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Latin America and the Caribbean: Coping with Challenging Times

Growth in Latin America and the Caribbean (LAC) has slowed down more than anticipated, as weak dynamics in South America have outweighed an incipient recovery in Mexico. Lower-than-expected external demand and softer terms of trade explain some of the weakness, but domestic supply-side bottlenecks and policy uncertainties have also weighed on confidence and private demand in several economies. Notwithstanding the projected pick-up in activity over the period ahead, growth is projected to be as low as 1.3 percent in 2014 and 2.2 percent in 2015. Spare capacity remains limited, however, underscoring the urgency of supply-side reforms to boost productivity and potential growth. Monetary policy and exchange rate flexibility should continue to serve as the first line of defense against adverse shocks, while a looser fiscal stance is unwarranted in most countries, especially those with weak public finances. Financial sector risks bear close monitoring, as the confluence of lower growth, rising U.S. interest rates, and geopolitical tensions could pose a considerable challenge.

Global Context: Still Waiting for a Robust Recovery

The global economic backdrop remains challenging, as the pace of recovery has continued to disappoint. World output is on course to expand by 3.3 percent this year, some 0.3 percentage points less than projected at the time of the April 2014 *World Economic Outlook*. The outlook for 2015 has also been downgraded somewhat, but global growth is still expected to rise to 3.8 percent. Underlying these aggregate projections is a differentiated picture of country-specific developments. While the U.S. economy appears to be on a clear path of recovery, growth in the euro area and Japan is expected to stay subdued. In China, headwinds from a weaker real estate sector have prompted supportive policy measures that should help to keep growth above 7 percent through 2015. In most other emerging economies, growth is projected to recover from the relatively moderate pace in the first half of this year, but fail to reach the high rates observed in the last decade.

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The likelihood of negative surprises around this global outlook has increased. Most prominently, the ongoing conflicts in Ukraine and the Middle East have heightened geopolitical risks. An extended period of rising asset prices in global financial markets may also have caused investors to underestimate the risk of renewed volatility. Emerging markets with elevated external current account deficits and inflation pressures are particularly exposed to bouts of capital outflows and foreign exchange market pressures.

Latin America and the Caribbean: Dimmed Prospects, with Few Bright Spots

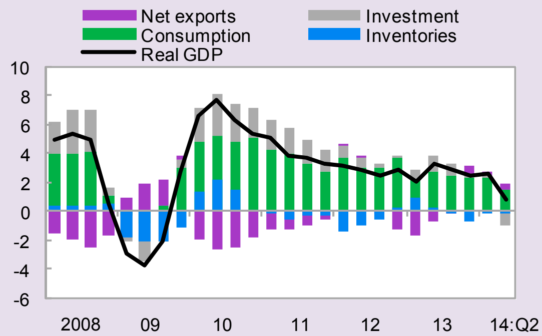
Against this backdrop, economic growth in Latin America and the Caribbean has continued to slow, with growth outturns even weaker than anticipated at the time of the April 2014 *World Economic Outlook* (Figure 1). The weakness has been concentrated in South America, where several of the largest economies saw output stagnate or even contract in the first half of the year.

Although the specific reasons for the downturn vary by country, two common themes stand out. First, the further softening of key commodity prices

Figure 1. Latin America and the Caribbean

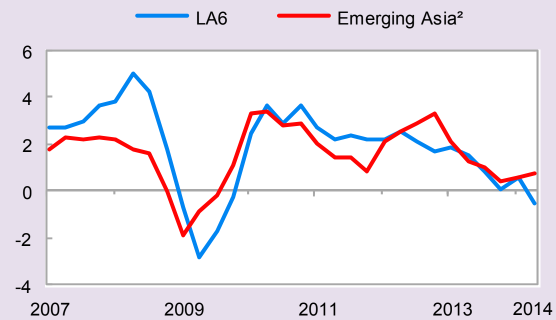
Growth in LAC has slowed further, as private consumption has caught up with the weakness in investment…

Contributions to Real GDP Growth[1]
(Year-on-year, percentage points)



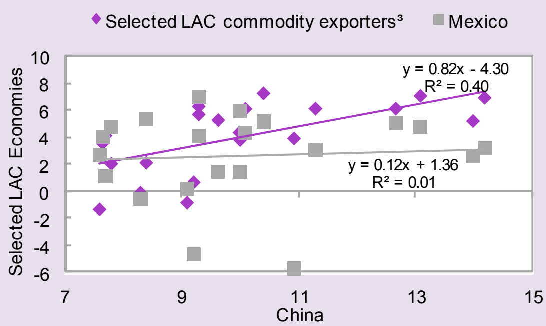
… that has been leading the downturn, in line with trends elsewhere. A moderate pickup is projected for the period ahead…

Real Growth of Fixed Asset Investment
(Quarter-on-quarter, percent change, seasonally adjusted, four-quarter moving average)



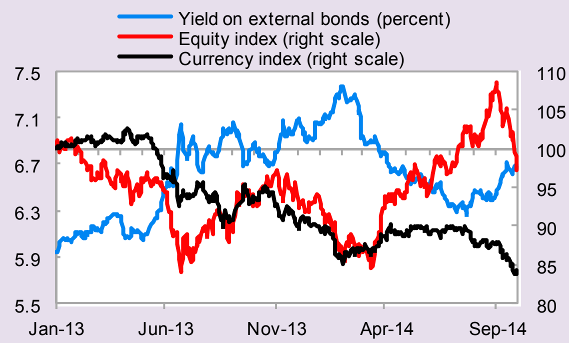
… but downside risks are prominent, as LAC's commodity exporters would be hit by a further slowdown in China…

Annual Real GDP Growth: China vs. Selected LAC Economies
(Percent)



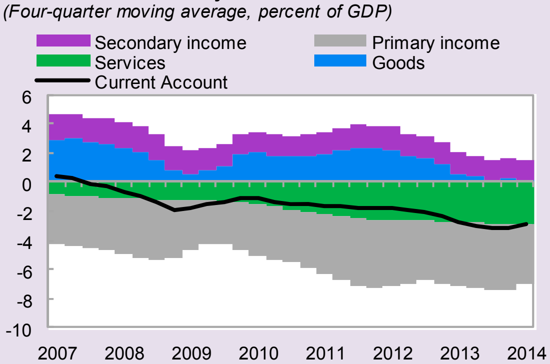
… and financial markets are prone to renewed volatility, following broad gains in equity and bond markets earlier this year.

Latin America: Financial Markets[4]



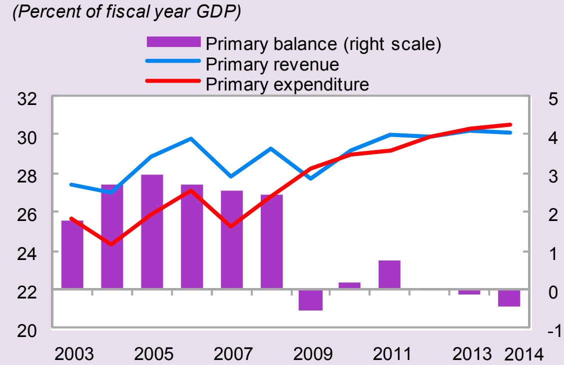
The deficit in the region's external current account shows signs of stabilizing, amid weaker import growth…

LA6: Current Account Dynamics
(Four-quarter moving average, percent of GDP)



… while fiscal balances are some 3 percentage points of GDP weaker than on the eve of the global financial crisis.

LAC: Fiscal Indicators
(Percent of fiscal year GDP)



Sources: IMF, *World Economic Outlook*; Bloomberg, L.P.; Haver Analytics; and IMF staff estimates.
Note: LA6 = Brazil (BRA), Chile (CHL), Colombia (COL), Mexico (MEX), Peru (PER), Uruguay (URY).
[1] Inventories include statistical discrepancies. Includes Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru, and Uruguay.
[2] Simple average of India, Indonesia, Malaysia, Philippines, and Thailand.
[3] Simple average of Argentina, Brazil, Chile, Colombia, Peru, and Uruguay. Real GDP growth rates are for the period 1993–2013.
[4] Yield on external bonds is based on J.P. Morgan Emerging Markets Bond Index for Latin America. Equity index is MSCI Emerging Markets Latin America local net total return index. Currency index is Bloomberg J.P. Morgan Latin America Currency Index. The equity and currency indices are rebased to January 2, 2013. Positive change denotes an appreciation in Latin American currencies. Data are through October 2, 2014.

reinforced a general sense of leaner times, causing both firms and households to curtail their spending. Second, domestic uncertainties and perceptions of policy drift further depressed confidence in several countries, as reflected in a sharp decline in their growth outcomes and projections going forward.

Notwithstanding the weaker economic data, bond and equity markets across the region posted further gains, consistent with trends across emerging markets more generally. Capital inflows and corporate bond issuance also remained robust. Foreign exchange markets presented a different picture, with many Latin American currencies depreciating amid broad-based U.S. dollar strength. Meanwhile, domestic credit growth has slowed across the board. Banks' capital buffers generally appear solid, and nonperforming loan ratios do not yet point to a generalized deterioration of asset quality.

In this environment, regional output in LAC is expected to expand by only 1.3 percent this year, the second-lowest growth rate in 12 years and more than 1 percentage point below the rate projected in April 2014 (Table 1). Growth is expected to rebound to 2.2 percent in 2015, as some short-term brakes on activity ease and domestic policy uncertainties are likely to decline in a few countries, providing a lift to confidence. Nonetheless, the current projection for 2015 is still ¾ percentage points lower than envisaged six months ago. The downward revisions are largest for Argentina, Brazil, Chile, Peru, and Venezuela, and follow a sequence of earlier downgrades to the regional growth outlook since 2011 (Box 1). The picture that emerges is one of an unexpectedly in pronounced slowdown, led by a shortfall investment.

Even around this lackluster outlook, downside risks continue to dominate. A key external risk relates to the possibility that global commodity demand might slow relative to current expectations, for instance, owing to a sharper slowdown in China. The resulting decline in commodity prices, export volumes, and investor sentiment would hit South American economies particularly hard.[1] Rising geopolitical tensions could cause a spike in oil prices that would benefit a few hydrocarbon-exporting economies in LAC but hurt all others. Economic prospects could also be undermined by renewed financial volatility, including in the event of a faster-than-expected rise in U.S. interest rates, although a stronger U.S. recovery would create positive growth spillovers, especially for Mexico, Central America, and parts of the Caribbean.[2] Beyond these external sources of risk, countries will need to manage carefully the political challenges arising from lower domestic growth. A shift toward populist economic policies might boost activity in the short term, but would jeopardize macroeconomic stability. Similarly, a persistent failure to address domestic policy weaknesses could cause the current downturn to be even more protracted. On the upside, private sector confidence could strengthen more than expected if policy-related uncertainties dissipate fast and governments tackle critical reform priorities.

