investment at the regional level is estimated to have stopped being a major drag in 2017. Private investment is expected to move solidly into positive territory in 2018–19, and to be the main driver of the projected economic acceleration this year and the next (Figure 2.5). Despite this recovery, however, investment levels are expected to remain below the levels observed in other regions.

Consumer price inflation has come down sharply at the regional level. Across most of the inflation-targeting countries in the region, inflation is back within the official target range (Figure 2.6). In countries where inflation still exceeds the target range, it is expected to moderate in 2018–19, as the impact from transitory supply-side factors recedes. Unemployment rates have already peaked in most countries, and labor markets are showing signs of improvement.

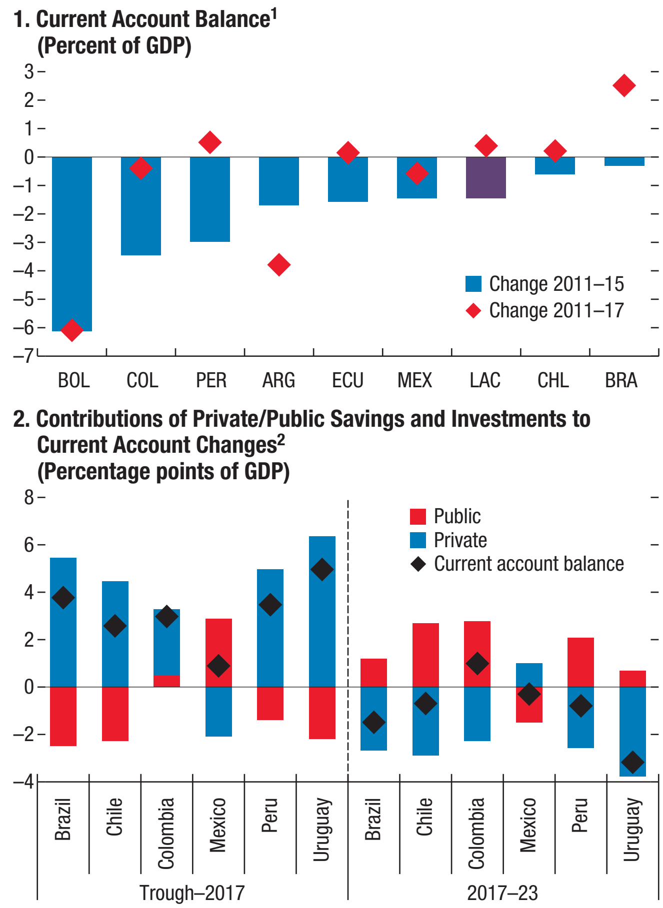
Financial sectors in the region remain stable, with strong bank capital ratios and high rates of return. However, bank profits are largely driven by high interest margins, as bank concentration and operating costs remain high, affecting the

Figure 2.7. Financial Soundness Indicators



Sources: Haver Analytics; IMF, International Financial Statistics database; national authorities; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115.
[1]Latest data are Argentina, Bolivia, Brazil, Chile, Mexico, Peru (2017:Q4); and Colombia, Uruguay (2017:Q3).
[2]Latest data are Argentina, Brazil, Chile, Dominican Republic, Ecuador, Peru (2017:Q3); Bolivia, Colombia, Guatemala, Mexico, Paraguay, Trinidad and Tobago, Uruguay (2017:Q4); and Panama (2017:Q2).

Figure 2.8. Balance of Payments



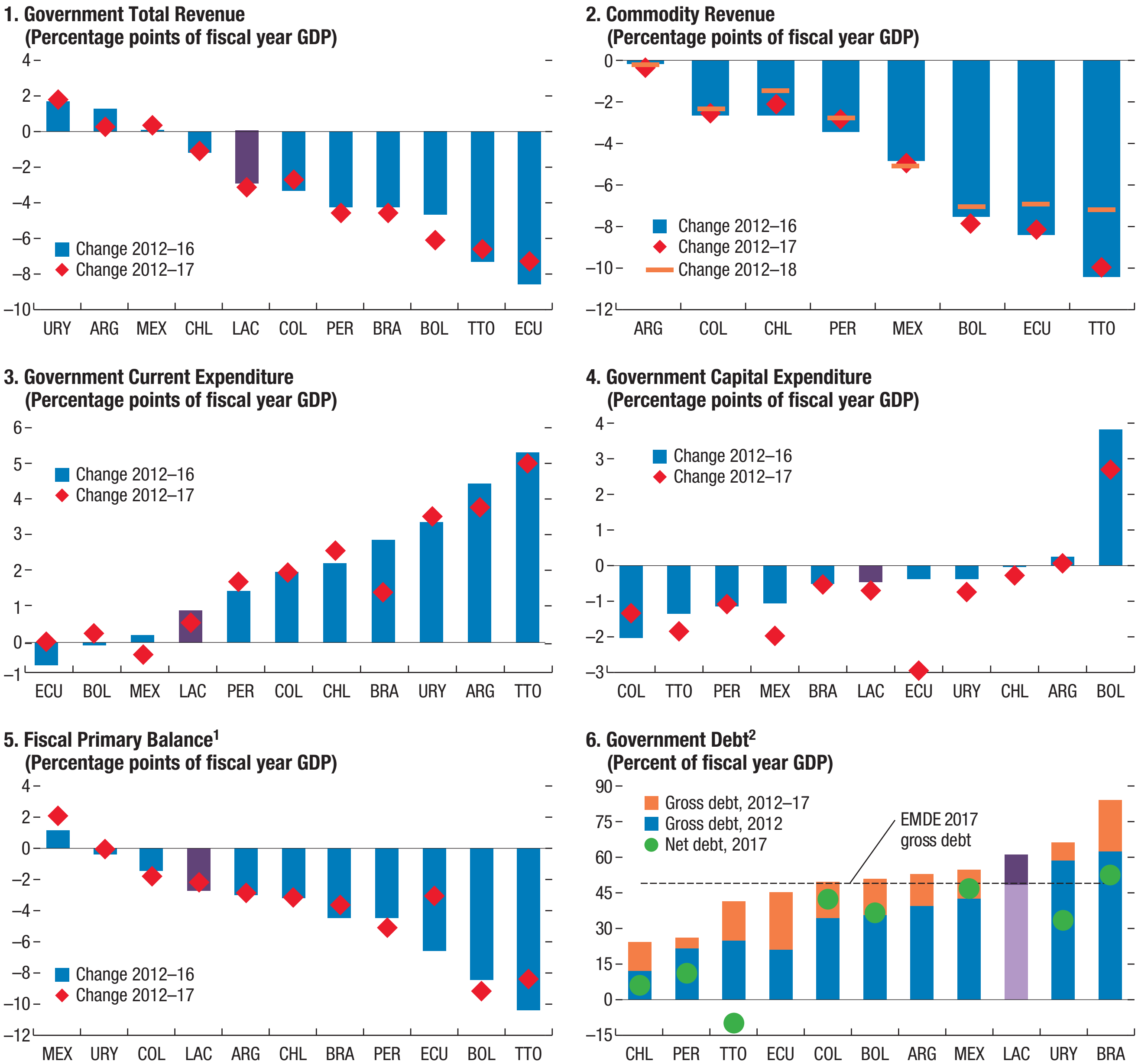
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115. LAC = Latin America and the Caribbean.
[1]LAC aggregate is US dollar nominal GDP-weighted average.
[2]Current account balance trough over the period 2013–15 (Brazil: 2014; Chile and Uruguay: 2013; Colombia, Mexico, and Peru: 2015).

sector's efficiency and competitiveness (Enoch and others 2017). Private credit increased sharply during the commodity boom, with a doubling of the region's credit-to-GDP ratio between 2005 and 2015, but has since broadly stabilized in several countries (Figure 2.7). Despite the recent recovery, the economic slowdown over the past few years has led to an increase in nonperforming loans in the region, but these are well provisioned, and their levels remain manageable in most countries. Strengthening of nonfinancial corporate balance sheets continues, as corporate profitability increases in line with the economic recovery, and indebtedness levels have fallen relative to recent peaks.

Twin Deficits and Subdued Long-Run Projections

Current account deficits in most countries in the region have narrowed over the past couple of years from their recent peaks (Figure 2.8). In many cases, external adjustment in response to lower commodity prices following the end of the commodity super-cycle is now almost complete. Most of the current account adjustment to date has been led by improvements in the private sector savings-investment balance, reflected in the compression of imports attributable to income effects (see Chapter 3 of the April 2017

Figure 2.9. Fiscal Indicators



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: For definitions of government coverage, see Annex Table 2.2. LAC aggregate is fiscal year US dollar nominal GDP-weighted average. For International Organization for Standardization (ISO) country codes used in data labels, see page 115. EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean.
[1]Mexico excludes one-off revenues for 2017.
[2]Definition of government debt varies across countries. For Uruguay, public debt includes the debt of the central bank. Net debt data are not available for Argentina, Ecuador, and Latin America and the Caribbean (aggregate).

Regional Economic Outlook: Western Hemisphere). Mexico was a notable exception, where the reduction in the current account deficit was led by improvements in public sector savings. Going forward, current account deficits are expected to widen again as growth accelerates in both domestic consumption and, importantly, investment. This time, however, the expansion in private sector investment is expected to offset the impact of fiscal consolidation on the current account.

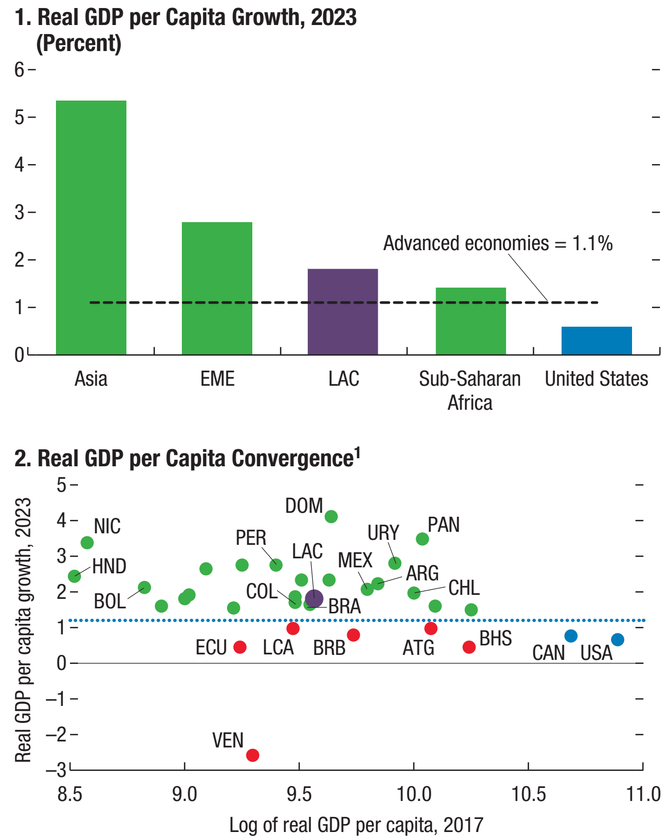
Following the end of the commodity super-cycle, fiscal revenues in most of the commodity-exporting countries in the region fell noticeably relative to the boom years (Figure 2.9). The loss in commodity revenue was particularly strong among the hydrocarbon-exporting countries (Bolivia, Ecuador, Mexico, Trinidad and Tobago, Venezuela). At the same time, the upward trend in current spending, which began during the commodity price boom, continued in several countries, even following the bust. This led to a significant deterioration in fiscal balances and debt ratios in most countries in the region. In response to worsening fiscal fundamentals, some countries have embarked on adjustment, either by raising noncommodity revenues (Argentina, Chile, Mexico, Trinidad and Tobago) or through cuts in public investment.

Over the longer term, growth prospects for the region remain weak. Current potential growth estimates in the region are similar to their modest long-term averages. Moreover, the region's GDP per capita growth is substantially below that of most other emerging market regions and just slightly above advanced economies (Figure 2.10). This is hampering income convergence toward advanced economy levels. There is also a considerable amount of heterogeneity within the region, with a few countries losing significant ground in terms of development prospects (notably, Venezuela). Combined with relatively low levels of investment, low productivity continues to be a drag on overall growth in the region (see the October 2017 *Regional Economic Outlook Update: Western Hemisphere*), while misallocation of capital and labor resources appears to be an important element in the region's long-term growth conundrum (Box 2.2).

Risks to the Outlook

Despite the improved near-term outlook, a wide range of risks remain. On the external side, a sudden tightening of the currently benign global financial conditions, compounded by populist changes in main economic partners—including through trade and migration flows—could derail the nascent recovery in the region. Closer to home, elections, rising populist sentiment, and corruption scandals could have an important bearing on economic prospects.

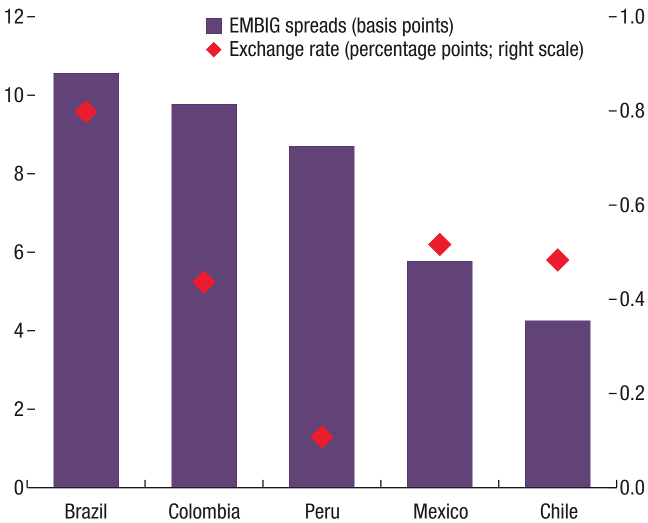
Figure 2.10. Real GDP per Capita



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115. Asia = emerging and developing Asia; EME = emerging and developing Europe; LAC = Latin America and the Caribbean.
[1]Dotted line refers to real GDP per capita growth for 2023 for advanced economies.

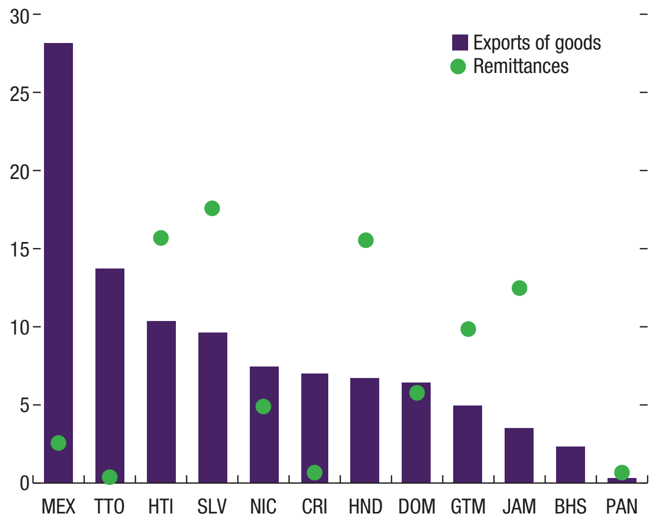
- *Correction in global financial markets*: A sudden tightening of global financial market conditions—including stemming from higher-than-expected inflation pressures in the United States with the overheating of the economy and the associated faster-than-expected tightening of US monetary policy and a rise in

Figure 2.11. Sensitivity to Changes in the VIX
(Response to a 1 point increase in the VIX)



Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Cumulative impulse response functions after three months to a 1 point increase in the VIX. For exchange rates, positive values indicate depreciations. EMBIG = J.P. Morgan Emerging Market Bond Index Global (US-dollar-denominated sovereign bonds); VIX = Chicago Board Options Exchange Volatility Index.

