

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

Economic activity in Latin America and the Caribbean (LAC) is expected to remain relatively subdued in 2014. While the faster recovery of the advanced economies should strengthen external demand, this effect is likely to be offset by the negative impact of lower commodity prices and tighter financial conditions on domestic demand. Policy priorities include strengthening public finances, addressing potential financial fragilities, and implementing structural reforms to ease supply-side constraints and raise potential growth.

Real GDP growth in LAC moderated further in 2013 to 2¾ percent, down from 3 percent in 2012 and 4½ percent in 2011 (Figure 2.1 and Table 2.1). Activity was held back by weaker domestic demand, lower commodity prices, tightening financial conditions, and supply constraints in some cases. The particularly sharp slowdown in Mexico reflected lower public spending and construction activity, as well as weak demand from the United States. Inflation remained contained in most of the region, reflecting lower food prices and subdued activity. Regional financial markets were affected by repeated bouts of volatility over the past 12 months, as investors reassessed the relative risks and prospects of emerging market economies in the context of the U.S. Federal Reserve's initial steps toward reducing the pace of its asset purchases ("tapering").

Growth is projected to remain in low gear in 2014, at about 2½ percent (Figure 2.2), despite some strengthening of external demand. The slowdown in investment growth is expected to continue, reflecting the completion of large projects in mining and other areas, rising funding costs, and weaker business confidence.

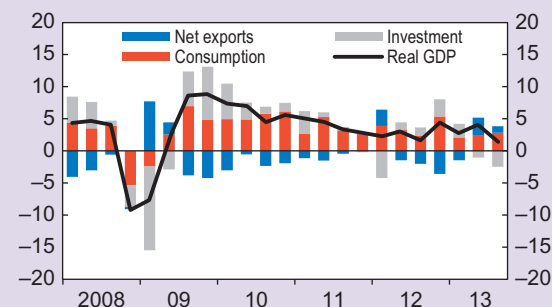
The headline growth number masks divergent dynamics for the region's largest economies. Mexico's economy is expected to rebound on the back of a stronger U.S. recovery and normalization

Note: Prepared by Dora Iakova with Anna Ivanova, Bogdan Lissovolik, Andre Meier, and Sebastián Sosa. Ewa Gradzka, Anayo Osueke, Carlos Rondon, and Ben Sutton provided excellent research assistance.

Figure 2.1

Growth in Latin America moderated further in 2013. Asset prices have declined since the May 2013 "taper shock," amid weaker investor sentiment.

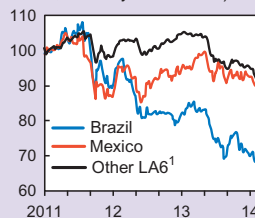
Selected Latin American Countries: Contributions to Quarterly Real GDP Growth¹
(Percentage points)



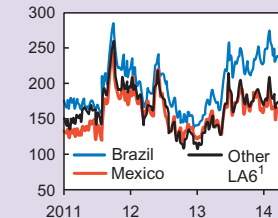
Sources: Haver Analytics; national authorities; and IMF staff calculations.
¹ Seasonally adjusted annualized growth rate. Purchasing power parity GDP-weighted averages of Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Paraguay, Peru, and Uruguay. Data through 2013:Q3. See Annex 2.1 for details on Argentina's GDP.

Selected Latin America: Financial Indicators, 2011–14

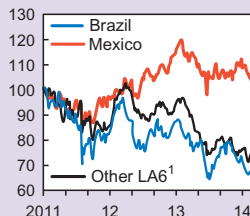
Exchange Rates
(U.S. dollars per local currency; index, January 2011 = 100)



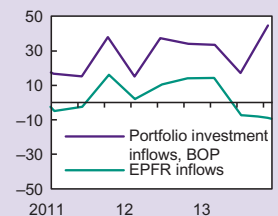
EMBI Spreads
(Basis points)



Equity Prices
(Index, January 2011 = 100)



Portfolio and EPFR Flows²
(Billions of U.S. dollars, quarterly)



Sources: Bloomberg, L.P.; Haver Analytics; IMF, International Financial Statistics database; national authorities; and IMF staff calculations.
Note: BOP = balance of payments; EMBI = J.P. Morgan Emerging Markets Bond Index.

¹ Simple average of Chile, Colombia, Peru, and Uruguay except for equity prices, where Uruguay is excluded.

² Aggregate flows to Latin America. EPFR data refer to inflows into exchange-traded funds and mutual funds.

Figure 2.2

Growth is projected to remain subdued in 2014, reflecting weak investment. External current account deficits are expected to stop widening.

LAC: Real GDP Growth¹

(Percent)

	2012	2013	2014	2015
		Est.	Proj.	
LAC	3.1	2.7	2.5	3.0
Financially integrated economies (LA6)	4.1	3.5	3.5	3.9
Other commodity exporters	3.3	5.9	2.8	2.6
Central America	3.8	3.2	3.4	3.4
Caribbean				
Tourism-dependent	0.1	0.7	1.4	1.9
Commodity exporters	3.7	3.2	3.2	3.2
Memorandum:				
Brazil	1.0	2.3	1.8	2.7
Mexico	3.9	1.1	3.0	3.5

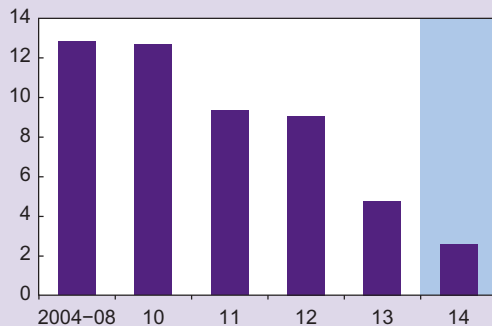
Source: IMF, World Economic Outlook database.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay; LAC = Latin America and the Caribbean.