Policy Priorities: Boost Productive Capacity and Preserve Credible Policy Frameworks

Although the marked recent slowdown has created slack in selected areas, as witnessed by falling capacity utilization in some countries' industrial sectors, overall spare capacity is still limited. Unemployment hovers at record-low levels and well below typical estimates of the natural rate, even as employment growth has slowed.[3] Consistent with this notion, inflation (both headline and core) exceeds official midpoint targets in most of the larger economies, and is forecast to ease only gradually. Persistent deficits in the external current account provide another indication that domestic demand pressures remain significant. This further corroborates anecdotal evidence about substantial supply-side bottlenecks, both in human capital (linked to underperforming

[1] See Chapter 4 of the April 2014 *Regional Economic Outlook: Western Hemisphere.*

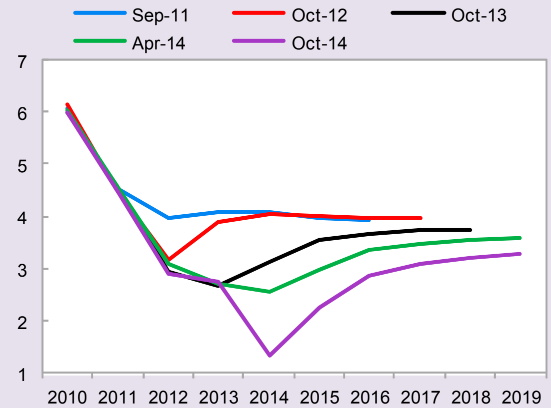
[2] See Chapter 3 of the April 2014 *Regional Economic Outlook: Western Hemisphere.*

[3] The analysis of labor market conditions and natural unemployment rates is complicated by widespread informality and the associated market segmentation in many countries.

Box 1. Down, Down, and Out? Recent Revisions to Growth Projections for Latin America and the Caribbean

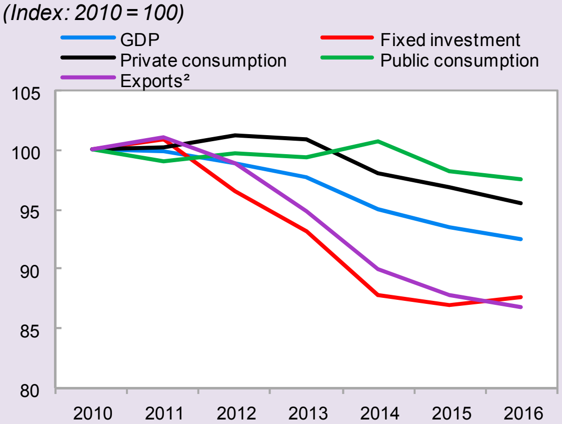
Growth across LAC has in recent years repeatedly fallen short of prior expectations, prompting a sequence of downward revisions to the outlook, by both private forecasters and the IMF. Since the September 2011 *World Economic Outlook*, the projection for regional growth in 2014–15 has been cut by more than half, and the cumulative output shortfall through 2016 is now projected to reach 8 percentage points of GDP (Figure 1.1). Fixed investment (especially in Brazil, Chile, and Mexico) and exports (in Argentina and Peru) have generally underperformed the most, whereas private and public consumption have grown more closely in line with earlier projections (Figure 1.2).[1]

Figure 1.1. LAC: Real GDP Growth by WEO Vintage, 2010–19
(Percent)



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

Figure 1.2. LAC: Current WEO Path for GDP and Components Relative to Sep. 2011 WEO Projections¹
(Index: 2010 = 100)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
¹ Ratio of GDP levels between October 2014 and September 2011 WEO projections. A value of 100 indicates no difference between the two projections; values below 100 indicate downward revisions.
² Weighted by the value of exports of goods and services in U.S. dollars. Excludes Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Suriname due to data constraints.

The unexpected sluggishness of exports points to external drag as a relevant factor. Indeed, all major country groups are currently on a lower growth trajectory than projected three years ago (see also Box 1.2 in the October 2014 *World Economic Outlook*). Downward revisions have been most pronounced for Emerging and Developing Asia, an increasingly important destination for exports from LAC. Accordingly, some of the growth disappointment in LAC is likely to reflect less buoyant activity in China and beyond.

One prominent channel for such negative spillovers would be weaker prices for LAC's main export commodities. It is striking, however, that the terms of trade for the average economy in LAC have not, on balance, caused any negative surprise in recent years, as the modest decline in commodity prices since 2011 had basically been anticipated (Figure 1.3). The apparent problem with past growth projections for LAC, therefore, is not that they were based on excessively optimistic assumptions about commodity prices. Rather, they seem to have assumed a more persistent boost to growth from *past* increases in commodity prices than eventually materialized. Investment, in particular, quickly started to fall behind projections when the commodity price boom petered out in 2011.[2] Stalled reform momentum and weakening competitiveness further contributed to curbing investor confidence and capital spending in some countries.

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Note: This box was prepared by Andre Meier.

[1] For Argentina and Peru, the comparison across World Economic Outlook vintages is affected by the recent release of new national accounts data.

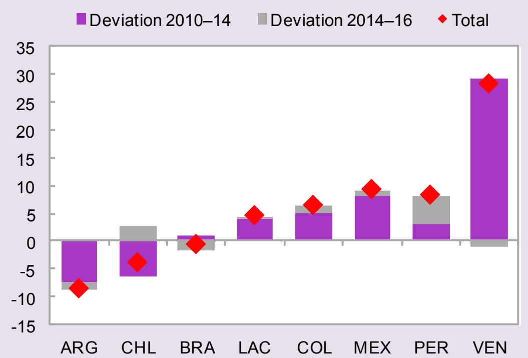
[2] See also Chapter 4 of the April 2014 *Regional Economic Outlook: Western Hemisphere*, which finds the effect of higher commodity prices on growth to be largely transient. Once investment has adjusted to the greater profitability of primary sector activity, and wealth effects have materialized, growth reverts to previous trends, even if prices persist at high levels.

Box 1. *(concluded)*

More broadly, earlier growth projections may have reflected a common cyclical bias. In light of the strong expansion observed across LAC during 2003–11, it was tempting to hypothesize a structural shift to higher growth. Consistent with this notion, projections for medium-term growth rose from 3.4 percent in 2005 to more than 4 percent during 2008–12 (Figure 1.4). With hindsight, it appears more likely that the strong growth of the "golden decade" reflected not only a sustained upward trend in commodity prices, but also a favorable initial position, marked by ample economic slack. Thus, actual growth could exceed potential growth for an extended period, but ultimately ran into supply constraints. Indeed, aggregate slack still remains limited in most of the larger regional economies today, despite the marked recent slowdown.

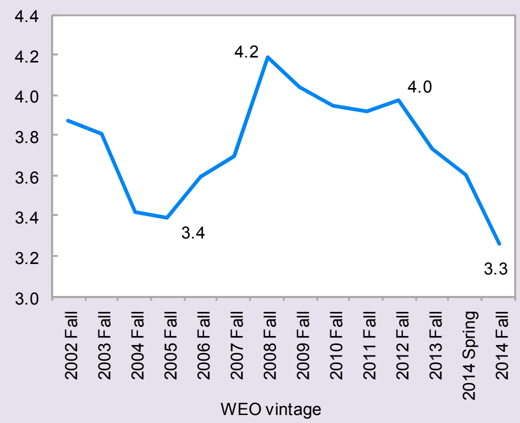
In light of these considerations, along with a broader reassessment of potential output, IMF projections for medium-term growth in LAC have been revised down considerably since 2012, although they remain slightly above long-term averages of growth in the region. Whether these revisions have now gone too far or still are not sufficient, only time will tell.

Figure 1.3. Terms of Trade: Cumulative Deviation from September 2011 WEO Projections[1]
(Percentage points)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Argentina (ARG), Brazil (BRA), Chile (CHL), Colombia (COL), Mexico (MEX), Peru (PER), Venezuela (VEN), Latin America and the Caribbean (LAC).
[1] Computed by comparing the October 2014 WEO path for terms of trade (goods and services) to the path projected in the September 2011 WEO. Percent deviations expressed in logs.

Figure 1.4. LAC: Projections for End-of-Horizon Real GDP Growth by WEO Vintage, 2002–14
(Percent)



Source: IMF, *World Economic Outlook*.

education systems) and in physical infrastructure (owing to long-standing underinvestment).

The present constellation—of a persistent slowdown amid still-tight supply conditions—calls for a clear focus on structural reforms to increase productivity and potential growth. The priorities differ by country, but typically include steps to improve the business environment, enhance the performance of education systems, and shift scarce budget resources toward critical infrastructure needs.

Meanwhile, macroeconomic policy should focus on preserving credible policy frameworks and prudent buffers against future shocks. For most countries in LAC, there is no compelling case for fiscal stimulus at the current juncture (Figure 2). Not only is the shortfall in aggregate demand still limited in general, but fiscal deficits of 3 percent or more in many countries—and the well-known difficulty of designing stimulus that is truly timely, targeted, and temporary—argue for caution. Indeed, the region's fiscal balances have already deteriorated by some 3 percentage points of GDP since 2008, when governments countered the global financial crisis with an expansionary stance whose impact on the public finances has never been reversed (Table 2). Monetary policy and flexible exchange rates, in turn, remain the most suitable tools to deal with cyclical fluctuations.

Figure 2. A Case for Fiscal Stimulus? Gauging Growth Momentum, Slack, and Policy Space in Latin America[1]

The schematic representation below assesses the case for fiscal stimulus across eight of the largest economies in LAC based on three criteria: (i) a sufficiently sharp economic downturn to warrant a policy response beyond the support provided by monetary policy and automatic stabilizers; (ii) sufficient economic slack to ensure that fiscal stimulus does not just lead to higher inflation or wider external current account deficits; and (iii) sufficient policy space to avoid raising concerns about fiscal sustainability or macroeconomic stability. For each criterion, several quantitative indicators are considered. Each indicator is color-coded according to specific numerical thresholds, with green/red indicating a case for/against stimulus. While the choice and calibration of individual indicators inevitably involve some discretion, the full set of indicators is meant to provide a balanced overall assessment. The case for stimulus (beyond the fiscal stance already reflected in current projections) would, in principle, require all three criteria to be met.