Figure 2.12. Exports to and Remittances from the United States
(Percent of GDP)



Sources: IMF, Direction of Trade Statistics database; IMF, World Economic Outlook database; World Bank, Migration and Remittances database; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115.

term premium—might have significant consequences for long-term interest rates, capital flows, and overall financing conditions for the region. Spillovers from US interest rates on domestic interest rates, particularly those due to a decompression in US term premiums, can be significant for many countries in the region (see Chapter 3 of the October 2015 *Regional Economic Outlook: Western Hemisphere*). This is true for both short-term interest rates (Mexico, Peru) and long-term interest rates (Brazil, Colombia). More generally, the most financially integrated economies in the region—Brazil, Chile, Colombia, Mexico, and Peru—remain at risk for adverse developments in global financial markets (Figure 2.11). Financial asset prices in these countries exhibit a high degree of synchronicity, and capital flows to the region are highly responsive to global shocks (see Chapter 4 of the April 2017 *Regional Economic Outlook: Western Hemisphere*). Overall, potentially tighter financial conditions pose downside risks to capital flows to the region, but the improved outlook for commodity exporters owing to the partial rebound in commodity prices provides some support to these flows. In addition to historical patterns, the recent bouts of market volatility also highlight the vulnerability of countries that are reliant on large external financing, such as Argentina, to changes in foreign investor sentiment.

- *Waning popular support for global economic integration and risks of a shift toward protectionist policies*: An increase in tariff and nontariff barriers could derail the ongoing upswing in world trade, with serious attendant effects on recovery in the region. Negotiations on NAFTA are ongoing. Recent proposals by the United States to impose import restrictions have cast a shadow over the negotiations and contributed to further uncertainty. Mexico, Central America, and the Caribbean, in particular, remain vulnerable to macroeconomic and policy developments in the United States through trade and remittance channels (Figure 2.12; see also Chapter 5 of the April 2017 *Regional Economic Outlook: Western Hemisphere*).

- *Trade links with China*: These links remain an important driver of external demand for South America. As such, and combined with the ongoing rebalancing of the domestic economy taking place in China, the accumulation of financial vulnerabilities there as a consequence of rising nonfinancial sector debt could have potential spillovers to the region through trade linkages and commodity prices.
- *Noneconomic factors, including geopolitical tensions and extreme weather events*: Geopolitical tensions in other regions could adversely affect global financial markets, commodity prices, global economic activity, and external demand, with spillovers to the region. The impact of climate change and the recurrence of extreme weather events and natural disasters represent an important source of risk for parts of the region, most notably the Caribbean (Box 2.3).
- *Election cycle in Latin America*: The year 2018 is an important one on the region's political calendar. Although these elections are an important part of the region's democratic process, they could also generate economic and policy uncertainty. In this context, rising populism poses risks to the implementation of much-needed reforms across many countries in the region.
- *Regional spillovers from Venezuela*: Social conditions in Venezuela have deteriorated sharply owing to plummeting purchasing power, increasing scarcity of basic goods (for example, food, personal hygiene items, medicine), a collapse of the health system, and high crime rates. The humanitarian crisis has led to a sharp increase in emigration to Colombia, Brazil, and, to a lesser extent, Argentina, Chile, Ecuador, and Peru, putting pressure on social services in these countries. Other transmission channels of Venezuela's crisis are less important. Spillovers through trade and PetroCaribe agreements, while important for some countries, have already materialized. Investors already see Venezuelan debt as a distressed asset, with no contagion to other emerging market assets.

Policy Priorities

In the context of an economic recovery gathering momentum, moderating inflation, and a widening set of risks, designing and implementing the right policy mix remain crucial. In particular, where fiscal consolidation is warranted, efforts should be made to improve the quality of the adjustment, while monetary policy could be geared toward providing support to growth, provided inflation expectations remain well anchored. A comprehensive and well-designed set of structural policies fostering investment and private sector participation would contribute to boosting potential growth in an inclusive and sustainable manner.

Improving the Quality of the Fiscal Adjustment

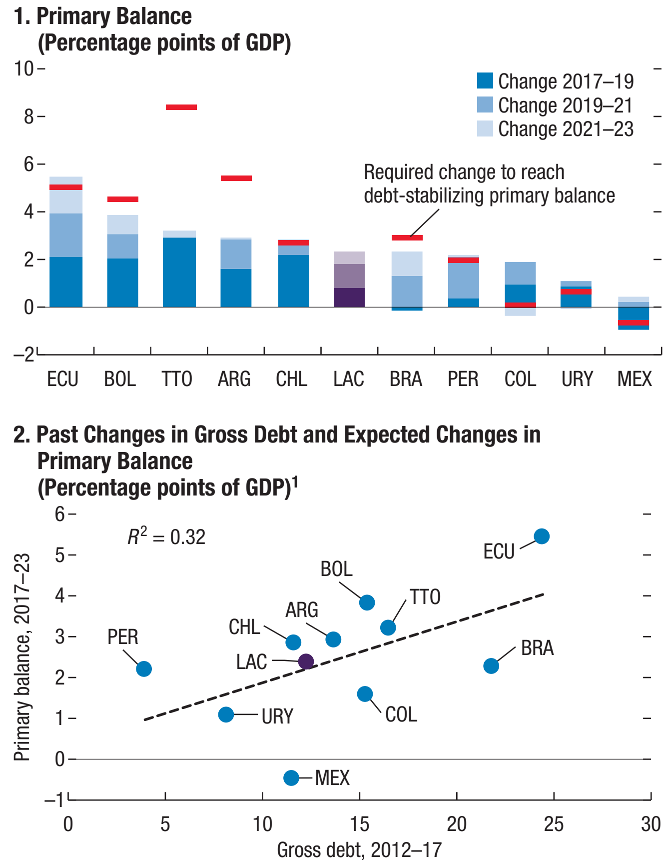
The end of the commodity super-cycle brought about a sharp fall in commodity revenues and a noticeable deterioration in fiscal balances. In some countries, this situation is exacerbated by a slowdown in domestic demand and economic crises. The deterioration in debt dynamics, compounded by low expected commodity prices and an accompanying reduction in fiscal buffers, calls for appropriate fiscal adjustment.

Most countries in the region have started to adjust or are planning to adjust on the fiscal front in the coming years. Given partial recovery in commodity prices and favorable financing conditions, the crucial question remains, how much do countries still need to adjust going forward? In several cases, the required fiscal adjustment—in terms of changes in the primary fiscal balance to reach the debt-stabilizing level—is relatively small. For most countries, however, primary balances are still noticeably below debt-stabilizing levels, most notably in Argentina, Bolivia, Brazil, and Trinidad and Tobago. This suggests that substantial and sustained fiscal effort will be needed. In general, and as expected, countries that experienced a larger increase in debt ratios following the end of the commodity super-cycle have more ambitious fiscal consolidation plans over the coming years (Figure 2.13). Some countries' adjustment plans are front-loaded, with the bulk of the fiscal consolidation taking place this year and the next (Chile, Trinidad and Tobago), while other countries have opted for a more gradual and back-loaded fiscal adjustment (Brazil, Peru).

Overall, the fiscal adjustment should aim at placing debt ratios on a sustainable path. With this objective in mind, the pace and composition of fiscal adjustment should be tuned to supporting and protecting growth and productivity-enhancing spending. However, this crucially depends on understanding the growth impact of fiscal consolidation—that is, the "fiscal multipliers." Analysis of fiscal consolidation episodes in the region suggests that their impact on growth is somewhat larger than previously thought (Chapter 4). In addition, since multipliers for public investment are larger than those for public consumption, consolidation packages should aim to preserve the former where possible. In cases where fiscal sustainability or credibility might be at risk, policymakers should address these concerns by front-loading the adjustment. Moreover, a well-designed and transparent fiscal adjustment plan would enhance policy credibility and investor confidence, which is also conducive to more favorable funding conditions, particularly for countries that pay higher average spreads relative to other countries with comparable credit ratings (Figure 2.14), and could engender stronger public support.

Fiscal adjustment could be supplemented with broader fiscal reform. In this context, entitlement reform aimed at containing future fiscal pressures derived from demographic changes—particularly those related to public pension and health expenditure (see the October 2017 *Regional Economic Outlook Update: Western Hemisphere*)—would contribute greatly to improving prospects for long-term fiscal sustainability, while having relatively small effects on short-term growth.

Figure 2.13. Primary Balance

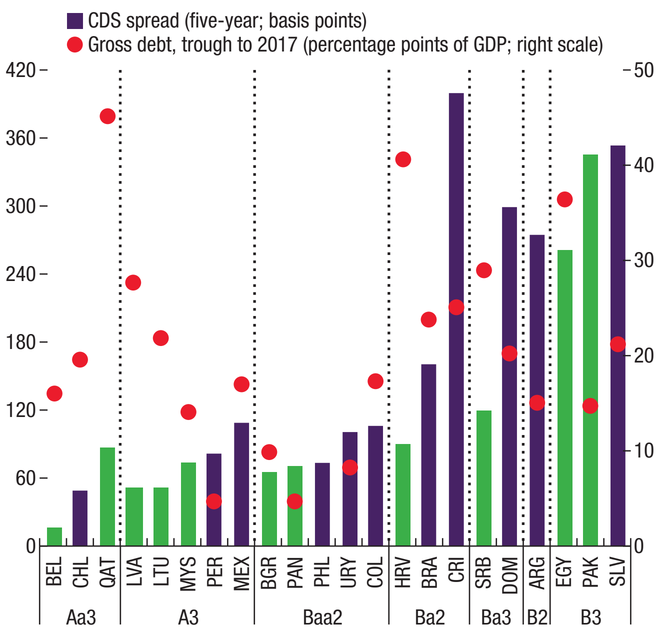


Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LAC aggregate is fiscal year US dollar nominal GDP-weighted average. Argentina's primary balance and debt refer to the federal government. Mexico excludes one-off revenues for 2017. For International Organization for Standardization (ISO) country codes used in data labels, see page 115. LAC = Latin America and the Caribbean.
[1]Definition of government debt varies across countries. For Uruguay, public debt includes the debt of the central bank.

Enhancing Monetary Policy Effectiveness While Supporting Growth

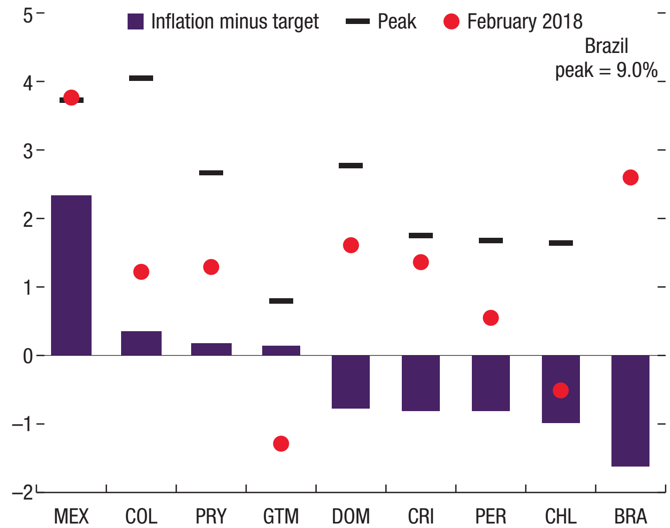
The recent decline in inflation in several countries in the region has provided space for easing monetary policy. Indeed, with inflation within (or close to) the target bands and

Figure 2.14. Sovereign Credit Ratings, CDS Spreads, and Gross Debt



Sources: Bloomberg Finance L.P.; Thomson Reuters Datastream; and IMF staff calculations.
Note: Sovereign credit ratings are based on Moody's rating scale as of March 30, 2018. Five-year CDS (credit default swap) spreads refer to the 2018 average to date. Gross debt trough is over the period 2007–16. Philippines' gross debt level for 2017 is less than the trough. Definition of government debt varies across countries. For Uruguay, public debt includes the debt of the central bank. For International Organization for Standardization (ISO) country codes used in data labels, see page 115.

Figure 2.15. Real Policy Rates and Inflation Gap
(Percent)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Real (ex ante) policy rates calculated as the difference between the policy rate and the one-year-ahead inflation expectations. Target is taken as the midpoint of the inflation target range. Peak real policy rate is since December 2013. Peak dates are Brazil (August 2016); Chile (December 2013); Colombia (January 2017); Costa Rica (November 2017); Dominican Republic (December 2014); Guatemala (February 2014); Mexico (February 2018); Paraguay (January 2015); and Peru (April 2017). For International Organization for Standardization (ISO) country codes used in data labels, see page 115.

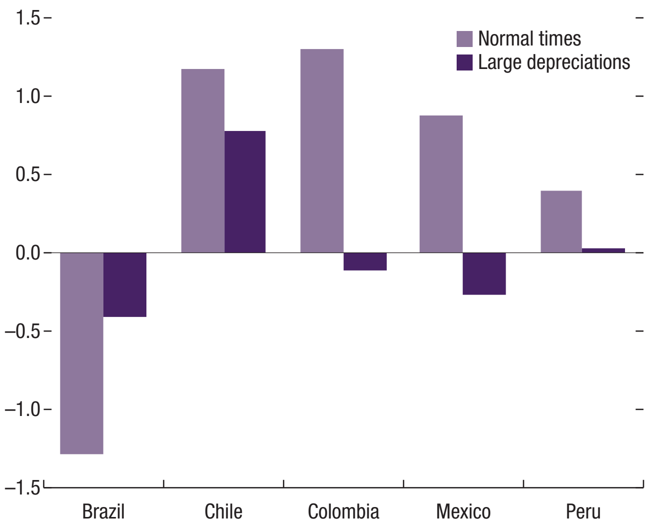
inflation expectations currently anchored, most inflation-targeting central banks have cut their policy rates (Figure 2.15).

Going forward, in an environment characterized by fiscal consolidation in large parts of the region, monetary policy could provide support to the ongoing economic recovery, while keeping inflation expectations well anchored. To achieve this, and to enhance the credibility and effectiveness of monetary policy, central banks should work toward strengthening their institutional and operational frameworks.

More effective central bank communication and greater transparency—for instance, through press releases and by releasing the minutes of monetary policy meetings—can play an important role in improving policy predictability and traction (Chapter 3). This, in turn, would increase the room to maneuver for central banks when dealing with transitory supply-side shocks, and help them maintain or strengthen their credibility. In this context, laudable progress has been made in the implementation of inflation-targeting regimes, which is in part reflected in lower exchange rate pass-through into domestic inflation across several countries in the region (see Chapter 4 of the April 2016 *Regional Economic Outlook Update: Western Hemisphere*). Nevertheless, central banks in the region are still challenged when facing bouts of exchange rate volatility and large depreciations. In this context, episodes of large currency depreciations have led to procyclical monetary policy stances, even when inflation expectations remained well anchored (Figure 2.16).

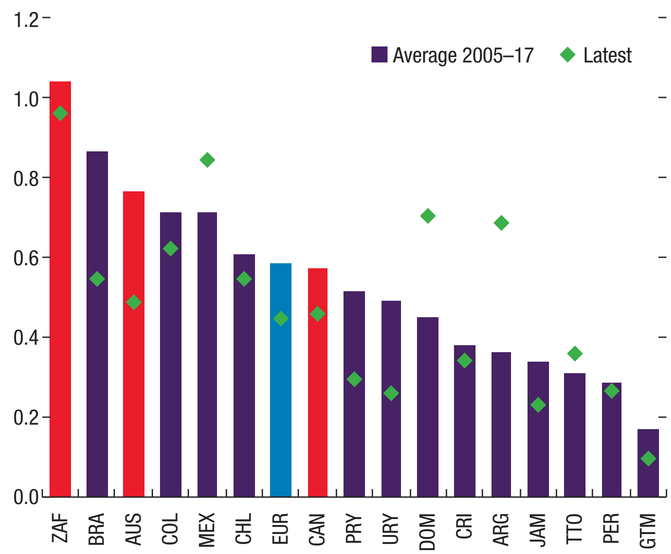
Exchange rate flexibility has served the region well, facilitating the external adjustment (see Chapter 3 of the April 2017 *Regional Economic Outlook: Western Hemisphere*). The degree of exchange rate

Figure 2.16. Elasticity of Central Bank Rates to Changes in Output Gap
(Percentage points; average 2000–17)



Sources: Bloomberg Finance L.P.; Consensus Economics; Haver Analytics; and IMF staff calculations.
Note: Elasticities of real (ex ante) policy rates to changes in output gaps, controlling for deviations of inflation expectations from target. Inflation expectations are two-year-ahead inflation expectations from Consensus Economics. Large depreciations are periods characterized by an average depreciation of the exchange rate against the US dollar exceeding 5 percent over the past 12 months.