¹ For definitions of the country groups and details on the aggregation method, see Table 2.1 on page 33.

LA6: Real Investment Growth¹

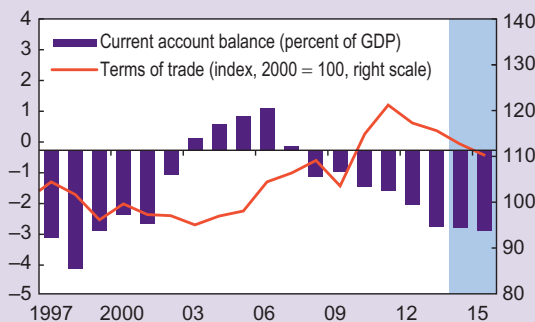
(Percent)



Source: IMF, World Economic Outlook database.

¹ Simple average of Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

LAC: External Current Account and Terms of Trade



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

Note: LAC = Latin America and the Caribbean.

of domestic factors. In Brazil, activity will remain subdued, as weak business confidence continues to weigh on private investment. Argentina and Venezuela, in turn, are faced with significant fiscal and external imbalances, which have prompted a variety of controls on trade, prices, and exchange rates that hamper activity. In the rest of Latin America, growth is expected to remain close to potential, with stronger external demand from the advanced economies offset by tighter global financing conditions and softer commodity prices. In the Caribbean, high debt levels and long-standing competitiveness problems will continue to constrain activity, though a recovery of tourism flows may provide a positive impulse.

Overall, the balance of risks to the outlook is still tilted to the downside. Although the effects from a gradual and orderly normalization of U.S. monetary policy should be contained for most of the LAC region, increased capital flow volatility remains a risk (see Chapter 3). Based on recent experience, countries with large current account deficits, high inflation, and limited domestic policy space are likely to be most affected by fresh bouts of financial market volatility. Another important risk is a sharper decline in commodity prices, for instance, driven by downward surprises to China's growth outlook. Commodity prices have already softened over the past 12 months (especially metals prices, which declined by 15 percent through mid-March) and are projected to moderate further over the medium term as supply is increasing while demand growth from large emerging markets is expected to slow.¹ A larger-than-envisaged decline in commodity prices would have negative effects on growth in South America's commodity exporters (see Chapter 4).

Turning to domestic risks, weak fiscal positions represent an important vulnerability in a number of economies (see Table 2.2 and Chapter 5).

¹ Chapter 1 of the April 2014 *World Economic Outlook* analyzes a risk scenario of a more prolonged, investment-led slowdown in major emerging market economies (IMF, 2014a).

Bank and household balance sheets are generally on sound footing, but several years of strong credit growth may have created pockets of vulnerability. Meanwhile, the increase in firms' external debt issuance should be monitored closely, with particular attention to buildup of excessive leverage and potential currency mismatches. The combination of slower growth and tighter financial conditions could drive up nonperforming loans and lower bank profitability. These challenges are heightened by the fact that medium-term potential growth in many economies is estimated to be well below the high average growth rates of the past decade. As discussed in the May 2013 *Regional Economic Outlook: Western Hemisphere*, policies need to adjust to this new reality. In particular, macroeconomic policies should not be used to boost demand in economies with output levels close to potential, while structural reforms are needed to raise productivity in the medium term.

Financially Integrated Economies Developments and Outlook

Output gaps remain relatively small in most of the financially integrated economies in the region. Near-term prospects vary, reflecting differences in potential growth across countries and some idiosyncratic factors:

- *Brazil's* growth is expected to fall below 2 percent in 2014. Weighing on activity are domestic supply constraints, especially in infrastructure, along with continued weak private investment growth, which seems to reflect loss of competitiveness and low confidence, as well as higher borrowing costs.
- Growth in *Mexico* is set to rebound to 3 percent in 2014. Some of the headwinds to growth have already started to ease, with fiscal policy shifting to a more accommodative stance and U.S. demand picking up, although the recovery in construction activity remains tepid. Looking further ahead, Mexico's ongoing

structural reforms, especially in the energy and telecommunications sectors, are expected to raise potential growth over the medium term.

- Among the other financially integrated economies, *Colombia* and *Peru* are expected to maintain fairly rapid growth. Activity in *Chile* is projected to moderate further, as private investment growth has slowed, especially in mining. In all three countries, private consumption growth remains robust, supported by low unemployment rates. In *Uruguay*, growth is also expected to moderate, as a major foreign direct investment–financed investment project reaches completion and external demand from regional trading partners weakens.

Labor markets remain relatively tight in most economies, with unemployment rates still near record-low levels (Figure 2.3 and Table 2.3). That said, a tentative easing of labor market pressures is apparent in several countries—employment growth and real wage growth are starting to moderate.

Inflation generally remained contained in 2013, reflecting lower food prices and the moderation of domestic demand (Figure 2.4). Weaker currencies have created an inflationary impulse recently, but pass-through effects are likely to remain modest, consistent with empirical estimates for economies with credible inflation-targeting regimes. However, the outlook varies across countries. In Chile and Colombia, inflation has recently edged up, but is projected to remain close to the official target. In Mexico, inflation spiked in early 2014, owing to one-off tax changes, but is expected to fall back into the target range in the second half of the year. A similar pattern is projected for Peru, where food supply shocks have caused some upside pressure in recent months. In Brazil, inflation is expected to stay in the upper part of the target range despite significant monetary tightening, reflecting limited spare capacity, inflation inertia, and some pass-through from exchange rate depreciation. Inflation continues to be higher in Uruguay, amid robust demand and widespread wage indexation.

