2. Latin America and the Caribbean: Managing Transitions

As the global recovery continues to struggle to gain its footing, growth in Latin America and the Caribbean is expected to be negative for the second consecutive year in 2016. The regional recession masks the fact that most countries continue to grow, modestly but surely, with the contraction driven by developments in a few others. While the external environment has had a differentiated impact on the region—with South America heavily affected by the decline in commodity prices and Mexico, Central America, and the Caribbean benefiting from the U.S. recovery and, in most cases, lower oil prices—disparities in growth performance also reflect domestic factors. Countries with sound domestic fundamentals continue to adjust relatively smoothly, but domestic imbalances and rigidities have heavily amplified the effects of external shocks in others. In managing the transition to persistently lower commodity prices, policies should focus on preserving buffers and boosting long-term growth.

Diverse Growth Outcomes and Subdued Outlook

Global demand remains subdued, reflecting key transitions in the global economy related to the gradual slowdown and rebalancing in China, lower commodity prices, and tightened global financial conditions. Against this backdrop, economic activity in Latin America and the Caribbean has been hard hit and is projected to decline by 0.5 percent in 2016—marking two consecutive years of negative growth for the first time since the debt crisis of 1982–83 (Figure 2.1). The headline figure, however, masks the fact that many countries are handling the transition in an orderly fashion and continue to grow, modestly but surely, whereas a small number of economies—representing about half of the region's economy—face contracting output largely as a result of domestic factors. Overall, medium-term growth is likely to remain subdued; commodity exporters need to reallocate capital and labor out of resource-intensive sectors

Note: This chapter was prepared by S. Pelin Berkmen and Yan Carrière-Swallow, with Leo Bonato and Roberto Garcia-Saltos, and with contributions from Sebastian Acevedo, Natalija Novta, and Iulia Teodoru. Allan Dizioli, Keiko Honjo, and Ben Hunt provided model simulations for Box 2.2. Genevieve Lindow provided excellent research assistance, and Ehab Tawfik provided excellent support for Box 2.1.

Figure 2.1. Growth Outlook

1. Projected Growth, 2016[1]

2. Real GDP Growth[2] (Percent)

			Projections	
	2014	2015	2016	2017
LAC	**1.3**	**–0.1**	**–0.5**	**1.5**
South America	0.7	–1.4	–2.0	0.8
CAPDR	4.9	4.9	4.6	4.4
Caribbean				
Tourism-dependent	1.1	1.2	2.2	2.3
Commodity exporters	0.0	–0.9	–0.6	2.1
Memorandum items:				
LA6	1.4	–0.3	–0.3	1.6
Brazil	0.1	–3.8	–3.8	0.0
Mexico	2.3	2.5	2.4	2.6

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
[1]Historical average refers to the average growth from 2000–13.
[2]Purchasing-power-parity GDP-weighted averages. For country group information, see page 107.

and other economies need to replenish their capital stocks. Significant heterogeneity in growth outcomes across the region are driven by differing influences of external conditions and domestic fundamentals.

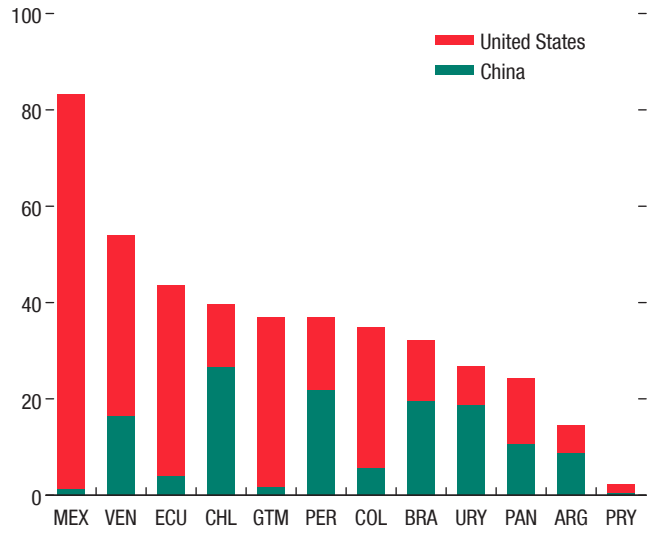
Worsening External Conditions

External conditions have worsened since October 2015, shaped by three factors:

- *Weak external demand.* The global recovery has turned out to be slower than expected, constraining demand for the region's exports and making external adjustment more difficult despite sizable depreciations (Box 2.1). On the one hand, the ongoing recovery in the United States, though slower than previously projected (Chapter 1), continues to support activity in Mexico, Central America, and the Caribbean. On the other hand, China's manufacturing-based slowdown has provoked a sharper decline in imports relative to the more modest deceleration of its GDP, reducing demand for the region's exports, and particularly for commodities (Figure 2.2).
- *Further declines in commodity prices* have added to the marked downturn that began in global metals markets during 2011 and in oil markets during 2014. The accumulated commodity terms-of-trade shock has been severe for some (Colombia, Ecuador, and Venezuela), smaller for others (Argentina[1] and Mexico), and positive for net oil importers in Central America and the Caribbean. Foregone income varies according to the relative importance of commodities in the economy, being very large for Venezuela (about 17 percent of GDP), sizable for Chile, Colombia, and Ecuador (4–7 percent of GDP), and smaller for Argentina and Brazil (Figure 2.3). These terms-of-trade shocks will likely be highly persistent, because commodity prices are expected to remain low for some time (Chapter 1).

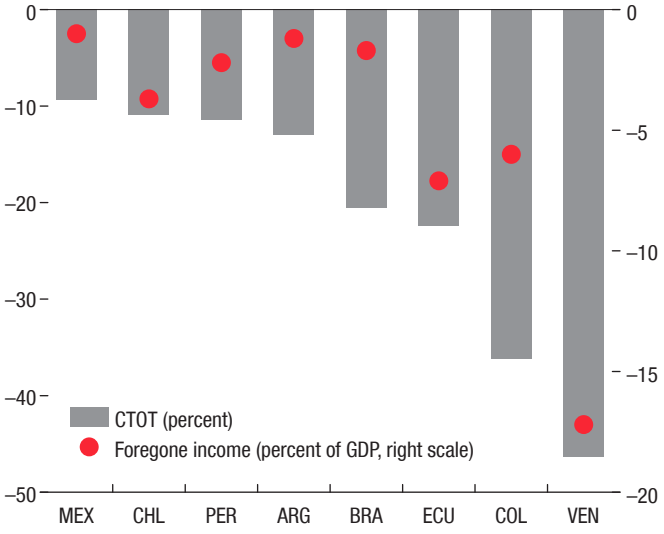
[1]See Annex 2.1.

Figure 2.2. Export Destinations, 2015
(Percent share of exports)



Source: IMF, Direction of Trade Statistics database.
Note: Data labels use International Organization for Standardization (ISO) country codes, see page 108.

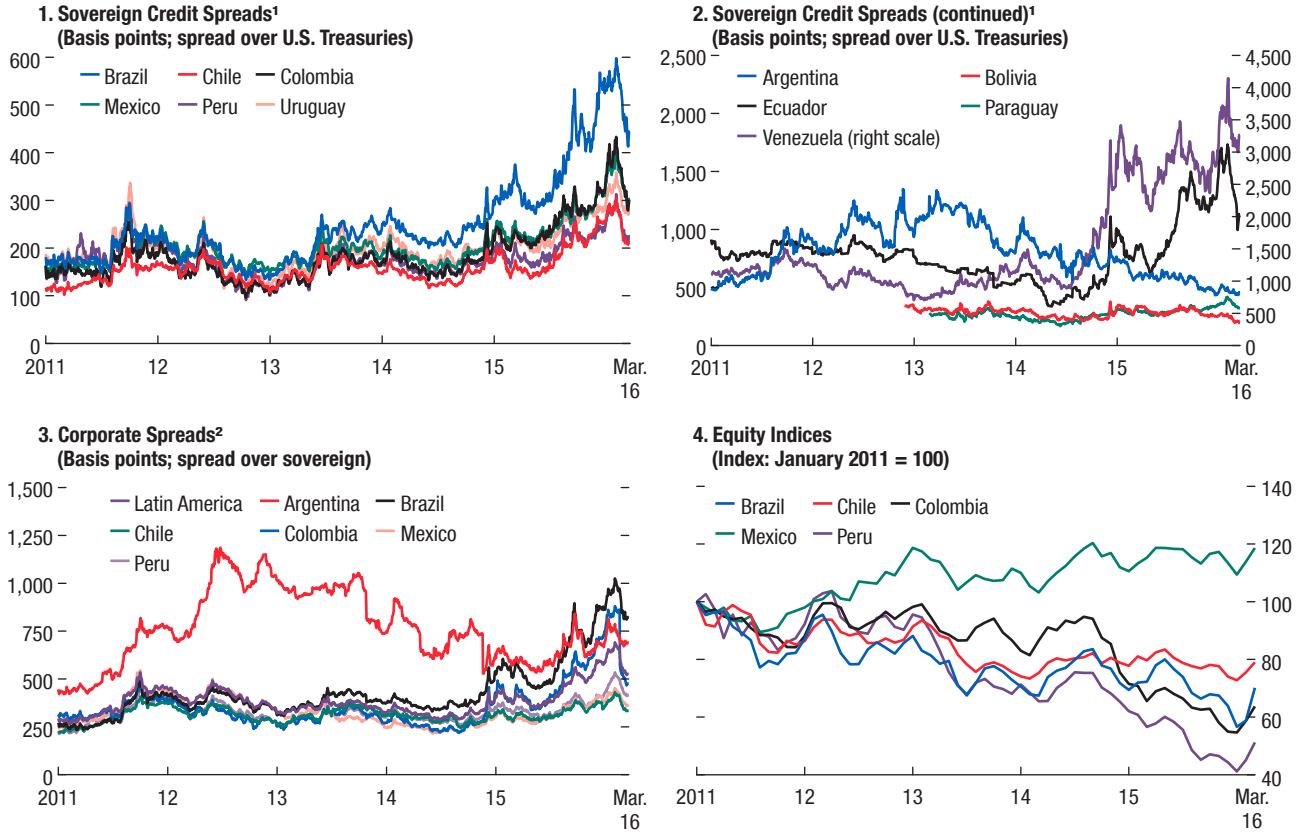
Figure 2.3. Decline in Commodity Terms of Trade and Foregone Income



Source: Gruss (2014).
Note: The chart shows the difference in average commodity terms of trade (CTOT) indices in 2015 vis-à-vis the peak values attained in 2010–15. CTOT indices are constructed using international prices for 45 commodities and lagged country- and commodity- specific net export values (see Gruss 2014). When net export values are scaled by nominal GDP, a 1 percent decline in the index can be interpreted approximately as an income loss of 1 percent of GDP. Data labels use International Organization for Standardization (ISO) country codes, see page 108.

Figure 2.4. Financial Market Conditions

Financial market volatility has increased



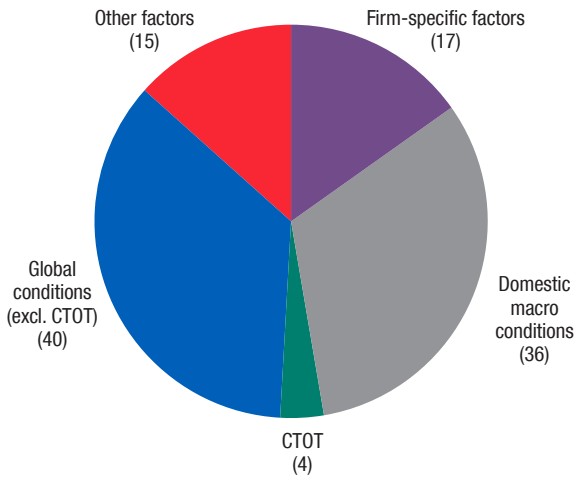
Sources: Bloomberg, L.P.; and IMF staff calculations.
[1]Refers to J.P. Morgan Emerging Market Bond Index Global; U.S.-dollar-denominated sovereign bonds.
[2]Refers to J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified; U.S.-dollar-denominated corporate bonds.

- *Volatile financial conditions*. Accommodative monetary policy and strong financial systems have been supporting financing conditions throughout the region, and the impact of the Federal Reserve rate hike has so far been limited. However, regional financial conditions tightened markedly in early 2016, triggered by global financial market volatility and weaker growth prospects. In recent months, public and private funding costs have continued to fluctuate, including swings in sovereign and corporate spreads as well as equity prices, reflecting the impact of both global and domestic factors (Figure 2.4). About one-third of the rise in corporate spreads over 2015 can be explained by the increase in global volatility, and another third by increased sovereign risk and sharp depreciations, particularly for highly leveraged companies (Figure 2.5 and Chapter 3). Capital flows to the region have been more resilient than those to other emerging market economies (April 2016 *World Economic Outlook*, Chapter 2), but their volatility has increased, with declines that were seen in 2015 reversing since late February (Figure 2.6).

Wide Variation in External Adjustments

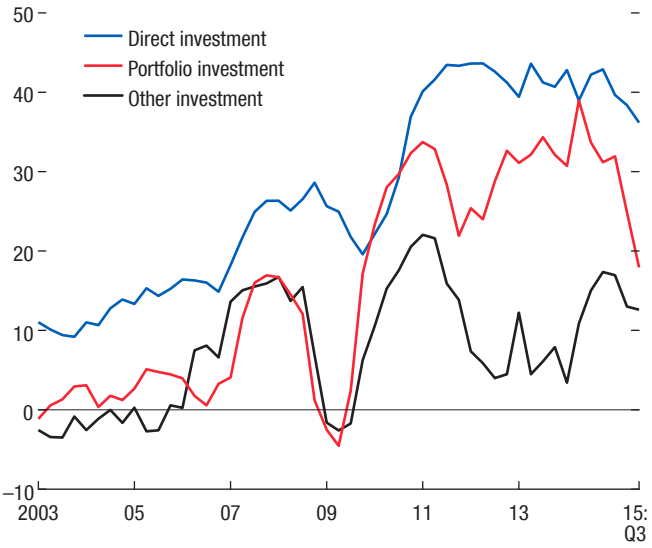
In the face of changing external conditions, many countries have continued to experience exchange rate adjustments (Figure 2.7). A few distinguishing characteristics of the current episodes stand out: (1) in some cases, recent depreciations against the

Figure 2.5. Contribution to Changes in Corporate-Implied CDS Spreads, 2014:Q3–15:Q3
(Basis points)



Source: Caceres and Rodrigues Bastos (2016).
Note: The total increase of 113 basis points between 2014:Q3 and 2015:Q3 corresponds to the average increase across firms in Argentina, Brazil, Chile, Colombia, Mexico, Panama, and Peru. CDS = credit default swap; CTOT = commodity terms of trade.

Figure 2.6. Gross Capital Flows: Liabilities
(Billions of U.S. dollars; four-quarter moving average)



Sources: IMF, Balance of Payments Statistics Yearbook database; and IMF staff calculations.
Note: Total of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

U.S. dollar have been among the largest in decades, far exceeding those that followed the global financial crisis in size and persistence; (2) in real effective terms these depreciations have been more pronounced for some (such as Brazil and Colombia), where they are among the largest and most sustained episodes since the early 1980s (see Box 2.1, Figure 2.1.1); and (3) in many cases, depreciations can be attributed mostly to deteriorating terms of trade and external demand (Box 2.1).

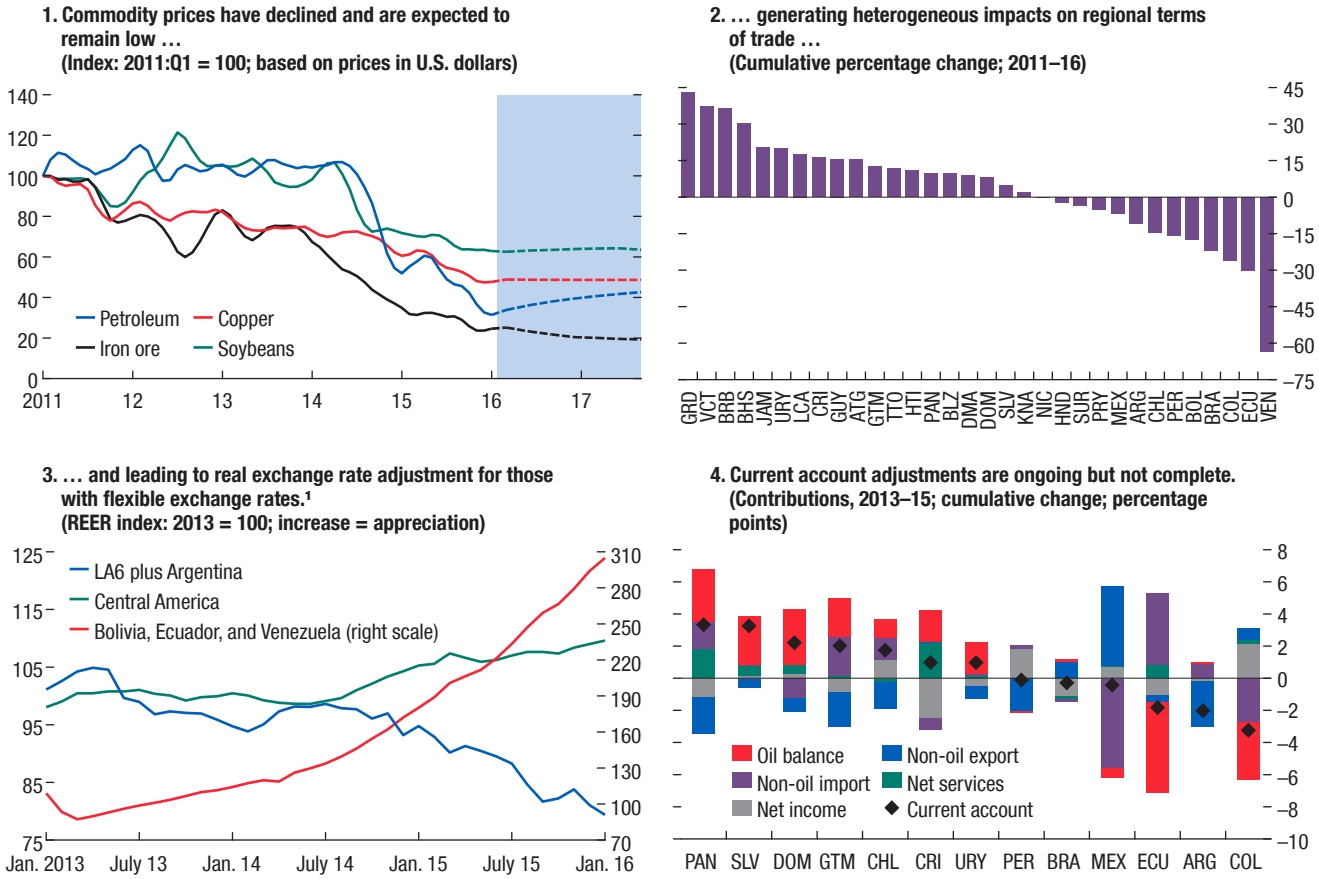
Current account deficits remain large in many economies, including for the region as a whole. While Chile stands out as an example of relatively swift external adjustment following successive shocks, external positions in some countries have deteriorated since 2013 and will likely require further adjustment in the medium term to preserve external buffers (Figure 2.8).