Figure 2.17. Exchange Rate Variability
(Six-month rolling standard deviations of daily changes)



Sources: Thomson Reuters Datastream; and IMF staff calculations.
Note: Latest data up to March 30, 2018. Bilateral exchange rates are against the US dollar. EUR denotes the euro-dollar exchange rate. For International Organization for Standardization (ISO) country codes used in data labels, see page 115.

flexibility, however, has varied across countries in the region, even among economies facing similar shocks (Figure 2.17). Maintaining a flexible exchange rate would enhance resilience to external shocks, including to sudden changes in global financial conditions, minimizing the potential for disruptive capital flow reversals.

Subdued Growth Prospects Call for Deep Structural Reforms

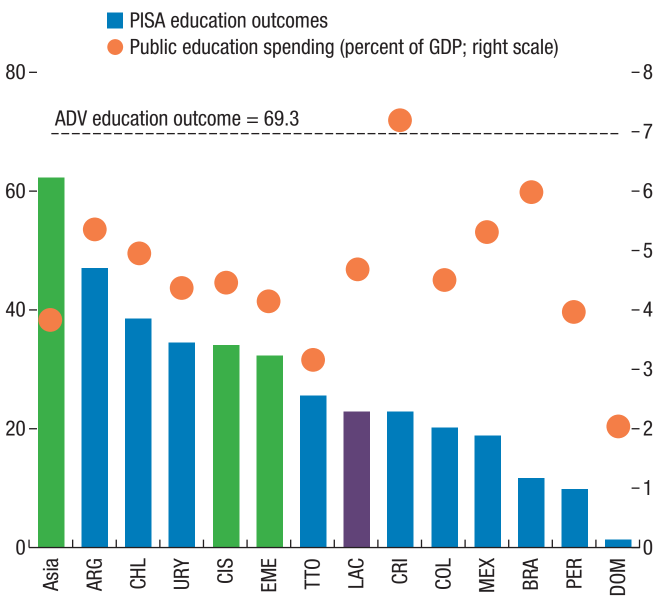
The strengthening of the ongoing cyclical recovery in the region is certainly a welcome development. However, long-term prospects for the region remain dim. The need to boost potential growth and productivity calls for a deep and comprehensive structural reform agenda.

Raising the region's growth potential requires a sustained policy effort on many fronts, including education, health, business and the regulatory environment, and gender equity and female participation, among others. In particular, securing strong, durable, and inclusive growth will also require addressing inequality in Latin America and the Caribbean. Despite recent gains in poverty and inequality reduction, particularly in commodity-exporting countries, LAC remains the most unequal region in the world. With a tighter fiscal envelope going forward, and poverty rates already edging up, policies need to be geared toward protecting gains made in social areas (Chapter 5). Improving security and crime prevention is also crucial in parts of the region where chronically high crime rates are weighing heavily on growth (Box 2.4).

In this context, policy priorities include

- *Human capital development* through more efficient education spending to boost productivity as well as generate more inclusive and equitable growth. In LAC, educational attainment and learning outcomes remain low relative to other emerging market regions, even though the region spends more on education than other regions (Figure 2.18).

Figure 2.18. Education Outcomes and Spending
(Percentile rank)



Sources: Organisation for Economic Co-operation and Development, 2015 Programme for International Student Assessment (PISA); World Bank, World Development Indicators database; and IMF staff calculations.
Note: Latest data available. Simple average. For International Organization for Standardization (ISO) country codes used in data labels, see page 115. ADV = advanced economies; Asia = emerging and developing Asia; CIS = Commonwealth of Independent States; EME = emerging and developing Europe; LAC = Latin America and the Caribbean.

- *Tackling infrastructure bottlenecks* (see Chapter 5 of the April 2016 *Regional Economic Outlook: Western Hemisphere*), which would also boost investment levels in the region. Those levels remain lower than in other emerging market regions, including sub-Saharan Africa (Figure 2.19).

- *Improving the governance and the business climate*, focusing in particular on reducing corruption. Corruption is an important issue in the region, adversely affecting confidence, private investment, and development (IMF 2017a). Corruption perceptions at the regional level are broadly in line with other emerging markets and the region's level of development. However, there are significant differences across countries in the region, even after accounting for differences in per capita income (Figure 2.20).

- *Pursuing trade and financial liberalization*: Trade openness levels in LAC are low compared to other regions, and this is particularly acute in some of the region's large economies, notably Argentina and Brazil (Figure 2.21). Regional integration could be an effective medium for promoting openness and a step forward toward further global integration (IMF 2017b; Enoch and others 2017). In this context, the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership, signed in early March by 11 countries in the region, including Chile, Mexico, and Peru, would boost trade with Asia.

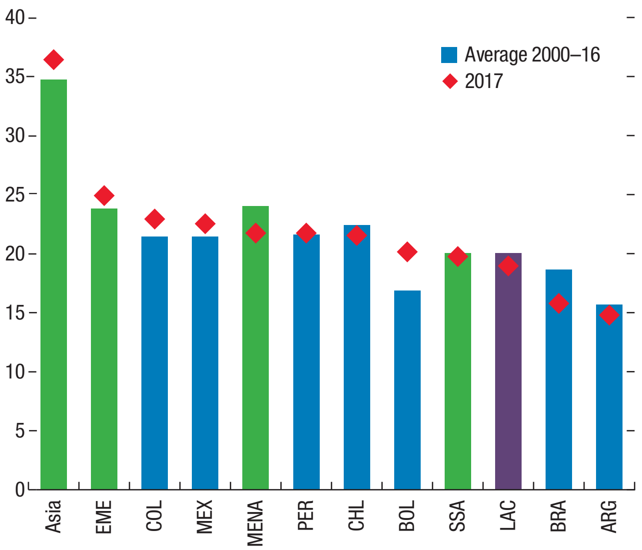
South America

Developments and Outlook

Following a sharp contraction in 2015–16, growth in South America resumed in 2017, averaging 0.7 percent (in purchasing-power-parity terms). Supported by a positive external environment and relatively higher commodity prices, and boosted by a cyclical recovery in domestic demand, South America's growth is expected to accelerate further in both 2018 and 2019. Regional aggregates are dominated by recovery in the larger economies, notably Argentina and Brazil.

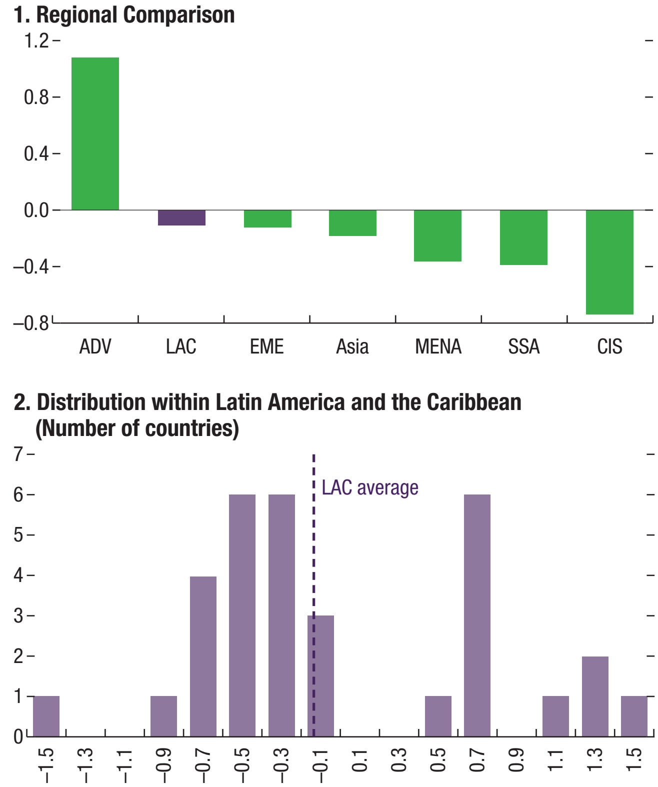
In *Argentina*, the economy continued to expand in the fourth quarter. High-frequency indicators suggest that economic activity remained robust in early 2018, but the severe drought that hit the country will have a negative impact on agricultural production and exports. Hence, the current forecast is for real GDP growth of 2.0 percent in 2018, below the January *World Economic Outlook Update* forecast. Growth is still expected to pick up to 3.2 percent in 2019, as the negative impact of the drought will be reversed, higher real wages and pensions will sustain private consumption, and private investment will continue its gradual rebound. The primary fiscal deficit is expected to decline in line with targets set by the authorities at the federal level, mainly reflecting the announced

Figure 2.19. Gross Fixed Capital Formation
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. For International Organization for Standardization (ISO) country codes used in data labels, see page 115. Asia = emerging and developing Asia; EME = emerging and developing Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = sub-Saharan Africa.

Figure 2.20. Income-Adjusted Corruption Perception Levels, 2016
(Higher values = lower perceived levels of corruption)

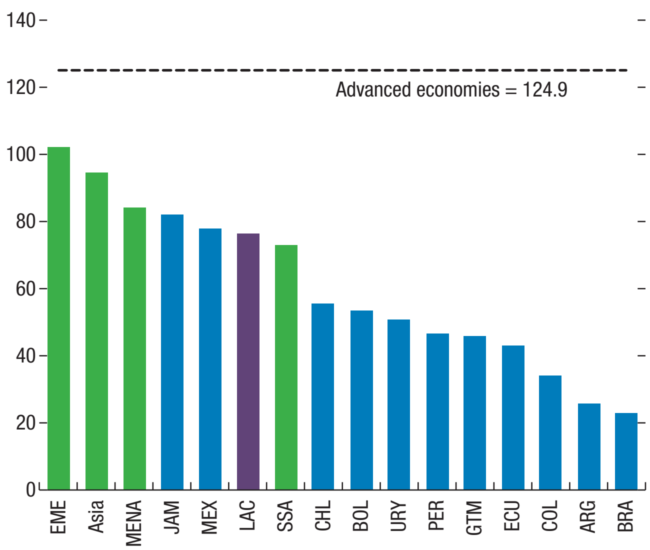


Sources: World Bank, World Development Indicators database; Worldwide Governance Indicators by Daniel Kaufmann (Natural Resource Governance Institute and Brookings Institution) and Aart Kraay (World Bank); and IMF staff calculations.
Note: Simple average. Income-adjusted perceived corruption denotes the residual coming from regressions of control of corruption point scores on real GDP per capita. Using other indicators of corruption perceptions produces similar results. The charts show results based on control of corruption given its wide country coverage. As with any perception indicators, point estimates are subject to uncertainty. More details of the results will be a part of a forthcoming book chapter. ADV = advanced economies; Asia = emerging and developing Asia; CIS = Commonwealth of Independent States; EME = emerging and developing Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = sub-Saharan Africa.

reduction of subsidies, and consistent with the new Fiscal Responsibility Law at the provincial level. The overall fiscal deficit will fall at a slower pace, however, reflecting the larger interest bill. Inflation is expected to continue to fall, but at a slower pace than targeted by the central bank, reflecting the headwinds from further increases in utility tariffs but also the pickup of inflation expectations after the increase of inflation targets and the easing of the monetary policy stance in late 2017 and early 2018. Continued reduction of the primary fiscal deficit (through a more front-loaded reduction in primary current spending) would help better anchor inflation expectations in the context of lower interest rates, reduce the vulnerability from high gross fiscal financing needs, and put the public debt ratio on a more sustainable path. Achieving stronger, sustainable, and more inclusive growth will require further progress in the structural reform agenda to remove remaining distortions and bottlenecks.

Growth in *Bolivia* remains among the highest in the region, but the country faces important medium-term challenges. Since the 2014 terms-of-trade shock, the government has pursued expansionary fiscal and monetary policies financed by a drawdown of savings and increased borrowing. Real GDP grew by 4.2 percent in 2017 and is projected to grow by 4 percent in 2018. The sizable fiscal and current account deficits that emerged in 2014 are expected to persist absent any material change in policy direction, albeit at lower

Figure 2.21. Trade Openness, 2017
(Percent of GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note Simple average. Trade openess is measured as the sum of exports and imports of goods and services as a share of GDP. For International Organization for Standardization (ISO) country codes used in data labels, see page 115.
Asia = emerging and developing Asia; EME = emerging and developing Europe; LAC = Latin America and the Caribbean; MENA = Middle East and North Africa; SSA = sub-Saharan Africa.

levels, reflecting in part the rebound in commodity prices. To contain risks and boost potential growth in the context of the stabilized exchange rate, the authorities should gradually tighten fiscal policy, improve the effectiveness of social spending, phase out credit targets and interest rate ceilings, and implement key structural reforms, including in product and labor markets. Efforts to improve the regulatory and supervisory framework for financial institutions should continue.

In *Brazil,* following a sharp contraction in activity in 2015 and 2016, recovery gained momentum in 2017, driven by domestic demand. Real GDP is expected to grow at 2.3 percent in 2018, thanks to favorable external conditions and a rebound in private consumption and investment. The uptick in activity will lead to a moderate deterioration of the current account. Inflation is expected to accelerate gradually from 3 percent toward the midpoint of the inflation target in 2019, owing to an accommodative monetary policy stance and an increase in food price inflation. Fiscal consolidation continued in 2017, with improved revenue collection and postponement of discretionary expenditures. The current budget implies an expansionary fiscal stance in 2018 and fiscal consolidation starting in 2019, with yearly reductions in federal government expenditure of 0.5 percent of GDP over the next 10 years. Social security reform, which has been postponed because of political developments, is key to ensuring both the viability of the pension system and sustainability of public finances. Reforming other mandatory outlays, including the wage bill, is also important to meet the constitutional expenditure rule and ensure fiscal sustainability. The positive economic cycle provides scope to front-load fiscal adjustment and to implement structural reforms to improve credit allocation, opening up the economy, boost the quality of infrastructure, simplify the tax system, and reduce red tape. A key risk, however, is that the policy agenda could change following the October presidential election, giving rise to market volatility and greater uncertainty about the medium-term outlook.

In *Chile*, economic activity is gaining momentum after a prolonged slowdown, benefiting from improved external conditions and domestic sentiment. Both mining and nonmining exports, as well as business investment, are leading the recovery, supported by solid household spending and slightly looser financial conditions. The economic rebound will likely improve the composition of job growth, relying less on self-employment. Growth for 2018 has been revised up to 3.4 percent—noticeably higher than in 2017 (1.5 percent). Monetary policy is appropriately accommodative, and the central bank should wait until inflation shows a clear sign of convergence toward its target and growth momentum becomes self-sustaining before beginning to normalize monetary policy. The new administration has not detailed its fiscal plans yet, but fiscal policy should stay on a gradual consolidation course and balance out social and development objectives.

In *Colombia*, policy easing and a favorable global environment will lift growth to 2.7 percent in 2018. A mildly expansionary fiscal policy, driven by stronger subnational government expenditure, along with the lagged effects of monetary policy easing in 2017, will support domestic demand. Investment is projected to increase strongly on the back of infrastructure projects under the Fourth Generation Program, oil sector projects, and the 2016 tax reform. Inflation will return to and remain within the target band as the effects of past shocks—such as the value-added tax hike—dissipate. This may allow for further cuts in the policy rate. The current account deficit will narrow on the back of relatively higher oil prices and increasing nontraditional exports.