🟢 Case for stimulus 🟡 Unclear case 🔴 No case for stimulus

	Brazil	Mexico	Colombia	Chile	Peru	Ecuador	Dom. Rep.	Guatemala
Is Economic Activity Decelerating (z-scores)?[2]								
GDP: two most recent quarters of qoq growth	🟢 -1.0	🔴 0.1	🔴 0.0	🟢 -0.6	🟢 -1.8	🟢 -0.6	🔴 0.0	🟡 -0.3
GDP qoq growth: most recent quarter deviation from prior 3-quarter average	🟡 -0.3	🔴 0.4	🟢 -1.7	🟡 -0.4	🟢 -0.6	🟢 -0.9	🟡 -0.1	🔴 0.2
Economic activity index: 3-month growth deviation from prior 6-month average	🟡 -0.1	🔴 0.0	🟢 -0.9	🔴 0.2	🟡 -0.1	🔴 0.9	🔴 0.1	🟢 -1.0
Employment: 3-month growth deviation from prior 6-month average	🔴 0.1	🔴 1.2	🟢 -0.7	🟢 -0.6	🔴 0.4			
CPI inflation: 3-month deviation from prior 6-month average	🟢 -1.0	🔴 0.2	🟡 -0.4	🟢 -0.9	🟢 -1.4	🔴 1.2	🟡 -0.1	🔴 0.9
Is There Economic Slack?[3]								
2014 Output gap (percent of GDP)	🟡 -0.6	🟢 -1.1	🔴 0.2	🟡 -0.3	🟡 -0.4		🔴 0.6	🟡 -0.1
2014 External current account: deviation from 10-year average (percent of GDP)	🔴 -2.8	🟡 -0.8	🔴 -1.6	🔴 -2.2	🔴 -4.1	🟡 -1.3	🟡 -0.4	🟢 1.4
Unemployment rate: deviation from 4-year average (percentage points)	🟡 -0.7	🟡 -0.3	🔴 -1.6	🟡 -0.5	🟡 -0.6	🟡 -0.1	🟢 0.7	
Unemployment gap: deviation from time-variant NAIRU (percentage points)	🔴 -2.0	🟢 1.0	🔴 -2.1	🔴 -2.7	🔴 -3.0			
Capacity utilization: deviation from 4-year average (percentage points)	🟢 -1.6	🔴 0.1	🔴 0.9					
Is There Policy Space?[4]								
2013 General government gross debt (percent of GDP)[5]	🔴 66.2	🟡 46.4	🟡 35.8	🟢 12.8	🟢 20.0	🟢 24.4	🟡 47.2	🟢 24.6
2013 General government net lending (percent of GDP)	🔴 -3.3	🔴 -3.8	🟢 -0.9	🟢 -0.7	🟢 0.7	🔴 -4.7	🔴 -3.6	🟡 -2.1
2013 Primary balance, distance from debt-stabilizing balance (percent of GDP)[6]	🟡 0.3	🔴 -1.3	🟡 0.6	🔴 -0.4	🟢 2.0	🔴 -3.6	🔴 -1.1	🔴 -0.1
2015 Consensus inflation forecast: deviation from midpoint target (percentage points)	🔴 1.6	🟡 0.5	🟡 0.2	🟢 -0.3	🟡 0.7			
2013 Official foreign exchange reserves (percent of IMF adequacy metric)	🟢 189	🟡 111	🟢 157	🟡 131	🟢 404		🔴 58	🟢 174

Sources: Consensus Forecast; Haver Analytics; IMF, *World Economic Outlook*; and IMF staff estimates.
[1] GDP: quarterly, seasonally adjusted. Employment: monthly, seasonally adjusted. Economic activity index: monthly, seasonally adjusted. CPI: monthly, seasonally adjusted. Unemployment rate: monthly, seasonally adjusted (Dominican Republic: bi-annual). Unemployment gap: difference between latest unemployment rate and time-varying NAIRU (IMF staff estimates; the unemployment gap is statistically different from zero at the 5 percent level of significance for Brazil, Chile, Colombia, and Peru).
[2] Indicators are computed as z-scores, using country-specific averages and standard deviations from 2003 onward. Thresholds are set to distinguish cases of a clear slowdown in growth (green), unclear cases (yellow), and cases of a pickup in growth (red). The thresholds are indicator-specific, but identical for all countries. Actual values of each indicator, in addition to the color code, are provided to faciliate the comparison across countries.
[3] Slack indicators capture the extent of unused resources in the economy. Green indicates ample slack; red no or very little slack; yellow indicates intermediate cases.
[4] Policy space indicators capture the strength of public finances as well as potential constraints implied by weak external positions. Green indicates ample policy space; red very limited policy space.
[5] Dominican Republic: consolidated public sector debt. For other countries, refer to Table 2 for detailed information on debt coverage.
[6] Calculated using 5-year ahead projections for the effective interest rate and nominal GDP growth, combined with the 2013 debt-to-GDP ratio.

Financially Integrated Economies: Firmer Up North, Still Weakening Down South

Growth has declined further in the financially integrated economies, as weakness in most of South America (notably Brazil, Chile, and Peru) outweighed more favorable developments in Colombia and Mexico (Figure 3). Activity for this group of countries is expected to pick up modestly going forward, with GDP growth projected at 2.7 percent for 2014 and 3.5 percent in 2015.

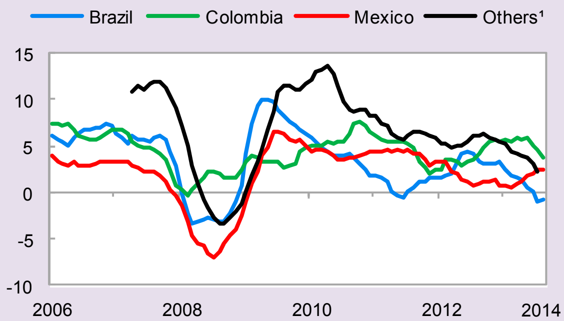
- Brazil's economy suffered a further sharp slowdown, entering "technical recession" in early 2014. Weak competitiveness, low business confidence, and tighter financing conditions have held back private investment, while the ongoing deceleration in employment and credit growth has moderated consumer spending. Recent high-frequency indicators point to a tepid recovery in the second half of this year. Reduced policy uncertainty following the presidential election could help to revive confidence. However, supply-side bottlenecks, the impending adjustment of the fiscal stance implicit in the 2015 budget targets, and the expected increase in some administered prices would still constrain growth in 2015, which is now projected at 1.4 percent, up from just 0.3 percent this year.

- Economic conditions also dimmed markedly in Chile and Peru, where investment and durable consumption led the slowdown. In addition to deteriorating external conditions, uncertainty over the impact of ongoing policy reforms may have had an effect in Chile, although this is likely to dissipate over time as the legislative process advances. Meanwhile, mining project delays and subdued public spending at the subnational level

Figure 3. Financially Integrated Economies (LA6)

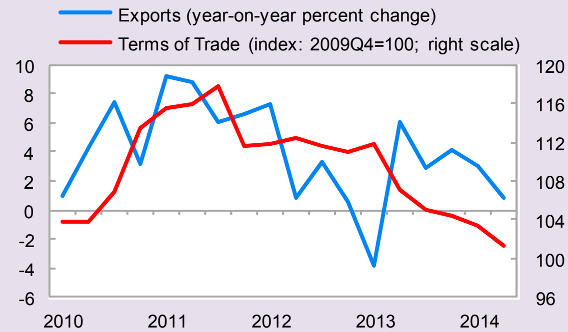
A sharp slowdown across most of South America has outweighed an incipient recovery in Mexico.

Economic Activity Indicator
(Three-month moving average, 12-month percent change)



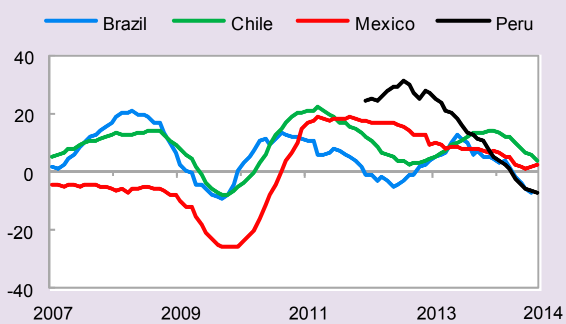
Weaker external conditions, including a further softening of the terms of trade, played a role…

Real Growth of Exports of Goods and Services and Terms of Trade²
(Median)



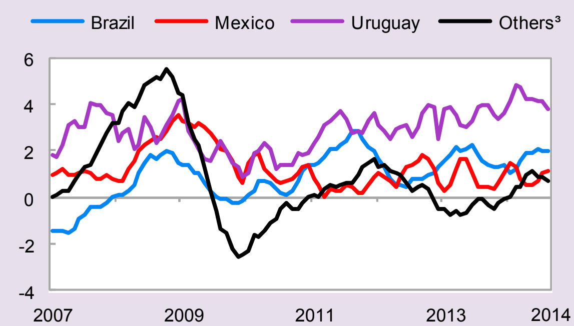
… but domestic policy uncertainties also weighed on private demand, prompting declines in durable purchases.

Automobile Sales
(Year-on-year percent change, 12-month moving average)



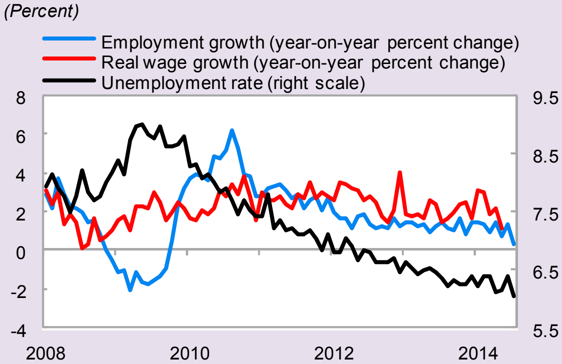
Nonetheless, inflation generally continues to exceed official targets…

Headline CPI Inflation, Deviation from Midpoint Target
(12-month percent change)



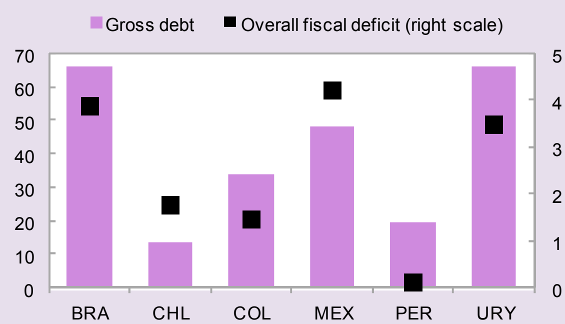
… consistent with still-limited slack in labor markets.

Labor Market Indicators⁴
(Percent)



Fiscal restraint is therefore appropriate, especially in countries with weaker public finances.