The contribution of net exports to growth is increasingly positive, but this partly reflects import compression, with exports remaining relatively modest for most countries, due in part to weak partner demand (Figure 2.9). Historically, exports from the region tend to respond markedly to changes in external demand, in some cases declining about one for one after one year (Box 2.1). While the weak global outlook is projected to continue weighing on external demand for South American exports, depreciated currencies are expected to provide some boost this year. Overall, persistently low commodity prices, a fragile global growth outlook, large current account deficits, and initial signs of declining inflows make it likely that downward pressure on exchange rates will continue.

Domestic Fundamentals Have Weighed on Economic Prospects

Although external conditions weigh on the regional outlook, growth outcomes have varied widely across countries, depending on domestic factors. In certain countries, the slowdown in growth can largely be accounted for by the terms-of-trade shock. In these cases, a relatively smooth adjustment reflects improvements to policy frameworks that were implemented over the past 20 years, which solidified domestic price stability while permitting increased exchange rate flexibility

Figure 2.7. External Adjustment



Sources: IMF, Information Notice System database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Central America = Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama; REER = real effective exchange rate. For International Organization for Standardization (ISO) country codes used in data labels, see page 108. For country group information, see page 107.
[1]Purchasing-power-parity GDP-weighted averages.

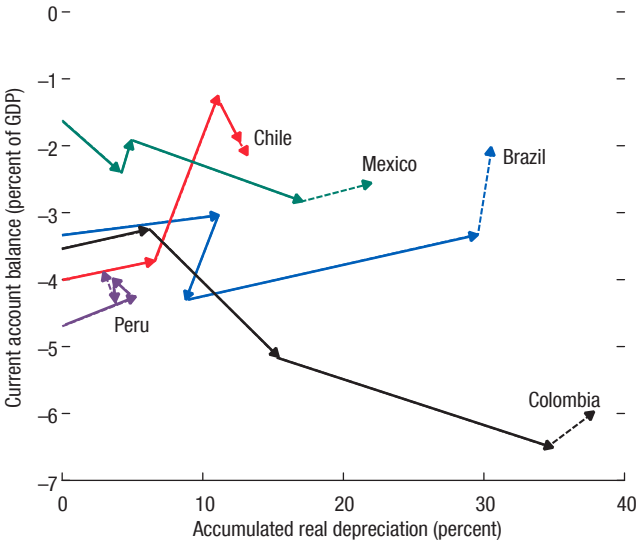
and sustainable fiscal policy with the space to respond to external shocks. These credible monetary and fiscal frameworks have allowed Chile, Colombia, Mexico, and Peru to implement countercyclical policies anchored by medium-term consolidation strategies, smoothing the impact of external shocks on growth (Figure 2.10).

However, in a handful of cases, domestic factors have been the main source of sharp declines in private demand—particularly investment (Figure 2.11). Various domestic factors contributed to heightened uncertainty and suppressed private domestic demand, including: (1) in Brazil, deteriorating fiscal dynamics amid inconsistent policy signals and difficulties implementing adjustment, tighter financing conditions, sharp overdue increases in energy prices to correct prior policy errors, and political uncertainty; (2) in Venezuela, long-standing policy distortions and fiscal imbalances; and (3) in Ecuador, macroeconomic policy rigidities.

Business and consumer confidence in the region remain low, weighing heavily on domestic demand. But on the positive side, relatively tight labor markets—as indicated by low unemployment rates (except for Brazil)—continue to support consumption (Figure 2.12). Although real wages have been declining as a result of rising inflation, the next round of wage negotiations could reverse this trend in some cases.

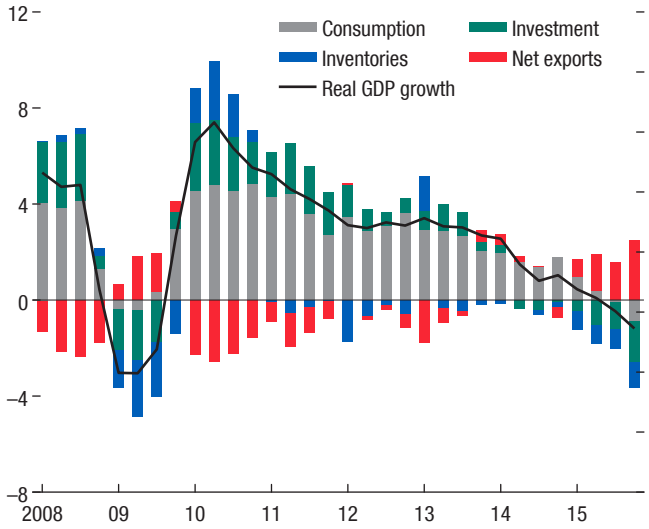
Trends for real sector credit growth have diverged across countries, slowing for some and remaining

Figure 2.8 REER Depreciation and Current Account Balance



Sources: IMF, Information Notice System database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Each arrow represents movements over a calendar year since the peak of the real exchange rate in 2013. The dashed lines correspond to forecasts for 2016. REER = real effective exchange rate.

Figure 2.9. Contributions to Real GDP Growth
(Year-over-year percent change)



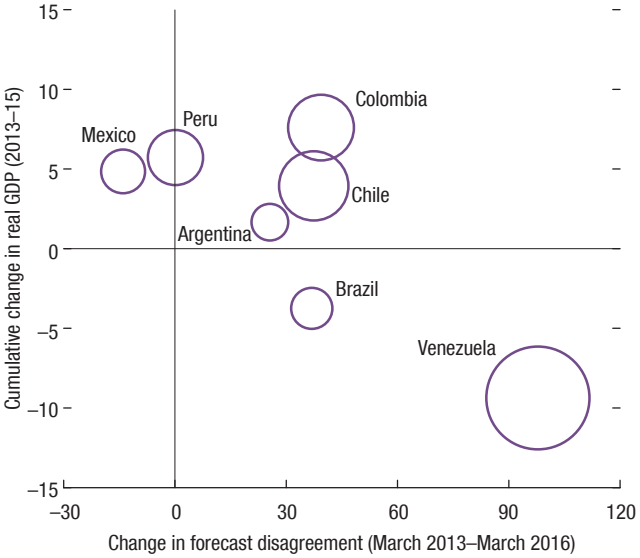
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Seasonally adjusted. Purchasing-power-parity GDP-weighted averages of Brazil, Chile, Colombia, Honduras, Mexico, Nicaragua, Paraguay, and Peru. Inventories include statistical discrepancies.

robust for others, but on average private sector credit relative to GDP remains above its long-term trend, except for Brazil (Figure 2.13). Overall, nonperforming loans have remained low, despite the pickup in some countries.

Risks Are Tilted to the Downside

The region remains particularly vulnerable to a *stronger-than-expected slowdown in China*—the destination for 15 percent to 25 percent of exports from Brazil, Chile, Peru, Uruguay, and Venezuela—and to further declines in commodity prices. A slowdown in China would contribute to lower commodity prices and increase corporate risks across the region (Chapter 3). Indeed, bouts of turbulence since mid-2015 underscores the risk that China's needed transition path to more balanced growth could be bumpy, leading to spillovers through trade, commodity prices, and financial channels. If such a slowdown translates into a reevaluation of emerging market growth prospects and an increase in global risk aversion, regional risk premiums could increase, and the decline in capital inflows could accelerate, given growing financial

Figure 2.10. Real GDP Growth, Disagreement, and Commodity Terms of Trade
(Percent change)

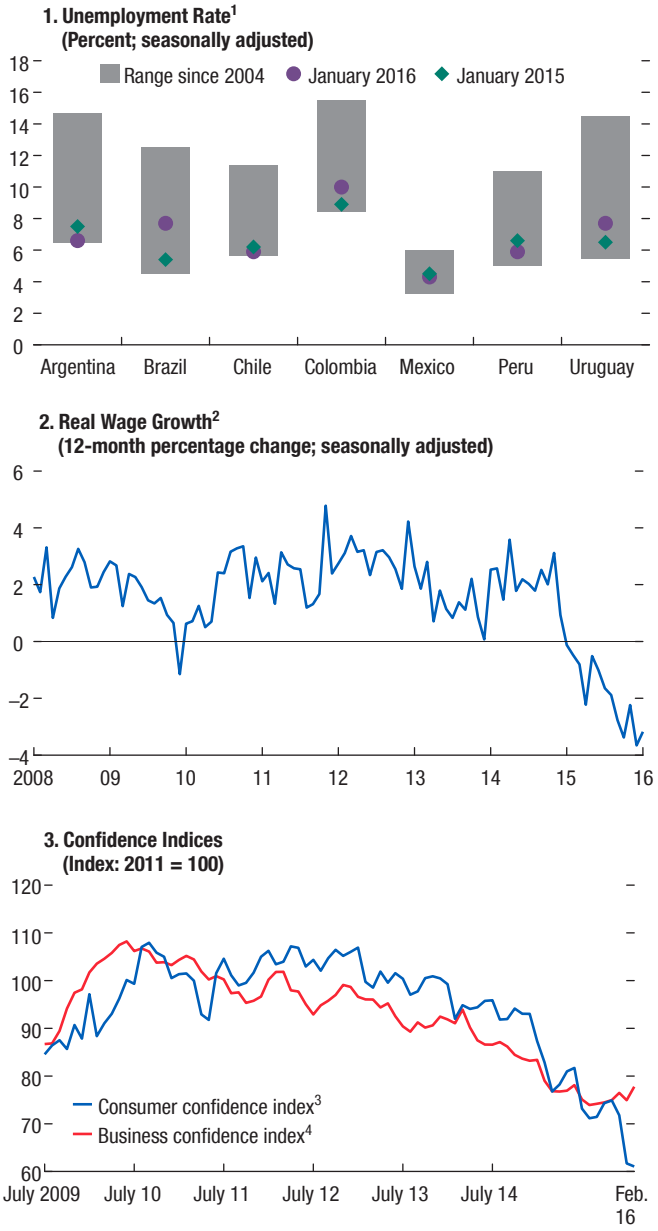


Sources: Consensus Forecasts; Gruss (2014); IMF, World Economic Outlook database; and IMF staff calculations.
Note: Bubble size refers to the change in commodity terms of trade since the 2011–15 peak. Forecast disagreement refers to the standard deviation across individual forecasts for real GDP growth at a fixed 12-month horizon, based on survey data reported by Consensus Forecasts.

Figure 2.11. Change in Private Investment, 2011–15
(Percentage points of GDP)

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

Figure 2.12. Domestic Indicators



Sources: Haver Analytics; and IMF staff calculations.
[1]Argentina's data refer to June 2015 and June 2014.
[2]Purchasing-power-parity GDP-weighted average of Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Uruguay. Peru data are minimum wage real index.
[3]Purchasing-power-parity GDP-weighted average of Brazil, Chile, Colombia, and Mexico.
[4]Purchasing-power-parity GDP-weighted average of Brazil, Chile, Colombia, Mexico, and Peru.

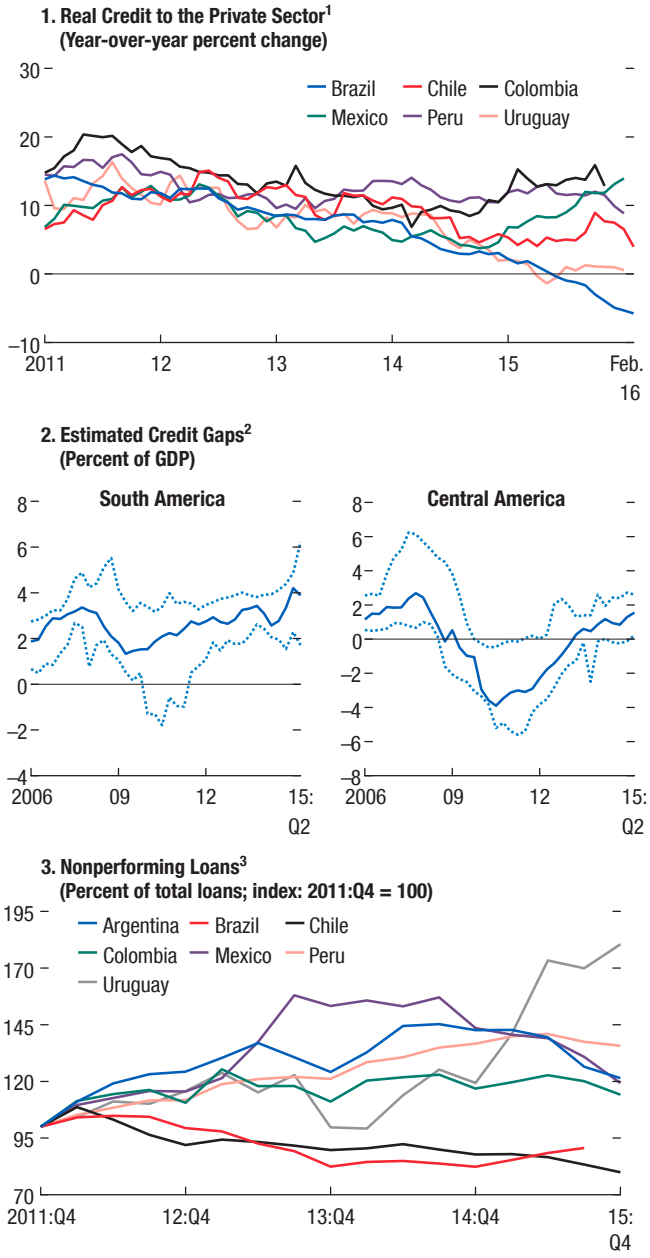
spillovers from China (see the April 2016 *Global Financial Stability Report*, Chapter 2). A scenario analysis incorporating these factors suggests that regional growth could be lower by about half a percentage point if these risks materialize (Box 2.2).

A further deterioration of the situation in *Brazil* could lead to a sudden repricing of regional assets, reduced demand for exports among trading partners in the region (in particular Argentina, Paraguay, and Uruguay), and higher risk premiums. Similarly, a meltdown in *Venezuela* could increase financing needs for some countries in Central America and the Caribbean (for example, Grenada, Haiti, Jamaica, and Nicaragua) through oil cooperation agreements and reduced export revenue. Trade flows to neighboring countries and other trading partners may also be affected. These effects could be partly mitigated by low global oil prices and relatively limited trade linkages.

The investment recovery could be slower than projected if tighter financial conditions and lower growth prospects lead to balance sheet adjustments among companies that are increasingly indebted in foreign currency (Figure 2.14). Although corporations have weathered growth slowdowns, commodity price declines, and sharp depreciations so far—helped by increased use of currency hedging strategies—margins have been stretched thin. Going forward, high global financial volatility, increasing sovereign spreads, low commodity prices, and sharp exchange rate depreciations could contribute to further

Figure 2.13. Credit Developments

Diverse trends in credit growth, and no immediate pressures from nonperforming loans.



Sources: Haver Analytics; IMF, International Financial Statistics database; national authorities; and IMF staff calculations.
Note: South America = Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela; Central America = Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama.
[1]Deflated by consumer price index inflation.
[2]Solid blue line shows the median, dotted lines show the 25th and 75th percentiles of estimated credit gaps across individual countries in each regional group.
[3]The increase in nonperforming loans (NPLs) in Uruguay is from a low base, and NPLs currently stand at 2.3 percent of total loans.

increases in corporate risk and the cost of capital, particularly for commodity-related companies (Chapter 3).

Corporate sector vulnerabilities and sharp growth slowdowns could create stress in the financial sector. While there are no immediate pressures from nonperforming loans in most countries, weak economic activity, the ongoing slowdown in credit growth in some countries, continued large depreciations, high global financial volatility, and increasing sovereign spreads could reduce wholesale funding, raise banks' funding costs, and reduce their asset quality and profitability (Figure 2.13).

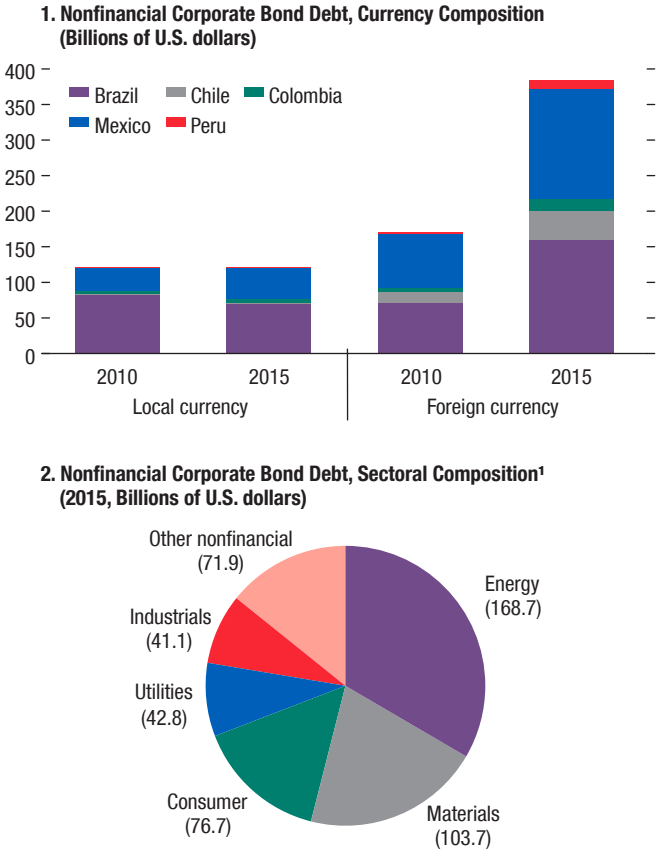
Policy Challenges and Trade-Offs

Potential growth is likely to remain much lower than in 2000–12, particularly for those countries facing lower commodity prices and weak investment (Figure 2.15), where there is a need to reallocate labor and capital out of resource-intensive sectors. Such an adjustment is not easy, will take time, and is likely to come with its share of bumps and anxieties. Throughout, policies and economic reforms should be tailored to manage this transition. An assessment of whether this should involve supportive fiscal and monetary policy is clouded by the uncertainty surrounding estimates of the output gap during a period of declining potential growth. While the estimated output gaps in most cases remain negative, labor market indicators show limited slack in many cases, and inflation has repeatedly surprised to the upside.