Ecuador's ongoing economic recovery is supported by the partial rebound in oil prices, favorable external financial conditions, and continued public sector spending. However, the weak fiscal position, real effective exchange rate overvaluation, and low foreign reserves make the economy vulnerable to sudden shifts in investor sentiment, tighter financing conditions, a fall in oil prices, or an appreciation of the US dollar. Domestic political and policy uncertainty may also suppress growth. A clear, front-loaded, balanced, and well-communicated fiscal reform path could help bolster market confidence, lower financing costs, and propel growth. Structural reforms are also needed to address lingering competitiveness problems.

Paraguay's economy is expected to expand by 4½ percent in 2018, led by strong domestic demand. Bank credit is recovering after a sharp deceleration following a credit boom. The Central Bank of Paraguay further eased its accommodative monetary policy stance in August 2017, citing regional economic uncertainty. With domestic demand strengthening and credit growth now resuming, inflationary pressures have begun to rise, pointing to a need to gradually remove monetary accommodation. While the fiscal anchor is operating well, additional restraint on the growth of current primary spending relative to budget plans will be needed in 2018 to avoid a modest, but unwarranted, fiscal stimulus during the ongoing economic swing.

Peru's economy grew at a slower pace in 2017 (2.5 percent), reflecting the adverse impact of El Niño and spillovers from the Odebrecht corruption investigation, which offset a strong export expansion. Weather conditions also affected food prices, causing inflation to spike in early 2017. However, softer growth and an appreciation of the sol led inflation to close the year at 1.4 percent—the lowest since 2009. In this context, the central bank has reduced the policy rate six times since May and also lowered reserve requirements. Meanwhile, the government has responded with countercyclical fiscal policy, increasing the 2017–19 deficit targets to finance reconstruction and rehabilitation projects, with consolidation planned thereafter to bring the deficit in line with the fiscal rule. These policies are expected to help economic growth rebound to around 3¾ percent in 2018, but downside risks associated with the Odebrecht investigation persist. Over the medium term, the authorities remain focused on implementing structural reforms to improve tax system efficiency, expand economic and financial inclusion, and close the infrastructure gap.

In *Uruguay*, a combination of prudent policies and favorable external conditions led to good macroeconomic outcomes, with growth expected to exceed 3 percent in 2018. A relatively tight monetary policy stance and an appreciating exchange rate contributed to a notable decline in inflation, bringing it within the central bank's target range (3 to 7 percent) in 2017 for the first time in seven years. Looking forward, some monetary tightening would be appropriate, as inflation edged up early this year and as demand pressures related to upcoming large investment projects materialize. The fiscal deficit in 2017 was slightly larger than projected, reinforcing the case for saving possible growth-related revenue windfalls in 2018 in order to safeguard the 2019 fiscal deficit target of 2.5 percent of GDP. In view of existing infrastructure gaps, it would be important to reorient budget spending from the public wage bill toward investment.

Venezuela's economic crisis is worsening, with the economy contracting sharply for the fifth year in a row. The economy is expected to contract by 15 percent in 2018, following a cumulative 35 percent contraction over 2014–17. Since November, the country has been suffering from hyperinflation due to large fiscal deficits financed by monetary creation, coupled with the loss of confidence in the currency. Consumer price inflation was estimated at about 2,800 percent in 2017 and is projected to rise to about 13,000 percent in 2018. International reserves dropped to about $9.3 billion by the end of January 2018, and liquid net international reserves appear to be exhausted. Bonds for the Republic and for the public oil company (PDVSA) are in selected default since the last quarter of 2017. The government unified and depreciated the official exchange rate in early February 2018, but this measure does not address the severe underlying economic imbalances.

Policy Priorities

Characterized by a relatively high dependence on commodity sector developments, South America's external and fiscal positions deteriorated noticeably following the end of the commodity super-cycle, with debt ratios increasing sharply in several countries, particularly in recession economies. To stabilize debt ratios and rebuild buffers to cope with potential future shocks, countries in the region are embarking on sizable fiscal adjustment plans.

In this context, policymakers should aim at placing the debt-ratio path on a sustainable footing while minimizing any adverse impact on short- and medium-term growth. Higher commodity revenues are creating some additional policy space, providing the opportunity to adjust the pace and composition of the fiscal adjustment and to push through needed fiscal reform (including pension system reform).

Monetary policy should support the economic recovery, and could provide some accommodation to accompany the fiscal adjustment, provided inflation convergence toward the target band and inflation expectations remain anchored. Exchange rate flexibility should remain the first line of defense against external shocks.

Mexico, Central America, Panama, and the Dominican Republic

Developments and Outlook

The economic outlook for Mexico, Central America, Panama, and the Dominican Republic is shaped in large part by developments in the United States, with important trade, financial, and migration linkages among these countries.

Mexico's outlook is projected to benefit from higher growth in the United States as well as stronger domestic demand once uncertainty subsides about the outcome of the NAFTA renegotiation, the potential implications of the US tax reform, and Mexico's July presidential election. Output growth is expected to accelerate from 2 percent in 2017 to 2.3 percent in 2018, supported by net exports and remittances. Inflation is projected to continue falling in 2018 and converge toward the central bank's 3 percent target around the middle of 2019 as the effects fade from last year's increase in administered domestic fuel prices (as part of the liberalization of these prices), as food price inflation declines, and as monetary policy remains tight. Downside risks remain elevated. While a successful NAFTA renegotiation would boost trade, output, and employment growth, a disorderly breakup of the agreement would severely disrupt regional supply chains and adversely affect growth.

Growth in *Central America*, *Panama*, and the *Dominican Republic* (CAPDR) remained robust at about 4 percent in 2017, supported by solid domestic demand and the upswing in global trade (Figure 2.22). Consumption continued to be the main driver of growth, as strong remittances in the Northern Triangle countries and the *Dominican Republic*—resulting from the upswing in US growth and developments in US migration policies and associated uncertainties—supported spending.[1] Robust remittance inflows, combined with the recovery in the production and international prices of some agricultural commodities (Honduras, Nicaragua) also led to a further reduction in current account deficits in 2017, despite rising oil bills. Declining current account deficits contributed to a strengthening of reserve buffers in some countries (Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua).

Inflation accelerated in 2017 in most countries. Recovering oil and food prices, the pickup in domestic demand, and to some extent the pass-through from exchange rate depreciations (Costa Rica) contributed to the acceleration. Despite the pickup, inflation remains within target ranges in countries with inflation-targeting frameworks.

After three years of reductions in fiscal deficits, the regional trend reversed in 2017. While fiscal balances did improve in some countries as a result of steps taken to implement fiscal responsibility laws (Honduras) and restrain spending (El Salvador), broader spending pressures across the region contributed to wider deficits in most countries. As a result, the average public-debt-to-GDP ratio in CAPDR continued to increase in the context of still favorable external financing conditions. In the absence of additional consolidation measures, some countries (Costa Rica, Dominican Republic, El Salvador, Honduras) will continue to face fiscal vulnerabilities, particularly over the medium term.

The outlook for the region remains favorable. Growth is expected to remain above potential in the near term, reflecting increased US and global growth momentum. However, risks are tilted to the downside and include tighter US immigration policy (especially following the cancellation of the temporary protection status for several countries) that could increase deportations and reduce remittance flows, particularly for Northern Triangle countries; tighter global financial conditions, which could limit access to or raise the cost of external financing given weak budgetary situations (Costa Rica, Dominican Republic, El Salvador); and weaker-than-expected global growth and a retreat from cross-border integration. Political dissonance at home (El Salvador, Honduras) could also be detrimental to CAPDR's medium-term growth prospects.

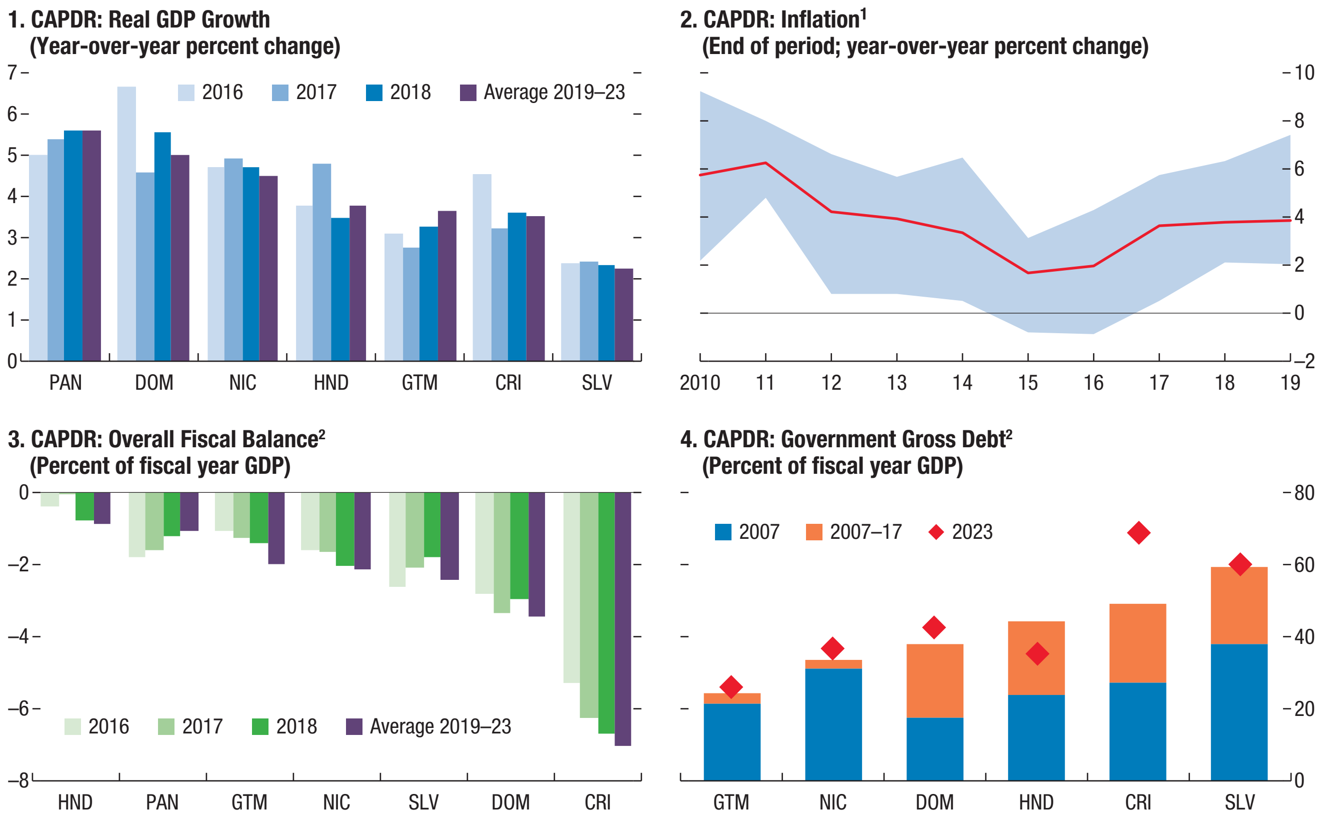
Policy Priorities

In *Mexico*, policies should be geared toward preserving macroeconomic stability in the context of a complex external environment and domestic policy uncertainty, while setting the stage for stronger, sustainable, and inclusive growth. To this end, a continuation of prudent fiscal policy aimed at reducing the public-debt-to-GDP ratio and strengthening the fiscal responsibility framework are essential for medium-term fiscal sustainability. Increases in the efficiency of public expenditure and in tax collection would help address growing spending pressures from infrastructure needs and entitlements. Conditional on inflation expectations remaining well anchored, there is scope to ease monetary policy as soon as inflation is firmly on a downward path. Steadfast implementation of structural reforms, including anti-corruption measures, is needed to boost potential growth and to make it more inclusive over the medium term.

In CAPDR, fiscal consolidation is needed in most countries to rebuild fiscal buffers and enhance resilience to external developments. Fiscal consolidation will need to be supported through revenue mobilization (Costa Rica, Dominican Republic, El Salvador, Nicaragua, Panama) and current spending containment (Costa Rica, El Salvador, Honduras). In *Nicaragua*, pension

[1]Remittances are now the most important external flow to the region, dwarfing foreign direct investment and official aid, and they have helped the region cushion the impact of shocks by increasing fiscal revenues and supporting financial sector stability, with little evidence of "Dutch disease" (Beaton and others 2017).

Figure 2.22. Central America, Panama, and the Dominican Republic



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115. CAPDR = Central America, Panama, and the Dominican Republic.
[1]Simple average. Shaded area refers to the max-min range.
[2]For definitions of government coverage, see Annex Table 2.2.

reform is needed to address the imminent cash balance constraint and secure the long-term viability of the system. Revenue mobilization should be achieved through a combination of broadening tax bases (streamlining tax exemptions), strengthening tax administration, and, in some cases, aligning tax rates with regional averages. Fiscal consolidation should be calibrated to avoid sharp drags on growth, and to protect the most vulnerable people, including by improving the efficiency and quality of education and health spending and increasing targeted social spending. In *Guatemala* there is scope for more expansionary fiscal policy to increase social, security, and infrastructure spending. A strengthening of fiscal policy frameworks, with credible medium-term fiscal anchors, will help institutionalize fiscal discipline and support fiscal consolidation efforts where required. In *Costa Rica*, the election provides a fresh opportunity to embark on an ambitious fiscal adjustment to address the unsustainable fiscal situation.

In countries with flexible exchange rates, maintaining exchange rate flexibility would improve resilience to external shocks. Greater exchange rate flexibility and transparency regarding foreign exchange intervention, together with improved central bank communication and monetary policy frameworks, would also strengthen confidence in the subordination of exchange rate management to inflation objectives and strengthen the credibility of inflation-targeting regimes.

The financial sector appears sound, and the region continues to make progress in anti–money laundering/combating the financing of terrorism (AML/CFT) compliance, reinforcing their frameworks through legislative measures and strengthening effective implementation, and thus helping to maintain access to correspondent banking relationships. Integration of systemic risk into supervisory and regulatory frameworks, including through the development of macroprudential policy frameworks, would support financial stability and provide more flexibility to manage macro-financial risks, including foreign-exchange-related risks in a highly dollarized region (Costa Rica, Dominican Republic, Honduras, Nicaragua). Continuation of efforts to transition toward Basel III, together with ongoing efforts to strengthen consolidated and risk-based supervision, including through enhanced supervisory cooperation and cross-border coordination, would improve the resilience of the financial system. Building on the region's recent progress, efforts should also continue to strengthen tax transparency and financial integrity.

Tackling corruption and improving law enforcement and security to address high levels of crime (El Salvador, Guatemala, Honduras) remain imperative to attracting foreign direct investment and durably increasing investment and potential growth. More broadly, structural reforms are required to raise productivity and potential growth.

The Caribbean

Developments and Outlook

Prospects for the Caribbean region are generally improving, with growth in both tourism-dependent economies and commodity exporters projected in the 1–2 percent range for 2018 and 2019 (Figure 2.23).

Several countries in the region registered strong growth in tourism in 2017, including *Barbados*, *Belize*, *Jamaica*, and *St. Lucia*—all destinations that saw increased arrivals in both the stopover and the cruise segments. This trend is expected to continue in 2018, supported by higher economic growth in the United States, which is the main market for most destinations in the region, with a few exceptions (for example, *Barbados* is heavily dependent on tourism from the United Kingdom).

However, some of the islands that were hit hard during the 2017 hurricane season face a protracted recovery. In *Dominica*, GDP is projected to decline by 16.3 percent in 2018, before rebounding in 2019 as reconstruction gathers pace.