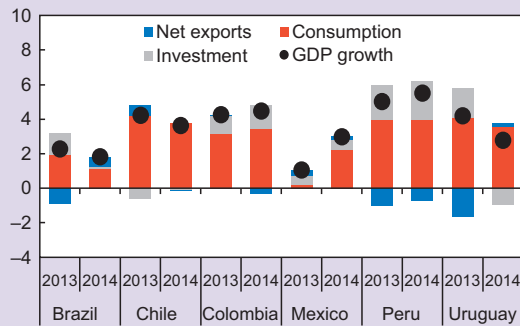
External current account deficits widened further in 2013, reaching 3.8 percent of GDP on average.

Figure 2.3

Unemployment remains at historically low levels, but real wage growth has started to moderate in some of the financially integrated economies.

LA6: Real GDP Growth Contributions, 2013–14

(Percentage points)

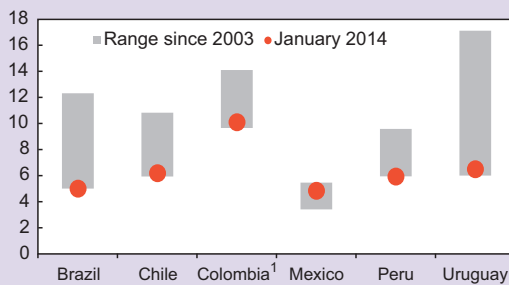


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

LA6: Unemployment Rate

(Percent)



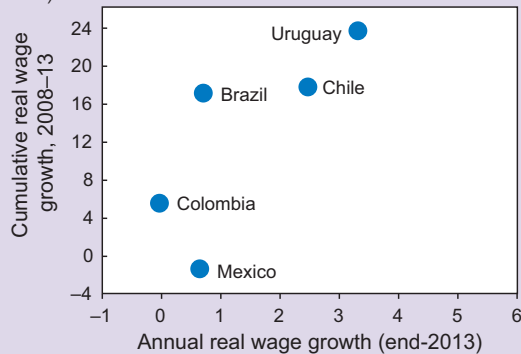
Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

¹ Includes unemployed workers who sought employment within the last 12 months.

Selected LA6: Real Wage Growth, 2008–13

(Percent)



Sources: Haver Analytics; and IMF staff calculations.

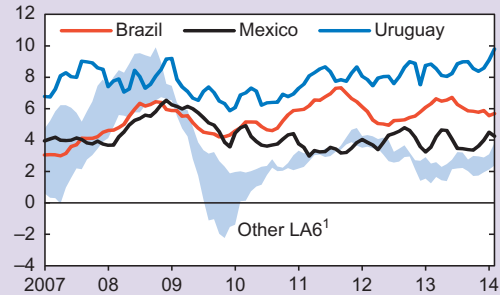
Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Figure 2.4

Inflationary pressures are limited to a few countries. External current account deficits rose further last year but were typically financed by foreign direct investment.

LA6: Headline Inflation, 2007–13

(12-month percent change)



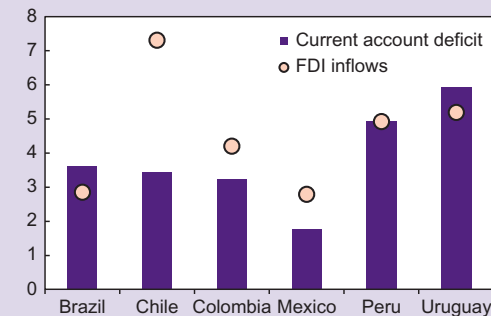
Sources: Haver Analytics; national authorities; and IMF staff calculations.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

¹ Shading represents the range of values for Chile, Colombia, and Peru.

LA6: External Current Account Deficit and Foreign Direct Investment, 2013

(Percent of GDP)

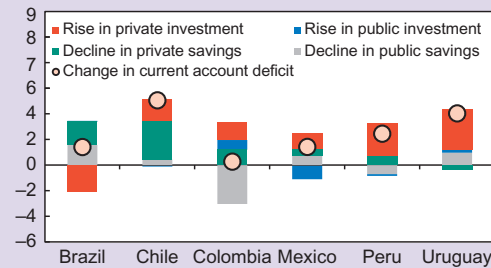


Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Note: FDI = foreign direct investment; LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

LA6: Factors Explaining the Change in Current Account Deficits, 2010–13

(Percent of GDP)



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

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

Relatively weak growth of export volumes was a key factor, alongside some deterioration of the terms of trade, especially in Chile and Peru. Softer commodity prices will continue to weigh on export proceeds in the future, but this effect should be partly offset by expenditure switching from weaker real exchange rates. On balance, current account deficits are expected to stabilize or narrow somewhat over the next two years. A sharper-than-expected deterioration in the terms of trade, however, remains a key downside risk.

Net capital inflows remained relatively strong in 2013, despite jitters in global financial markets (Figure 2.5). Foreign direct investment inflows continue to exceed the current account deficit in most countries. Portfolio investment and other types of capital inflows also held up, despite some divestment by foreign mutual fund investors. More generally, the pattern of flows during the most recent capital inflow episode compares favorably with a previous inflow episode in 1991–94. In particular, the financially integrated economies have received a more resilient mix of inflows, with a greater share of foreign direct investment, and have used a larger share of those inflows to build up international reserves and private asset holdings overseas, while the widening of the current account deficit has been more contained.² Nonetheless, the risk of a sudden stop of capital flows remains a concern.