General Government Finances, 2014⁵
(Percent of fiscal year GDP)



Sources: IMF, *World Economic Outlook*; IMF, *Balance of Payments Statistics*; Haver Analytics; national authorities; and IMF staff calculations.
Note: LA6 = Brazil (BRA), Chile (CHL), Colombia (COL), Mexico (MEX), Peru (PER), Uruguay (URY).
[1] Simple average of Chile, Peru, and Uruguay.
[2] Terms of trade series excludes Uruguay.
[3] Simple average of Chile, Colombia, and Peru.
[4] Simple average of LA6. Real wage growth series excludes Peru. Unemployment rate is seasonally adjusted.
[5] Refer to Table 2 for detailed information on debt coverage.

set back growth in Peru. Unemployment remains low, but job creation and real wages have moderated recently, consistent with historical patterns for the link between labor markets and aggregate activity (Box 2). Looking ahead, output growth should pick up pace gradually, as temporary headwinds fade and supportive policy stances and recent currency depreciations gain traction. Growth in Uruguay is moderating, but has proven quite resilient to the slowdown in Argentina and Brazil—its two key trading partners—thus far. Colombia, in turn, stood out in defying the regional downturn during the first half of 2014. The outlook is for continued solid growth led by strong domestic demand and some pickup in exports.

- In contrast with the weak momentum across much of South America, Mexico's economy has recently gathered pace, following several quarters of underperformance through early 2014. Growth is projected to increase from 2.4 percent in 2014 to 3.5 percent in 2015, supported by stronger demand from the United States, an expansion of public investment, and accommodative monetary policy. Business confidence has remained subdued but is expected to improve gradually, as the government's important reforms in energy and telecommunications begin to spur investment.

Recent monetary policy decisions have mirrored the divergence of economic developments across the financially integrated economies. Colombia's central bank has raised interest rates toward more neutral levels, whereas Chile and Peru have eased policy in response to weaker incoming data. Mexico also lowered rates again in June to spur the recovery, whereas Brazil's central bank has kept policy rates unchanged since April 2014 but relaxed certain bank capital requirements that had been tightened on macroprudential grounds a few years earlier. Brazil's central bank also continued its foreign exchange swap program, which provides the private sector with hedges against unanticipated depreciation of the local currency. The stock of swaps outstanding had a notional value of about US$98 billion in early October.

Looking ahead, monetary policy should remain the principal policy tool to address negative demand shocks in countries where inflation expectations are well anchored. However, real policy rates are already low or even negative in several economies, while inflation is generally forecast to remain above target at least over the near term, constraining the scope for further rate cuts. The case against easing monetary policy is clear-cut in Brazil and Uruguay, where inflation is expected to stay elevated amid limited slack, pent-up pressures from administered prices, and inertia related to indexation. In Brazil, further steps to reduce lending by public banks at below-market rates would also support disinflation and improve the fiscal accounts.

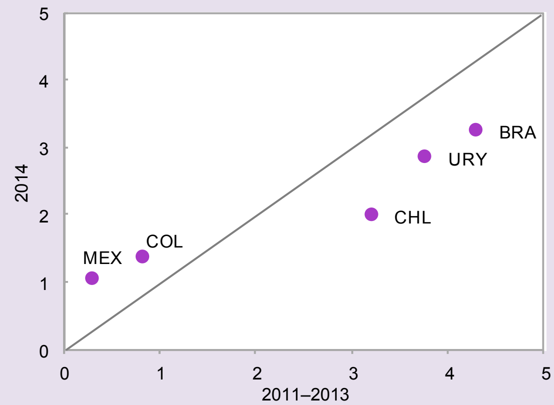
Meanwhile, flexible exchange rates need to continue acting as an automatic stabilizer. The marked recent depreciation of the Chilean and Uruguayan currencies is a case in point. For exchange rates to play this role, it is critical that country authorities closely monitor and contain open foreign exchange positions in the private sector that could lead to adverse balance sheet effects in the event of sharp currency depreciations. Central bank policy can contribute directly to counteracting such moral hazard by avoiding any suggestion of specific target levels for the exchange rate, notwithstanding the argument for occasional intervention to limit disruptive short-term currency moves. More broadly, supervisors will need to be vigilant to evolving risks in the financial system, including the rise in corporate sector indebtedness in several countries (Box 3) and the effect of slower economic growth on banks' asset quality.

Fiscal policy, in turn, is projected to be broadly neutral in 2014 across the financially integrated economies, except in Chile and Peru, which have adopted a mildly expansionary stance. From the perspective of available policy space, a supportive fiscal stance is defensible in Chile and Peru, as both countries have exceptionally strong public finances (Figure 2). However, still-limited output gaps argue

Box 2. Growth Slowdown and Labor Markets in Latin America: Insights from Okun's Law

Labor markets in Latin America have remained buoyant despite the sharp recent slowdown in economic activity across the region. Although employment and real wage growth are starting to show signs of fatigue, unemployment continues to hover at record-low rates (Figures 2.1 and 3, bottom-left chart). Are these buoyant labor market conditions consistent with the apparent weakness in output growth, or do they represent a break with historical patterns?

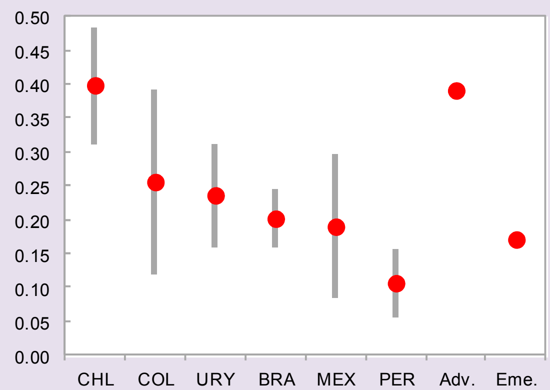
Figure 2.1. Real Wage Growth
(12-month percent change, average)



Sources: Haver Analytics; and IMF staff calculations.

One way to address this question is through *Okun's Law*, a simple empirical relationship linking output growth and unemployment (or employment growth) over time. This relationship has been widely explored and documented, especially for advanced economies.[1] But does Okun's Law hold in Latin America? The answer for the LA6 countries is a clear yes, notwithstanding the complications introduced by widespread informality and related data limitations. Using annual data for up to 54 years (depending on data availability), we find a statistically significant and relatively close relationship between economic activity on one side, and changes in the unemployment rate or employment growth on the other side.[2] Figure 2.2 shows the absolute value of the elasticity of unemployment with respect to output from country-specific regressions (a higher value implies a larger drop in the unemployment rate for a given rise in output). The elasticity varies by country—as has similarly been documented for countries in other regions—but is in line with evidence for other emerging economies. It is also remarkably stable. Allowing for time-varying coefficients in the regression, the average elasticity in 2000–13 is within 0.05 of the average from the previous decade for five out of six countries (the only exception being Colombia, where the elasticity decreased by more than 0.10).

Figure 2.2. Estimated Okun's Law Coefficients[1]



Sources: Haver Analytics; IMF, *World Economic Outlook*; Ball, De Roux, and Hofstetter (2013); and IMF staff calculations.
[1] For LA6 countries, the dots represent the absolute value of the coefficient estimates from an unemployment Okun regression in levels (i.e., in terms of deviations of the unemployment rate and GDP from their Hodrick-Prescott trends), using annual data. The grey lines denote 95 percent confidence intervals. R^2 statistics range from 0.31 to 0.60. "Adv." is the average coefficient for a sample of advanced economies, and "Eme." for a sample of emerging and developing economies, as reported in Chapter 4 of the October 2012 *World Economic Outlook*.

Turning to the recent slowdown, what can we infer from Okun's Law? Figure 2.3 compares the actual change in employment during the four quarters through end-June 2014 with the predicted change according to Okun's Law (using fitted values from a dynamic version of Okun's employment regression at a quarterly frequency).

———

Note: This box was prepared by Bertrand Gruss.

[1] See, for instance, Ball, L., D. Leigh, and P. Loungani, 2013, "Okun's Law, Fit at 50?" IMF Working Papers No. 13/10 (Washington: International Monetary Fund).

[2] The source for annual unemployment data is Ball, L., N. De Roux, and M. Hofstetter, 2013, "Unemployment in Latin America and the Caribbean," *Open Economies Review*, Vol. 24, No. 3, pp. 397–424.

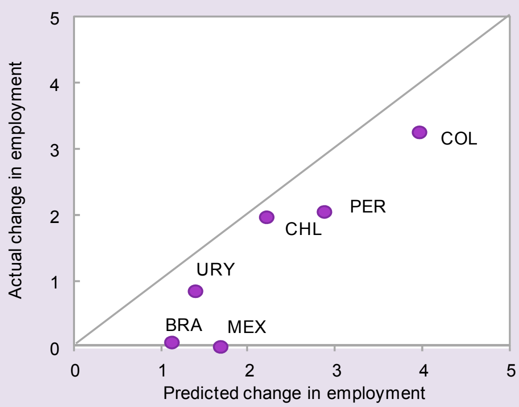
Box 2. *(concluded)*

Observations above the 45-degree line imply faster-than-predicted job creation, and vice versa. The analysis suggests that employment growth has not been unusually high during recent quarters. In fact, employment has grown in line with predictions from Okun's Law given output developments in the cases of Chile, Colombia, Peru, and Uruguay, and turned out *weaker* than predicted in Brazil and Mexico.

Recasting the analysis in terms of unemployment dynamics, a similar result emerges. For most LA6 countries, labor market developments over the last four quarters have been in line with predictions from Okun's Law (Figure 2.4). In five out of six countries, the cumulative change in the actual unemployment rate is within 0.3 percentage points of the predicted change (with actual outturns somewhat better than expected in Colombia and Mexico, and slightly worse in Chile, Peru, and Uruguay). The notable outlier is Brazil, where the drop in the unemployment rate between mid-2013 and mid-2014 was about 1 percentage point larger than predicted by Okun's Law. This is particularly surprising in light of the weaker-than-predicted employment growth shown in Figure 2.3. The reason is a pronounced drop in labor force participation—by almost 1½ percentage points—during this period. The drop was particularly large among the youth and the elderly, but there is still little agreement on what is behind this phenomenon, let alone how persistent it will be.

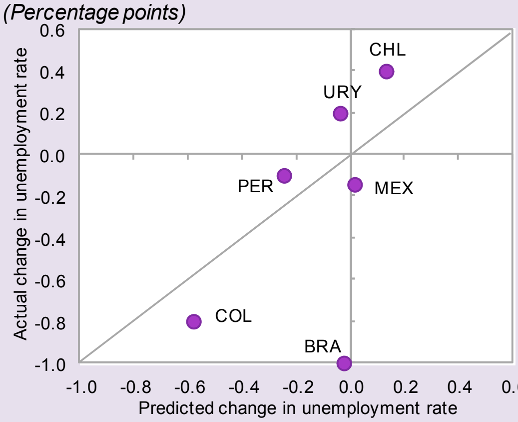
In sum, recent developments in labor markets in LA6 do not appear to have overturned Okun's Law. Employment growth has been broadly in line with output growth, while the unemployment rate is "abnormally" low only in the case of Brazil—and this could be reversed if participation were to bounce back over the period ahead.