Low commodity prices over the last few years contributed to recessions in *Trinidad and Tobago* (2015–17) and *Suriname* (2015–16). They are expected to return to modest growth in 2018 and 2019, benefiting from somewhat higher commodity prices. Growth has been stronger in *Guyana*, supported by two new large gold mines and positive sentiment ahead of the beginning of oil production in 2020.

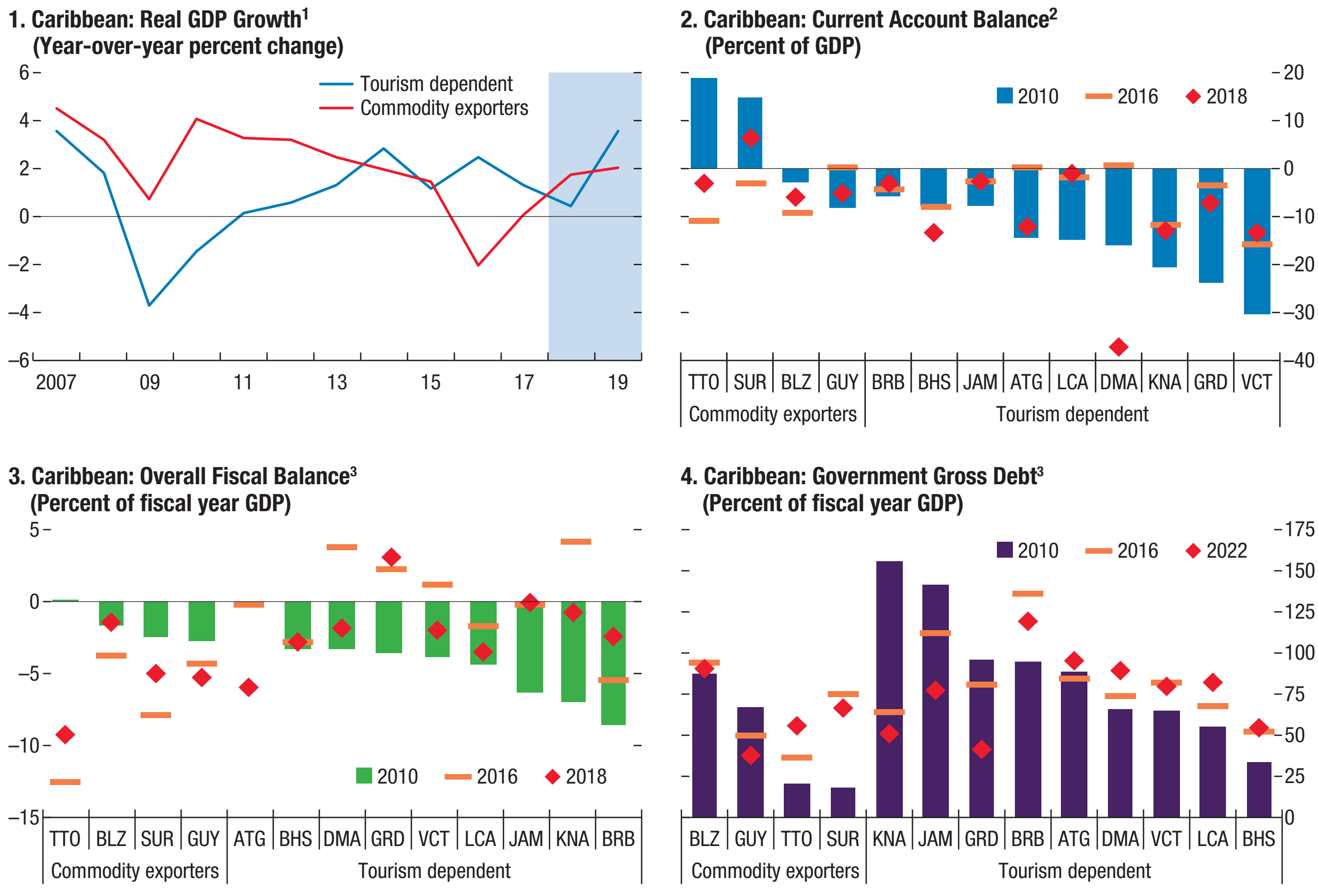
Downside risks to the outlook for the Caribbean include the impact of natural disasters and climate change (Box 2.3), potential further loss of correspondent banking relationships, and risks associated with citizenship-by-investment programs (Box 2.5).

Policy Priorities

Public sector debt remains a major vulnerability for the region. In a number of tourism-dependent economies, debt ratios are now retreating from very high levels, with several countries engaged in multiyear fiscal consolidation efforts, including *Grenada*, *Jamaica*, and *St. Kitts and Nevis*.[2] In these cases, continued fiscal prudence will be necessary to gradually reduce debt-to-GDP ratios to a sustainable level and to build and preserve buffers against adverse shocks. In other cases, including *Antigua and Barbuda*, *Barbados*, and *Belize*, there is a clear need to tighten the fiscal stance, in

[2]In these three cases, efforts to reduce public debt were supported by debt restructuring (Alleyne and others 2017).

Figure 2.23. Caribbean



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115. For country group information, see page 115.
[1]Simple average. Shaded area refers to projections.
[2]Current account balance data for Eastern Caribbean Currency Union members (Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines) prior to 2014 are based on the IMF's *Balance of Payments Manual*, revision 5, methodology.
[3]For definitions of government coverage, see Annex Table 2.2.

combination with structural reforms to bolster growth, to reduce public debt. A well-designed fiscal rule can help guide the consolidation effort and broaden support for it.

In commodity-exporting countries such as *Trinidad and Tobago* and *Suriname*, the sudden decline in commodity prices in 2014–15 contributed to large fiscal deficits and a rapid increase in public debt. In these cases, tighter fiscal policies in the context of medium-term macroeconomic adjustment are needed to reestablish a sustainable fiscal path and ensure debt sustainability.

Despite progress on financial sector reform, numerous banks in the region continue to have high levels of nonperforming loans, which constrains credit availability and economic activity and increases banks' vulnerability to shocks. In the *Eastern Caribbean Currency Union*, the authorities have made progress on reforms to strengthen bank resilience, including through regulatory enforcement of capital requirements and efforts to clean up banks' balance sheets. Reforms to strengthen the financial sector are also underway in other countries in the region. Further steps are required, however, including strengthening oversight of nonbank financial institutions and further enhancing the capital adequacy of indigenous banks. An additional priority for strengthening financial sector resilience is securing correspondent banking relationships through more effective implementation of AML/CFT frameworks, bank consolidation, and improved communication and information exchange with correspondent banks.

Stronger implementation of structural reforms is also necessary to enhance competitiveness, private investment, and growth. In several countries, policy priorities include reducing high electricity costs by conserving energy and diversifying the energy mix, deepening financial systems and enhancing access to credit, tackling violent crime, and reducing high unemployment and brain drain by improving the business climate and strengthening institutions. Sector-specific policies to support structural transformation could help boost the region's key industry, tourism, including through advertising activities, training, nature conservation efforts, and the provision of transportation infrastructure.

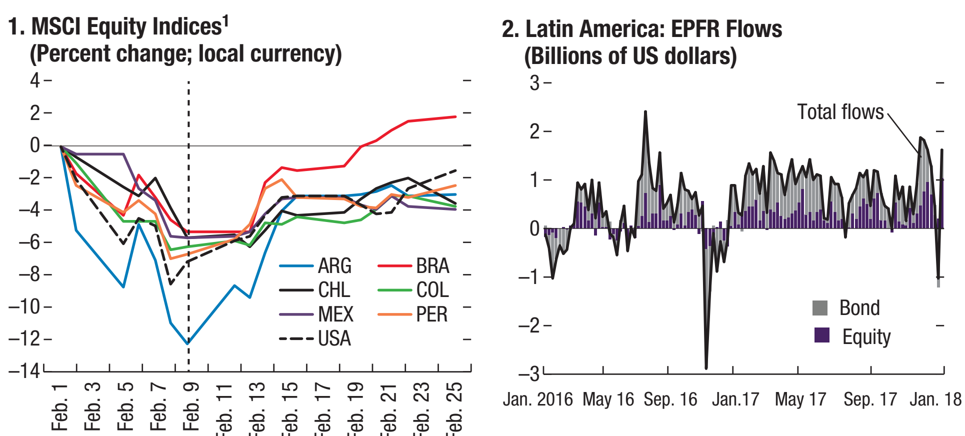
Box 2.1. Market Views on Latin American Prospects and Risks

In March, market views on Latin America were mixed—decidedly upbeat about near-term growth momentum, but worried about medium-term prospects. A broad-based cyclical rebound in Latin America is underway, but it might diminish appetite for policy adjustment and structural reform according to market participants. Specifically, a long-awaited recovery after several years of subpar growth reflected a synchronized global upturn, as well as some domestic policy adjustment. However, some were concerned that an ongoing recovery would generate policy complacency regarding much-needed reforms.

Markets were also concerned about exposures to external risks, particularly for economies with high dollar financing needs. In the wake of recent financial market turbulence in early February, Latin America was not particularly affected, but within the region some felt more intense pressures (Figure 2.1.1). Global liquidity remained ample, being tightened only at the margin, and capital flows to the region remained resilient. However, sharper-than-expected US Federal Reserve tightening posed regional risks through a stronger dollar and higher dollar interest rates. Markets did not anticipate a new deal on the North American Free Trade Agreement before the end of the year, but reversion to World Trade Organization tariff levels limited the downside risk. Spillover implications of US tax reform were not well understood yet, but preliminary views expected the impact on international competitiveness and investment flows to be offset by currency depreciation at home.

According to markets, the main domestic risks center around political risks with upcoming national elections throughout the region and the ongoing crisis in Venezuela. The possibility of anti-establishment candidates and populist agendas is particularly worrisome in those economies that could ill afford policy mistakes given limited room for higher fiscal spending and the need to advance (not reverse) past structural reform efforts.

Figure 2.1.1. Financial Indicators



Sources: Emerging Portfolio Fund Research (EPFR); Haver Analytics; Thomson Reuters Datastream; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115.
MSCI = Morgan Stanley Capital International.
[1]Refers to the change from February 1, 2018.

This box was prepared by the Regional Studies Division based on IMF staff discussions in New York with market participants during March 1–2, 2018.

Box 2.2. Resource Allocation in Latin American Manufacturing

Long-term growth in Latin America and the Caribbean is projected at 1.8 percent in per capita terms, only marginally better than projected long-term growth in advanced economies. Low productivity continues to be a drag on overall growth (Daude and Fernández-Arias 2010; see also Box 1 of the October 2017 *Regional Economic Outlook Update: Western Hemisphere*).

While weak productivity reflects a variety of underlying causes, misallocation of capital and labor resources appears to play an important role (Adler and others 2017; Chapter 2 of the April 2017 *Fiscal Monitor*). Research has shown substantial inefficiencies in the allocation of resources across manufacturing firms in Latin America (Busso, Madrigal, and Pagés 2013), using census data from earlier periods.[1] These studies have focused on measuring misallocation across firms within very narrowly defined (four-digit) sectors of economic activity. This box shows that such inefficiencies extend to more recent data for Brazil, Colombia, and Mexico using Orbis data, and suggests that misallocation is significant even between these narrowly defined sectors.

Whereas total factor productivity (TFP) depends on the quantity of produced goods and services, revenue productivity (TFPR) depends on the nominal value of those goods and services. Therefore, revenue productivity has the advantage of being directly observable in firms' financial reports. The general idea is that the spread of revenue productivity across firms is a measure of the inefficiency with which capital and labor resources are allocated across firms.

Revenue productivity in Latin America is substantially more spread out than in the United Kingdom, hinting at meaningful inefficiencies in the allocation of resources in the region (Table 2.2.1).[2,3] The spread of revenue productivity is measured by the ratio of the 75th percentile to the 25th percentile of the distribution of revenue productivity across firms, where each firm's revenue productivity is measured relative to the average of the sector in which it is classified.[4]

Table 2.2.1. Spread of Revenue Productivity across Firms within All Manufacturing Sectors

Country	Ratio of 75th Percentile to 25th Percentile of Relative TFPR
United Kingdom	6.8
Mexico	11.3
Brazil	12.4
Colombia	15.7

Sources: Bureau van Dijk Orbis; and IMF staff calculations.
Note: The numbers in the table summarize the distribution, across firms within every 2-digit manufacturing sector, of revenue productivity. For each country, the distribution pools all firms within all 2-digit manufacturing sectors by expressing revenue productivity relative to within-sector means. Data apply to the year 2015. TFPR = total factor revenue productivity.

By comparing the productivity of each manufacturing sector to the hypothetical productivity of a manufacturing sector in which revenue productivity is equal across firms, one can estimate gains from elimination of misallocation of resources (Table 2.2.2). These estimates are indicative and can be read as an upper bound, because even advanced economies demonstrate some degree of misallocation. These estimates suggest that Latin American economies could reap important gains from improving the allocation of capital

This box was prepared by Carlos Goncalves, Galen Sher, and Pablo Bejar.
[1]The most recent data for Brazil, Colombia, and Mexico in Busso, Madrigal, and Pagés (2013) are for 1998, 2005, and 2004.
[2]The Orbis data are considered the most comprehensive firm-level data for more developed economies, but rely on information that companies report publicly and may therefore not be representative of informal firms.
[3]Some studies use the United States as a benchmark country for comparisons of the spread of revenue productivity. The Orbis data are scarce for the United States and plentiful for the United Kingdom.
[4]Sectors are defined according to the two-digit level of statistical classification of economic activities in the European Community (NACE).

Box 2.2 *(continued)*

and labor resources across firms. The TFP gains for Brazil and Colombia of 51 and 61 percent, respectively, are higher than those obtained in Busso, Madrigal, and Pagés (2013), which may reflect differences in the aggregation of firms into sectors.[5] Mexico's TFP gain of 48 percent is modest relative to other estimates (IMF 2017d), underscoring greater homogeneity in the sample relative to firms in the census.

Table 2.2.2. Gain in Manufacturing Total Factor Productivity from Equalizing Revenue Productivity across Firms within Each Sector

Country	TFP Gain
Brazil	51
Colombia	61
Mexico	48

Sources: Bureau van Dijk Orbis; and IMF staff calculations.
Note: Calculations follow the formula in equation (20) of Hsieh and Klenow (2009). TFP = total factor productivity.

While further research is needed to link the existing distortions to resource misallocation estimates for the region, earlier studies provide some guidance. Tax incentives for small enterprises enable unproductive small firms to survive, which could occur at the expense of creating productive new firms or achieving economies of scale (see Chapter 2 of the April 2017 *Fiscal Monitor*). In Brazil, higher tax rates on machinery than on buildings have been found to reduce allocative efficiency, reducing firms' incentives to invest relative to the incentives from production alone (IMF 2017c).

Size distortions sometimes take the form of state subsidies to certain firms, which encourage them to grow beyond their efficient size, at the expense of growth in more productive competitor firms. Even after the removal of such subsidies, the market power of the previously advantaged firm perpetuates the inefficiency in resource allocation. A lack of competition in a product market incentivizes firms in that market to restrict their production and hence to underutilize capital and labor resources.

Inflexibility could also bar new innovative firms from entering the market and competing for factors of production. Governments need to avoid regulatory burdens that unnecessarily slow the creation of new firms, and should ensure that new ideas have access to early-stage financing and are competitively screened. In Mexico, states where firms have better access to financial services have been found to exhibit lower measures of misallocation (IMF 2017d). In some cases, a lack of competition in the wage-setting process has been associated with inefficiencies in the allocation of labor resources (IMF 2018). Formal wage bargaining should ensure the representation of all stakeholders, including all firms in the agreement and the unemployed, to limit the possibility of creating wedges between labor productivity and wages.