Turning to domestic financial developments, bank lending growth moderated somewhat in Brazil, Chile, and Mexico, but remains buoyant—with real annual growth in excess of 10 percent in several countries. In Brazil, aggregate credit growth of 8 percent in real terms masks an important divergence between a slower pace of lending by private banks, in response to weak demand and tightening credit standards, and a still-strong expansion of lending by public banks. After several years of strong credit expansion, the challenge for most of the financially

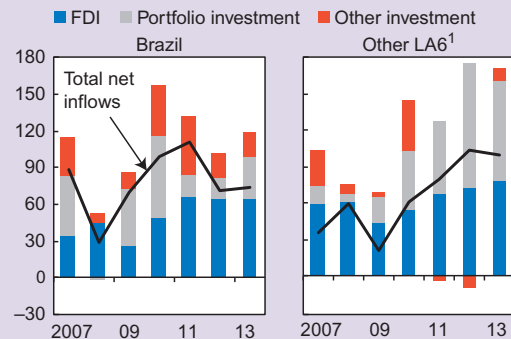
² In the aftermath of the “taper shock” in May 2013, the partial retrenchment of foreign investors was offset by repatriation of assets by residents in some countries (see Chapter 3).

Figure 2.5

Even as asset prices declined, net capital inflows remained relatively strong in 2013. Domestic credit growth also stayed buoyant.

LA6: Gross and Net Financial Flows, 2007–13

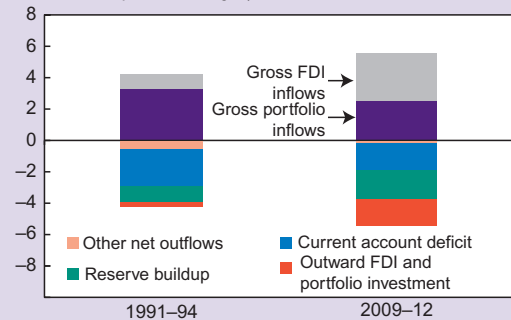
(Billions of U.S. dollars)



Sources: IMF, World Economic Outlook database; and IMF staff calculations. Note: FDI = foreign direct investment; LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. ¹ Sum of flows to Chile, Colombia, Mexico, Peru, and Uruguay.

LA6: Comparison of Two Capital Inflow Episodes

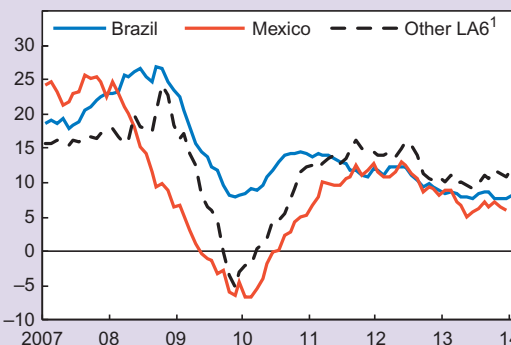
(Percent of GDP, period averages)



Sources: IMF, International Financial Statistics database; and IMF staff calculations. Note: FDI = foreign direct investment; LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

LA6: Credit to the Private Sector in Real Terms

(12-month percent change)



Sources: Haver Analytics; and IMF staff calculations. Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay. ¹ Simple average of credit growth in Chile, Colombia, Peru, and Uruguay.

integrated economies is to engineer a smooth transition to more sustainable rates of credit growth.

Cyclically sensitive sectors with high leverage, such as commercial real estate development in Chile, could be especially vulnerable. An area of potential concern in Brazil is consumer credit, which has increased rapidly in recent years, albeit from a low base.

Corporate debt issuance in the region has also been very strong in recent years, though the bonds have relatively long maturities and there are no near-term maturity cliffs (Figure 2.6). In some cases, including Brazil, balance sheet leverage has increased, although debt metrics do not yet suggest broad-based financial excess (see Box 2.1).

Policy Priorities

The outlook for the financially integrated economies presents two main policy challenges. First, investor sentiment toward emerging markets remains fragile. New episodes of market turbulence could further drive up funding costs, with negative knock-on effects for growth. Second, with the secular commodity price boom petering out and activity increasingly constrained by supply-side bottlenecks, economic growth is likely to settle below the high rates of the past decade, even in the absence of major external shocks. Addressing these challenges will require a careful recalibration of macroeconomic policies, a clear focus on reducing vulnerabilities, and stepped-up structural reforms to remove obstacles to growth.

Exchange rate flexibility played a key role in helping these countries adjust to the market turbulence in mid-2013, and will continue to provide an important buffer (Figure 2.7).³ In general, the depreciation of the past 12 months has brought these countries' exchange rates closer in line with long-term fundamentals. Importantly, the economic benefits of better-aligned currencies have not been outweighed by adverse side effects: pass-through to inflation has

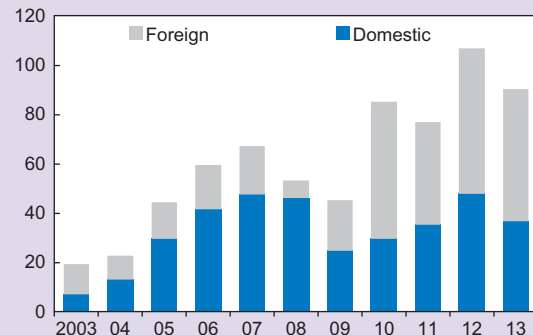
³ Magud and Vesperoni (2014) show that economies with flexible exchange rates have less pronounced credit cycles than those with more rigid exchange rate regimes during episodes of large capital flow reversals.

Figure 2.6

Corporate bond issuance moderated in Brazil but continued at a strong pace elsewhere.