Figure 2.3. Employment Growth, 2013Q2–2014Q2[1]
(Percent)



Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations.
[1] Predicted values are the out-of-sample forecasts from country-specific dynamic Okun employment regressions using quarterly data, specified either in levels (i.e., using employment and GDP deviations from Hodrick-Prescott trends) or in first differences, depending on the goodness of fit, and with the number of lags chosen according to a Bayesian information criterion.

Figure 2.4. Change in the Unemployment Rate, 2013Q2–2014Q2[1]
(Percentage points)

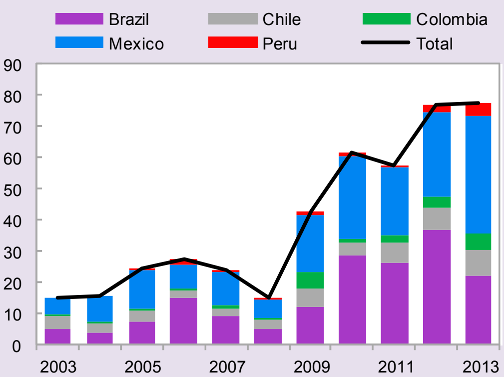


Sources: Haver Analytics; IMF, *World Economic Outlook*; and IMF staff calculations.
[1] Predicted values are the out-of-sample forecasts from country-specific dynamic Okun unemployment regressions using quarterly data, specified either in levels (i.e., using unemployment rate and GDP deviations from Hodrick-Prescott trends) or in first differences, depending on the goodness of fit, and with the number of lags chosen according to a Bayesian information criterion.

Box 3. Beware the Bon(d)anza? Drivers, Uses, and Risks of Increased Bond Issuance by Corporates in Latin America

Gross bond issuance by nonfinancial companies (NFCs) in LA5 countries (Brazil, Chile, Colombia, Mexico, and Peru) increased from US$15 billion in 2003 (or 1.0 percent of the combined GDP) to US$77 billion in 2013 (1.8 percent of GDP). In cumulative terms, companies tapped capital markets for a total of US$435 billion during 2003–13, with net issuance accounting for some 80 percent of that amount (Figure 3.1). Bond issuance has accelerated markedly since 2009, led by foreign placements (about 65 percent) and with significant participation by quasi-sovereign issuers (about 30 percent). What may have motivated this strong issuance? How have the funds been used? And what are the attendant risks?

Figure 3.1. LA5: Nonfinancial Corporates Gross Bond Issuance
(Billions of U.S. dollars)

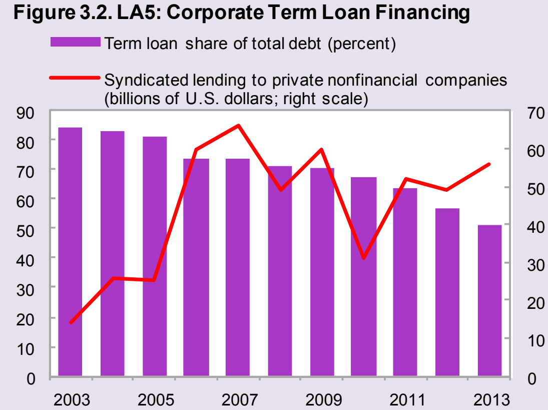


Sources: Dealogic; and IMF staff calculations.

Drivers

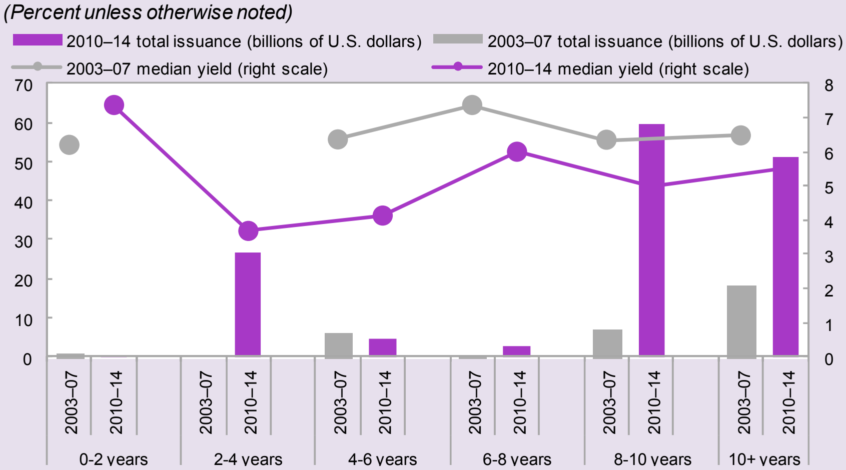
The pick-up in bond issuance points to active liability management by NFCs against the backdrop of two major recent trends: a reduced supply of (cross-border) loans by international banks since the global financial crisis, reflecting balance sheet pressures among those banks and regulatory changes (Figure 3.2); and strong investor appetite for emerging market bonds, amid a generalized dearth of high-yielding assets. As companies lowered their relative dependence on syndicated bank loans in particular, bonded debt became an increasingly important source of funding. Issuance volumes increased especially for longer maturities (Figure 3.3), suggesting a targeted effort to enhance debt profiles and reduce liquidity risk. Even so, companies managed to lock in historically low interest rates, without increasing the share of floating-rate debt.

Figure 3.2. LA5: Corporate Term Loan Financing



Sources: S&P Capital IQ; Dealogic; and IMF staff calculations.
Note: Bars refer to median ratio for nonfinancial companies.

Figure 3.3. LA5: Investment Grade Yield Curves for Nonfinancial Companies—Fixed-Rate Dollar-Denominated Bonds
(Percent unless otherwise noted)



Sources: Dealogic; and IMF staff calculations.

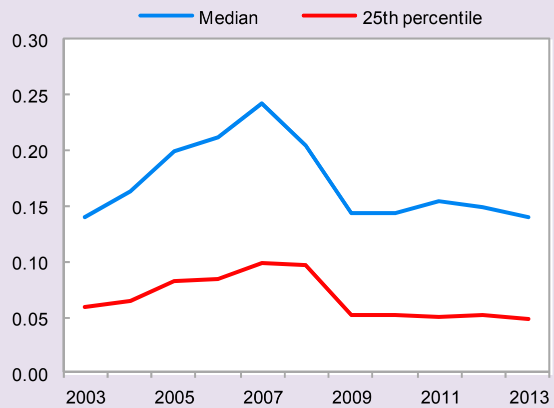
Note: This box was prepared by Fabiano Rodrigues Bastos.

Box 3. *(concluded)*

Uses

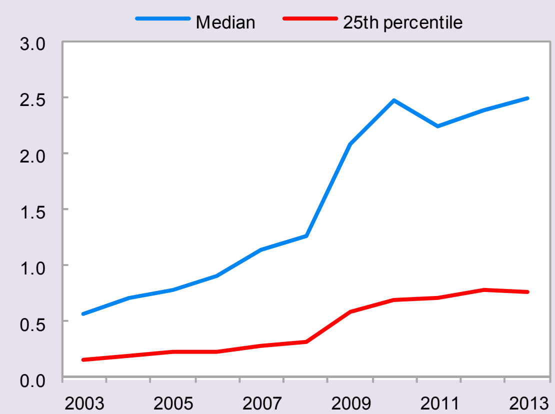
Despite some evidence that bond issuance is supportive of firms' growth,[1] there are no signs of an investment surge linked to strong recent issuance activity. Indeed, while total investment has increased, the ratio of investment outlays to total debt among NFCs in the LA5 declined during the global financial crisis and has not recovered since (Figure 3.4). Rather, companies have used some of the bond proceeds to build up larger cash cushions, as indicated by the markedly higher ratio of cash holdings to gross interest expenditures (Figure 3.5). Strengthened liquidity positions have enhanced companies' resilience to financial shocks. However, the build-up in cash positions can also be rationalized as an opportunistic way of pre-financing expected future (capital) outlays at a time when funding is unusually cheap.

Figure 3.4. LA5: Ratio of Investment to Total Debt



Sources: S&P Capital IQ; Dealogic; and IMF staff calculations.

Figure 3.5. LA5: Ratio of Cash to Interest Expenditures



Sources: S&P Capital IQ; Dealogic; and IMF staff calculations.

Risks

Notwithstanding these potential benefits, companies' increased bond issuance carries risks that need to be monitored closely. For one thing, markets have continued to experience episodes of exuberance in which the number of lower-rated companies issuing debt increased markedly, if temporarily. Also, standard measures of leverage have increased somewhat in recent years, basically reversing a deleveraging period earlier in the decade (see also Box 2.1 in the April 2014 *Regional Economic Outlook: Western Hemisphere*). A sustained further rise in leverage would heighten vulnerabilities that could come to the fore in times of financial stress (April 2014 *Global Financial Stability Report*, Chapter 1). In addition, increased bond issuance in international markets has meant greater reliance on foreign currency-denominated debt. To what extent this has given rise to unhedged foreign exchange positions remains an important open question, given existing data gaps. Accordingly, country authorities should redouble their efforts to monitor emerging risks and curtail excessive exposures. These efforts need to be supported by prudent exchange rate policies that avoid creating a false expectation of currency stability, which could induce excessive risk-taking in the private sector.

Looking ahead, Latin American corporates are likely to face rising financial challenges in an environment of weaker regional growth and tighter global financial conditions. This makes it critical to track trends in corporate financial strength, so the current bon(d)anza does not end in a corporate bust.

[1]Didier, Levine, and Schmukler (2014). "Capital market Financing, Firm Growth, Firm Size Distribution." NBER Working Paper 20336.

for strictly limiting the scale of fiscal support and aiming for well-targeted and truly temporary measures. For Brazil, Mexico, and Uruguay, in turn, gradual fiscal consolidation remains important to put public debt on a downward path and strengthen the credibility of fiscal frameworks.

Looking beyond macroeconomic policies, the priority for the financially integrated economies is to boost medium-term potential growth. To this end, governments will need to address long-standing shortcomings in infrastructure, education, and the business environment. Recent structural reform efforts in Chile, Colombia, Mexico, and Peru, as well as the infrastructure concession program in Brazil, point in the right direction, though steadfast implementation will be critical to reap their full benefits.