Allocative inefficiency has been found to be higher for informal firms, for example in Mexico (IMF 2017d). Informal firms are often thought to have lower productivity than formal firms and survive by avoiding obligations. Policies aimed at reducing informality are therefore appropriate for improving resource allocation and productivity.

[5]Other differences between the results in Busso and others (2013) and those found here are likely to be driven by the data sources. That work uses earlier census data and this box uses recent publicly available data.

Box 2.3. Resilience to Natural Disasters and Climate Change

The Caribbean is one of the most vulnerable regions in the world to natural disasters, as underlined by Hurricane Matthew in 2016 and Hurricanes Irma and Maria in 2017. This vulnerability is typical for small states, which are proportionally more exposed. Preliminary results from a rapid damage and loss assessment by a group of international organizations estimated recovery costs after Hurricane Maria in Dominica at more than 200 percent of GDP. Larger Caribbean states, such as Haiti and Jamaica, have also repeatedly experienced extensive damage and loss of life from natural disasters (both hurricanes and earthquakes). Climate change is expected to worsen the situation, as most small states are islands exposed to rising sea levels and to the increasing intensity of weather-related events.

The IMF has a long history of assistance to the Caribbean in the aftermath of natural disasters. Over the last few years the IMF has provided assistance to Dominica, St. Lucia, and St. Vincent and the Grenadines through the use of the Rapid Credit Facility (RCF) after natural disasters. The IMF also provided extensive debt relief to Haiti following the 2010 earthquake. As part of its contribution to the post-2015 Development Agenda, the IMF has strengthened its toolkit for disaster relief. To recognize the circumstances of small states vulnerable to natural disasters, in May 2017 the IMF increased annual access limits under the RCF and the Rapid Financing Instrument (RFI) to 60 percent of quota for countries experiencing large natural disasters (exceeding 20 percent of GDP in damages). The interest rate on RCF loans is set at zero percent.[1]

The IMF is also trying to help countries better prepare for natural disasters, including via pilot *Climate Change Policy Assessments* prepared in collaboration with the World Bank. A pilot for St. Lucia is near completion. Countries can build disaster and climate change risks explicitly into policy frameworks, including in the design of budgets, fiscal rules, and public investment plans. Fiscal buffers or contingency funds can be established to reduce fiscal exposure to disasters, with the appropriate size based on an assessment of disaster risks and their frequency and costs. Insurance and financial hedging tools can also help protect governments from the burden of disasters and increase their capacity to respond appropriately. Regional coordination could facilitate the pooling of insurance coverage at the Caribbean level, while the international community could support countries by providing capacity building, tools for risk management, and financing.

The *Caribbean Catastrophe Risk Insurance Facility* (CCRIF) is a good example of the potential of risk pooling and global cooperation to contribute to disaster financing. Established in 2007 in collaboration with the region's governments and key development partners, the CCRIF provides parametric insurance: payouts based on a predetermined trigger, such as wind speed, rather than on actual and verified damage incurred (as under traditional insurance). This allows for quick settlement of claims (usually within 14 days) following a natural disaster, providing financing at a time when it is most needed. But it also implies that there may be events that cause significant financial loss but are not covered because trigger levels were not reached. The CCRIF made payments totaling $55 million following Hurricanes Irma and Maria in 2017. While the CCRIF allows countries to get insurance at a much lower cost than they would face individually, countries underinsure because premiums are still high.

Another risk transfer mechanism that has potential to contribute to disaster financing is the inclusion of state-contingent clauses in sovereign debt, as pioneered by Grenada in the context of its 2015 debt restructuring. Improved debt design can help governments manage cash flow and smooth consumption and investment following natural disasters, thereby minimizing output losses.

This box was prepared by Bert van Selm.

[1]The RCF is the IMF's concessional facility to provide rapid assistance to countries with urgent balance of payments needs, including from natural disasters. The RFI is a similar tool that is available to all IMF members.

Box 2.4. Crime and Growth in the Caribbean, Central America, Panama, and the Dominican Republic

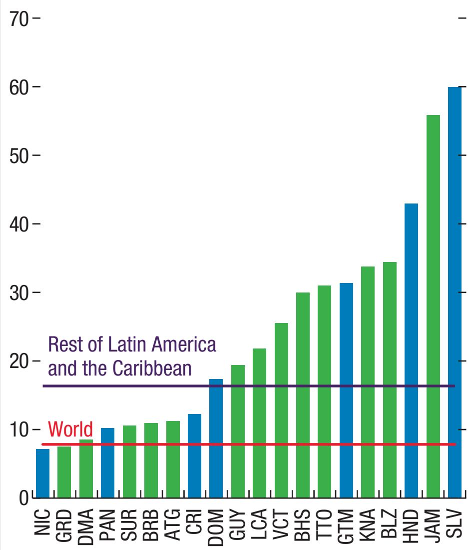
Chronically high crime is one of the biggest challenges in the Caribbean and the Central America, Panama, and Dominican Republic (CAPDR) regions. The Northern Triangle countries—El Salvador, Guatemala, and Honduras—plus the Caribbean account for only half a percent of the world's population but for 5 percent of nonwar homicides. Crime saps economic growth by imposing large public and private costs, distorting economic incentives, and disproportionately affecting the poor and the young.

Selected Crime Facts

Homicide rates in CAPDR and the Caribbean are among the highest in the world, with El Salvador and Jamaica having the top two rates worldwide (Figure 2.4.1).[1] Third is Honduras, which at its peak in 2011 had a homicide rate of 87 per 100,000 people but saw this rate halve to 43 per 100,000 people by 2017. Belize, St. Kitts and Nevis, and Guatemala are ranked at fourth to sixth, putting them still significantly above averages for the rest of Latin America and the world. At the same time, according to the United Nations Office on Drugs and Crime, conviction rates for homicides over 2007–15 in both CAPDR and the Caribbean averaged only about 20 percent (versus 40 percent globally).

Figure 2.4.1. Homicide Rates

(Per 100,000 people; 2015 or latest)



Sources: United Nations Office on Drugs and Crime; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115.

Victimization surveys find that over a quarter of the population in CAPDR and the Caribbean cites crime as the biggest problem, significantly higher than the Latin America and Caribbean average of 11 percent. Gang presence is an issue among CAPDR countries, while assault is more prominent in the Caribbean (Figure 2.4.2). The incidence of victimization tends to be higher for men, youth, and those with lower levels of education.

Crime's Effect on Overall Growth

Assessing the economic impact of crime is hindered by measurement and analytical issues. First, definitions of crime differ across countries, hampering comparisons. Second, data on nonfatal crime are often underreported, especially if citizens see little return to reporting. Last, crime's effect on economic growth is difficult to isolate because the vicious cycle between low growth and crime muddles causality. Specifically, reverse causation complicates determining the effect of crime on economic growth—that is, growth also lowers the relative payoff of criminal activity by generating more legal opportunity.

To get around the reverse causality and following Blake (2017), criminal deportations from the United States are used to capture the causation effect of homicides on growth, since deportations likely affect crime in home countries but are not large enough to impinge on growth directly (Demirci and Wong forthcoming).[2]

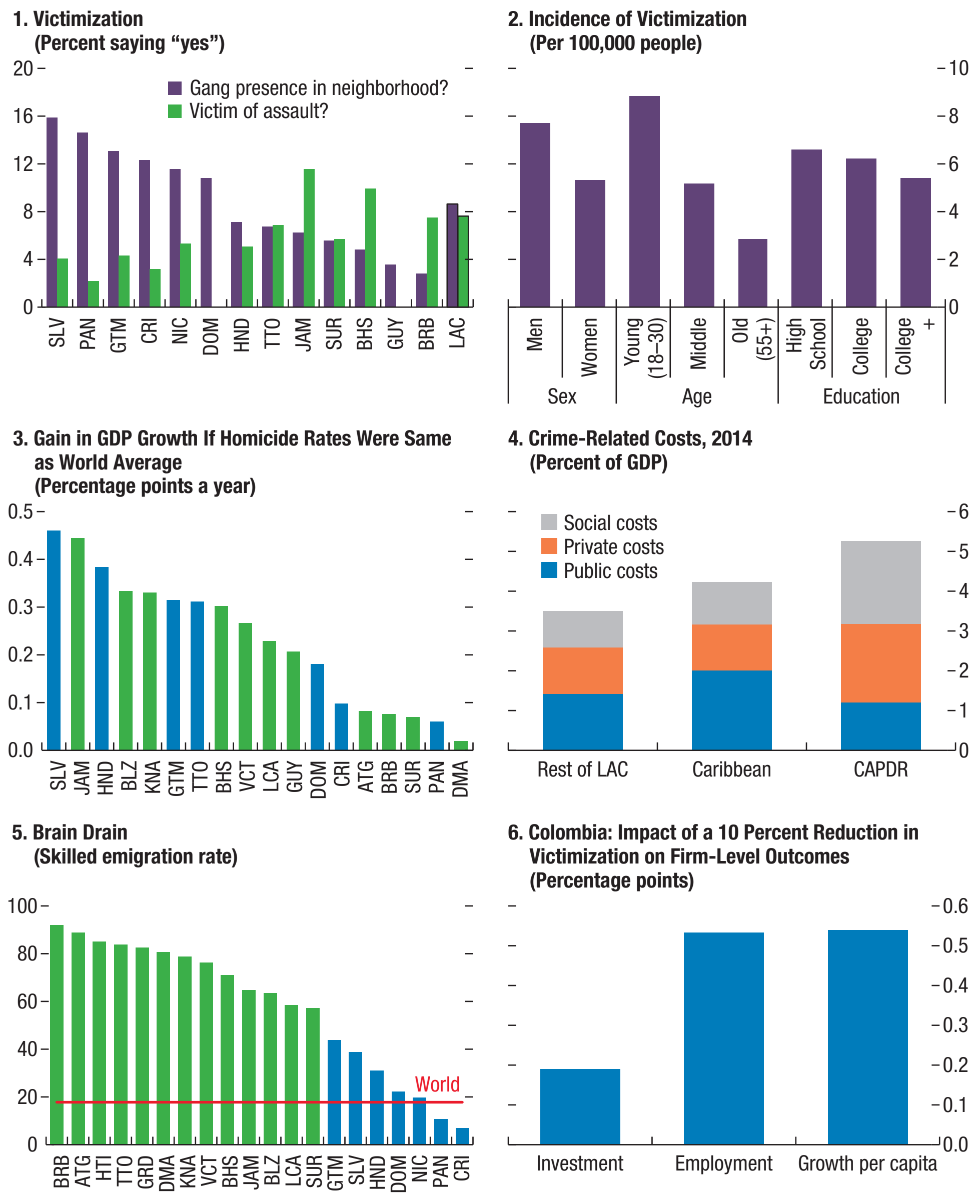
This box was prepared by Uma Ramakrishnan and Joyce Wong.

[1]The focus is mostly on homicide rates because of better reporting and less mismeasurement relative to other forms of crime. Robberies were also examined, but their effect on growth was not significant.

[2]For the top four countries, the cumulative number of deportees from 1998–2014 was only about 2.5 percent, 2.4 percent, 1.5 percent, and 1.4 percent of the labor force for El Salvador, Honduras, Jamaica, and Guatemala, respectively.

Box 2.4 *(continued)*

Figure 2.4.2. Crime and Growth in CAPDR and the Caribbean



Sources: Colombia Firm Surveys; Institute for Employment Research (Brücker, Capuano, and Marfouk 2013) brain-drain dataset; Inter-American Development Bank; Latin American Public Opinion Project; United Nations Office on Drugs and Crime; and IMF staff calculations.
Note: For International Organization for Standardization (ISO) country codes used in data labels, see page 115.
CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean.

Box 2.4 *(continued)*

Results suggest that if CAPDR and Caribbean countries were to reduce their crime rates to the world average, GDP growth could be higher by around 0.4 percentage point a year in El Salvador, Jamaica, and Honduras. These growth effects are more conservative than estimates that do not control for reverse causation, but they are still substantial. On a cumulative basis, El Salvador, Honduras, and Jamaica lost about 9½, 7½, and 7 percentage points of GDP, respectively, due to their high crime rates during the period 1999–2015.

Channels and Costs of Crime

Through what channels does crime generate the impact on growth estimated above? The channels include (1) the cost of goods lost; (2) public and private costs for prevention, deterrence, and imprisonment; and (3) lost productivity from the prison population and victims. According to IDB (2017), all these can add up to about 4 to 5 percent of GDP a year for CAPDR and the Caribbean countries, although private versus public spending ratios are diverging.

Other nonmonetary costs may also result. For example, criminal activity and shorter life spans discourage investment in human and physical capital by directly lowering expected returns and eroding job creation. Firm-level data from Colombia show that lowering victimization rates improves both investment and employment outcomes. Crime also fosters brain drain,[3] which is especially pertinent for the Caribbean, where growth has been chronically low. Last, since the young are often both victims and perpetrators, crime can also generate a cycle of negative labor market outcomes—further fostering criminality and lowering growth.

What Can Be Done?

From an economic perspective, criminals weigh the expected net benefit of committing crimes against the expected net benefit of legal activities. Thus, given the high levels of poverty and low growth in Central America and the Caribbean, tackling crime will require a combination of (1) implementing policies to spur growth and promote economic opportunities, (2) improving deterrence and crime prevention, and (3) strengthening the criminal justice system.

Given the region's fiscal constraints, interventions should be targeted and evidence based. Thus, interventions directed towards at-risk youth and investment in data collection and monitoring are critical. Security budgets should go beyond just deterrence, and include skill development and vocational and social programs for youth.

Strengthening the credibility and efficiency of the criminal justice system will enable swift judgments. Governments should also provide basic skills training to convicts to bolster their reintegration into the productive sector. Less overcrowding and better-quality prison facilities will also help prevent criminal activity within prisons.

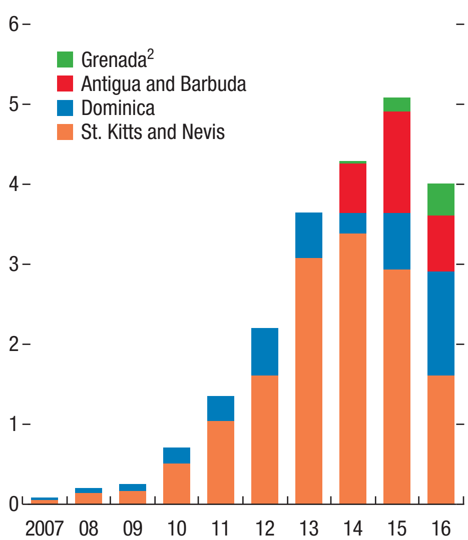
[3]Probit results using victimization surveys suggest that being a victim of a crime can increase a person's probability of wanting to emigrate by as much as 10 percentage points.

Box 2.5. Economic Citizenship Programs in the Caribbean

The number of Economic Citizenship Programs (ECPs) in the Caribbean has surged in recent years. Following recent large inflows to St. Kitts and Nevis and Dominica under these programs, three other Eastern Caribbean Currency Union (ECCU) countries—Antigua and Barbuda, Grenada, and St. Lucia—launched their own ECPs during 2013–15. Also referred to as Citizenship by Investment Programs, these arrangements are particularly attractive to small states, for which inflows can be so large as to have a significant economic and fiscal impact. An increasing number of advanced economies are also offering economic residency programs.

The launch of new citizenship programs in the Caribbean has intensified competition, creating pressure to ease conditions. After peaking in 2014, inflows to St. Kitts and Nevis weakened in 2015 and declined further in 2016. Inflows to Antigua and Barbuda, after the initial surge following introduction of the program, also fell in 2016. Inflows to Dominica surged on account of very competitive conditions and extensive marketing activities, which cost the equivalent of 1.1 percent of GDP in fiscal year 2015/16. Demand growth in Grenada has remained steady but relatively modest, while the newly established program in St. Lucia met with only limited success in its first year of operation.