LA6: Corporate Bond Issuance in Domestic and Foreign Markets

(Billions of U.S. dollars)

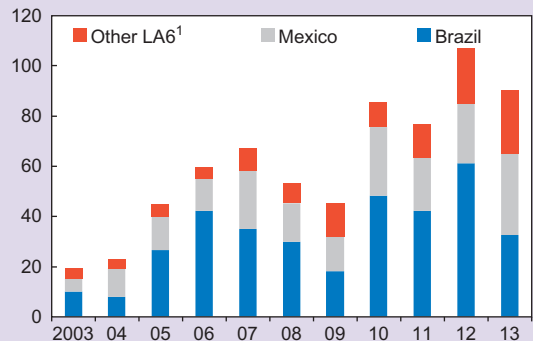


Sources: Dealogic; and IMF staff calculations.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

LA6: Corporate Bond Issuance by Nationality of Issuer

(Billions of U.S. dollars)



Sources: Dealogic; and IMF staff calculations.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

¹ Sum of corporate bond issuance in Chile, Colombia, Peru, and Uruguay.

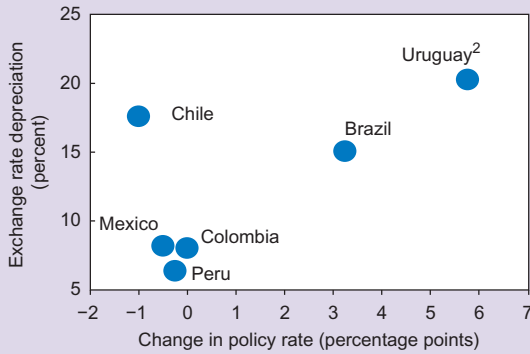
generally been moderate, and there is little evidence for negative balance sheet effects, although potential vulnerabilities bear continued close monitoring.

Large international reserve positions are an additional source of strength. All the financially integrated economies have sufficient resources to provide foreign exchange liquidity if faced with disorderly market conditions owing to illiquidity. Temporary interventions to smooth excessive exchange rate volatility could also be justified in some cases, although they should not be used to defend fundamentally misaligned exchange rates

Figure 2.7

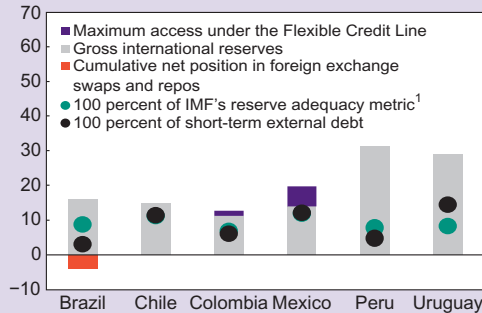
Flexible exchange rates and high reserve levels provide important external buffers. Fiscal spending continued to rise, even as revenues slowed.

LA6: Change in Policy Rates and Exchange Rates Since End-April 2013¹



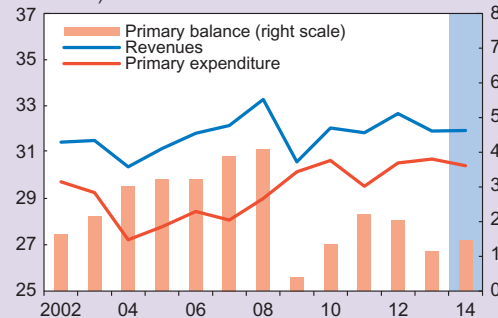
Sources: Haver Analytics; and IMF staff calculations.
 Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.
¹ Data through March 26, 2014.
² Uruguay discontinued its policy rate in June 2013. The figure shows the one-month Uruguayan peso rate.

LA6: Official Foreign Exchange Reserves (Percent of GDP)



Sources: National authorities; World Economic Outlook database; and IMF staff calculations.
 Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.
¹ Methodology described in Moghadam, Ostry, and Sheehy (2011).

LA6: Fiscal Indicators, 2002–14 (Percent of GDP)



Source: IMF, World Economic Outlook database.
 Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

or as a substitute for necessary macroeconomic policy adjustments. The key to sustaining investor confidence, more broadly, lies in maintaining strong balance sheets, credible policy frameworks, and a prudent macroeconomic stance.

As seen over the past year, countries with low inflation and well-anchored inflation expectations retain the flexibility to ease monetary policy in response to a slowdown in growth, even when global interest rates are rising. In countries with relatively high and persistent inflation, both monetary and fiscal policies should focus on reducing inflation pressures and strengthening the credibility of the policy framework. Brazil and Uruguay tightened their monetary policy stance significantly over the past 12 months to rein in inflation and support the domestic currency, although fiscal policy has been broadly neutral.

With activity levels still close to potential in most countries, fiscal policy stimulus is not warranted. A neutral fiscal stance is appropriate for countries with strong public finances and low external current account deficits; others should aim for gradual tightening to put debt firmly on a downward path. Countercyclical fiscal stimulus would be appropriate only in case of a sharp slowdown in activity amid evidence of considerable slack in the economy, and only in countries with adequate fiscal space. In addition, increasing the transparency of fiscal accounts—including by improving the reporting and monitoring of public-private infrastructure projects—and minimizing reliance on one-off measures to meet budget targets would help strengthen investor confidence and keep risk premiums low.

Looking at longer-term trends, primary public expenditure as a share of GDP has increased steadily since the financial crisis, including in 2013, even though revenue growth has started to slow. The moderation of revenues is likely to persist over the period ahead, reflecting softer commodity prices, rising commodity extraction costs, and lower potential growth. At the same time, pressures on expenditure are growing, including from higher interest bills, critical infrastructure needs, and demands for better public services. Aging-related

spending is also expected to increase in the medium term. All these factors underscore the importance of prudent fiscal policy as well as the need to improve the efficiency of public spending.