Other Commodity Exporters: Policy-Related Divergence

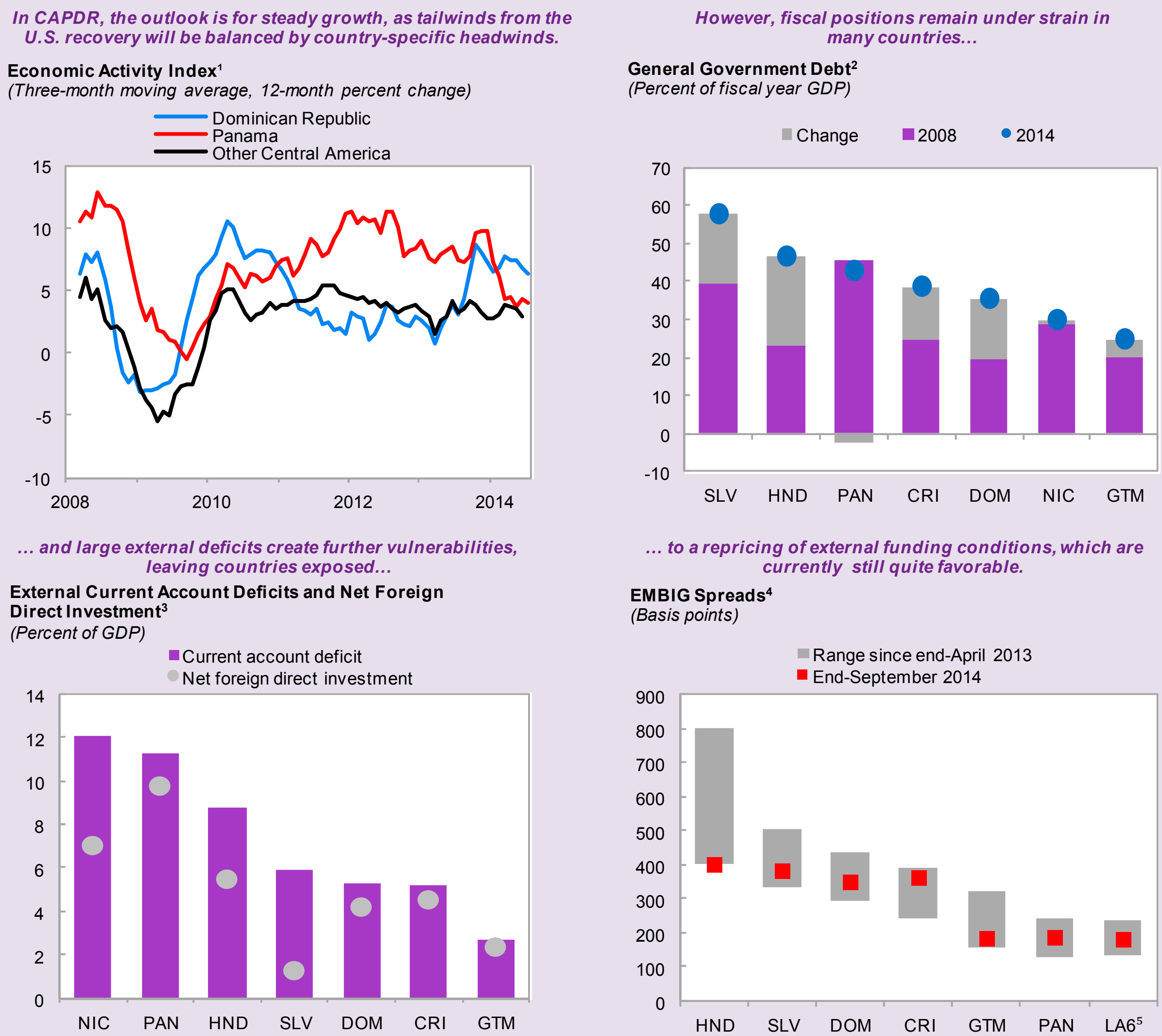
Recent developments and the outlook in the other commodity exporters of the region exhibit marked differences, owing mainly to domestic policies.

- The slowdown in Argentina has gathered force this year. A one-off peso devaluation and hike in policy rates helped to temporarily stabilize foreign exchange reserves earlier this year. However, the unresolved standoff with holdout creditors, along with worsening fiscal balances and continued monetization, has recently rekindled pressures in the currency market, as evidenced by a widening gap between the official and informal exchange rates. If unaddressed, these imbalances will keep inflation at elevated levels and leave the economy vulnerable to disorderly dynamics. Against this backdrop, Argentina is projected to experience negative growth through 2015. To restore stability and lay the ground for sustainable growth, policies should focus on reining in the fiscal deficit, reducing distortions caused by pervasive administrative controls, and improving the business climate.
- Venezuela's economy is also expected to contract both this year and next, amid intense macroeconomic imbalances and highly disruptive policy interventions. Tight controls on prices and foreign exchange have led to widespread shortages and all but halted production in certain sectors. Meanwhile, inflation is running at more than 60 percent, the highest rate in the world, while the exchange rates in the official and informal markets now differ by a factor of 15. To reverse these unsustainable dynamics, the authorities will urgently need to curtail fiscal expenditure, realign the exchange rate, and reduce microeconomic distortions.
- Prospects are more favorable among the smaller countries in this group. Bolivia is projected to grow by above 5 percent in 2014–15, owing partly to expansionary fiscal policy. Ecuador's economy is projected to slow slightly, but spare capacity remains very limited. In both countries, a moderation of government spending would help to avoid overheating pressures. Paraguay, in turn, will continue to expand at a healthy clip, even as the growth of agricultural production has eased from last year's record rates.

Central America, Panama, and the Dominican Republic: Growth Amid Unaddressed Imbalances

Growth in Central America is projected to remain steady. Output in 2014 will expand at about 3 percent, similar to the outturn in 2013 and in line with projections published in April (Figure 4). 2015 is expected to bring only marginally higher growth, as positive spillovers from the U.S. recovery will continue to be offset by the effects of the coffee roya disease (El Salvador, Honduras, and Nicaragua), low rainfall linked to El Niño in parts of the region, and other idiosyncratic factors, such as the partial withdrawal of Intel from Costa Rica and some (welcome) fiscal tightening in Honduras. Growth in Panama is set to be the fastest in LAC, even though a further slowdown in re-export activity (partly as a result of restrictions on foreign exchange payments in Venezuela) and some delays

Figure 4. Central America, Panama, and the Dominican Republic (CAPDR)



Sources: IMF, *World Economic Outlook;* Bloomberg, L.P.; national authorities; and IMF staff calculations.
Note: CAPDR = Central America (CA), Panama (PAN), and the Dominican Republic (DOM). CA = Costa Rica (CRI), El Salvador (SLV), Guatemala (GTM), Honduras (HND), Nicaragua (NIC).
[1] Other Central America is the simple average of Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua.
[2] Refer to Table 2 for detailed information on debt coverage.
[3] Annual average for 2012–13.
[4] EMBIG stands for Emerging Market Bond Index Global.
[5] Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

in the canal expansion project reduced momentum earlier this year. In the Dominican Republic, growth will stay buoyant, supported by strong tourism flows.

The continued deterioration of fiscal positions represents an important vulnerability in many countries and limits the policy space to counteract negative shocks. Public debt in Costa Rica, the Dominican Republic, El Salvador, and Honduras has increased by more than 15 percentage points of GDP on average since 2008, due largely to sustained increases in government expenditure. A further increase in debt by almost 5 percentage points is projected by 2016 based on current policies. Although sovereign spreads remain low, a tightening of global financial conditions poses a key risk, given large financing needs in coming years. A related concern is the persistence of large external financing needs in most economies. Lower assistance from Venezuela for the payment of oil imports through PetroCaribe could put pressure on the fiscal and external positions of some countries, notably the Dominican Republic and Nicaragua.

Against this backdrop, deficit reduction constitutes a policy priority. Fiscal efforts should combine expenditure restraint and rationalization, including strict control of the public wage bill and better targeting of subsidies. Beyond addressing sustainability concerns, revenue mobilization would be suitable in some countries to finance critical public investment and social spending. In the monetary policy arena, greater exchange rate flexibility and transitioning to full-fledged inflation targeting would bolster the resilience of those economies that are not fully dollarized. Finally, steps to improve human capital and the business climate remain crucial to support medium-term growth.

The Caribbean: Sub-Par Growth, Heightened Vulnerabilities

Growth in the tourism-dependent economies has continued to disappoint. For this group of countries (The Bahamas, Barbados, Jamaica, and the countries of the Eastern Caribbean Currency Union—ECCU), output is projected to expand by only 1.1 percent in 2014 and 1.7 percent in 2015 (Figure 5). Improving conditions in the U.S. and U.K. economies have shored up visitor arrivals in some countries, but long-standing competitiveness issues and deteriorating policy frameworks stand in the way of a robust recovery. Prospects for the commodity exporters (Belize, Guyana, Suriname, and Trinidad and Tobago) are typically somewhat more favorable, with growth projected to rise from 2.7 percent in 2014 to 3 percent in 2015. However, these projections are also lower than previously envisaged, reflecting softer commodity prices and lasting growth challenges in the non-commodity sector. Inflation has been muted in most countries, amid pegged exchange rates and negative output gaps.

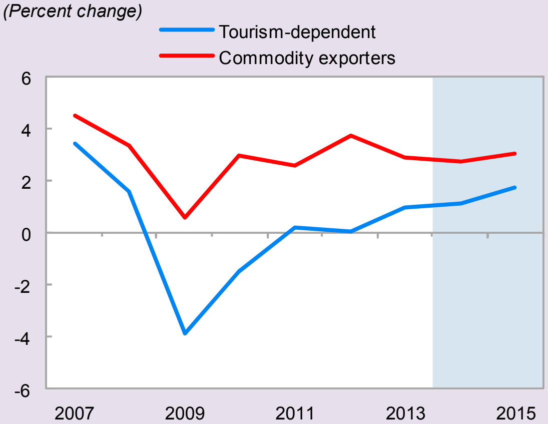
Although a few countries—including Jamaica and St. Kitts and Nevis, which implemented reform programs supported by the IMF—have recently made progress toward reducing vulnerabilities, fiscal risks have generally risen further. The tourism-based economies face average public debt levels in excess of 90 percent of GDP, along with increasing financing needs. Governments' market access has deteriorated and budgetary buffers have narrowed in most countries. External imbalances have also mounted, prompting reserve losses in some countries. Dependence on PetroCaribe presents a further risk. This bleak backdrop calls for stepped-up efforts to strengthen fiscal positions, including by reducing costly and poorly targeted energy subsidies. Notable recent progress in Jamaica provides an encouraging example. Specifically, the country's fiscal and external current account deficits have declined sharply since 2012, enabling Jamaica to regain market access, with the issuance of an external bond in July. Among the commodity exporters, near-term fiscal risks are generally lower, but faster improvements in revenue management and the quality of public expenditure are critical for mitigating medium-term fiscal vulnerabilities.