Where further accommodation might be warranted, policy space is limited (Figure 2.16). In particular, fiscal policy space is constrained by a combination of (1) high debt levels, (2) lower commodity revenues that are not expected to recover, (3) increases in primary expenditures during the commodity boom, (4) higher financing costs, and (5) a fiscal stance that requires adjustment to stabilize public debt. Even though inflation rates have been persistently above target

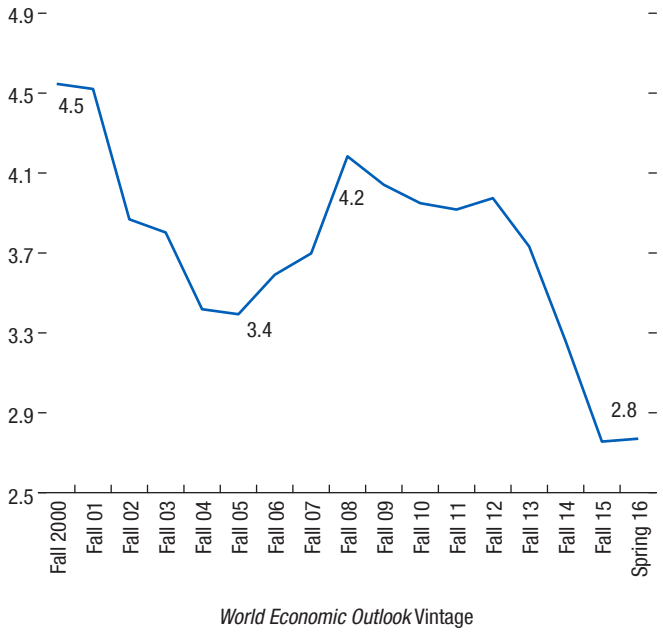
Figure 2.14. Corporate Bond Debt

Corporate leverage has increased and is concentrated in commodity-based sectors



Sources: Bloomberg, L.P.; Dealogic; and IMF staff calculations.
[1]Includes Brazil, Chile, Colombia, Mexico, and Peru.

Figure 2.15. Estimates of Medium-Term Growth by Forecast Vintage, 2000–16
(Percent)



Source: IMF, World Economic Outlook database.
Note: Reflects projected real GDP growth for Latin America and the Caribbean for the last year ($t + 5$) of the forecast horizon.

in some countries, there is space to maintain accommodative monetary policy where medium-term inflation expectations remain well-anchored.

Fiscal policy: Since the global financial crisis, the use of expansionary policies has led to an increase in public debt. For commodity exporters, falling commodity prices have reduced revenues, adding to fiscal deficits (Figure 2.17). Projected trajectories for debt-to-GDP ratios have been revised upward repeatedly, partly reflecting downward growth surprises, a trend that could erode policy credibility, if it continues (Figure 2.18). Sovereign borrowing costs have increased somewhat across the region, reflecting higher debt levels (caused in part by the valuation effects of depreciations), fluctuations in global risk aversion, and weak growth prospects. Many countries have committed to medium-term consolidation plans, but primary balances are expected to remain below debt-stabilizing levels for some time. With space limited in most cases, the priority for fiscal policy is to preserve remaining fiscal buffers in countries with relatively low debt levels, and to consolidate further in more indebted countries. The speed of consolidation in each case will depend on the degree of remaining fiscal space, the need to preserve credibility, and the state of the business cycle.

Monetary and exchange rate policies: Exchange rate flexibility continues to be critical to helping economies adjust to persistently lower commodity prices. Most countries in the region have let their currencies adjust to the terms-of-trade shock, while in a few cases exchange rate rigidities have led to appreciations in real effective terms (for example, Bolivia, Ecuador, and Venezuela). But depreciations

Figure 2.16. Policy Space in Latin America

No policy space ● Unclear case ● Policy space ●

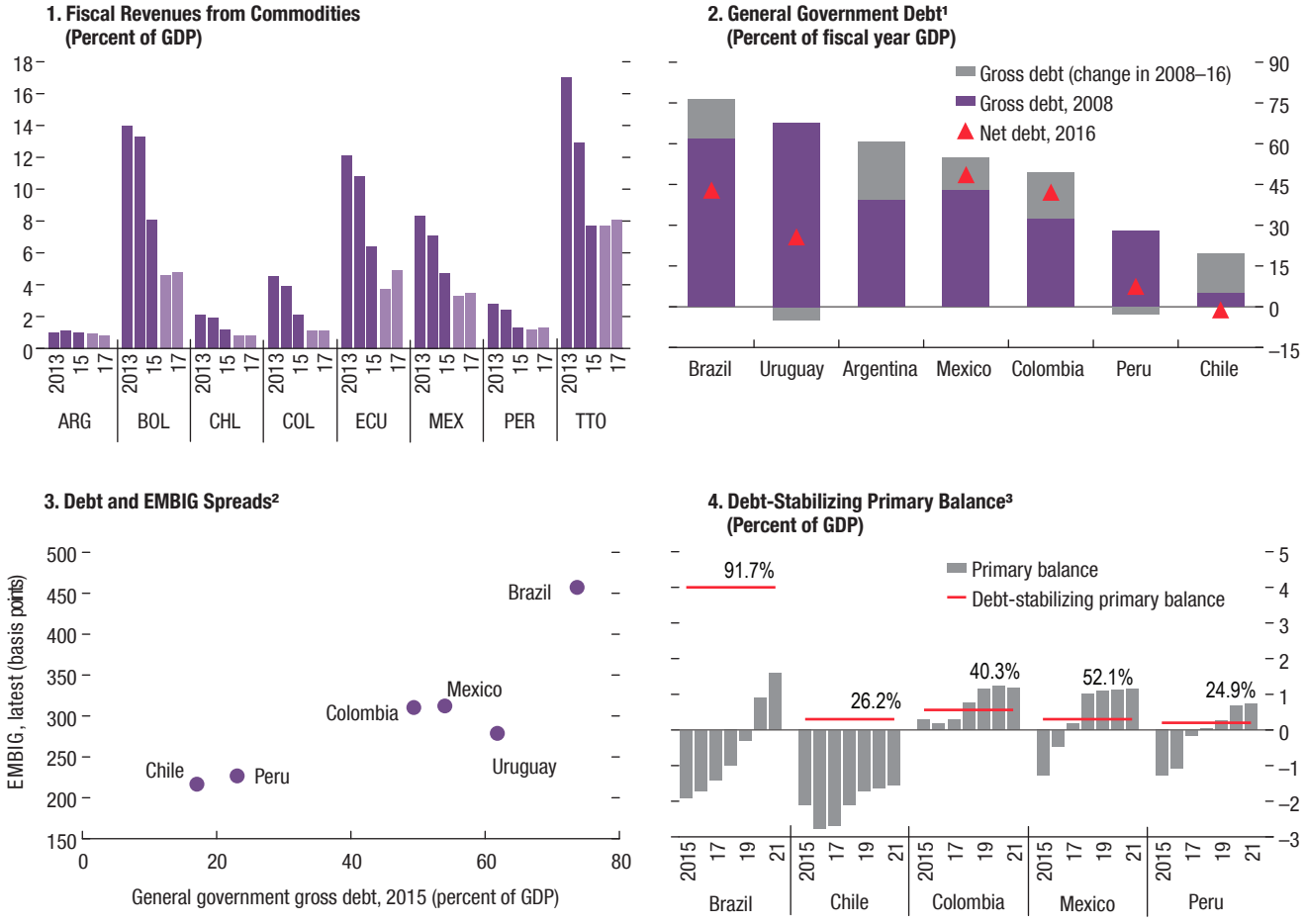
	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Paraguay	Peru	Uruguay	Venezuela	Mexico	Dominican Republic	Guatemala
Fiscal Policy Space[1]													
2015 General government gross debt (percent of GDP)[2]	●	●	●	●	●	●	●	●	●	●	●	●	●
2015 Primary balance gap (percent of GDP)[3]	●	●	●	●	●	●	●	●	●		●	●	●
Change in EMBIG spread, 2010 to latest[4]	●		●	●	●	●	●	●	●	●	●	●	●
Monetary Policy Space[5]													
Latest inflation rate	●	●	●	●	●		●	●	●	●	●	●	●
Short-term expectations													
2017 Consensus Forecast	●		●	●	●		●	●	●	●	●	●	●
One-year market-based inflation (breakeven rate)			●	●							●		
Medium-term expectations													
Three-year Consensus Forecasts	●		●	●	●			●		●	●		
Five-year market-based inflation (breakeven rate)			●	●							●		
Memorandum:													
Monetary policy rate[6]													
Latest	34.0	…	14.3	3.5	6.5	…	6.0	4.3	…	…	3.8	5.0	3.0
Number of hikes since September 2015	…	…	0	2	7	…	1	4	…	…	2	0	0
Cumulative change since September 2015	8.2	…	0.0	0.5	2.0	…	0.3	1.0	…	…	0.8	0.0	–0.3
Ex ante real interest rate[7]	4.6	…	7.3	0.1	1.7	…	1.5	1.0	…	…	0.3	2.2	–0.6
Real neutral rate	…	…	7.5	1–1.5	2–2.5	…	2.5	2.5	…	…	…	3.2	1.5

Sources: Consensus Forecasts; Haver Analytics; IMF, World Economic Outlook database; and IMF staff estimates.
Note: EMBIG = J.P. Morgan Emerging Markets Bond Index Global.
[1]Based on a subset of indicators.
[2]For Argentina, federal government debt. For Dominican Republic, consolidated public sector debt. For Uruguay, general government gross debt includes central bank debt. Red: >49 percent of GDP; Yellow: 35–49 percent of GDP; Green: <35 percent of GDP.
[3]Debt-stabilizing primary balance is based on staff reports. Red: >1 percent of GDP; Yellow: 0–1 percent of GDP; Green: <0 percent of GDP.
[4]Red: >150 basis points; Yellow: 50–150 basis points; Green: <50 basis points. On average, for emerging markets, EMBIG spread has increased by 150 basis points for the relevant period.
[5]Red: above the inflation target range; yellow: within the target range but above the mid-point; green: below the mid-point.
[6]Argentina's monetary policy rate refers to the three-month Letras del Banco Central (LEBAC) rate.
[7]Difference between the monetary policy rate and the 12-month-ahead inflation expectation.

have created tensions for monetary policy, even for the region's most well-established inflation-targeting central banks. Although the pass-through from exchange rates to inflation has been declining over time, large, persistent, and recurring depreciations have placed upward pressure on consumer prices (Figure 2.19 and Chapter 4).

Inflation on average has increased—particularly for South America—and some central banks in the region face a trade-off. On the one hand, domestic demand is weak, with some uncertainty around output gaps, and fiscal policy space is limited or nonexistent. On the other hand, headline inflation is above target and expected to remain so in the near term. Central banks were able to postpone rate increases despite persistently above-target inflation, but they have recently tightened to ensure that medium-term inflation expectations remain anchored. Where central banks enjoy strong credibility and exchange rate pass-through is limited, monetary policy can remain accommodative if

Figure 2.17. Fiscal Outcomes and Policy

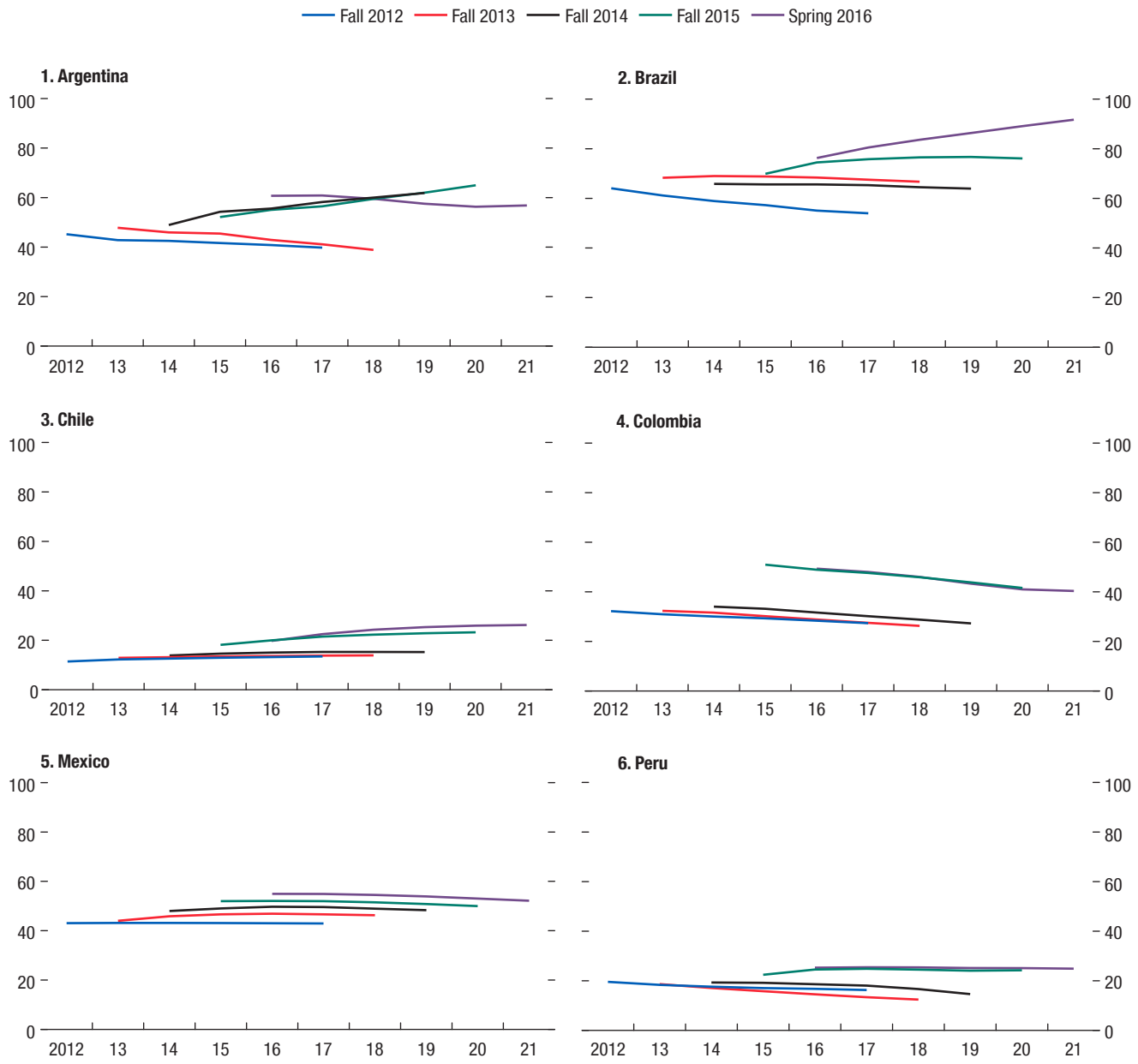


Sources: Bloomberg, L.P.; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: EMBIG = J.P. Morgan Emerging Market Bond Index Global. Data labels use International Organization for Standardization (ISO) country codes, see page 108.
[1]For definitions of government coverage, see Table 2.2.
[2]Latest EMBIG spreads data refer to March 2016 average.
[3]Number next to the red line refers to the 2021 debt-to-GDP ratio.

needed to support demand, so long as medium-term inflation expectations remain well anchored. However, where rising inflation risks de-anchoring long-term inflation expectations, monetary policy should be geared toward preserving central bank credibility and preempting the emergence of self-fulfilling expectations. In all cases, clear communication of the drivers of inflation and the central bank's policy reaction function is of utmost importance to anchor inflation expectations.

Financial policies: Continued vigilance in monitoring corporate balance sheets and asset quality of banks is warranted given rising corporate leverage, modest growth prospects, and high dollarization in certain countries. Although large depreciations have not led to stresses in the corporate debt market despite increased foreign currency exposure, deleveraging pressures will likely increase as a result of a protracted period of low growth and higher funding costs. Adequate consolidated supervision, in cases in which financial and nonfinancial companies are interlinked, is important. In that context, regulators should ensure adequate bank capital buffers to contain potential spillovers from

Figure 2.18. General Government Debt by *World Economic Outlook* Vintage
(Percent of fiscal year GDP)

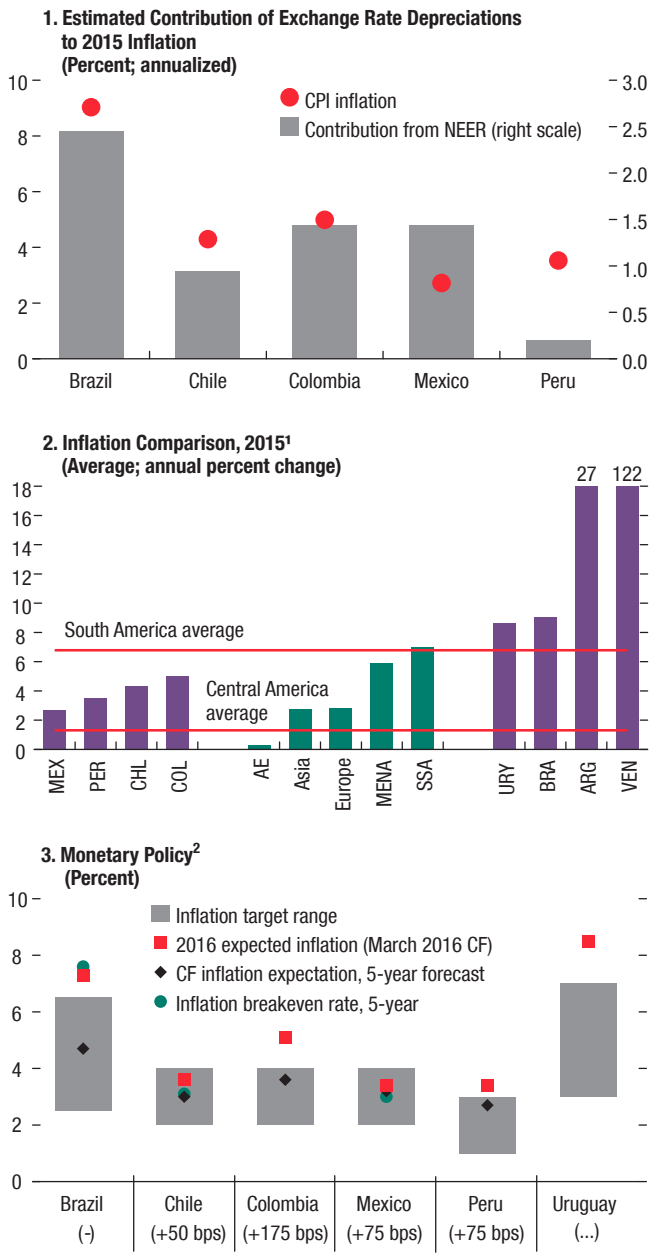


Source: IMF, World Economic Outlook database.

the corporate sector. These buffers could be supplemented by macroprudential tools to contain any potential buildup of risks related to currency mismatches. For countries with high nonperforming loans (for example, in the Eastern Caribbean Currency Union), continued efforts to clean bank balance sheets are important for maintaining financial stability and access to credit. In countries where the financial cycle is in its down phase, loosening of macroprudential tools could only be warranted if the health of the financial system is not put at risk.