Strong financial sector regulation and supervision remain crucial to safeguard financial stability. Banks in the financially integrated economies generally have solid capital and liquidity ratios, good asset quality, strict ceilings on open currency positions, and limited reliance on external financing. However, some of these buffers may be eroded in a scenario of slower growth and tighter financial conditions, especially in economies that have seen high credit creation in recent years. Targeted macroprudential measures could be used to reduce vulnerabilities.

The key challenge over the medium term is to boost productivity and competitiveness. Total factor productivity in the region has improved over the last decade, but still lags compared with other fast-growing emerging markets (see Chapter 3 in the May 2013 *Regional Economic Outlook: Western Hemisphere*, and Sosa, Tsounta, and Kim, 2013). Output growth during that period was driven mainly by factor accumulation, aided by favorable financing conditions and strong demographics. To sustain high growth rates in the medium term, however, policymakers need to focus on upgrading the domestic infrastructure, improving educational outcomes, and strengthening competition (Figure 2.8). Mobilizing domestic saving (which is low in LAC by international standards) could also enhance investment and long-term growth.

Other Commodity Exporters Developments and Outlook

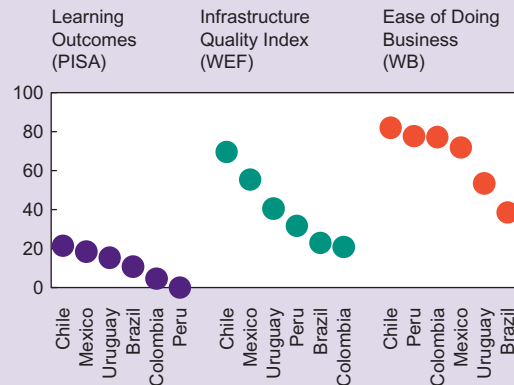
Developments in the other five large commodity exporters in Latin America reflected mostly differences in domestic policies (Figure 2.9).

Venezuela suffered a sharp economic slowdown, a steep rise in inflation, and an intensification of

Figure 2.8

Latin America compares unfavorably on education outcomes. Infrastructure standards and the business environment vary more across countries.

LA6: Structural Performance Indicators, Percentile Ranks¹

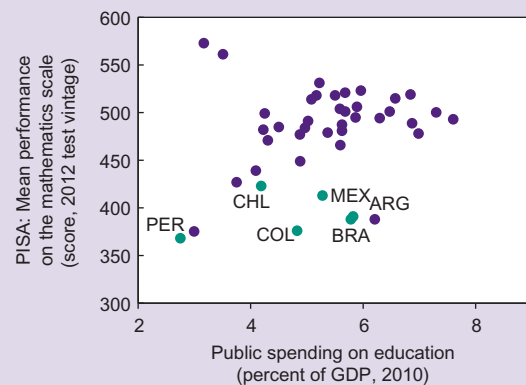


Sources: Organization for Economic Cooperation and Development, Programme for International Student Assessment (PISA; 2012); World Bank (WB), Ease of Doing Business database (2013); World Economic Forum (WEF).

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

¹ The scale reflects the percentile distribution in all countries for each respective survey; higher scores reflect higher performance.

Selected Latin America: Educational Performance and Public Spending on Education



Sources: Organization for Economic Cooperation and Development, Programme for International Student Assessment (PISA); and World Bank, World Development Indicators database.

Note: See page 63 for country name abbreviations.

shortages of foodstuff and other consumer goods in 2013. These developments were a consequence of the highly expansionary policies in recent years, which—while helping to improve social indicators—led to

Figure 2.9

Output growth was strong in 2013 among the other commodity exporters of the region, except in Venezuela, where activity weakened sharply.

Other South America: Real GDP Growth¹
(Percent)

	2012	2013	2014	2015
		Est.	Projections	
Argentina ²	1.9	4.3	0.5	1.0
Bolivia	5.2	6.8	5.1	5.0
Ecuador	5.1	4.2	4.2	3.5
Paraguay	-1.2	13.0	4.8	4.5
Venezuela	5.6	1.0	-0.5	-1.0
Memorandum:				
LA6	4.1	3.5	3.5	3.9
LAC	3.1	2.7	2.5	3.0

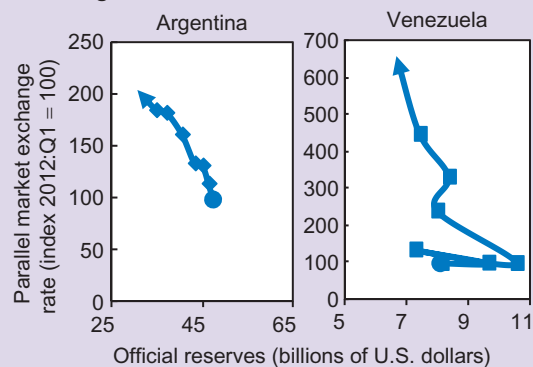
Source: IMF, World Economic Outlook database.

Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay; LAC = Latin America and the Caribbean.

¹ For definitions of the country groups and details on the aggregation method, see Table 2.1.