Financial sector risks also remain high in a number of Caribbean economies, underscoring the urgency of decisive reform efforts, notably through regional initiatives that lessen systemic risks. The cleanup of banks' balance sheets and resolution of failing institutions, battered by low growth and high non-performing loans, is essential to maintain financial stability and support a sustainable recovery.

Figure 5. The Caribbean

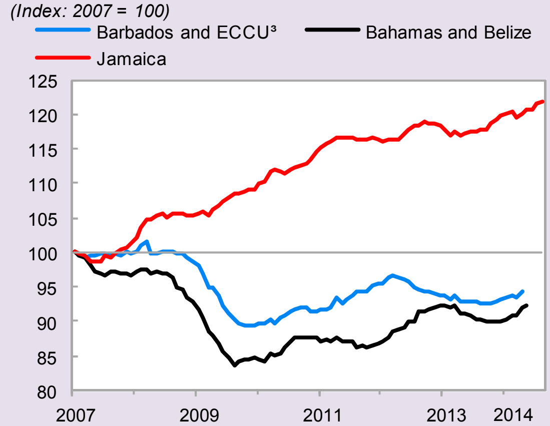
Growth in the Carribean has continued to disappoint...

Real GDP Growth[1]
(Percent change)



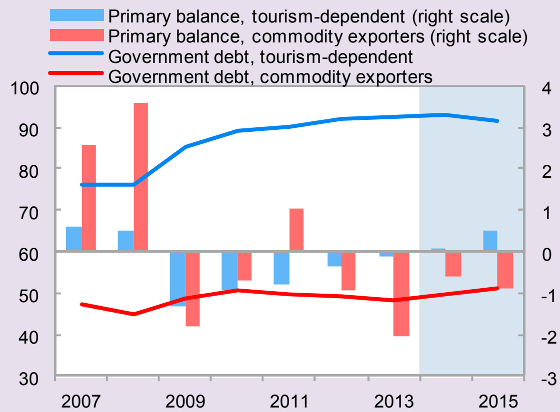
... particularly among the tourism-dependent economies. A modest pickup in overall activity is projected for 2015...

Tourist arrivals[2]
(Index: 2007 = 100)



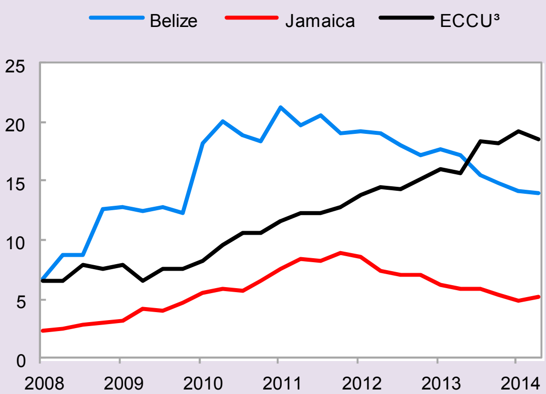
... but fiscal and external weaknesses are acute in several countries. Tackling these is an urgent priority...

Fiscal Accounts[1]
(Percent of fiscal year GDP)



... alongside efforts to put banking systems on a firmer footing.

Nonperforming Loans
(Percent of total loans)



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

[1] Simple average. Commodity exporters include Belize, Guyana, Suriname, and Trinidad and Tobago. Tourism-dependent economies include Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

[2] 12-month moving averages.

[3] Eastern Caribbean Currency Union (ECCU) data include Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

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

	Output Growth (Percent)					Inflation[2] (End of period, percent)					External Current Account Balance (Percent of GDP)				
	2011	2012	2013 Est.	2014 Projections	2015 Projections	2011	2012	2013 Est.	2014 Projections	2015 Projections	2011	2012	2013 Est.	2014 Projections	2015 Projections
North America															
Canada	2.5	1.7	2.0	2.3	2.4	2.7	0.9	1.0	2.2	2.0	-2.8	-3.4	-3.2	-2.7	-2.5
Mexico	4.0	4.0	1.1	2.4	3.5	3.8	3.6	4.0	4.0	3.5	-1.1	-1.3	-2.1	-1.9	-2.0
United States	1.6	2.3	2.2	2.2	3.1	3.1	1.8	1.3	2.4	2.0	-3.0	-2.9	-2.4	-2.5	-2.6
South America															
Argentina[3,4]	8.6	0.9	2.9	-1.7	-1.5	9.5	10.8	10.9			-0.7	-0.2	-0.8	-0.8	-1.1
Bolivia	5.2	5.2	6.8	5.2	5.0	6.9	4.5	6.5	5.5	5.2	0.3	8.3	3.3	2.6	2.8
Brazil	2.7	1.0	2.5	0.3	1.4	6.5	5.8	5.9	6.2	6.0	-2.1	-2.4	-3.6	-3.5	-3.6
Chile	5.8	5.5	4.2	2.0	3.3	4.4	1.5	3.0	4.2	3.0	-1.2	-3.4	-3.4	-1.8	-1.4
Colombia	6.6	4.0	4.7	4.8	4.5	3.7	2.4	1.9	3.3	3.0	-2.9	-3.1	-3.3	-3.9	-3.8
Ecuador	7.8	5.1	4.5	4.0	4.0	5.4	4.2	2.7	3.0	3.0	-0.4	-0.4	-1.3	-0.8	-2.4
Guyana	5.4	4.8	5.2	3.3	3.8	3.3	3.4	0.9	4.3	4.3	-13.1	-11.6	-12.8	-14.6	-15.9
Paraguay	4.3	-1.2	13.6	4.0	4.5	4.9	4.0	3.7	5.1	5.0	0.5	-0.9	2.1	1.0	-1.1
Peru	6.5	6.0	5.8	3.6	5.1	4.7	2.6	2.9	2.9	2.2	-1.9	-3.3	-4.5	-5.2	-5.0
Suriname	5.3	4.8	4.1	3.3	3.8	15.3	4.4	0.6	3.8	3.2	5.8	3.4	-3.9	-3.6	-3.7
Uruguay	7.3	3.7	4.4	2.8	2.8	8.6	7.5	8.5	8.6	8.4	-2.9	-5.4	-5.6	-6.5	-6.4
Venezuela	4.2	5.6	1.3	-3.0	-1.0	27.6	20.1	56.2	69.8	55.9	8.2	3.7	5.0	7.6	6.4
Central America															
Belize	2.1	4.0	0.7	2.0	2.5	2.3	0.8	1.6	2.0	2.0	-1.1	-1.2	-4.5	-5.4	-6.2
Costa Rica	4.5	5.1	3.5	3.6	3.6	4.7	4.6	3.7	5.5	4.0	-5.4	-5.3	-5.1	-5.2	-5.3
El Salvador	2.2	1.9	1.7	1.7	1.8	5.1	0.8	0.8	2.0	2.0	-4.9	-5.3	-6.5	-6.5	-6.1
Guatemala	4.2	3.0	3.7	3.4	3.7	6.2	3.4	4.4	4.0	4.3	-3.4	-2.6	-2.7	-2.0	-2.2
Honduras	3.8	3.9	2.6	3.0	3.1	5.6	5.4	4.9	6.8	5.5	-8.0	-8.6	-9.0	-8.0	-7.3
Nicaragua	5.7	5.0	4.6	4.0	4.0	8.0	6.6	5.7	7.0	7.0	-12.8	-12.7	-11.4	-11.3	-11.4
Panama[5]	10.9	10.8	8.4	6.6	6.4	6.3	4.6	3.7	3.0	3.3	-15.9	-10.6	-11.9	-10.8	-10.6
The Caribbean															
Antigua and Barbuda	-1.9	3.6	1.8	1.9	1.7	4.0	1.8	1.1	1.4	2.0	-10.4	-13.8	-14.1	-15.3	-14.1
The Bahamas	1.1	1.0	0.7	1.2	2.1	3.2	0.7	0.8	1.4	4.4	-15.2	-18.2	-19.4	-16.6	-10.9
Barbados	0.8	0.0	-0.3	-0.6	0.5	9.5	2.4	1.1	2.5	2.0	-12.8	-9.5	-10.4	-8.8	-8.0
Dominica	0.2	-1.1	0.8	1.4	1.2	2.0	2.0	-1.7	2.4	1.0	-14.5	-18.9	-16.6	-16.6	-15.2
Dominican Republic	2.9	2.7	4.6	5.3	4.2	7.8	3.9	3.9	4.5	4.0	-7.5	-6.6	-4.0	-4.1	-4.6
Grenada	0.8	-1.8	1.5	1.1	1.2	3.5	1.8	-1.2	1.7	1.6	-21.8	-19.2	-27.1	-23.8	-20.6
Haiti[6]	5.5	2.9	4.3	3.8	3.7	10.4	6.5	4.5	5.8	6.0	-4.3	-5.7	-6.7	-6.8	-5.9
Jamaica	1.4	-0.5	0.2	1.1	1.8	6.0	8.0	9.5	8.1	7.8	-13.4	-13.0	-11.1	-8.3	-6.5
St. Kitts and Nevis	-1.9	-0.9	3.8	3.5	3.2	2.8	0.1	0.4	0.9	1.8	-15.5	-11.9	-9.0	-13.5	-18.1
St. Lucia	1.3	-1.3	-2.3	-1.1	1.4	4.8	5.0	-0.7	1.8	3.1	-18.8	-14.0	-8.8	-8.9	-11.0
St. Vincent and the Grenadines	0.3	1.5	2.3	1.7	2.6	4.7	1.0	0.0	2.2	1.7	-29.4	-27.8	-29.2	-32.7	-30.2
Trinidad and Tobago	-2.6	1.2	1.6	2.3	2.1	5.3	7.2	5.6	3.7	2.4	12.4	5.0	11.8	11.9	11.2
Memorandum:															
Latin America and the Caribbean (LAC)	**4.5**	**2.9**	**2.7**	**1.3**	**2.2**	**6.7**	**5.4**	**7.5**	**8.3**	**7.2**	**-1.4**	**-1.9**	**-2.7**	**-2.5**	**-2.6**
Financially integrated LAC[7]	5.5	4.0	3.8	2.7	3.5	5.3	3.9	4.4	4.9	4.3	-2.0	-3.2	-3.8	-3.8	-3.7
Other commodity exporters[8]	6.0	3.1	5.8	1.7	2.2	11.2	8.2	17.3	20.8	17.3	1.6	2.1	1.7	1.9	0.9
CAPDR[9]	4.9	4.6	4.1	3.9	3.8	6.2	4.2	3.9	4.7	4.3	-8.3	-7.4	-7.2	-6.8	-6.8
Caribbean															
Tourism dependent[10]	0.2	0.1	0.9	1.1	1.7	4.5	2.5	1.0	2.5	2.8	-16.9	-16.3	-16.2	-16.1	-15.0
Commodity exporters[11]	2.6	3.7	2.9	2.7	3.0	6.5	3.9	2.2	3.4	3.0	1.0	-1.1	-2.4	-2.9	-3.6
Eastern Caribbean Currency Union (ECCU)[12]	-0.2	0.1	0.6	0.9	1.7	4.1	2.3	0.0	1.5	2.1	-18.0	-17.6	-16.7	-16.4	-16.3

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

[1] Regional aggregates are purchasing-power-parity GDP-weighted averages unless otherwise noted. Current account aggregates are U.S. dollar nominal GDP weighted averages. CPI series exclude Argentina. Consistent with the IMF, *World Economic Outlook,* the cut-off date for the data and projections in this table is September 19, 2014.