Structural policies: Over the medium term, growth in Latin America and the Caribbean

Figure 2.19. Monetary Policy



Sources: Bloomberg, L.P.; Consensus Forecasts; Haver Analytics; national authorities; and IMF staff calculations.
Note: Asia = emerging and developing Asia; bps = basis points; CF = Consensus Forecasts; CPI = consumer price index; Europe = emerging and developing Europe; NEER = nominal effective exchange rate; MENA = Middle East and North Africa; SSA = sub-Saharan Africa. For International Organization for Standardization (ISO) country codes used in data labels, see page 108. For country group information, see page 107.
¹South America average excludes Venezuela. Argentina refers to Buenos Aires inflation.
²Numbers in parentheses refer to the change in policy rate between September 2015 and March 2016.

is expected to remain below historical trends. While underlying reasons vary across countries, there are common elements: (1) inadequate infrastructure networks (see Chapter 5), (2) shortcomings in quality of education, (3) relatively low export diversity and complexity, (4) inadequate financial market development, and (5) lower commodity prices for commodity exporters.[2] Structural policies aimed at resolving some of these bottlenecks could create synergies in raising potential output. Policies aimed at improving infrastructure include strengthening public investment management processes, improving regulatory frameworks to provide incentives for private participation, and deepening financial markets (Chapter 5). These policies can also help ensure energy availability and eliminate transport bottlenecks. Similarly, education policies supporting human capital can also improve export complexity and diversification. Policies targeted at bolstering property rights, an efficient legal system, good corporate governance, and lowering corruption would both increase financial depth and improve competitiveness, also contributing to further export diversification. In all cases, expectations should be realistic: previous experience shows that structural reforms targeted at product and labor markets do boost medium-term growth, but the benefits materialize gradually over time. Meanwhile, some structural reforms may impose short-term costs. Overall, speedy implementation of structural policies is key to addressing the region's declining potential growth, but careful consideration should be given to sequencing and building broad consensus around the priority of fostering sustainable, inclusive growth.

South America

Developments and Outlook

Most economies in South America are managing the transition to lower commodity prices in

[2]See *Regional Economic Outlook: Western Hemisphere*, April 2015 and October 2015; *World Economic Outlook*, October 2015 (Chapter 2) and April 2016 (Chapter 3); and Bruns and Luque (2015).

an orderly manner, with a policy mix that is supporting high employment and modest growth, but further balance of payments adjustments are needed to contain risks in some cases.

Chile's sound macroeconomic framework allowed for countercyclical policies during 2014–15. Growth is expected to slow to 1.5 percent in 2016, reflecting subdued confidence and sluggish investment in the mining sector, and to accelerate to 2.1 percent in 2017, partly reflecting further resolution of uncertainty related to the reform agenda. Slower wage growth and peso weakening are expected to bring inflation down from 4.3 percent in 2015 to within the official target band in 2016–17. Risks are balanced but a delayed recovery in confidence could constrain the pickup. Despite relatively high leverage, firms have managed macroeconomic adjustment well so far—with largely hedged foreign exchange exposures—but deleveraging pressures are rising because of a protracted period of low demand and moderate competitiveness gains.

Peru's economy has strengthened faster than projected in the October 2015 *Regional Economic Outlook: Western Hemisphere*, and closed 2015 with substantial recovery. Growth is expected to rise further in 2016 (3¾ percent), boosted by ongoing investment in the mining sector but also reflecting resilience in other sectors. With potential growth estimated to decline from 4 percent in 2015 to 3.5 percent in the medium term because of weaker long-term prospects for the mining sector, the output gap is expected to become increasingly positive, placing upward pressure on inflation. *Colombia* continues to grow at a relatively healthy rate, but output is projected to decelerate from 3.1 percent in 2015 to 2.5 percent in 2016, as a result of needed policy tightening and less favorable global financial conditions. With this tightening, the current account deficit is expected to gradually reach a sustainable level.

Growth in *Bolivia* is expected to remain strong (3.8 percent in 2016), but is mainly supported by a high level of public investment and a sizable fiscal deficit. At the same time, the current account balance has worsened substantially on the back of robust real import growth, real currency appreciation, and lower gas export prices. In *Uruguay*, the economy is slowing (1.4 percent in 2016), while inflation remains above target, despite the tight monetary policy stance. *Paraguay's* economy is expected to remain relatively resilient, with growth of about 3 percent in 2016 and 2017, despite a loss of momentum in trade-related sectors last year. Agricultural production, led by soy, is expected to be strong again in 2016, providing support to growth alongside accommodative monetary policy and a neutral fiscal stance.

However, some countries are contracting, mostly on account of a combination of weak domestic fundamentals and harsher external conditions.

In *Brazil,* a combination of macroeconomic fragilities and political problems has dominated the economic outlook. Economic activity has been contracting because of low business and consumer confidence, high domestic policy uncertainty, weakening export prices, tightening financial conditions, and low competitiveness. The deteriorating fiscal position and public debt dynamics played a role in the collapse in sentiment, especially as the fiscal adjustment targets put forward early in 2015 were repeatedly trimmed down, triggering a rise in market interest rates and eventually the downgrade of the sovereign credit rating below investment grade (Figure 2.18). Economic activity contracted by 3.8 percent in 2015 and is projected to decline again in 2016 at the same rate. With many of the large shocks from 2015–16 expected to have run their course, and helped by a weaker currency, sequential growth is projected to turn positive during 2017; nevertheless, output on average will likely remain unchanged from the previous year. The main domestic risks for Brazil are linked to the continued political tensions, which are affecting the ability of the government to pass reforms, including those necessary to restore the sustainability of public finances, and more generally heightening policy uncertainty. This could delay the recovery in investment. Although financial soundness indicators appear solid,

continued economic strains may over time affect borrower performance. Inflation is expected to decline, but the decline could be gradual, especially if exchange rate depreciation pass-through is stronger than expected.

In *Argentina*, the new government has embarked on an ambitious, much-needed transition to remove macroeconomic imbalances and distortions that had stifled investment and eroded competitiveness. Foreign exchange controls were scaled back in December 2015, resulting in an initial 40 percent devaluation of the peso that largely closed the gap between official and parallel exchange rates; several constraints on international trade have been removed; export taxes on agriculture products have been eliminated or reduced; and utilities tariffs have been raised to contain the fiscal impact of energy subsidies, with mechanisms aimed at mitigating the impact on the more vulnerable segments of the population. The exchange rate, which had remained relatively stable during the first month of free flotation, has depreciated by about 10 percent since mid-January, inducing the central bank to first intervene in foreign exchange markets and then strongly increase interest rates to contain depreciation pressures. Still, the peso depreciation and the increase in tariffs have resulted in a significant increase in inflation in the first months of 2016. After many years of litigation, the authorities have reached an agreement with a number of creditors that paves the way for the country's return to international capital markets. This is an important step toward allowing Argentina to restore its financial position and access external savings to finance the cost of the transition toward a more consistent macroeconomic policy framework.

GDP growth in 2015 was driven by a generous fiscal stimulus and buoyant activity in the construction and agriculture sectors. Economic activity has slowed in recent months, and although the suspension of publication of some key official statistics makes forecasts particularly uncertain, GDP growth is expected to contract by about 1 percent in 2016. This is because the positive contribution from net exports following the foreign exchange liberalization is expected to be more than offset by a contraction in domestic demand as the adjustment to the new relative prices and changes in policies takes place. The new policy framework, however, has improved the medium-term outlook, with GDP growth expected to rebound to about 2¾ percent in 2017. Risks to the outlook remain on the downside given the unfavorable external environment and domestic challenges, in particular the risk that sustained inflationary pressures could require a tighter monetary policy stance to get to the announced inflation target.

Venezuela's economic conditions have deteriorated, with policy distortions and fiscal imbalances remaining unaddressed. Both exports and imports have been declining as a result of the renewed declines in oil prices. Available foreign exchange has been mostly used to finance imports of basic goods, at the expense of intermediate and capital goods. Owing to lack of intermediate goods, widespread price and other administrative controls and regulations, and the worsening business climate, productive capacity has plummeted. Real GDP fell by about 6 percent in 2015, according to the central bank, and is expected to fall by an additional 8 percent in 2016. Fueled by the monetization of the large fiscal deficit, an increase in the parallel market exchange rate, and the scarcity of basic goods, inflation is expected to exceed 700 percent in 2016. The recent depreciation of the official exchange rate and increase in domestic fuel prices were too modest to resolve the external and domestic imbalances that stem from these distortions.

Macroeconomic rigidities prevented a smooth adjustment in *Ecuador*, whose economy is expected to contract this year by 4½ percent, amid continued decline in oil prices, real exchange rate appreciation, and tight financing conditions, which—in the forecasts—are assumed to require further fiscal measures. The outlook remains highly uncertain and is dependent on the extent of shocks and particularly on the availability of external financing.

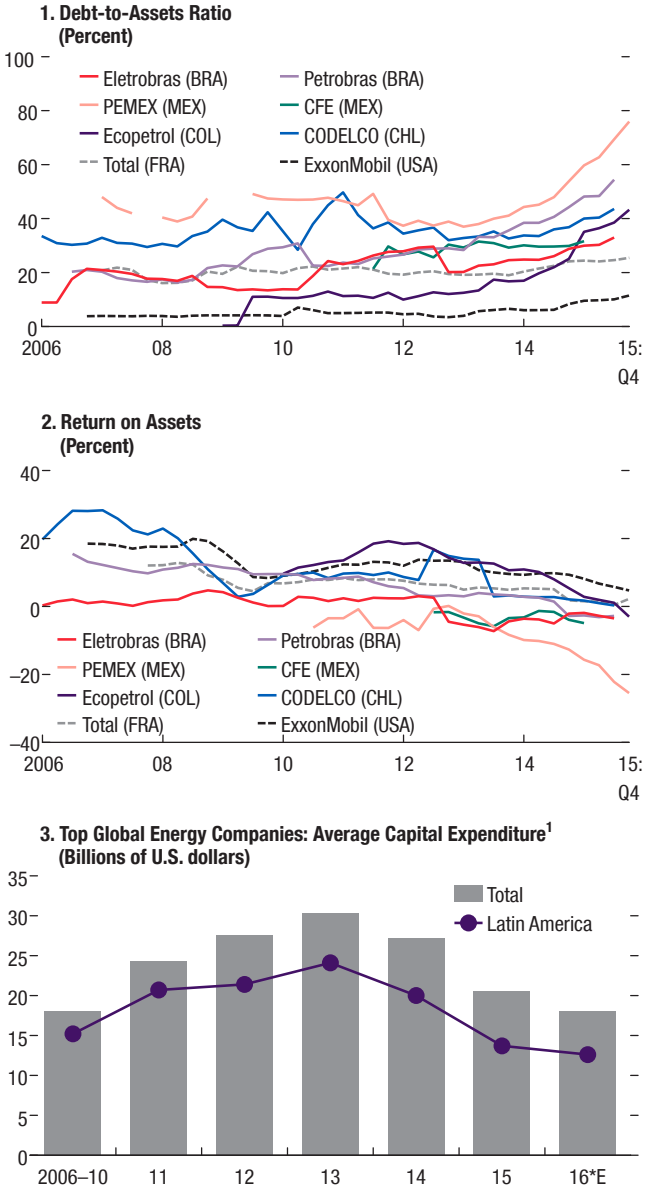
Policy Priorities

Policies should be tailored to facilitate a smooth adjustment toward the new reality of lower commodity prices.

Fiscal consolidation efforts should continue to contain rising debt levels and preserve buffers. In *Brazil*, laying out a consolidation strategy aimed at restoring fiscal sustainability and communicating and executing it consistently is essential, given rising debt levels (estimated to increase to 91¾ percent of GDP in 2021) and large overall fiscal deficits (above 5 percent of GDP). With limited room for discretionary cuts, tax measures are necessary in the short term, but the most important challenge is addressing rigidities and unsustainable mandates on the spending side, including in the social security system. Resisting pressures to provide stimulus is important given the lack of fiscal space. In *Argentina*, the authorities' announcement of multiyear fiscal targets has been a step in the right direction, and it will be important to articulate further the underlying policies necessary to achieve these targets. In *Venezuela*, a fiscal adjustment is needed to reduce monetary financing of the deficit. Some countries in the region still have relatively low debt levels (for example, *Chile* and *Peru*) and have already embarked on fiscal adjustments (for example, *Mexico*), even beyond the requirements of fiscal rules (for example, *Colombia*). With higher funding costs and current primary deficits above debt-stabilizing levels, the focus in these countries should be on preserving fiscal buffers. Overall, given the increases in primary expenditures during the commodity boom, spending should be focused on high-priority areas to support growth (such as effective public infrastructure spending in *Paraguay* and *Peru*). Preserving fiscal buffers is also important to contain risks stemming from rising contingent liabilities. The region's state-owned enterprises in commodity-related sectors are highly leveraged and currently cutting back on their capital investment, which contributes to lowering potential output. This in turn suppresses their profitability further (Figure 2.20).

Figure 2.20. State-Owned Enterprises

Contingent liability risks stemming from state-owned enterprises are increasing



Source: Bloomberg, L.P.
Note: CFE = Comisión Federal de Electricidad; CODELCO = Corporación Nacional del Cobre de Chile; PEMEX = Petróleos Mexicanos. Data labels use International Organization for Standardization (ISO) country codes, see page 108.
[1]Total includes ExxonMobil, Chevron, Royal Dutch Shell, PetroChina, China Shenhua, Petrobras, Pemex, and Ecopetrol. Latin America includes Petrobras, PEMEX, and Ecopetrol. Capital expenditure is defined as purchase of fixed assets, excluding investments held for purely investment purposes and under the equity method. *E: median estimate for 2016 based on Bloomberg forecasts, strategic reports from individual companies, and other media releases. Data for some companies in 2015 are partly based on estimates when data for 2015:Q4 are not yet available.

Monetary policy space is greater in those countries where inflation expectations remain well anchored, but trade-offs are becoming more pronounced where expectations are rising. In *Brazil*, while a rate hike would help arrest persistently high inflation expectations, the economy continues to contract and there is large uncertainty about the size of the output gap. On balance, the reduction in inflation toward the 4.5 percent target by 2017 will require a tight monetary policy stance. In *Argentina*, given the still high level of inflation, efforts to disinflate are appropriate, despite the expected contraction in output this year. Well-anchored medium-term inflation expectations in *Chile* grant the policy space to postpone further hikes as the output gap is expected to close only gradually. In *Peru* and *Colombia*, trade-offs have diminished because output is deemed at or near capacity, and inflation expectations are rising above target, creating a case for tightening monetary policy.

Exchange rate flexibility continues to facilitate the needed adjustment to lower terms of trade, and pass-through to inflation has been relatively modest given the size and persistence of depreciations (Chapter 4). Where large depreciations put pressure on inflation and short-term inflation expectations, monetary policy should remain focused on preserving credibility and keeping medium-term inflation expectations well anchored.

The regional outlook will only start to look more promising when the domestic challenges facing the contracting economies have been resolved and, more broadly, structural policies are implemented. Resolution of uncertainties could unlock repressed investment demand, providing a support for other policies. In *Brazil*, implementation of the infrastructure concessions program is key to supporting potential growth over the medium term. In *Venezuela,* restoring macroeconomic stability would require eliminating distortions (for example, price controls and foreign exchange misalignment) and reforming regulatory frameworks across the board, in addition to reducing monetary financing. Special efforts should be made to create a sound safety net to protect the most vulnerable. *Argentina* has embarked on an essential macroeconomic transition. The new administration has begun dismantling the series of controls that distorted key relative prices and inhibited economic activity over the past few years. Continuing the implementation of reforms within a consistent and well-communicated policy framework will help build further confidence and boost investment, creating the conditions for a stronger and more sustainable pace of economic growth. Improving the climate for doing business by reducing regulatory uncertainty and enhancing the legal framework will help support growth in *Bolivia*.

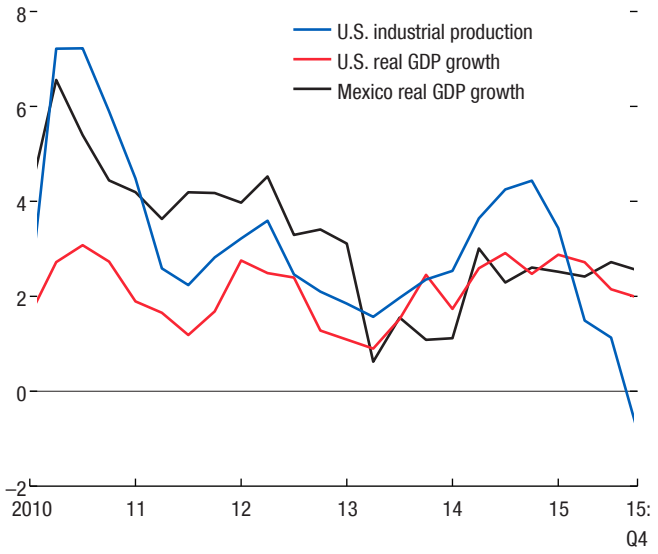
Mexico, Central America, and the Dominican Republic

Developments and Outlook

Against the backdrop of continued recovery in the United States, the growth outlook for *Mexico* and *Central America* remains relatively robust. *Mexico* is expected to continue to grow at a moderate 2.4 percent in 2016, supported by healthy private domestic demand and spillovers from a strong U.S. economy, although poor performance of U.S. industrial production—more relevant for Mexico than U.S. services—has increased downside risks to growth. The depreciation of the peso and lower electricity prices should boost manufacturing production and exports. Inflation fell sharply in 2015 despite the sharp depreciation, partly because of one-off factors (for example, expiration of tax base effects and telecommunications reform). The recent decline in oil prices will have only a limited effect on public finances in 2016 because the oil price risk has been hedged for this year. However, if the oil price shock is persistent, it would increase the fiscal consolidation burden in the medium term (Figure 2.21).

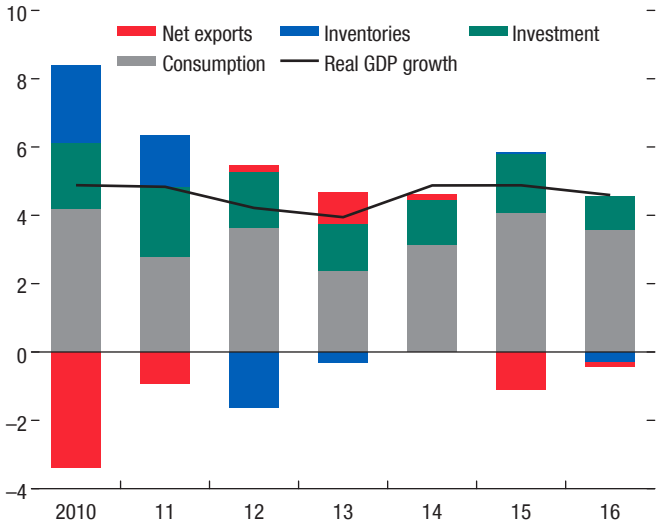
Countries in *Central America* have benefited from low oil prices and the ongoing U.S. recovery.