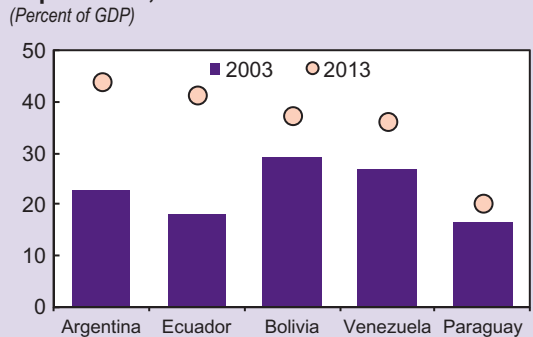
² See Annex 2.1 for details on Argentina's GDP.

International Reserves and Parallel Market Exchange Rates, 2012:Q1–2013:Q4



Sources: Ambito Financiero; IMF, International Financial Statistics database; national authorities; and IMF staff calculations.

Other South America: Primary Government Expenditure, 2003 and 2013
(Percent of GDP)



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

the buildup of large macroeconomic imbalances. The imposition of extensive controls on prices has worsened economic distortions. In Argentina, strong agricultural output boosted real GDP growth in early 2013; however, activity slowed sharply in the second half of the year, and confidence has deteriorated. With no access to external funding, the Argentine authorities have increased reliance on central bank credit to finance the fiscal deficit. In both countries, tight controls on the foreign exchange market and trade have failed to ease pressures on the external accounts, with reserves declining to fairly low levels.

In January, the Argentine authorities allowed a depreciation of the official exchange rate, backed by an increase in domestic policy rates. However, real rates are still negative, and a sizable gap remains vis-à-vis the exchange rate in the informal market. In Venezuela, the bolivar/U.S. dollar exchange rate in the parallel market has recently been 8 to 13 times higher than the official exchange rate. Responding to this imbalance, the authorities introduced an additional official segment to the foreign exchange market in late March. The more depreciated exchange rate in this segment has resulted in a depreciation of the average official rate in Venezuela's multiple exchange rate regime.

Assuming that economic policies do not change course, output in both countries is expected to stagnate during 2014, though projections are subject to significant uncertainty and downside risks.

In the other three countries in the group, growth has been strong. Bolivia's economy expanded nearly 7 percent last year, supported by record-high hydrocarbon exports, strong private consumption, and accommodative macroeconomic policies. These factors should continue to support above-potential growth in 2014. Growth in Paraguay rebounded sharply as the agricultural sector recovered from a severe drought. The main risk to the outlook for both countries is a potential weakening of external demand from large regional trading partners (see Box 2.2, Chapter 4 in the May 2012 *Regional Economic Outlook: Western Hemisphere*, and Adler and Sosa, 2014). In Ecuador, growth is expected to

remain more moderate at about 4 percent, in part owing to lower oil exports.

Inflation remained low in Ecuador and Paraguay (at 2¾ percent and 3¾ percent by end-2013, respectively), whereas it increased in Bolivia (to 7½ percent), due to food supply shocks. The external current account balances deteriorated in Bolivia and Ecuador in 2013, reflecting softer terms of trade, but improved in Paraguay, due to higher agriculture and meat export volumes.

Policy Priorities

Policy priorities among the other commodity-exporting economies differ depending on specific domestic conditions. In Argentina, recent measures to allow for a weaker exchange rate, higher domestic interest rates, and a reduction in certain utility subsidies are steps in the right direction. However, further policy adjustments are necessary to restore macroeconomic stability, especially in the context of less favorable prospects for global commodity prices. In Venezuela, the persistence of significant imbalances, including high inflation and pervasive scarcity of basic goods, underscores the need for fundamental policy adjustments to avert the risk of disorderly dynamics. For Ecuador, the key challenge relates to building buffers against the risk of a future drop in oil prices, which would put some strain on the external and fiscal accounts.

More generally, public expenditure as a share of GDP in most countries in the group has increased sharply over the last decade, on the back of rising commodity revenues. Energy subsidies account for a significant share of spending in all countries except for Paraguay (see Box 2.3). Spending should be scaled back significantly, including through a reduction and better targeting of subsidies, to correct macroeconomic imbalances and increase buffers. Meanwhile, sustaining inclusive growth is a common challenge in Bolivia, Ecuador, and Paraguay. Further efforts to enhance productivity, promote deeper and more efficient financial markets, and improve education and health standards remain critical.

Central America, Panama, and the Dominican Republic

Developments and Outlook

Economic activity in Central America slowed in 2013 as exports weakened, reflecting a slowdown in U.S. demand and the onset of the coffee roya disease (Figure 2.10). Growth in Panama also eased owing to a reduction in canal traffic and re-export activity (related in part to controls on foreign exchange payments by Venezuela). Moderate growth and lower food and commodity prices helped keep inflation low. The rise in financial market volatility since last May has affected Central America, Panama, and the Dominican Republic (CAPDR) as well. Exchange rates have depreciated, foreign exchange reserves have declined in some countries, and sovereign spreads have increased.

Growth is projected at about 3¼ percent in 2014, similar to last year's outturn. The projected pickup in U.S. demand is expected to have positive spillovers through higher exports and remittances. However, these will be offset by rising external financing costs and idiosyncratic factors, such as the need for fiscal consolidation and the impact of the coffee roya disease, which is expected to reduce growth over 2013–14 by a cumulative ¾ percentage point on average.

Risks to the outlook remain tilted to the downside. CAPDR is exposed to renewed bouts of negative investor sentiment toward emerging markets, given high financing needs and, in some cases, increased reliance on external funding. Reduced financing from Venezuela under the PetroCaribe program could also weigh on growth in some countries—especially the Dominican Republic and Nicaragua. On the upside, with more than 40 percent of exports going to the United States, higher-than-expected U.S. growth would be a net positive for the region (see Chapter 3). The expected stabilization of oil prices would also benefit most countries.