Figure 2.5.1. Economic Citizenship Program Fiscal Revenue
(Percent of regional GDP)



Sources: National authorities; and IMF staff calculations.
[1]Economic Citizenship Program fiscal revenues as a share of the total nominal GDP of Antigua and Barbuda, Dominica, Grenada, and St. Kitts and Nevis. May include projected figures for 2016 as fiscal year duration varies. Excludes estimates for St. Lucia due to small size.
[2]Data for Grenada include National Transformation Fund.

Given the shared advantages for interested individuals and host jurisdictions, ECPs are likely to continue to grow, but with important spillovers and downside risks for small states and the international community. In small states, the inflows to the private sector can have a sizable impact on economic activity, while the fiscal revenues, like other large windfall revenues from abroad, can be quite substantial (Figure 2.5.1). However, poor management of the revenue upsurge could exacerbate vulnerabilities. If large and persistent, investment and fiscal flows may lead to adverse macroeconomic consequences associated with "Dutch disease," including higher inflation and loss of competitiveness, and the crowding out of other private sector activity. Moreover, program inflows may be subject to sudden-stop risk related to rapid changes in advanced economies' immigration policies. Finally, if not administered with due diligence, ECPs can lead to security breaches and possibly facilitate illicit activities such as tax evasion and money laundering, raising concerns for the international community and exposing the host jurisdiction to reputational risks.

To contain risks, ECPs and their associated revenues should be managed prudently, with priority given to saving, including through the establishment of a sovereign wealth fund, infrastructure investment, and debt reduction. Priority should also be given to accumulating the funds to respond to external shocks, such as natural disasters. A regional approach to ECPs within the ECCU would also help foster program integrity, promote best practices, achieve economies of scale, and safeguard against a race to the bottom.

This box was prepared by Bert van Selm.

Annex 2.1. Disclaimer

The consumer price data for *Argentina* before December 2013 reflect the Consumer Price Index (CPI) for the Greater Buenos Aires area (CPI-GBA), while from December 2013 to October 2015 the data reflect the national CPI (IPCNu). The new government, which took office in December 2015, discontinued the IPCNu, stating that it was flawed, and released a new CPI for the Greater Buenos Aires area on June 15, 2016 (a new national CPI has been disseminated starting in June 2017). At its November 9, 2016, meeting, the IMF Executive Board considered the new CPI series to be in line with international standards and lifted the declaration of censure issued in 2013. Given the differences in geographic coverage, weights, sampling, and methodology of these series, the average CPI inflation for 2014, 2015, and 2016 and end-of-period inflation for 2015 and 2016 are not reported in the April 2018 *World Economic Outlook.*

Argentina's authorities discontinued the publication of labor market data in December 2015 and released new series starting in the second quarter of 2016.

Projecting the economic outlook in *Venezuela,* including assessing past and current economic developments as the basis for the projections, is complicated by the lack of discussions with the authorities (the last Article IV consultation took place in 2004), long intervals in receiving data with information gaps, incomplete provision of information, and difficulties in interpreting certain reported economic indicators given economic developments. The fiscal accounts include the budgetary central government and Petróleos de Venezuela, S.A. (PDVSA), and data for 2016–23 are IMF staff estimates. Revenue includes the IMF staff's estimate of foreign exchange profits transferred from the central bank to the government (buying US dollars at the most appreciated rate and selling at more depreciated rates in a multitier exchange rate system) and excludes IMF staff's estimate of revenue from PDVSA's sale of PetroCaribe assets to the central bank. The effects of hyperinflation and the noted data gaps mean that IMF staff's projected macroeconomic indicators need to be interpreted with caution. For example, nominal GDP is estimated assuming the GDP deflator rises in line with IMF staff's projection of average inflation. Public external debt in relation to GDP is projected using IMF staff's estimate of the average exchange rate for the year. Fiscal accounts for 2010–23 correspond to the budgetary central government and PDVSA. Fiscal accounts before 2010 correspond to the budgetary central government, public enterprises (including PDVSA), Instituto Venezolano de los Seguros Sociales (IVSS—social security), and Fondo de Garantía de Depósitos y Protección Bancaria (FOGADE—deposit insurance).

Argentina's and *Venezuela's* consumer prices are excluded from all *World Economic Outlook* group aggregates.

Annex 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)				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
			Est.	Projections				Est.	Projections				Est.	Projections	
North America															
Canada	1.0	1.4	3.0	2.1	2.0	1.3	1.4	1.8	2.2	2.1	−3.6	−3.2	−3.0	−3.2	−2.5
Mexico	3.3	2.9	2.0	2.3	3.0	2.1	3.4	6.8	3.6	3.0	−2.5	−2.1	−1.6	−1.9	−2.2
United States	2.9	1.5	2.3	2.9	2.7	0.7	2.2	2.1	2.6	2.3	−2.4	−2.4	−2.4	−3.0	−3.4
Puerto Rico[3]	−1.1	−2.6	−7.7	−3.6	−1.2	−0.2	0.5	3.1	2.2	0.8	...	...	...	...	...
South America															
Argentina[4]	2.7	−1.8	2.9	2.0	3.2	...	...	24.8	19.2	13.6	−2.7	−2.7	−4.8	−5.1	−5.5
Bolivia	4.9	4.3	4.2	4.0	3.8	3.0	4.0	2.7	4.5	4.5	−5.8	−5.7	−5.8	−5.4	−5.2
Brazil	−3.5	−3.5	1.0	2.3	2.5	10.7	6.3	2.9	3.9	4.3	−3.3	−1.3	−0.5	−1.6	−1.8
Chile	2.3	1.3	1.5	3.4	3.3	4.4	2.8	2.3	2.6	3.0	−2.3	−1.4	−1.5	−1.8	−1.9
Colombia	3.1	2.0	1.8	2.7	3.3	6.9	5.8	4.1	3.4	3.0	−6.4	−4.3	−3.4	−2.6	−2.6
Ecuador	0.1	−1.6	2.7	2.5	2.2	3.4	1.1	−0.2	2.5	1.4	−2.1	1.5	−0.4	−0.1	0.3
Guyana	3.1	3.3	2.1	3.5	3.7	−1.8	1.5	2.3	2.8	3.0	−5.1	0.3	−4.2	−5.2	−4.7
Paraguay	3.0	4.0	4.3	4.5	4.1	3.1	3.9	4.5	4.0	4.0	−1.1	1.5	−1.8	−2.0	−1.2
Peru	3.3	4.1	2.5	3.7	4.0	4.4	3.2	1.4	2.3	2.0	−4.8	−2.7	−1.3	−0.7	−1.1
Suriname	−2.6	−5.1	0.0	1.4	2.0	25.1	52.4	9.3	11.2	7.8	−16.5	−3.1	8.9	6.3	5.2
Uruguay	0.4	1.5	3.1	3.4	3.1	9.4	8.1	6.6	6.6	6.5	−0.7	1.6	1.6	0.6	−0.1
Venezuela[5]	−6.2	−16.5	−14.0	−15.0	−6.0	159.7	302.6	2,818	12,875	12,875	−6.6	−1.6	2.0	2.4	3.6
Central America															
Belize	3.8	−0.5	0.8	1.8	2.0	−0.6	1.1	1.1	1.6	2.1	−9.8	−9.0	−7.7	−6.0	−5.8
Costa Rica	3.6	4.5	3.2	3.6	3.6	−0.8	0.8	2.6	3.0	3.0	−3.6	−2.6	−3.1	−3.1	−3.0
El Salvador	2.3	2.4	2.4	2.3	2.3	1.0	−0.9	2.0	2.1	2.0	−3.6	−2.0	−2.2	−3.2	−3.1
Guatemala	4.1	3.1	2.8	3.2	3.6	3.1	4.2	5.7	4.2	3.5	−0.2	1.5	1.4	1.1	0.6
Honduras	3.8	3.8	4.8	3.5	3.7	2.4	3.3	4.7	5.0	4.5	−4.7	−2.7	−1.7	−3.9	−4.0
Nicaragua	4.9	4.7	4.9	4.7	4.5	3.1	3.1	5.7	6.3	7.4	−9.0	−8.6	−6.2	−7.8	−7.7
Panama[6]	5.8	5.0	5.4	5.6	5.8	0.3	1.5	0.5	2.2	2.5	−7.9	−5.5	−6.1	−6.0	−4.3
Caribbean															
Antigua and Barbuda	4.1	5.3	2.8	3.5	3.0	0.9	−1.1	2.8	2.0	2.0	6.8	0.2	−7.0	−12.1	−2.3
The Bahamas	−3.1	0.2	1.3	2.5	2.2	2.0	0.8	2.0	2.4	2.6	−14.3	−7.7	−16.4	−13.6	−8.8
Barbados	1.0	1.6	0.9	0.5	0.8	−2.5	3.8	6.6	2.2	3.5	−6.1	−4.4	−3.7	−3.0	−2.9
Dominica	−3.7	2.6	−4.2	−16.3	12.2	−0.5	−0.2	1.4	1.4	1.8	−1.9	0.8	−17.8	−37.1	−21.5
Dominican Republic	7.0	6.6	4.6	5.5	5.0	2.3	1.7	4.2	3.7	3.8	−1.9	−1.1	−0.2	−1.0	−1.4
Grenada	6.4	3.7	3.5	3.6	3.6	1.1	0.9	0.5	1.8	1.9	−3.8	−3.2	−6.6	−7.1	−6.4
Haiti[7]	1.2	1.5	1.2	2.0	3.0	11.3	12.5	15.4	8.0	5.0	−3.1	−1.0	−2.9	−4.1	−3.0
Jamaica	0.8	1.5	1.0	1.5	1.8	3.7	1.7	5.2	5.1	5.0	−3.2	−2.7	−2.8	−2.9	−2.9
St. Kitts and Nevis	4.9	3.1	2.6	3.5	3.2	−2.4	0.0	0.2	2.0	2.0	−9.7	−11.4	−12.6	−13.1	−12.1
St. Lucia	−0.9	3.4	3.0	2.5	2.3	−2.6	−3.0	2.2	1.4	1.5	6.9	−1.9	0.3	−1.0	−0.6
St. Vincent and the Grenadines	0.9	0.8	1.0	2.1	2.5	−2.1	1.0	2.2	1.5	1.5	−14.9	−15.8	−14.4	−13.5	−13.1
Trinidad and Tobago	1.5	−6.0	−2.6	0.2	0.2	1.6	3.1	1.3	2.7	2.1	3.8	−10.7	−5.6	−3.0	−4.0
Memorandum															
Latin America and the Caribbean	**0.3**	**−0.6**	**1.3**	**2.0**	**2.8**	**6.2**	**4.6**	**4.1**	**3.6**	**3.5**	**−3.4**	**−1.9**	**−1.6**	**−2.1**	**−2.3**
South America[8]	−1.1	−2.4	0.7	1.7	2.5	8.7	5.4	2.9	3.6	3.8	−3.6	−1.8	−1.4	−2.0	−2.2
Simple average	*1.0*	*−0.6*	*1.0*	*1.3*	*2.3*	*5.7*	*4.4*	*3.0*	*3.7*	*3.6*	*−3.6*	*−1.5*	*−1.6*	*−1.6*	*−1.5*
CAPDR[9]	4.9	4.6	4.0	4.3	4.3	1.7	2.0	3.6	3.5	3.5	−3.5	−2.1	−2.0	−2.5	−2.3
Simple average	*4.5*	*4.3*	*4.0*	*4.1*	*4.1*	*1.6*	*2.0*	*3.6*	*3.8*	*3.8*	*−4.4*	*−3.0*	*−2.6*	*−3.4*	*−3.3*
Caribbean															
Tourism dependent[10]	0.2	1.6	1.3	1.7	2.1	1.8	1.2	4.0	3.5	3.7	−6.6	−4.8	−8.0	−7.5	−5.4
Simple average	*1.2*	*2.5*	*1.3*	*0.4*	*3.5*	*−0.3*	*0.4*	*2.6*	*2.2*	*2.4*	*−4.5*	*−5.1*	*−9.0*	*−11.5*	*−7.8*
Commodity exporters[11]	1.2	−4.6	−1.5	0.8	0.9	4.1	8.5	2.5	3.8	3.0	−0.6	−8.6	−4.0	−2.3	−3.0
Simple average	*1.5*	*−2.1*	*0.1*	*1.7*	*2.0*	*6.1*	*14.5*	*3.5*	*4.6*	*3.7*	*−6.9*	*−5.6*	*−2.1*	*−2.0*	*−2.3*
Eastern Caribbean Currency Union[12]	1.9	3.2	1.8	1.8	3.6	−1.0	−0.7	1.4	1.7	1.8	−1.4	−5.5	−9.2	−12.0	−8.5

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

[1]Regional aggregates for output growth are purchasing-power-parity GDP-weighted averages unless noted otherwise. Consumer price index (CPI) inflation aggregates exclude Argentina and Venezuela and are geometric averages unless noted otherwise. Current account aggregates are US dollar nominal GDP-weighted averages unless noted otherwise. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is April 2, 2018.

[2]End-of-period (December) rates. These will generally differ from period average inflation rates reported in the IMF *World Economic Outlook*, although both are based on identical underlying projections.

[3]The Commonwealth of Puerto Rico is classified as an advanced economy. It is a territory of the United States but its statistical data are maintained on a separate and independent basis.

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

[5]See Annex 2.1 for details on Venezuela's data.

[6]Ratios to GDP are based on the "2007-base" GDP series.

[7]Fiscal year data.

[8]Includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. CPI series exclude Argentina and Venezuela.

[9]Includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

[10]Includes The Bahamas, Barbados, Jamaica, and Eastern Caribbean Currency Union (ECCU) members.

[11]Includes Belize, Guyana, Suriname, and Trinidad and Tobago.

[12]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.