Figure 2.21. United States and Mexico: Growth Comparison
(Four-quarter percent change)



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

Figure 2.22. CAPDR: Contributions to Real GDP Growth
(Year-over-year percent change)



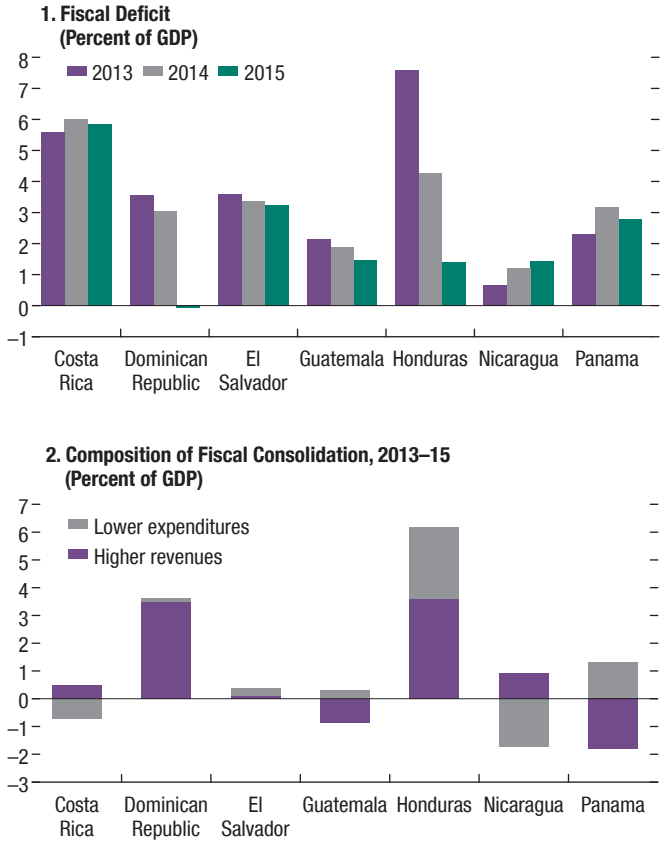
Sources: IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Seasonally adjusted. Purchasing-power-parity GDP-weighted averages of Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, and Panama. Inventories include statistical discrepancies.

Output growth for the region has remained at its 10-year average (4½ percent in 2015) and close to potential, while lower oil prices have pushed headline inflation to historic lows (Figure 2.22). These factors have led to an increase in remittances inflows, real disposable income, and employment, boosting private domestic consumption. They have also contributed to better overall fiscal outturns through higher revenues and smaller current account deficits. Looking ahead, although Central America is expected to weather the general slowdown among emerging market economies well, the recent tightening of global financial conditions, and the region's unfinished structural reform agenda, along with their protracted security and governance issues are all likely to temper medium-term growth.

Within this relatively strong growth outlook, there is a degree of country heterogeneity. *Panama* and the *Dominican Republic* remain the star growth performers at about 6 percent in 2015, despite some slowdown in Panama associated with a lower public investment and slower activity in the Colon Free Zone due to difficulties in trade relations with Colombia and Venezuela. Growth in *Nicaragua* and *Costa Rica* decelerated owing to the impact of adverse weather conditions for the main agricultural export crops and the closure of an Intel manufacturing plant (Costa Rica). The income windfall from lower commodity prices allowed households in *Guatemala* to raise consumption and firms to repay some of their debt. Despite closing output gaps (Box 2.3), the sustained decline in oil prices has driven headline inflation to historic lows—well below some central banks' targets—leading some central banks to reduce their policy rates.

Current accounts have been adjusting on account of lower oil prices and steady remittances inflows in some countries, also supporting higher reserve accumulation. In 2015, private remittances are estimated to have risen by about 8 percent across the region, with Guatemala and Honduras recording the largest increases. At the same time the fuel import bill across the region declined by about 40 percent in 2015. These factors

Figure 2.23. CAPDR: Fiscal Indicators



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Overall fiscal balance for the Dominican Republic in 2015 includes the grant element of the debt buyback operation with Petróleos de Venezuela, S.A. amounting to 3.1 percent of GDP. CAPDR = Central America, Panama, and the Dominican Republic.

contributed to significant external adjustments for some countries: for example, Guatemala's current account deficit declined by 1¾ percentage points of GDP in 2015.

Similarly, for most countries, fiscal positions continued to improve in 2015, with increased revenues (Figure 2.23). The Dominican Republic restructured its debt under the PetroCaribe agreement with a buyback, reducing its public debt by 3.1 percent of GDP.

The regional financial system appears sound, but dollarization continues to be a key source of vulnerability. For most countries, credit growth appears to be prudent and liquidity remains ample. Balance sheet buffers remain adequate, with bank capital well above regulatory requirements, low nonperforming loans, and profitable banks. That said, there has been a pickup in foreign currency credit growth in some countries, including in sectors without natural foreign currency hedges, despite already high levels of dollarization.

In the future, despite the still favorable external backdrop, the recent tightening of financial conditions may temper economic performance in the region. In 2016, output growth in the region is expected to be slightly lower than in 2015, at 4.5 percent, with inflation remaining low, at less than 4 percent. Growth in Panama and the Dominican Republic, although decelerating, is still projected to remain the highest in the region—in excess of 5 percent—with headline inflation within the central bank target range (Dominican Republic). In Panama, growth would be supported by the expansion of the Panama Canal. In Guatemala, growth is expected to remain robust at 4 percent in 2016, and medium-term growth prospects are enhanced by the new government's anticorruption agenda, with the main goal of reforming the tax and customs agency that has been plagued with corruption scandals. The planned initiatives—aimed at strengthening the government procurement process, improving the accountability of congress, enhancing the independence of the judiciary, and increasing the transparency of funding to political parties—will further support the rule of law and improve the business climate. In Costa Rica, growth is expected to recover close to its estimated potential of 4 percent in 2016, supported by dissipation of the one-off effects of Intel's withdrawal, domestic monetary stimulus, and sustained real credit expansion. El Salvador is expected to grow by 2.5 percent, slightly above potential, and is projected to remain the region's worst growth performer, but also to have the lowest rate of inflation. Inflation is projected to be highest in Nicaragua at about 6 percent, owing to a projected expansionary fiscal policy in the run-up to general elections later in the year.

Policy Priorities

In *Mexico*, given lower commodity revenues and higher than average debt levels for emerging market economies, continued efforts to increase fiscal space are appropriate. In particular, it is critical to reverse the past trend of repeated shifts in the debt trajectory above and beyond what has been committed each year to avoid eroding fiscal policy credibility and raising financing costs, which could make future adjustments more difficult (see Figure 2.18). Regarding monetary policy, with limited exchange rate pass-through and subdued inflation dynamics, the central bank could afford to postpone further policy rate hikes.

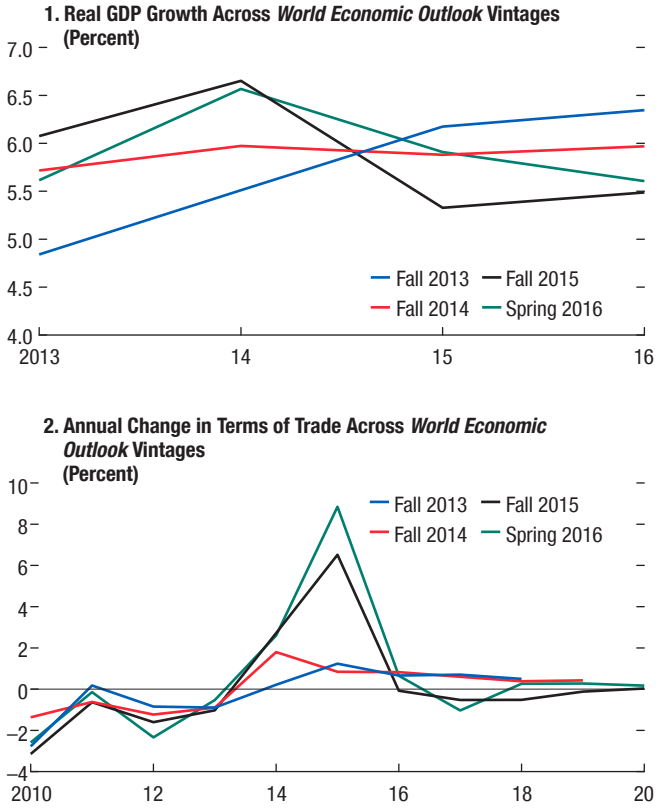
In *Central America*, although a favorable outlook has triggered both fiscal and current account adjustment, further efforts are needed to institutionalize fiscal discipline and boost fiscal buffers and potential growth. In particular, the priorities include the following:

Building stronger fiscal buffers given the still favorable external environment. In the past three years, countries in Central America have experienced better-than-anticipated terms of trade (Figure 2.24), translating into higher national incomes. Not all the countries, however, used this opportunity to strengthen the fiscal stance and reduce public debt. In fact, Costa Rica, Nicaragua, and Panama followed procyclical policies by increasing their fiscal deficit, unlike Honduras. Now is the time for countries in Central America to rebuild fiscal buffers, in particular by reducing tax exonerations and exemptions and improving the targeting of fiscal subsidies. Greater emphasis needs to be placed on adopting multiyear fiscal frameworks and enhancing fiscal transparency, for instance through the enactment of fiscal responsibility legislation such as the initiatives that are currently discussed in Costa Rica, El Salvador, and Honduras.

Accelerating regional cooperation to strengthen financial supervision. Given the supranational structure and cross-border activities of financial conglomerates that operate in the region, initiatives aimed at strengthening regional cooperation in prudential supervision and anti–money laundering are warranted.

Raising potential growth. Central American economies have experienced a reduction in potential growth from about 5 percent—the average growth rate before the global financial crisis—to 4 percent over the medium term (Box 2.3). This may be the result of structural constraints to capital and employment growth, and low total factor productivity growth, perhaps originated in insufficient efforts to foster technological progress and subpar development of a more stable institutional, regulatory, and legal environment. Lower potential growth will also make it difficult to rebuild fiscal buffers. Structural reforms must be directed at improving business conditions, product and labor markets,

Figure 2.24. CAPDR: Growth and Terms of Trade by Forecast Vintage



Source: IMF, World Economic Outlook database.
Note: CAPDR = Central America, Panama, and the Dominican Republic. For country group information, see page 107.

the quality of education, and enhancing the capacity for innovation.

The Caribbean

Developments and Outlook

The protracted period of low commodity prices continues to be favorable for the tourism-based countries in the Caribbean. Combined with steady tourist inflows from the United States (Figure 2.25), lower energy prices have allowed a significant reduction of external imbalances. Fiscal deficits in many of these countries have also been reduced, reflecting both higher revenues—on the back of stronger economic activity—and deliberate adjustment efforts. Growth prospects continue to be favorable for the tourism-based economies. Tourist arrivals have been on the rise since early 2015 in most countries, led by *Barbados*, *Grenada*, *St. Kitts and Nevis*, and *St. Lucia*. These inflows are expected to continue and possibly expand as economic activity in the origin countries gradually gains strength. In the short term, however, concerns related to the outbreak of the Zika virus may have an adverse effect on tourism inflows. Although the number of cases has been limited so far, the risk of the virus spreading could have significant negative consequences on tourism arrivals and economic growth, reversing the recent economic recovery.

In contrast, growth prospects are deteriorating for commodity-based economies. After a period of significantly higher growth, these countries are falling behind the tourism-based economies on average, although there is a wide cross-country heterogeneity regarding the size of the negative shock. *Suriname* and *Trinidad and Tobago* are most affected because they depend on exports of fossil fuels and other commodities whose prices are falling rapidly. For *Belize* and *Guyana*, however, positive offsets from other parts of the economy—tourism in the former and oil imports in the latter—dampen the negative impact. External imbalances have widened significantly in these economies, where current account deficits reached close to 8 percent of GDP on average in 2015.[3] As a result, international reserves have declined while exchange rate intervention has been used to stem depreciation pressures on the pegged exchange rates. Suriname devalued its currency by 20 percent in November 2015 as reserves continued to drain. Fiscal balances have also deteriorated in some commodity exporters, partly reflecting a countercyclical policy response. In some cases, the weakening fiscal position is undermining long-term sustainability. With key commodity prices expected to stay low for some time, the outlook remains challenging for some commodity exporters.

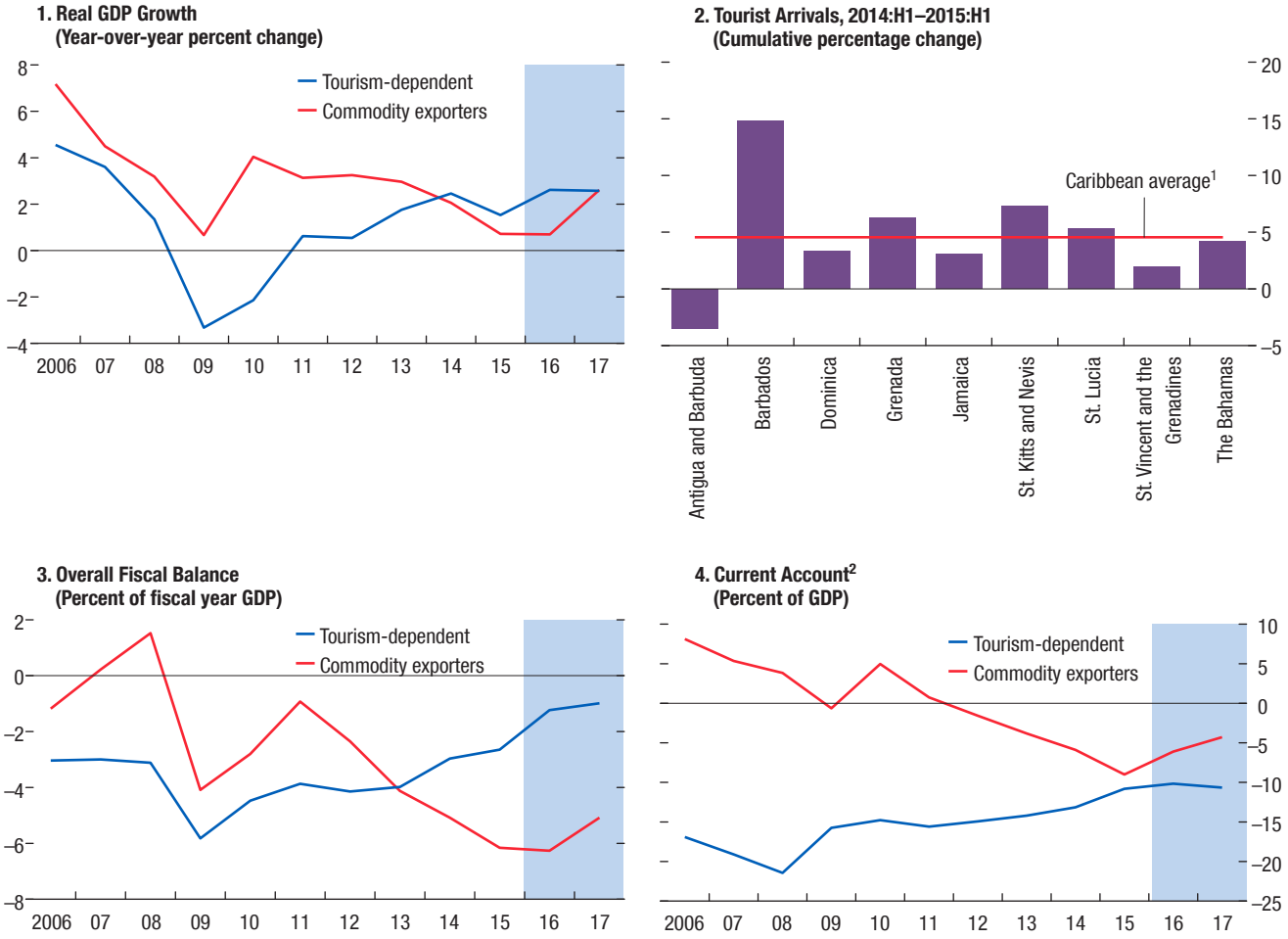
Overall, growth in the Caribbean region is expected to register about 3½ percent in 2016 and 2017. Immediate downside risks from real effective exchange rate appreciation, further U.S. monetary policy tightening, and failure to contain the Zika virus epidemic outweigh the upside risk related to citizenship by investment programs. Other risks include potential tourist diversion to Cuba and natural disasters.

Policy Priorities

Addressing fiscal vulnerabilities remains an overarching objective for most Caribbean countries, and important efforts have been made. Some countries have strengthened their overall fiscal balances in 2015 (notably, The Bahamas, Grenada, Guyana, and Haiti). In addition, Jamaica finalized the buyback of PetroCaribe debt, instantly reducing its debt by 10 percent of GDP in 2015, and Grenada successfully completed a debt restructuring operation, which would lower its debt by 13 percent of GDP by 2017. Despite this progress, public debt remains high, particularly in tourism-dependent economies. These economies should use the opportunity offered by still favorable external financial

[3]Following a major effort supported by IMF technical assistance to create international investment positions accounts and improve external current account data, preliminary revisions of 2014 data show large improvements in Eastern Caribbean Currency Union countries' current accounts, reaching in some cases 10 percent of GDP. The revisions are currently being assessed in light of the substantive methodological changes.

Figure 2.25. Economic Activity in the Caribbean



Sources: Caribbean Tourism Organization; Eastern Caribbean Central Bank (ECCB); IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: For country group information, see page 107. Aggregates are simple averages.
[1]Caribbean average includes Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.
[2]Data for the Eastern Caribbean Currency Union countries do not reflect ECCB provisional estimates for 2014 following a fundamental revision in balance of payments methodology. The ECCB will release final numbers for 2014 in November 2016.

conditions to make significant inroads toward ensuring debt sustainability.

In this regard, countries prone to natural disasters should explicitly consider the costs associated with these events in their macroeconomic and fiscal frameworks, while their investment in public infrastructure should aim at improving the economy's resilience to disasters (Box 2.4). Also, Eastern Caribbean Currency Union (ECCU) countries, after committing to new regional debt targets by 2030, should articulate a credible plan to attain those targets. For some commodity exporters, fiscal adjustment is also necessary for maintaining macroeconomic stability and addressing the new vulnerabilities created by low commodity prices. For those countries that have the fiscal space to cushion the negative shock, containing fiscal deficits to preserve sustainability and avoid undermining confidence will be important.