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

[3] The data for Argentina are officially reported data as revised in May 2014. On February 1, 2013, the IMF issued a declaration of censure, and in December 2013 called on Argentina to implement specified actions to address the quality of its official GDP data according to a specified timetable. On June 6, 2014, the Executive Board recognized the implementation of the specified actions it had called for by end-March 2014 and the initial steps taken by the Argentine authorities to remedy the inaccurate provision of data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the Fund's legal framework.

[4] Consumer price data from January 2014 onward reflect the new national CPI (IPCNu), which differs substantively from the preceding CPI (the CPI for the Greater Buenos Aires Area, CPI-GBA). Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNu data cannot be directly compared to the earlier CPI-GBA data. Because of this structural break in the data, staff forecasts for CPI inflation are not reported in the Fall 2014 World Economic Outlook. Following a declaration of censure by the IMF on February 1, 2013, the public release of a new national CPI by end-March 2014 was one of the specified actions in the IMF Executive Board's December 2013 decision calling on Argentina to address the quality of its official CPI data. On June 6, 2014, the Executive Board recognized the implementation of the specified actions it had called for by end-March 2014 and the initial steps taken by the Argentine authorities to remedy the inaccurate provision of data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the Fund's legal framework.

[5] Ratios to GDP are based on the "1996-base" GDP series.

[6] Fiscal year data.

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

[8] Simple average of Argentina, Bolivia, Ecuador, Paraguay, and Venezuela. CPI series exclude Argentina.

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

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

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

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

Table 2. 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)				
	2011	2012	2013 Est.	2014 Projections	2015 Projections	2011	2012	2013 Est.	2014 Projections	2015 Projections	2011	2012	2013 Est.	2014 Projections	2015 Projections
North America															
Canada	42.3	41.5	41.2	40.8	40.6	-3.3	-2.8	-2.7	-2.1	-1.6	85.9	88.1	88.8	88.1	86.8
Mexico[2]	23.9	24.6	24.6	23.7	23.0	-1.0	-1.1	-1.3	-1.5	-1.4	43.2	43.2	46.4	48.0	49.0
United States[3]	36.1	35.0	34.0	34.2	33.6	-7.6	-6.3	-3.6	-3.4	-2.2	99.0	102.5	104.2	105.6	105.1
South America															
Argentina[4]	30.2	32.2	34.8	36.6	36.6	-0.4	-0.5	-0.7	-1.2	-1.7	35.9	37.6	41.0	48.9	54.2
Bolivia[5]	34.1	35.0	37.5	38.5	37.1	2.1	2.8	1.6	0.5	0.9	34.7	33.4	32.6	29.8	27.1
Brazil[6]	32.3	33.9	34.6	35.1	33.7	3.1	2.1	1.9	1.3	2.0	64.7	68.2	66.2	65.8	65.6
Chile	22.7	23.1	23.2	23.7	24.1	1.5	0.8	-0.6	-1.6	-1.0	11.1	12.0	12.8	13.9	14.6
Colombia[7]	25.9	25.6	26.6	26.8	26.8	-0.1	1.6	1.2	0.8	0.9	35.7	32.0	35.8	34.0	33.1
Ecuador	38.5	39.8	43.3	42.0	41.8	0.6	-0.3	-3.7	-3.1	-3.2	18.3	21.3	24.4	27.0	30.0
Guyana[8]	29.1	30.1	29.9	30.8	31.7	-1.5	-3.5	-3.2	-2.4	-2.0	65.2	62.6	56.9	57.8	58.9
Paraguay	20.4	24.3	21.9	21.6	22.0	1.4	-1.0	-0.4	-0.3	0.7	11.5	14.1	14.2	18.5	17.7
Peru	18.8	19.2	20.5	20.7	21.5	3.1	3.1	1.7	0.6	0.7	23.2	21.2	20.0	19.3	19.2
Suriname[9]	25.5	28.9	29.2	27.2	27.0	1.5	-3.0	-5.4	-2.5	-1.9	20.4	22.2	29.8	33.5	36.1
Uruguay[10]	26.8	28.7	30.1	30.4	29.7	2.0	-0.2	0.4	-0.4	0.0	59.0	59.5	62.1	66.4	67.3
Venezuela	37.3	37.3	35.0	39.8	39.4	-9.4	-13.8	-11.9	-10.7	-11.8	43.3	46.0	52.1	46.2	41.3
Central America															
Belize[8]	25.4	25.1	26.6	27.4	26.8	2.3	1.3	1.0	1.0	1.0	79.4	75.1	75.8	76.6	75.9
Costa Rica[8]	15.7	16.0	16.5	16.5	16.7	-1.9	-2.3	-2.8	-3.1	-3.1	30.6	35.1	36.0	38.7	42.3
El Salvador[11]	19.3	19.6	19.7	20.0	20.1	-1.9	-1.7	-1.2	-1.8	-1.8	50.0	55.2	55.5	57.7	59.9
Guatemala[8]	12.9	12.5	12.2	11.8	11.9	-1.3	-0.9	-0.6	-0.6	-0.7	23.7	24.3	24.6	24.8	25.3
Honduras	24.8	25.4	28.3	27.8	27.0	-3.0	-4.3	-7.1	-5.2	-3.9	32.5	34.8	43.5	46.6	49.4
Nicaragua[11]	20.8	21.9	22.3	22.7	23.1	0.7	0.1	-0.5	-0.8	-0.8	32.7	31.5	30.9	29.9	29.0
Panama[12]	24.5	24.5	25.5	25.1	24.2	0.0	0.0	-1.0	-2.0	0.0	43.8	42.6	41.6	42.8	42.5
The Caribbean															
Antigua and Barbuda[13]	22.0	18.7	20.3	18.9	18.6	-1.5	1.1	-1.6	1.6	3.2	92.4	87.1	94.3	97.2	92.9
The Bahamas[8]	20.1	21.2	20.5	19.8	19.5	-1.9	-3.3	-4.2	-2.5	-1.7	44.9	48.4	56.3	60.1	61.6
Barbados[14]	36.0	40.4	40.1	37.0	36.0	0.6	-4.0	-7.8	-3.5	-2.1	76.5	86.2	97.2	102.0	103.9
Dominica[13]	33.7	33.9	32.0	32.6	32.2	-2.9	-3.4	-0.9	-1.0	-0.8	69.7	73.3	75.1	75.6	75.7
Dominican Republic[11]	13.8	17.9	15.8	15.2	15.1	-1.0	-4.2	-1.2	-0.3	-0.6	25.1	29.5	33.5	35.5	36.9
Grenada[13]	25.8	22.7	25.1	27.4	23.5	-2.2	-2.0	-3.7	-2.4	1.3	100.9	103.1	109.8	111.3	110.2
Haiti[8]	25.1	27.8	27.0	24.7	24.6	-3.2	-4.4	-6.2	-5.2	-4.2	12.0	16.4	21.3	24.5	29.9
Jamaica[13]	22.4	20.3	19.5	19.2	18.6	3.2	5.4	7.6	7.6	7.5	141.7	146.5	141.6	139.9	131.4
St. Kitts and Nevis[13]	30.2	27.0	30.2	29.8	29.6	6.4	9.0	15.7	8.2	3.5	151.7	137.3	103.1	86.2	80.1
St. Lucia[13]	29.7	30.7	27.7	27.8	27.9	-3.5	-5.8	-2.1	-2.2	-2.7	67.0	74.1	79.6	84.6	89.0
St. Vincent and Grenadines[13]	31.9	26.3	28.8	31.7	29.5	-5.3	-0.3	-4.1	-5.1	-3.5	67.7	72.2	74.0	78.1	80.3
Trinidad and Tobago	33.6	30.7	33.4	30.9	32.4	1.8	1.4	-0.6	1.6	-0.7	33.4	37.2	30.7	30.5	33.9
Memorandum:															
Latin America and the Caribbean (LAC)	**29.2**	**29.9**	**30.3**	**30.5**	**29.8**	**0.8**	**0.0**	**-0.1**	**-0.5**	**-0.2**	**48.7**	**49.3**	**49.9**	**50.6**	**51.1**
Financially integrated LAC[15]	25.0	25.8	26.6	26.7	26.4	1.4	1.0	0.5	-0.1	0.2	39.5	39.3	40.6	41.2	41.5
Other commodity exporters[16]	32.1	33.7	34.5	35.7	35.4	-1.1	-2.6	-3.0	-3.0	-3.0	28.7	30.5	32.9	34.1	34.1
CAPDR[17]	18.8	19.7	20.0	19.9	19.7	-1.2	-1.9	-2.1	-1.9	-1.6	34.0	36.2	37.9	39.4	40.7
Caribbean															
Tourism dependent[18]	28.0	26.8	27.1	27.1	26.2	-0.8	-0.4	-0.1	0.1	0.5	90.3	92.0	92.3	92.8	91.7
Commodity exporters[19]	28.4	28.7	29.8	29.0	29.5	1.0	-1.0	-2.1	-0.6	-0.9	49.6	49.3	48.3	49.6	51.2
Eastern Caribbean Currency Union (ECCU)[13,20]	27.7	26.3	27.4	28.0	29.7	-0.6	-0.3	0.2	-0.7	-3.4	86.0	86.2	85.4	85.8	88.1

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

[1] Definitions of public sector accounts vary by country, depending on country-specific institutional differences, including on what constitutes the appropriate coverage from a fiscal policy perspective, as defined by the IMF staff. All indicators reported on fiscal year basis. Regional aggregates are purchasing-power-parity GDP-weighted averages, unless otherwise noted. Consistent with the IMF, *World Economic Outlook,* the cut-off date for the data and projections in this table is September 19, 2014.

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

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

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

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

[6] 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. The national definition of nonfinancial public sector 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, gross debt amounted to 57.2 percent of GDP at end-2013.

[7] 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.

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

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

[10] Consolidated public sector.

[11] General government.

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

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

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

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

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

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

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

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

[20] Eastern Caribbean Currency Union 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.