Annex 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 (Percent of GDP)				
	2015	2016	2017 Est.	2018 Projections	2019 Projections	2015	2016	2017 Est.	2018 Projections	2019 Projections	2015	2016	2017 Est.	2018 Projections	2019 Projections
North America															
Canada	36.8	37.7	37.5	37.4	37.3	0.5	−0.4	−0.6	−0.5	−0.4	90.5	91.1	89.7	86.6	83.8
Mexico[2]	24.5	24.1	21.8	21.1	21.6	−1.0	0.6	3.0	1.0	0.6	52.9	56.8	54.2	53.5	53.4
United States[3]	32.8	33.0	33.1	33.2	33.2	−1.6	−2.2	−2.5	−3.0	−3.4	105.3	107.2	107.8	108.0	109.4
Puerto Rico[4]	19.7	18.6	20.6	22.0	22.4	−0.2	0.4	0.1	−4.5	−3.6	52.9	49.5	54.6	61.0	66.0
South America															
Argentina[5]	39.8	39.8	38.6	37.5	35.9	−4.4	−4.7	−4.5	−3.5	−2.4	55.1	53.3	52.6	54.1	52.7
Bolivia[6]	43.6	38.8	38.0	37.3	36.7	−5.9	−5.6	−6.3	−5.1	−4.3	40.6	46.2	50.9	51.4	52.3
Brazil[7]	30.2	30.8	30.2	30.6	29.7	−2.0	−2.5	−1.7	−2.3	−1.8	72.6	78.4	84.0	87.3	90.2
Chile	24.2	24.5	24.5	23.8	23.6	−1.9	−2.4	−2.4	−0.5	−0.1	17.3	21.0	23.6	23.8	24.6
Colombia[8]	26.6	24.4	25.3	25.2	24.7	−0.7	0.2	−0.2	0.1	0.8	50.6	50.7	49.4	49.3	48.2
Ecuador[9]	37.7	37.5	35.2	36.5	33.8	−3.9	−6.8	−3.2	−2.9	−1.0	33.8	42.9	45.0	48.0	50.1
Guyana[10]	28.4	31.5	33.0	33.3	33.8	−0.2	−3.3	−3.3	−4.2	−3.9	50.3	50.7	50.7	53.9	56.1
Paraguay	26.1	24.4	25.5	25.8	25.1	−1.3	0.6	0.6	0.7	1.2	24.0	24.9	25.6	26.5	26.1
Peru	21.2	19.9	20.1	20.3	20.0	−1.3	−1.4	−2.0	−2.2	−1.6	24.0	24.4	25.5	27.0	28.0
Suriname[11]	30.2	23.6	22.3	21.7	21.2	−7.9	−6.0	−5.0	−2.7	−1.5	43.0	75.8	72.1	68.5	67.7
Uruguay[12]	28.8	30.0	29.8	29.6	29.5	−0.0	−0.5	−0.2	0.1	0.6	64.6	61.9	66.2	66.2	65.2
Venezuela[13]	34.8	33.9	40.6	37.4	36.6	−15.9	−16.8	−31.5	−24.2	−24.7	31.9	31.3	34.9	162.0	172.1
Central America															
Belize[10,14]	33.0	29.9	30.5	27.7	27.8	−5.0	−1.1	−1.2	2.0	2.0	80.7	95.9	99.0	97.5	95.5
Costa Rica[10]	16.6	16.5	17.0	17.1	17.2	−3.0	−2.4	−3.1	−2.8	−2.1	40.9	44.9	49.1	52.8	55.9
El Salvador[15]	18.8	18.8	18.8	18.3	18.4	−0.7	−0.0	0.7	1.3	1.1	57.9	59.3	59.3	58.9	58.8
Guatemala[10]	10.7	10.6	10.5	10.7	11.0	0.1	0.4	0.1	0.0	−0.2	24.2	24.5	24.4	24.4	24.6
Honduras	24.0	25.0	24.8	24.4	25.0	0.0	0.2	0.7	0.3	0.0	39.8	41.2	43.9	43.8	44.1
Nicaragua[15]	24.6	25.9	26.1	26.4	26.4	−0.9	−0.9	−0.8	−1.3	−1.3	28.9	31.0	33.6	34.1	34.6
Panama[16]	20.1	20.5	21.0	20.5	20.5	−0.6	−0.2	−0.3	0.1	0.2	37.2	37.1	38.2	37.7	37.0
Caribbean															
Antigua and Barbuda[17]	23.7	21.8	20.7	21.0	20.2	−0.1	2.4	−0.9	−2.7	−2.5	98.2	86.2	86.8	88.2	90.2
The Bahamas[10]	17.2	17.5	21.5	17.9	17.5	−1.8	−0.3	−3.5	−0.4	0.1	51.1	53.0	57.2	57.5	57.0
Barbados[18]	27.9	26.3	25.4	25.5	25.5	−1.8	2.2	3.7	4.4	4.4	134.7	137.0	132.9	128.7	127.3
Dominica[17]	30.5	41.6	40.6	39.7	36.9	1.0	5.4	10.5	0.4	−1.3	77.2	74.9	87.6	93.6	87.3
Dominican Republic[15]	15.1	14.7	15.4	14.7	14.6	2.4	0.1	−0.3	0.4	0.4	33.0	35.0	37.7	36.9	37.9
Grenada[17]	22.3	21.2	20.0	20.4	20.0	2.1	5.2	5.8	5.3	5.6	90.6	82.1	71.4	64.0	56.7
Haiti[10]	21.5	18.4	18.3	22.3	20.5	−2.2	0.2	−0.6	−2.0	−0.8	30.2	33.9	31.1	33.2	34.3
Jamaica[17]	19.9	20.4	22.3	22.4	22.3	7.2	7.6	7.0	7.0	7.0	121.3	113.9	104.1	98.3	94.0
St. Kitts and Nevis[17]	30.1	28.3	27.6	27.2	26.5	8.7	6.0	2.8	0.9	−0.3	70.6	65.6	62.4	60.3	57.5
St. Lucia[17]	22.3	22.6	23.2	23.5	23.5	1.3	1.8	0.7	0.2	0.2	67.8	69.2	71.3	73.1	74.9
St. Vincent and Grenadines[17]	26.5	26.6	27.9	28.6	28.7	−0.2	2.4	−0.2	0.1	0.2	79.4	82.9	80.8	81.4	81.2
Trinidad and Tobago[19]	35.2	32.7	31.3	31.6	31.5	−6.2	−10.0	−8.0	−6.1	−5.1	27.9	37.5	41.3	41.7	44.7
Memorandum															
Latin America and the Caribbean	**28.9**	**28.7**	**28.2**	**27.7**	**27.1**	**−2.7**	**−2.6**	**−2.1**	**−1.7**	**−1.3**	**54.5**	**57.8**	**60.5**	**64.7**	**65.7**
South America[20]	31.3	30.4	30.8	30.4	29.5	−3.7	−4.0	−5.1	−4.0	−3.3	41.4	43.5	45.8	59.6	60.9
CAPDR[21]	18.6	18.8	19.1	18.9	19.0	−0.4	−0.4	−0.4	−0.3	−0.3	37.4	39.0	40.9	41.2	41.8
Caribbean															
Tourism dependent[22]	24.5	25.1	25.5	25.1	24.6	2.5	4.3	3.5	2.3	2.1	87.9	85.0	83.8	82.8	80.7
Commodity exporters[23]	31.7	29.4	29.3	28.5	28.6	−4.8	−5.1	−4.4	−2.8	−2.1	50.5	65.0	65.8	65.4	66.0
Eastern Caribbean Currency Union[17,24]	25.5	27.0	24.9	25.3	24.7	2.0	1.7	2.6	0.5	0.5	77.0	74.8	73.2	73.1	71.8

Sources: IMF, World Economic Outlook database; 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 fiscal year US dollar nominal GDP-weighted averages unless noted otherwise. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is April 2, 2018.

[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 are counted as expenditure under the 2008 System of National Accounts (2008 SNA) recently adopted by the United States, but not for 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 US Bureau of Economic Analysis.

[4]The Commonwealth of Puerto Rico is classified as an advanced economy. It is a territory of the United States, but its statistical data are maintained on a separate and independent basis.

[5]Primary expenditure and primary balance include the federal government and provinces. Gross debt is for the federal government only.

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

[7]Nonfinancial public sector, excluding Petrobras and Eletrobras, 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 (repos). 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 69.9 percent of GDP at end-2016.

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

[9]Public sector gross debt includes liabilities under advance oil sales, which are not treated as public debt in the authorities' definition. In late 2016, the authorities changed the definition of debt to a consolidated basis; both the historical and projection numbers are now presented on a consolidated basis.

[10]Central government only.

[11]Primary expenditures for Suriname exclude net lending.

[12]For Uruguay, public debt includes the debt of the central bank, which increases recorded public sector gross debt.

[13]See Annex 2.1 for details on Venezuela's data.

[14]Gross debt for Belize includes both public and publicly guaranteed debt. For 2017, the public sector primary balance projection includes a one-off capital transfer of 2.5 percent of GDP. Excluding this one-off capital transfer, a primary surplus of 1.3 percent of GDP is projected.

[15]General government. The outcome for the Dominican Republic in 2015 reflects the inclusion of the grant element of the debt buyback operation with Petróleos de Venezuela, S.A. amounting to 3.1 percent of GDP.

[16]Ratios to GDP are based on the "2007-base" GDP series. Fiscal data cover the nonfinancial public sector excluding the Panama Canal Authority.

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

[18]Overall and primary balances include off-budget and public-private partnership activities for Barbados central government and the nonfinancial public sector. Gross debt includes the National Insurance Scheme holdings.

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

[20]Simple average of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela.

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

[22]Simple average of The Bahamas, Barbados, Jamaica, and Eastern Caribbean Currency Union (ECCU) members.

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

[24]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.

Annex Table 2.3. Western Hemisphere: Selected Economic and Social Indicators, 2008–17[1]

	2017				Average 2008–17					2017		Latest Available		
	GDP[2] (Billions of US dollars)	Population (Million)	GDP per Capita (PPP US dollars)	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	1,652.4	36.7	48,265	. . .	1.7	1.6	−2.8	21.1	63.0	5.2	6.3	. . .	34.7	AAA
Mexico	1,149.2	123.5	19,903	20.9	2.1	4.2	−1.6	21.6	65.8	15.3	3.4	11.7	51.8	BBB+
United States	19,390.6	325.9	59,501	. . .	1.4	1.6	−2.7	17.1	28.6	0.6	4.4	. . .	48.1	. . .
Puerto Rico[8]	98.8	3.2	37,339	. . .	−1.7	1.4	. . .	. . .	. . .	. . .	12.5	. . .	. . .	. . .
South America														
Argentina[9]	637.7	44.1	20,876	11.6	1.7	. . .	−1.2	16.4	31.0	8.7	8.4	4.5	42.1	B
Bolivia	37.1	11.1	7,547	0.7	5.0	5.2	1.5	21.6	69.8	27.6	4.0	13.5	47.3	BB−
Brazil	2,055.0	207.7	15,603	37.4	1.6	6.1	−2.5	17.1	23.6	18.2	12.8	9.2	51.7	BB−
Chile	277.0	18.4	24,537	5.0	3.0	3.1	−1.7	22.4	65.3	14.1	6.7	2.9	48.2	A+
Colombia	309.2	49.3	14,485	5.6	3.6	4.1	−3.6	20.5	35.7	15.2	9.3	13.5	52.5	BBB
Ecuador	102.3	16.8	11,482	1.9	3.4	3.7	−0.2	26.7	55.3	2.4	4.6	10.4	47.6	B−
Guyana	3.6	0.8	8,161	0.1	3.8	2.5	−8.3	8.7	122.1	16.1	. . .	. . .	. . .	. . .
Paraguay	29.6	7.0	9,826	0.5	4.9	4.5	0.5	17.2	95.1	25.4	5.7	8.8	49.3	BB
Peru	215.2	31.8	13,334	3.9	4.9	3.1	−3.0	21.2	49.5	29.7	6.7	9.0	44.7	BBB+
Suriname	3.3	0.6	14,606	0.1	1.6	13.2	1.8	. . .	103.1	12.7	7.7	. . .	. . .	B
Uruguay	58.4	3.5	22,371	1.1	4.1	7.9	−1.3	18.6	57.8	27.3	7.4	1.9	42.6	BBB
Venezuela[10]	210.1	31.4	12,114	3.8	−2.9	353.4	1.7	22.8	47.3	4.6	27.1	33.1	38.1	SD
Central America														
Belize	1.9	0.4	8,324	0.0	2.2	1.0	−5.9	13.6	125.4	16.8	9.0	. . .	. . .	B−
Costa Rica	58.1	5.0	16,877	1.1	3.5	4.4	−4.3	15.3	68.4	12.3	8.1	4.5	50.6	BB
El Salvador	28.0	6.4	8,948	0.5	1.4	1.7	−4.0	9.9	66.5	12.7	6.9	10.0	42.6	B−
Guatemala	75.7	16.9	8,145	1.4	3.2	4.4	−1.2	12.9	57.4	15.5	. . .	36.9	50.6	BB
Honduras	23.0	8.3	5,562	0.4	3.2	5.2	−6.6	18.0	85.6	20.5	5.6	36.5	52.5	BB−
Nicaragua	13.7	6.2	5,849	0.2	4.2	6.3	−9.9	19.9	102.0	20.1	6.1	16.1	51.5	B+
Panama	61.8	4.1	25,351	1.1	6.6	3.1	−8.6	32.5	126.3	4.4	6.0	7.5	50.2	BBB
Caribbean														
The Bahamas	11.6	0.4	31,139	0.2	−0.5	1.7	−12.2	16.5	74.6	11.4	10.1	. . .	. . .	BB+
Barbados	5.0	0.3	18,664	0.1	0.1	4.2	−7.5	8.7	89.4	7.7	9.8	. . .	...	CCC
Dominican Republic	75.0	10.2	16,944	1.4	4.9	4.2	−4.6	19.9	54.2	9.2	5.4	9.4	47.7	BB−
Haiti	8.6	11.0	1,815	0.2	1.8	8.6	−3.9	25.3	70.3	26.2	. . .	. . .	. . .	. . .
Jamaica	14.4	2.8	9,163	0.3	−0.1	7.9	−8.5	13.4	84.6	25.5	12.2	. . .	. . .	B
Trinidad and Tobago	21.6	1.4	31,367	0.4	−0.3	6.7	11.0	24.0	102.0	41.1	4.0	. . .	. . .	BBB−
Eastern Caribbean Currency Union[11]	6.6	0.6	18,341	0.1	1.0	1.4	−4.1	16.3	113.2	24.6	. . .	. . .	. . .	. . .
Antigua and Barbuda	1.5	0.1	26,232	0.0	−0.1	1.7	0.5	24.8	139.9	20.6	. . .	. . .	. . .	. . .
Dominica	0.6	0.1	11,102	0.0	0.5	0.9	−6.5	11.5	109.1	37.9	. . .	. . .	. . .	. . .
Grenada	1.1	0.1	14,926	0.0	1.7	1.3	−4.5	14.2	113.7	17.9	. . .	. . .	. . .	. . .
St. Kitts and Nevis	0.9	0.1	26,845	0.0	2.3	1.2	−9.7	18.3	116.3	39.4	. . .	. . .	. . .	. . .
St. Lucia	1.7	0.2	14,450	0.0	1.5	1.4	2.2	19.7	118.1	19.1	. . .	. . .	. . .	. . .
St. Vincent and the Grenadines	0.8	0.1	11,491	0.0	0.2	1.5	−17.7	−3.3	91.8	22.7	. . .	. . .	. . .	. . .
Latin America and the Caribbean	**5,492.9**	**619.8**	**15,785**	**100.0**	**2.1**	**4.9**	**−2.0**	**19.3**	**42.5**	**15.7**	. . .	**12.8**	**49.5**	. . .

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

Note: CPI = consumer price index; PPP = purchasing power parity.

[1]Estimates may vary from those reported by national authorities on account of differences in methodology and source. Regional aggregates are purchasing-power-parity GDP-weighted averages, except for regional GDP in US dollars and population where totals are computed. CPI series exclude Argentina and Venezuela. Consistent with the IMF, *World Economic Outlook*, the cut-off date for the data and projections in this table is April 2, 2018.

[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 database.

[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 2014 and 2015. Poverty rate is defined as the share of the population earning less than US$2.5 a day. For LAC, poverty is defined as share of population earning less than US$3.1 a day from the IDB. For Venezuela, SEDLAC estimates for the poverty rate ends in 2006 and the official estimate for the poverty rate for 2015 (first semester) is reported in the table. However, this series has not been publicly reported since mid-2015. Estimates of the poverty rate from ENCOVI (indicator estimated by Universidad Simón Bolívar, la Universidad Central de Venezuela, and la Universidad Católica Andrés Bello) report a sharp increase in poverty rate from 48.4 percent in 2014 to 87 percent in 2017. In the past, ENCOVI estimates tend to show higher poverty rates than the official data—for example, 73 percent in 2015 versus 33.1 according to the Instituto Nacional de Estadística (INE); and 48.4 percent in 2014 versus 32.6 percent according to INE. Gini index for aggregate is population-weighted average from the IDB. Data for the United States and Canada are from 2016 and come from the US Census Bureau and Statistics Canada, respectively. For Venezuela, Gini index is from INE.

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

[8]The Commonwealth of Puerto Rico is classified as an advanced economy. It is a territory of the United States but its statistical data are maintained on a separate and independent basis.

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

[10]See Annex 2.1 for details on Venezuela's data.

[11]Due to historical data limitations, Eastern Caribbean Currency Union countries show the average from 2014 to 2017 for current account balance, domestic saving, and trade openness.

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