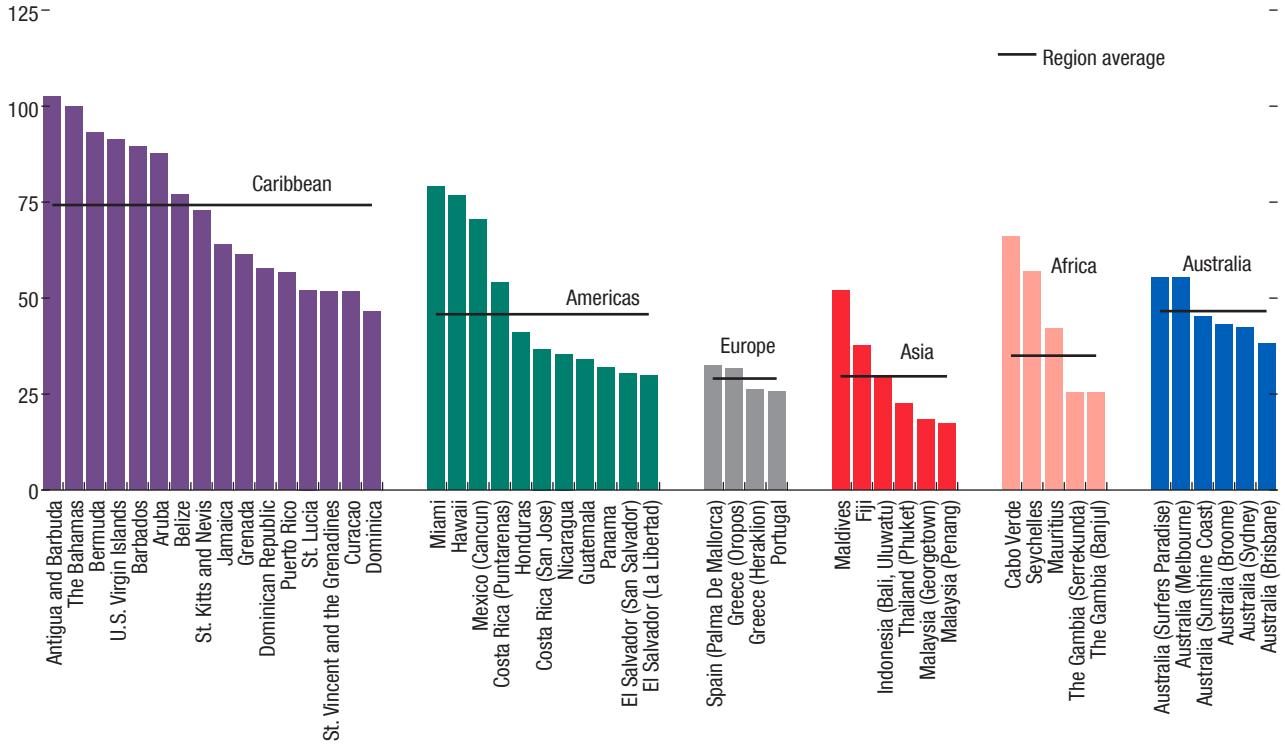
Where appropriate, commodity exporters should consider allowing more exchange rate flexibility to help their economies adjust to the new equilibrium and prevent the drain of international reserves.

Tourism-based economies should take advantage of the current tourism upswing to push through structural measures that would improve the quality of the tourism product while lowering costs. Consumers already pay a premium to holiday in the Caribbean when compared with beach-goers in other parts of the world (Figure 2.26). As measured in the "Week-@-the-Beach" index—borrowing from *The Economist*'s Big Mac Index—a typical basket of goods and services consumed during a one-week beach holiday costs about 50 percent more in the Caribbean, on average, than in some destinations in Central America or Cuba.[4] For some Caribbean countries classified as "high-end" destinations, where consumer price elasticities are lower or negligible, efforts are needed to ensure that product and service quality remain commensurate with their high-end brand (Laframboise and others 2014). In lower-cost destinations, where price elasticities are greater, a focus on lowering the costs of energy, labor, and transportation is key. These countries should also be proactive in managing the Zika virus, including by prioritizing its containment.

Strengthening the financial sector continues to be necessary. Banks in the ECCU are still burdened by high nonperforming loans, a legacy

[4]Note that this index does not incorporate non-price factors; for example, tourist attractions or security issues.

Figure 2.26. Week at the Beach Index: Travelocity
(Three-star hotel average; index: The Bahamas = 100)



Sources: Room rate: see http://www.travelocity.com/, average room rate is from January 9 to January 16, 2016, access date: December 3, 2015. Taxi, meals, water, beer, coffee: see http://www.numbeo.com/cost-of-living/ and http://www.worldcabfares.com/index.php, access date: December 3, 2015.

of the global financial crisis, and are unable to fully support the economy. The ECCU strategy for indigenous bank resolution has advanced, with the completion of legal reforms and asset quality reviews, and the resolution of a troubled bank in Antigua in November 2015. The Eastern Caribbean Central Bank (ECCB) continues to work with the Government of Anguilla in its consultations with the U.K. government to implement the resolution strategy in Anguilla. Progress in cleaning up banks' balance sheets, however, continues to be hindered by delays in implementation at the national level and in some cases by a lengthy foreclosure process. The ECCB is stepping up its efforts with the establishment of a regional asset management company, expected in April 2016, and with the implementation of an action plan based on the results of the recently completed asset quality review. Restoring the health of the banking sector requires completing the implementation of the regional strategy and strengthening the legal foreclosure and insolvency frameworks. Another key issue is de-risking by global banks, which may potentially disrupt bank operations in many Caribbean countries. The impact of de-risking has been limited so far because local banks have been able on the whole to maintain their correspondent banking relationships or find new ones, but the risk of disruptions to trade and remittances—resulting in lower bank profitability—remains significant. Although the IMF, in cooperation with other international organizations, is working to assist these countries in defining the appropriate policy response, efforts to increase transparency in banking systems and achieve full compliance with Financial Action Task Force and prudential standards would be helpful.

Many long-standing impediments constrain potential growth and raise unemployment in Caribbean countries. Efforts should continue to advance energy reform, which is needed to reduce dependence on fossil fuels, improve efficiency, and reduce costs (McIntyre and others 2016). Improving the business environment is also necessary to enhance productivity; addressing costs at ports and customs would eliminate a key competitive disadvantage. Finally, refocusing education systems is necessary to strengthen educational attainment and mitigate labor skills mismatches.

Box 2.1. External Adjustment and the Role of the Real Exchange Rate

Following a marked deterioration in their terms of trade, commodity exporters with flexible exchange rates have faced large currency depreciations against the U.S. dollar. In many cases, these depreciations have been large with respect to each country's recent history (Figure 2.1.1). In bilateral terms versus the U.S. dollar, the depreciations in Brazil, Chile, Colombia, and Mexico are among the largest in the past 20 years. In real effective terms, they have been larger and markedly more persistent than those following the global financial crisis—a reflection of the more permanent nature of the recent terms-of-trade shock. In Brazil and Colombia, real effective depreciations are among the largest in the past 35 years.

In general, large drops in the relative value of the currency are expected to lead to external rebalancing, reducing imports as residents lose purchasing power abroad, and boosting exports as competitiveness rises. But in many countries, exports have been flat and current account deficits on the rise. How can these developments be reconciled?

There are several possible reasons why exports have not seen a larger boost following the exchange rate depreciations. First, structural factors such as a lack of diversification or factor market rigidities could make exports slow to respond in the face of exchange rate movements. Second, external demand has decelerated markedly—particularly for South American exporters that do considerable trade with China (Figure 2.1.2). Finally, the U.S. dollar has appreciated against the vast majority of emerging market currencies, such that Latin American exporters have gained less competitiveness than their dollar exchange rates would suggest.

To disentangle the dynamics of external adjustment in LAC over the past 20 years, we estimate country-by-country vector autoregressive models that include demand from trading partners, the commodity terms of trade, the real effective exchange rate, and the volume of exports. We impose small open economy restrictions on the external variables, and identify shocks using a recursive ordering. In most Latin American countries, export volumes tend to respond vigorously to changes in external demand, rising at least one for two after one year, and somewhat more in the following year (Figure 2.1.3). Export volumes have also responded to shocks to the real exchange rate, with a 10 percent depreciation triggering an increase of between 2 percent and 5 percent in Brazil, Chile, and Colombia, and of more than 8 percent in Peru.

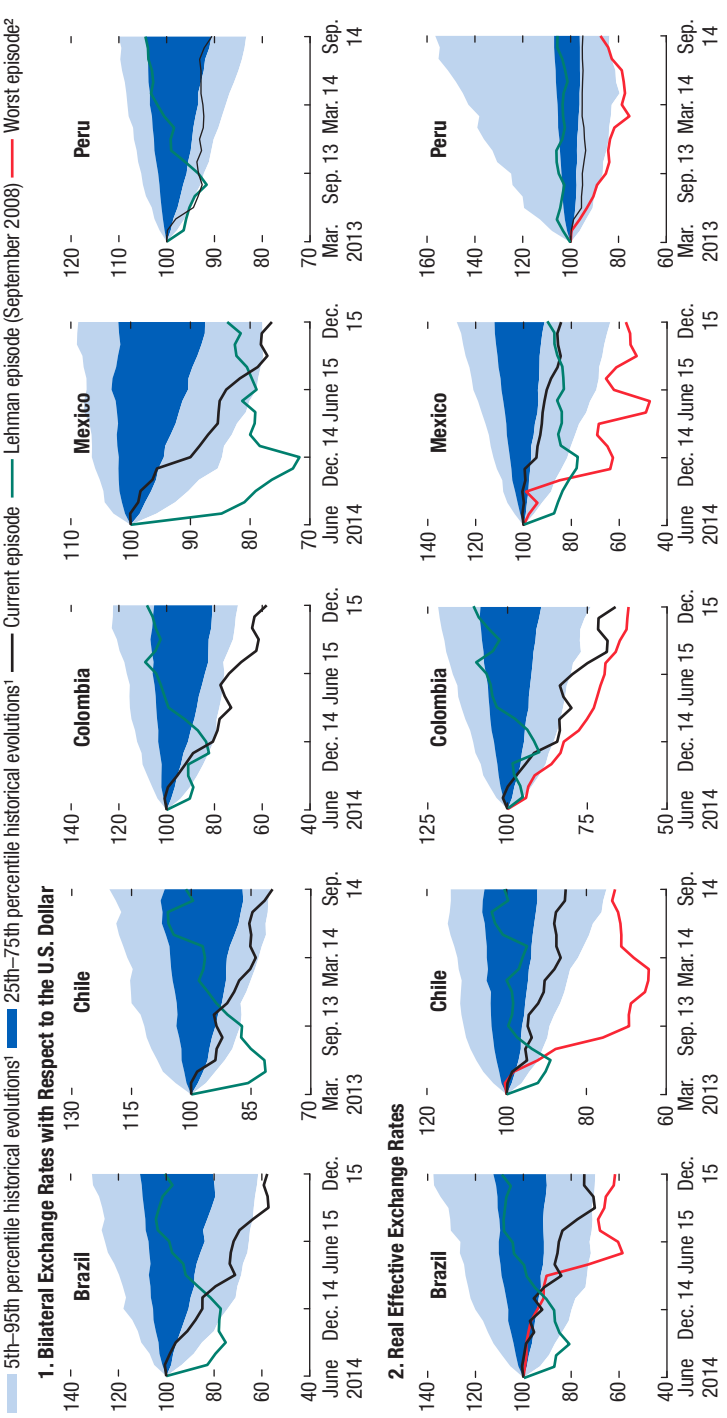
The estimated structural shocks are used to undertake a historical decomposition of recent developments. Since the end of the commodity super cycle, the deterioration of external demand and the commodity terms of trade explain the majority of the exchange rate depreciations in Brazil, Chile, Colombia, and Mexico. We also find that the recent deceleration of external demand has placed a strong drag on the export performance of Brazil, Chile, and Peru, and somewhat of a drag on that of Colombia. Meanwhile, strong external demand has boosted real exports in Mexico during 2015.

Chapter 3 of the October 2015 *World Economic Outlook* studied the link between exchange rates and international trade around the world, finding that (1) a 10 percent depreciation of the real exchange rate leads to a 1.5 percent of GDP increase in real net exports, (2) much of this adjustment takes place within one year, and (3) there is little evidence of a change over time. Might structural factors prevent Latin American exports from responding the same way? We compute corresponding estimates for Latin America and the Caribbean (LAC), and find that trade in the region displays sensitivity to exchange rate depreciations that is similar to what is found for the rest of the world (Figure 2.1.4).

Note: This box was prepared by Yan Carrière-Swallow. Ehab Tawfik provided excellent research assistance. We thank Daniel Leigh and Marcos Poplawski-Ribeiro for kindly sharing the data and code used to replicate results from IMF (2015a).

Box 2.1 *(continued)*

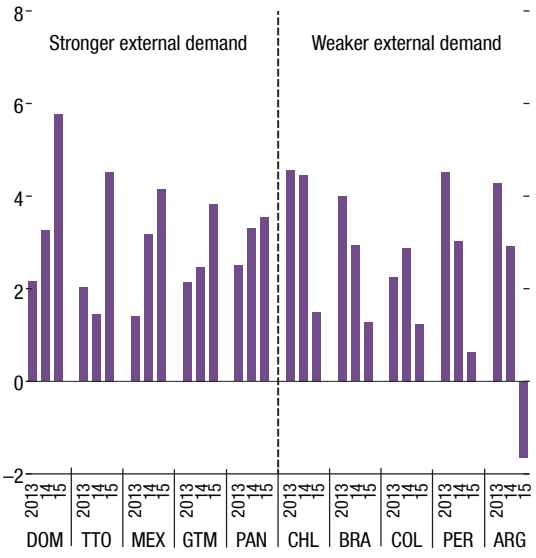
Figure 2.1.1. Recent Exchange Rate Movements in Historical Perspective
(Index: current episode start date = 100; + = appreciation; 18 months on horizontal axis)



Sources: IMF, Information Notice System database; IMF, International Financial Statistics database; and IMF staff calculations.
[1]Confidence bands report the empirical distribution of changes in the exchange rate, based on all 18-month trajectories for the given country since January 1995 (bilateral exchange rates with respect to the U.S. dollar) and January 1980 (real effective exchange rates, REER).
[2]The worst episode corresponds to the largest year-over-year REER depreciation since January 1980, with start date varying by country: March 1998 (Brazil), March 1982 (Chile), March 1985 (Colombia), October 1981 (Mexico), and September 1984 (Peru).

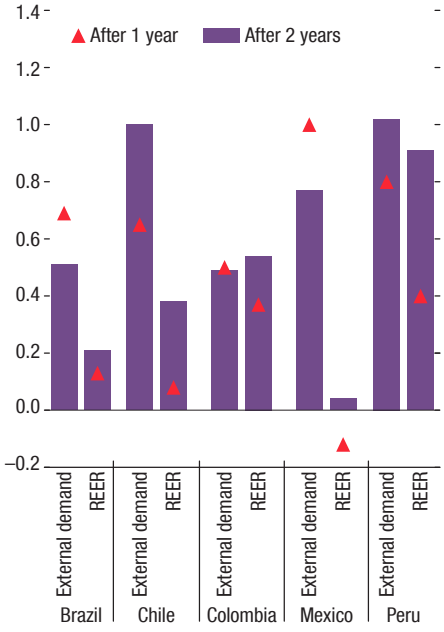
Box 2.1 *(continued)*

Figure 2.1.2. Diverging External Demand: Growth Rate of Trading Partners' Total Imports
(Annual percent change)



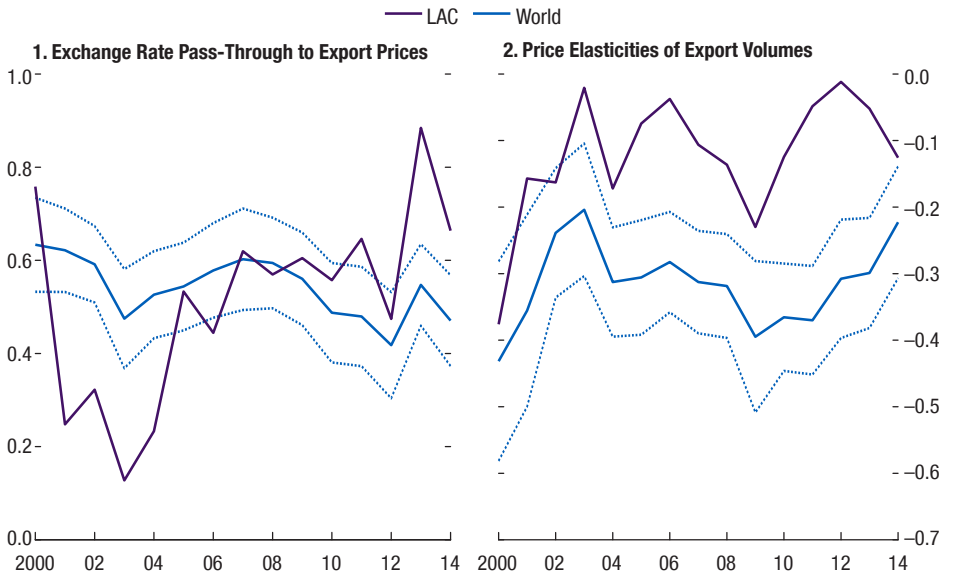
Source: IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes, see page 108.

Figure 2.1.3. Response of Export Volumes to External Demand and REER Shocks
(Elasticity)



Source: IMF staff calculations.
Note: REER = real effective exchange rate.

Figure 2.1.4. Trade Elasticities
(Ten-year rolling windows ending in year t)



Source: IMF staff calculations.
Note: Figure is based on panel estimates using producer-price index-based real effective exchange rate and export prices relative to foreign producer prices. World sample spans 88 advanced and emerging market and developing economies from 1990 to 2014. Dashed lines denote 90 percent confidence intervals. LAC = Latin America and the Caribbean.

Box 2.2. Downside Risk Scenarios

China is expected to decelerate to a more sustainable level of growth, which will include a gradual rebalancing from investment to consumption (Chapter 1). But what if the transition is bumpier than expected? This box considers a risk scenario in which China suffers a cyclical slowdown as a result of a sudden bout of financial market turmoil. In such a scenario, a broad set of financial and real estate assets fall in value and corporate risk premiums increase, triggering capital outflows and a depreciation of the currency of about 15 percent and generating a large fall in investment and output. No policy response is assumed, apart from automatic stabilizers. Although the shock is cyclical, its impact on the Chinese economy is quite persistent, pushing growth below the baseline by 2 percent in 2016 and 2017. This substantial reduction in Chinese demand pushes global commodity prices down, with the largest reduction felt in minerals and fuel, and smaller corrections in world food prices. Through direct trade linkages and broader commodity price effects, this generates heterogeneous effects throughout Latin America, even among commodity exporters.

In addition, such a large financial shock in China could trigger an increase in global risk aversion that causes a repricing of sovereign debt in emerging markets, including Latin America. Under such a stress scenario, the Chicago Board Options Exchange Volatility Index (VIX) is assumed to increase by about one standard deviation—equivalent to what was observed in August 2015. Here again, the sensitivity of Latin American sovereign spreads to this VIX shock varies considerably across countries. While the impact is estimated to be quite large in Brazil, Colombia, Peru, and Uruguay (+100 basis points), it is expected to be more modest in Chile, Mexico, and Paraguay (+50 basis points).

Figure 2.2.1. China Slowdown and Global Risk Aversion Shocks: Estimated Impact on GDP Growth
(Percent change)

Source: IMF staff calculations.

The impact of these events is analyzed using a variant of the IMF's G20MOD model that has been modified to include additional granularity about Latin American economies. The model takes into account the bilateral trade linkages between countries, and allows for markets and policies to respond endogenously following the shock. Based on model simulations, the cyclical slowdown in China could reduce growth in Latin America and the Caribbean by about ¼ percentage point in 2016 relative to the *World Economic Outlook* baseline. In addition, an increase in sovereign risk premiums triggered by higher global risk aversion would cut growth by another ¼ percentage point (Figure 2.2.1). The overall impact declines in 2017 but is still negative (total of about 0.2 percentage point).

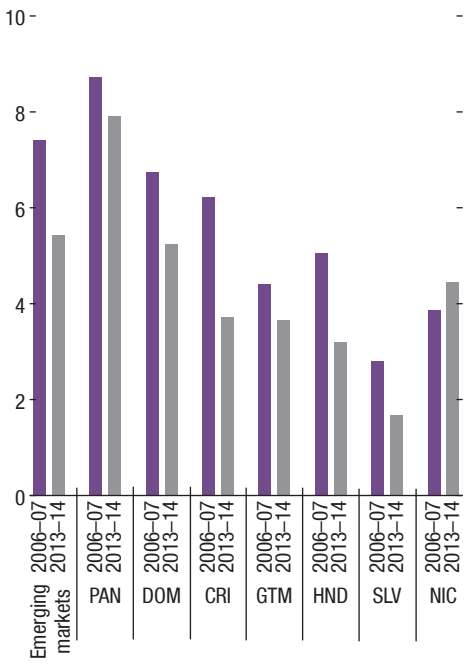
Note: This box was prepared by S. Pelin Berkmen and Yan Carrière-Swallow. Model simulations were performed by Allan Dizioli, Keiko Honjo, and Ben Hunt.

Box 2.3. Potential Growth and Output Gap in Central America

Potential output growth across Central America has declined in recent years and is expected to continue at a similar rate, owing to weak investment, somewhat stagnant employment creation, and low growth in total factor productivity (TFP—Figures 2.3.1 and 2.3.2). Low TFP may reflect reduced investment in innovation through research and development associated with the crisis, as well as continued weaknesses in the institutional, regulatory, and legal environments. For most countries, this decline started after the global financial crisis, except in Panama. Although potential growth has recovered somewhat in the past two years in the Dominican Republic, Guatemala, and El Salvador, it is still well below precrisis rates (only in Nicaragua has it fully recovered to precrisis rates). El Salvador has the lowest potential growth in Central America (1.8 percent), and all economies except Panama exhibit lower potential growth compared with the average of other emerging markets (5.4 percent).

This slowdown follows an earlier pickup in potential growth from about 3 1/3 percent in 2001 to 5 1/3 percent in 2007, with Costa Rica, the Dominican Republic, and Panama driving much of the increase. Capital accumulation and the acceleration in TFP explain the increase in potential growth in Costa Rica, the Dominican Republic, Nicaragua, and Panama, and somewhat for Honduras. In El Salvador and Guatemala the drivers were employment creation and less of a drag from TFP. Abstracting from measurement errors, productivity shortfalls in El Salvador, Guatemala, Honduras, and Nicaragua may reflect lags in investment in research and development and in the adoption and development of new technologies, lower human capital growth, and a weak business environment. Also, shifts of resources to higher-productivity sectors, and greater diversification of exports and economic complexity likely contributed to the high TFP growth in Costa Rica, the Dominican Republic, and Panama. Capital goods imports were booming in most of these economies in the mid-2000s and as a consequence physical capital was overhauled, which supported an increase in potential growth in most economies (this was not the case in El Salvador and Nicaragua). Employment creation, through higher working-age population growth (resulting from lower mortality rates and higher life expectancy, or high population growth), explains the increase in potential growth in El Salvador and Guatemala.

Figure 2.3.1. Potential Output Growth
(Percent)



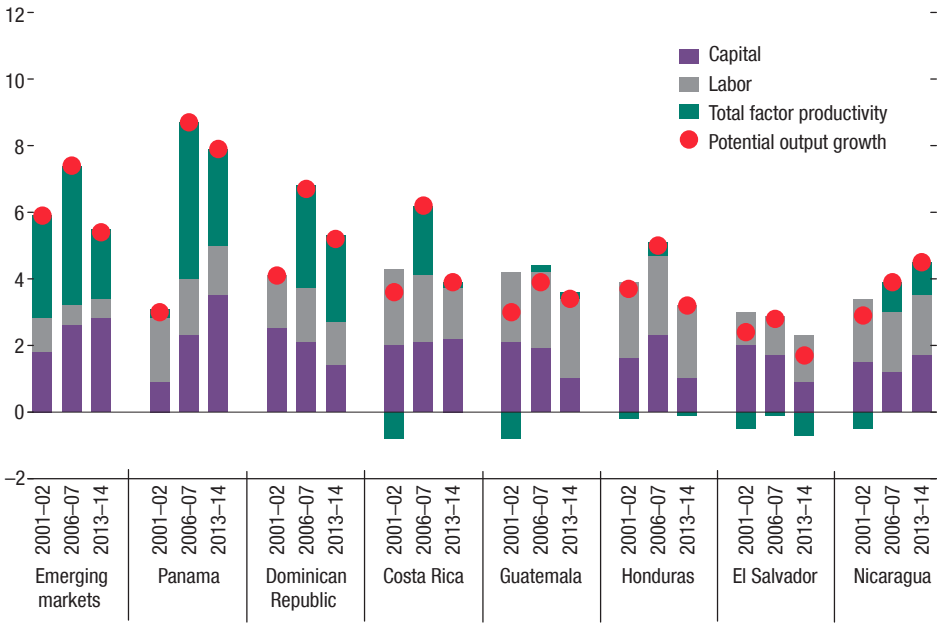
Source: IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes, see page 108.

From a cyclical perspective, there are no indications of significant economic slack in Central America, apart from Costa Rica. Headline inflation has been declining since 2012 in most Central American economies, especially more recently with lower oil prices lowering transport and electricity prices. Core inflation has fallen in most Central American economies, with the exception of Nicaragua where it has picked up since last year. In Costa Rica, growth slowed further in 2015, owing to the lingering effect of Intel's withdrawal and adverse weather conditions for the main agricultural export crops, resulting in a moderate output gap (Figure 2.3.3).

Note: This box was prepared by Iulia Teodoru. Potential output estimates are based on the use of a multivariate filter—see Laxton and Tetlow (1992), Kuttner (1994), Benes and others (2010), and Blagrave and others (2015)—that incorporates information on the relationship between cyclical unemployment and inflation (Phillips curve) and between cyclical unemployment and the output gap (Okun's law).

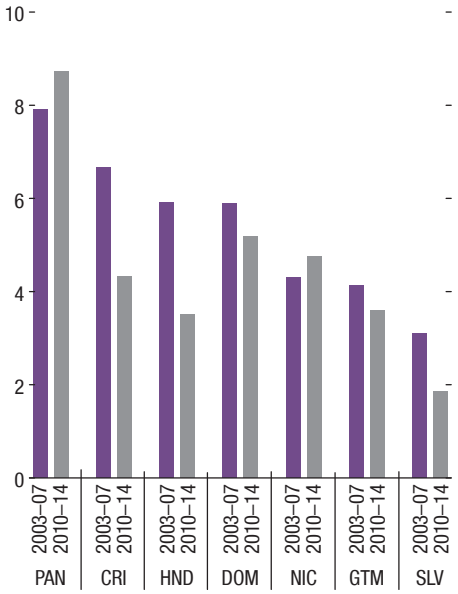
Box 2.3 *(continued)*

Figure 2.3.2. Determinants of Potential Output Growth
(Percent; contributions to potential output growth; average for the period)



Source: IMF staff calculations.

Figure 2.3.3. Output Growth
(Percent)



Source: IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes, see page 108.

Box 2.4. Incidence and Effects of Natural Disasters in the Caribbean

The Caribbean region is one of the most disaster-prone areas in the world. As measured by disasters per square kilometer, of the 21 islands in the Caribbean, 19 rank among the top-50 countries worldwide in frequency of natural disasters. Furthermore, the countries in the Eastern Caribbean Currency Union (ECCU) are all in the top 25.[1] From 1950 to 2014, more than 350 disasters have afflicted the region, most of which (63 percent) were tropical cyclones (usually hurricanes), and floods (25 percent).[2] This leaves the Caribbean extremely vulnerable to frequent disasters; on average there is a 29 percent probability that a country will be hit by at least one disaster in any given year.

The costs of these disasters are high. The Caribbean has experienced annual average damages equivalent to 1.7 percent of GDP, affecting on average 1 percent of the population since the 1950s. The effects of these disasters on growth and debt are considerable. For example, Strobl (2012) finds that the average hurricane reduces output by nearly 1 percent. Acevedo (2014) shows a similar result for severe storms, and a smaller impact of moderate storms on growth of ½ a percentage point (Figure 2.4.1). Economic activity usually rebounds one year after the disaster because of reconstruction; however, this rebound is generally short-lived and smaller than the initial shock, resulting in a negative cumulative impact on GDP. The impact on debt is more dramatic, with the debt-to-GDP ratio increasing by almost 5 percentage points the year a storm strikes an ECCU country (Acevedo 2014).

Possible policy interventions could mitigate the impact on output. Noy (2009) finds that higher levels of human capital, better institutions, more openness to trade, and higher levels of government spending reduce the macroeconomic costs of a natural disaster. Furthermore, larger foreign exchange reserves and domestic credit levels also help a country to withstand the effects of natural disasters.

A critical first step is for countries in the Caribbean to recognize the natural disaster risks they face and internalize the costs in their macroeconomic and fiscal projections. This will help create the necessary fiscal space to build buffers against future shocks and to invest in building physical resilience, and in adaptation measures such as early warning systems and better building codes. It will also be important to expand the role of insurance, both in the private and public sectors, to spread risks.

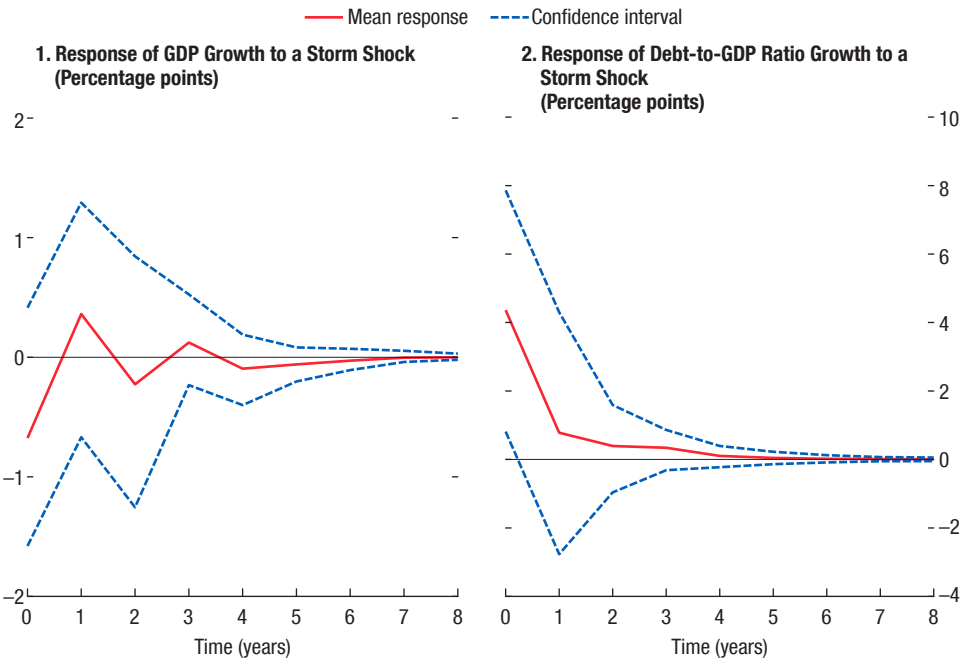
Note: This box was prepared by Sebastian Acevedo.

[1]The countries that are members of the ECCU are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

[2]Data on natural disasters from EM-DAT (http://www.emdat.be/).

Box 2.4 *(continued)*

Figure 2.4.1. Effects of Natural Disasters on Growth and Debt



Source: Acevedo (2014).
Note: The panels depict the response of real GDP growth and the percent change in the debt-to-GDP ratio to a moderate storm shock (red line), estimated from a panel vector autoregressive model for 12 Caribbean countries over 40 years. Panel 2 shows the results for the Eastern Caribbean Currency Union. A number below zero indicates a slowdown in real growth or a decrease in debt-to-GDP ratio compared to the baseline, and a positive number shows real growth above the baseline, or an increase in the debt-to-GDP ratio.

Annex 2.1. Disclaimer

The GDP data for Argentina before 2015 reflect official data, while for 2015 the data reflect IMF staff estimates. On February 1, 2013, the IMF issued a declaration of censure, and in June 2015 called on Argentina to implement additional specified actions to address the quality of its official GDP data according to a specified timetable. The new government that took office in December 2015 has announced its determination to improve the quality of GDP statistics. The Managing Director will report to the Executive Board on this issue again by July 15, 2016. At that time, the Executive Board will review the issue in line with IMF procedures.

The consumer price data for Argentina before December 2013 reflect the CPI for the Greater Buenos Aires Area (CPI-GBA), while from December 2013 to October 2015 the data reflect the national CPI (IPCNu). Given the differences in geographical coverage, weights, sampling, and methodology of the two series, and the authorities' decision in December 2015 to discontinue the IPCNu, the average CPI inflation for 2014, 2015, and 2016 and end-period inflation for 2015 are not reported in the April 2016 *World Economic Outlook*. On February 1, 2013, the IMF issued a declaration of censure and in June 2015 called on Argentina to implement additional specified actions to address the quality of its official CPI data according to a specified timetable. The new government that took office in December 2015 has stated that it considers that the IPCNu is flawed and announced its determination to discontinue it and to improve the quality of CPI statistics. It has temporarily suspended the publication of CPI data to review sources and methodology. The Managing Director will report to the Executive Board on this issue again by July 15, 2016. At that time, the Executive Board will review the issue in line with IMF procedures.

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)				
	2013	2014	2015 Est.	2016 Projections	2017 Projections	2013	2014	2015 Est.	2016 Projections	2017 Projections	2013	2014	2015 Est.	2016 Projections	2017 Projections
North America															
Canada	2.2	2.5	1.2	1.5	1.9	1.0	1.9	1.3	1.4	2.0	–3.2	–2.3	–3.3	–3.5	–3.0
Mexico	1.3	2.3	2.5	2.4	2.6	4.0	4.1	2.1	3.3	3.0	–2.4	–1.9	–2.8	–2.6	–2.6
United States	1.5	2.4	2.4	2.4	2.5	1.3	0.6	0.8	0.8	2.2	–2.3	–2.2	–2.7	–2.9	–3.3
Puerto Rico[3]	0.0	–0.1	–1.3	–1.3	–1.4	0.8	0.1	–0.2	–0.6	1.2	…	…	…	…	…
South America															
Argentina[4]	2.9	0.5	1.2	–1.0	2.8	10.9	23.9	…	25.0	20.0	–0.7	–1.4	–2.8	–1.7	–2.2
Bolivia	6.8	5.5	4.8	3.8	3.5	6.5	5.2	3.0	5.0	5.0	3.4	0.2	–6.9	–8.3	–7.1
Brazil	3.0	0.1	–3.8	–3.8	0.0	5.9	6.4	10.7	7.1	6.0	–3.0	–4.3	–3.3	–2.0	–1.5
Chile	4.0	1.8	2.1	1.5	2.1	2.8	4.7	4.4	3.5	3.0	–3.7	–1.3	–2.0	–2.1	–2.7
Colombia	4.9	4.4	3.1	2.5	3.0	1.9	3.7	6.8	5.3	3.3	–3.3	–5.2	–6.5	–6.0	–4.3
Ecuador	4.6	3.7	0.0	–4.5	–4.3	2.7	3.7	3.4	0.8	0.0	–1.0	–0.6	–2.9	–2.3	–0.2
Guyana	5.2	3.8	3.0	3.4	3.5	0.9	1.2	–1.8	2.1	2.1	–14.3	–12.6	–4.8	–5.2	–7.6
Paraguay	14.0	4.7	3.0	2.9	3.2	3.7	4.2	3.1	4.5	4.5	1.7	–0.4	–1.8	–1.2	–1.1
Peru	5.9	2.4	3.3	3.7	4.1	2.9	3.2	4.2	3.4	2.5	–4.3	–4.0	–4.4	–3.9	–3.3
Suriname	2.8	1.8	0.1	–2.0	2.5	0.6	3.9	25.0	26.0	8.0	–3.8	–8.0	–15.6	–8.0	0.8
Uruguay	5.1	3.5	1.5	1.4	2.6	8.5	8.3	9.4	9.1	8.1	–4.9	–4.3	–3.9	–3.9	–3.7
Venezuela[5]	1.3	–3.9	–5.7	–8.0	–4.5	60.0	68.5	180.9	720.0	2200.0	2.0	1.4	–7.6	–6.6	–2.5
Central America															
Belize	1.5	3.6	1.5	2.5	2.7	1.6	–0.2	–0.7	0.8	2.3	–4.4	–7.6	–10.2	–6.8	–6.7
Costa Rica	1.8	3.0	3.7	4.2	4.2	3.7	5.1	–0.8	3.0	3.0	–5.0	–4.7	–4.0	–4.2	–4.3
El Salvador	1.8	2.0	2.4	2.5	2.6	0.8	0.5	1.0	1.9	2.0	–6.5	–4.7	–3.2	–3.0	–4.1
Guatemala	3.7	4.2	4.0	4.0	3.9	4.4	2.9	3.1	4.0	4.0	–2.5	–2.1	–0.5	–0.7	–1.0
Honduras	2.8	3.1	3.6	3.5	3.7	4.9	5.8	2.4	4.0	5.4	–9.5	–7.4	–6.4	–5.9	–5.9
Nicaragua	4.5	4.7	4.5	4.5	4.3	5.7	6.5	3.1	6.1	6.8	–11.1	–7.1	–8.8	–8.8	–10.0
Panama[6]	6.6	6.1	5.8	6.1	6.4	3.7	1.0	0.3	0.8	2.0	–9.8	–9.8	–6.5	–6.1	–5.0
The Caribbean															
Antigua and Barbuda	1.5	4.2	2.2	2.0	2.4	1.1	1.3	0.9	1.4	2.2	–14.8	–14.5	–10.0	–6.2	–7.0
The Bahamas	0.0	1.0	0.5	1.5	1.5	1.0	0.2	2.0	0.8	1.1	–17.7	–22.3	–11.7	–9.8	–8.9
Barbados	0.0	0.2	0.5	2.1	2.3	1.1	2.3	–0.7	0.4	1.9	–9.1	–8.9	–5.2	–4.6	–5.1
Dominica	0.6	3.9	–4.3	4.9	3.5	–0.4	0.5	–0.1	–0.1	1.8	–13.3	–13.1	–14.1	–16.6	–19.2
Dominican Republic	4.8	7.3	7.0	5.4	4.5	3.9	1.6	2.3	3.3	4.0	–4.1	–3.2	–1.9	–1.7	–2.2
Grenada	2.4	5.7	4.6	3.0	2.5	–1.2	–0.6	–1.2	–0.1	2.8	–23.2	–15.5	–15.1	–12.2	–13.8
Haiti[7]	4.2	2.7	1.0	2.3	3.3	4.5	5.3	11.3	10.4	7.0	–6.3	–6.3	–2.4	–1.9	–2.3
Jamaica	0.2	0.5	1.1	2.2	2.5	9.5	6.4	3.0	5.3	6.5	–8.8	–7.1	–4.3	–2.9	–2.6
St. Kitts and Nevis	6.2	6.1	6.6	4.7	2.8	1.0	–0.6	–2.9	0.2	1.3	–6.6	–7.6	–13.0	–18.4	–19.1
St. Lucia	0.1	0.5	1.6	1.4	1.9	–0.7	3.7	–2.1	–0.7	2.3	–11.2	–6.7	–7.5	–7.9	–8.6
St. Vincent and the Grenadines	2.3	–0.2	1.6	2.2	3.1	0.0	0.1	–1.7	1.1	1.7	–30.9	–29.6	–24.8	–21.3	–20.0
Trinidad and Tobago	2.3	–1.0	–1.8	–1.1	1.8	5.7	8.5	1.5	4.6	4.7	7.3	4.6	–5.4	–4.4	–3.7
Memorandum															
Latin America and the Caribbean	**3.0**	**1.3**	**–0.1**	**–0.5**	**1.5**	**4.5**	**5.0**	**6.2**	**5.0**	**4.2**	**–2.6**	**–3.1**	**–3.6**	**–2.8**	**–2.4**
South America[8]	5.2	2.3	0.9	–0.1	1.2	4.4	4.9	5.6	4.8	4.1	–1.4	–2.0	–4.2	–3.8	–2.9
CAPDR[9]	3.7	4.3	4.4	4.3	4.2	3.9	3.3	1.6	3.3	3.9	–6.9	–5.6	–4.5	–4.3	–4.6
Caribbean															
Tourism-dependent[10]	1.5	2.4	1.6	2.7	2.5	1.2	1.5	–0.3	0.9	2.4	–15.1	–13.9	–11.7	–11.1	–11.6
Commodity exporters[11]	3.0	2.1	0.7	0.7	2.6	2.2	3.3	6.0	8.4	4.2	–3.8	–5.9	–9.0	–6.1	–4.3
Eastern Caribbean Currency Union[12]	1.7	2.9	2.2	2.6	2.5	0.0	1.2	–1.0	0.2	2.1	–16.8	–14.3	–12.2	–11.7	–12.5

Sources: IMF, World Economic Outlook database; 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 excludes Argentina and Venezuela. Consistent with the IMF, *World Economic Outlook*, the cut-off date for the data and projections in this table is March 25, 2016.
[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] Projecting the economic outlook in Venezuela is complicated by the lack of any Article IV consultation since 2004 and delays in the publication of key economic data.
[6] Ratios to GDP are based on the "2007-base" GDP series.
[7] Fiscal year data.
[8] Simple average of Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. CPI series exclude Argentina and Venezuela.
[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 (ECCU) members are Antigua and Barbuda, Dominica, Grenada, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines, as well as Anguilla and Montserrat, which are not IMF members.

Table 2.2 Western Hemisphere: Main Fiscal Indicators[1]

	Public Sector Primary Expenditure (Percent of GDP)					Public Sector Primary Balance (Percent of GDP)					Public Sector Gross Debt (Percent of GDP)				
	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017	2013	2014	2015	2016	2017
			Est.	Projections				Est.	Projections				Est.	Projections	
North America															
Canada	37.0	35.8	37.2	38.0	37.5	–1.2	0.0	–0.7	–1.8	–1.5	86.1	86.2	91.5	92.3	90.6
Mexico[2]	25.5	25.3	24.8	22.7	21.8	–1.2	–1.9	–1.3	–0.5	0.2	46.4	49.5	54.0	54.9	54.9
United States[3]	33.6	33.1	33.2	33.3	32.9	–2.4	–2.1	–1.8	–1.8	–1.6	104.8	105.0	105.8	107.5	107.5
Puerto Rico[4]	…	20.2	19.8	20.1	19.8	…	–0.9	–0.1	–0.1	0.5	52.3	53.9	53.1	56.0	57.7
South America															
Argentina[5]	34.4	36.9	42.6	40.6	38.8	–2.4	–3.4	–6.1	–4.8	–3.3	41.5	45.1	56.5	60.7	60.9
Bolivia[6]	37.5	42.3	40.9	39.6	38.4	1.6	–2.4	–5.6	–5.7	–5.4	32.5	33.0	39.7	45.6	48.3
Brazil[7]	31.6	32.9	33.6	33.2	32.8	1.7	–0.6	–1.9	–1.7	–1.4	60.4	63.3	73.7	76.3	80.5
Chile	22.6	23.3	25.2	25.8	26.8	–0.4	–1.4	–2.1	–2.8	–2.7	12.8	15.1	17.1	19.8	22.5
Colombia[8]	26.4	26.9	25.9	24.9	24.7	1.2	0.3	0.3	0.2	0.3	37.8	44.3	49.4	49.3	48.0
Ecuador[9]	42.9	43.0	37.9	31.6	27.6	–3.6	–4.3	–3.9	–1.1	3.3	25.9	31.2	34.5	38.0	37.9
Guyana[10]	29.1	30.2	28.6	32.4	31.4	–2.5	–3.8	–0.2	–3.7	–3.8	56.8	50.9	48.8	51.9	54.1
Paraguay	22.7	22.7	23.4	23.2	23.0	–0.7	0.1	–1.4	–1.4	–1.1	17.0	20.2	23.8	26.6	27.3
Peru	20.5	21.5	21.5	21.4	20.9	1.7	0.7	–1.3	–1.1	–0.1	20.3	20.7	23.1	25.3	25.5
Suriname[11]	32.2	31.3	28.3	25.5	25.7	–6.4	–7.0	–7.4	–4.4	–1.3	31.4	29.2	43.3	45.4	43.1
Uruguay[12]	29.1	29.3	28.3	29.0	28.8	0.4	–0.6	0.0	–0.5	–0.2	60.2	61.2	61.8	63.0	64.0
Venezuela[13]	35.0	38.3	37.8	37.3	36.7	–11.5	–11.9	–15.4	–23.4	–24.7	52.4	48.5	48.8	36.0	27.1
Central America															
Belize[10]	27.9	30.4	30.3	28.6	26.4	–0.2	–1.2	–2.6	–1.4	0.5	75.2	75.3	76.3	92.4	92.0
Costa Rica[10]	16.5	16.7	17.2	16.9	17.0	–2.8	–3.1	–3.0	–2.4	–1.5	36.0	39.3	42.4	45.0	47.3
El Salvador[14]	19.6	18.9	19.3	19.5	19.7	–1.2	–1.0	–0.8	–1.1	–1.2	55.3	56.8	58.9	59.5	61.8
Guatemala[10]	12.2	11.9	10.7	11.1	11.1	–0.6	–0.4	0.1	–0.2	–0.1	24.6	24.2	24.3	24.2	24.3
Honduras	28.5	26.6	25.6	25.5	25.5	–7.1	–3.8	–0.4	–0.6	–0.3	45.7	46.4	47.4	48.6	49.8
Nicaragua[14]	23.7	23.9	25.6	25.8	25.8	–0.2	–0.7	–1.0	–0.5	–0.5	29.8	29.5	31.2	31.6	32.2
Panama[15]	22.6	21.9	21.4	20.7	19.7	–0.5	–1.5	–1.1	–0.8	0.4	35.0	37.1	38.8	38.9	37.4
The Caribbean															
Antigua and Barbuda[16]	20.5	20.3	27.1	17.6	17.5	–1.7	–0.2	–5.6	6.7	7.1	95.5	98.2	102.1	95.6	88.1
The Bahamas[10]	20.4	20.3	21.5	21.8	22.1	–4.2	–3.2	–1.7	0.3	0.5	56.3	60.9	65.7	66.9	67.6
Barbados[17]	40.5	38.1	37.8	37.1	36.2	–6.6	–2.5	–2.3	–0.7	0.5	94.7	98.4	103.0	105.7	106.6
Dominica[16]	31.0	31.1	30.8	36.4	35.8	–1.0	–2.9	1.0	–0.2	2.4	74.7	81.1	82.4	83.1	81.3
Dominican Republic[14]	15.8	15.6	15.1	15.1	15.1	–1.2	–0.5	2.9	–0.5	–0.7	34.6	34.4	34.3	35.1	35.9
Grenada[16]	24.8	25.6	23.3	21.5	20.9	–3.9	–1.1	2.2	3.1	3.5	106.8	100.8	92.7	88.3	78.3
Haiti[10]	27.6	25.0	21.7	20.8	21.0	–6.7	–5.9	–2.3	–1.2	–1.3	21.5	26.5	30.4	35.2	36.2
Jamaica[16]	19.5	18.8	20.5	20.9	20.5	7.6	7.5	7.3	7.0	7.1	139.7	135.6	124.3	123.1	116.1
St. Kitts and Nevis[16]	29.2	29.7	29.1	27.3	26.5	16.0	12.2	7.7	5.4	3.4	100.4	80.2	65.5	59.6	56.0
St. Lucia[16]	27.4	25.4	27.6	27.8	27.8	–2.1	0.1	0.3	0.7	0.6	78.6	79.7	83.0	86.0	87.9
St. Vincent and Grenadines[16]	28.8	29.8	26.5	28.2	27.9	–4.1	–1.5	–0.2	0.1	0.3	74.7	80.6	73.6	80.3	81.7
Trinidad and Tobago[18]	34.2	35.3	38.0	37.7	36.0	–0.4	–2.3	–7.7	–8.0	–7.0	39.5	40.9	51.1	62.8	69.4
Memorandum															
Latin America and the Caribbean	**29.3**	**30.3**	**30.6**	**29.0**	**28.2**	**–0.3**	**–1.7**	**–2.7**	**–2.5**	**–1.7**	**48.2**	**51.0**	**56.4**	**57.3**	**58.6**
South America[19]	30.3	31.7	31.7	30.6	29.9	–1.2	–2.3	–3.7	–4.2	–3.5	36.1	38.3	42.8	44.1	44.2
CAPDR[20]	19.9	19.4	19.3	19.2	19.1	–1.9	–1.6	–0.5	–0.9	–0.5	37.3	38.2	39.6	40.4	41.2
Caribbean															
Tourism-dependent[21]	26.9	26.6	27.1	26.5	26.1	0.0	0.9	1.0	2.5	2.8	91.3	90.6	88.0	87.6	84.8
Commodity exporters[22]	30.9	31.8	31.3	31.1	29.9	–2.4	–3.6	–4.5	–4.3	–2.9	50.8	49.1	54.9	63.1	64.7
Eastern Caribbean Currency Union[16,23]	27.3	26.5	27.8	27.9	25.8	0.2	1.4	0.4	1.0	3.1	85.2	82.9	80.7	80.7	77.2

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 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 March 25, 2016.

[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]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]Federal government and provinces; includes interest payments on a cash basis. Primary expenditure and primary balance include the federal government and provinces. The primary balance excludes profit transfers from the central bank of Argentina. 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. The national definition of general government gross debt includes the stock of Treasury securities used for monetary policy purposes by the Central Bank (those pledged as security in reverse repo operations). It excludes the rest of the government securities held by the Central Bank. According to this definition, general government gross debt amounted to 58.9 percent of GDP at end–2014.

[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.

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

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

[12]Uruguay is the only country in the sample for which public debt includes the debt of the central bank, which increases public sector gross debt.

[13]Projecting the economic outlook in Venezuela is complicated by the lack of any Article IV consultation since 2004 and delays in the publication of key economic data.

[14]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.

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

[16]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.

[17]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).

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

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

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

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

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

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

Table 2.3. Western Hemisphere: Selected Economic and Social Indicators, 2006–15[1]

	2015				2006–15 Average					2015		Latest available		
	GDP[2] (US$ billions)	Population (Millions)	GDP per capita (PPP$)	Nominal output share of LAC region[2] (Percent)	Real GDP growth (Percent)	CPI inflation[3] (Percent)	Current account (Percent of GDP)	Domestic saving (Percent of GDP)	Trade openness[4] (Percent of GDP)	Gross reserves[5] (Percent of GDP)	Unemployment rate (Percent)	Poverty rate[6]	Gini coefficient[6]	Sovereign credit rating[7]
North America														
Canada	1,552.4	35.8	45,553	…	1.7	1.7	–1.9	22.0	63.6	5.1	6.9	…	31.3	AAA
Mexico	1,144.3	127.0	17,534	22.6	2.4	4.0	–1.5	21.2	62.3	15.2	4.3	11.4	51.8	BBB+
United States	17,947.0	321.6	55,805	…	1.4	1.8	–3.4	17.0	28.7	0.7	5.3	…	47.6	AAA
Puerto Rico[8]	101.6	3.5	37,952	…	–0.9	2.0	…	…	…	…	12.0	…	…	…
South America														
Argentina[9]	585.6	43.1	22,554	11.6	4.3	…	0.4	19.6	32.1	4.0	6.5	5.0	42.4	SD
Bolivia	33.2	11.5	6,465	0.7	5.0	6.0	4.7	24.1	72.7	35.1	4.0	14.4	48.1	BB
Brazil	1,772.6	204.5	15,615	35.1	2.8	5.9	–2.2	18.4	24.0	20.0	6.8	9.4	51.8	BB
Chile	240.2	18.0	23,460	4.8	3.8	3.7	–0.3	22.5	69.7	16.1	6.2	2.0	53.1	AA–
Colombia	293.2	48.2	13,847	5.8	4.6	4.2	–3.3	20.3	35.9	15.7	8.9	15.2	53.8	BBB
Ecuador	98.8	16.3	11,264	2.0	3.9	4.2	0.3	26.6	59.2	2.1	4.8	10.5	46.7	B
Guyana	3.2	0.8	7,509	0.1	4.4	4.0	–11.2	7.9	129.8	19.0	…	…	…	…
Paraguay	28.1	7.0	8,708	0.6	5.1	5.5	0.9	16.9	99.1	20.2	6.1	8.3	44.4	BB
Peru	192.1	31.9	12,195	3.8	5.9	3.2	–2.0	22.7	50.6	31.5	6.0	10.0	44.9	BBB+
Suriname	5.2	0.6	16,292	0.1	3.6	8.2	2.6	…	99.7	5.5	8.7	…	…	BB–
Uruguay	53.8	3.4	21,507	1.1	4.8	7.9	–3.3	17.5	54.1	29.1	7.6	2.3	38.1	BBB
Venezuela[10]	239.6	30.9	16,673	4.7	2.1	47.7	3.5	26.9	53.5	6.8	7.4	4.9	39.8	CCC
Central America														
Belize	1.8	0.4	8,373	0.0	2.5	1.5	–4.9	11.7	126.8	24.8	12.0	…	…	B–
Costa Rica	52.9	4.8	15,482	1.0	4.1	6.1	–4.9	16.7	66.2	14.8	8.3	4.6	51.6	BB+
El Salvador	25.8	6.4	8,303	0.5	1.8	2.6	–4.6	10.0	66.3	10.6	5.3	12.7	44.4	B+
Guatemala	63.9	16.3	7,738	1.3	3.7	4.9	–2.6	12.9	61.3	11.8	…	40.7	53.8	BB
Honduras	20.3	8.4	4,869	0.4	3.6	5.9	–7.6	18.4	89.5	18.4	4.0	39.6	52.5	B
Nicaragua	12.2	6.3	4,997	0.2	3.8	8.0	–11.3	16.4	97.6	20.4	7.1	29.3	46.7	B+
Panama	52.1	4.0	21,765	1.0	7.6	3.8	–8.2	31.1	78.5	6.5	5.1	9.9	50.7	BBB
The Caribbean														
The Bahamas	8.7	0.4	25,167	0.2	0.3	2.0	–14.5	12.5	95.8	10.3	13.4	…	…	BBB
Barbados	4.4	0.3	16,575	0.1	0.6	4.3	–8.2	7.0	96.3	12.3	12.2	…	…	B
Dominican Republic	67.5	10.0	14,984	1.3	5.6	5.0	–5.3	19.8	58.5	7.8	5.9	13.9	46.8	B+
Haiti	8.6	10.7	1,750	0.2	2.0	7.8	–3.4	25.5	66.9	22.3	…	…	…	…
Jamaica	13.9	2.8	8,759	0.3	0.1	9.4	–10.5	12.2	89.5	20.9	13.5	…	…	B
Trinidad and Tobago	24.6	1.4	32,635	0.5	2.1	7.4	14.2	27.8	95.1	40.0	3.6	…	…	A–
Eastern Caribbean Currency Union	5.8	0.6	16,401	0.1	1.3	2.1	–19.6	7.6	95.5	24.6	…	…	…	…
Antigua and Barbuda	1.3	0.1	23,476	0.0	1.2	2.0	–17.5	11.9	108.1	24.7	…	…	…	…
Dominica	0.5	0.1	10,788	0.0	1.6	1.6	–17.4	0.0	86.8	26.3	…	…	…	…
Grenada	1.0	0.1	13,128	0.0	0.8	1.8	–23.7	0.3	77.8	19.2	…	…	…	…
St. Kitts and St. Nevis	0.9	0.1	24,808	0.0	2.1	2.4	–15.7	18.8	86.0	31.0	…	…	…	…
St. Lucia	1.4	0.2	11,739	0.0	1.1	2.3	–17.2	10.2	103.7	21.6	…	…	…	…
St. Vincent and the Grenadines	0.8	0.1	10,956	0.0	0.9	2.5	–28.4	–3.2	85.3	22.9	…	2.9	40.2	…
Latin America and the Caribbean	**5,052.5**	**615.8**	**15,377**	**100.0**	**3.2**	**4.9**	**–1.6**	**20.2**	**42.8**	**15.6**	…	**11.3**	**49.8**	**…**

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 The World Bank); and IMF staff calculations.

[1]Estimates may vary from those reported by national authorities on account of differences in methodology and source. Regional aggregates are purchasing–power–parity (PPP) GDP–weighted averages, except for regional GDP in U.S. 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 March 25, 2016.

[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 2013 or 2014, though the vintage for Nicaragua (2009) is less recent. Poverty rate is defined as the share of the population earning less than US$2.50 per day. For Venezuela, poverty rate is defined as a share of the population in extreme poverty per national definition (INE). Gini index for aggregate is population–weighted average from the IDB. Data for the United States are from the U.S. Census Bureau; those for Canada are from Statistics Canada.

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

[8]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]Projecting the economic outlook in Venezuela is complicated by the lack of any Article IV consultation since 2004 and delays in the publication of key economic data.