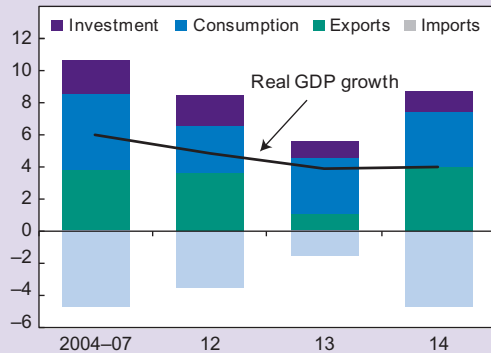
Weak fiscal positions remain a key vulnerability for most CAPDR countries. Public debt has increased significantly since 2008 in Costa Rica, the Dominican Republic, El Salvador, and Honduras, reflecting a permanent increase in expenditure.

Figure 2.10

Growth moderated in the CAPDR region in 2013.
The region was also affected by the increase in financial market volatility since last May.

CAPDR: Contributions to Growth¹

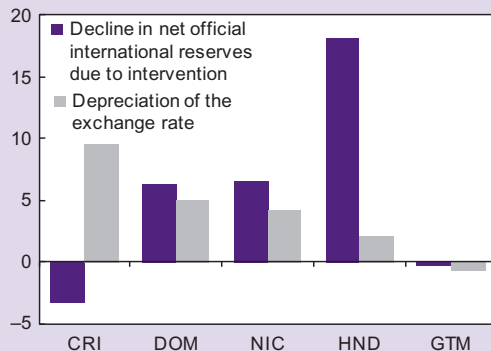
(Percent)



Sources: National authorities; and IMF staff calculations.
 Note: CAPDR = Central America, Panama, and the Dominican Republic.
¹ Includes a simple average of Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama.

Selected CAPDR: Exchange Market Pressure¹

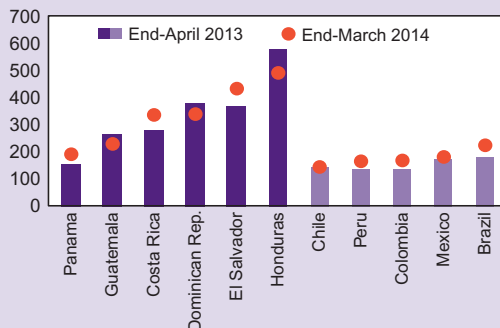
(Percent)



Sources: National authorities; and IMF staff calculations.
 Note: CAPDR = Central America, Panama, and the Dominican Republic.
 See page 63 for a list of country name abbreviations.
¹ Data from April 2013 to February 2014.

Selected Latin America: EMBIG Spreads

(Basis points)



Sources: Bloomberg, L.P.; and IMF staff calculations.
 Note: EMBIG = J.P. Morgan Emerging Markets Bond Index Global.

Many countries have taken advantage of the favorable global financing conditions in recent years and issued international bonds to meet financing needs. The increased reliance on external financing could lead to a rise in refinancing costs and rollover risk in the medium term, as global financial conditions tighten.

External current account deficits are also large (7 percent of GDP on average), and external debt is high and rising in a number of countries, including the Dominican Republic, El Salvador, and Honduras (Figures 2.11 and 2.12). A moderation of foreign direct investment and portfolio inflows could pose risks, with international reserves providing only a limited cushion.

Although banks across CAPDR are well capitalized and have liquidity ratios that meet or exceed Basel III standards, a high degree of dollarization remains a potential vulnerability. In addition, some banks have increased their reliance on external financing in recent years. A depreciation of the local currency could weaken the balance sheets of businesses and households, exposing banks to credit and refinancing risks. Another concern in some countries is the large exposure of banks to the public sector.

Policy Priorities

A consolidation of public finances is necessary to reduce fiscal and external imbalances, and to ensure debt sustainability. Consolidation efforts would have to include both expenditure restraint, such as curbs on public sector wage growth and improved targeting of subsidies, and higher tax revenues. Putting social security systems on a sound financial footing is also critical in many countries.

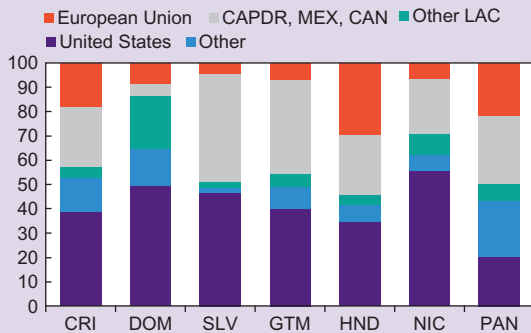
In addition, countries would benefit from strengthening the fiscal policy framework more broadly, including specifying medium-term fiscal objectives, introducing fiscal rules, and minimizing fiscal risks related to public-private partnerships.

The five CAPDR economies that are not officially dollarized would benefit from greater exchange rate flexibility to enhance their capacity to adjust to

Figure 2.11

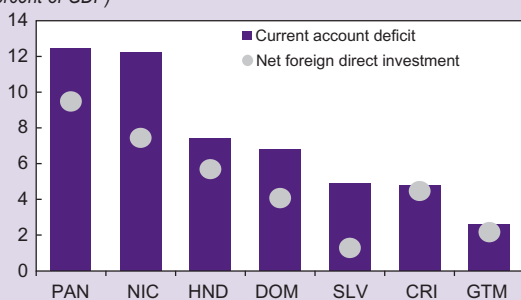
External positions remain weak in most of the CAPDR region.

CAPDR: Exports of Goods by Destination, 2012
(Percent of total goods exports)



Sources: IMF, Direction of Trade Statistics database; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic. See page 63 for a list of country name abbreviations.

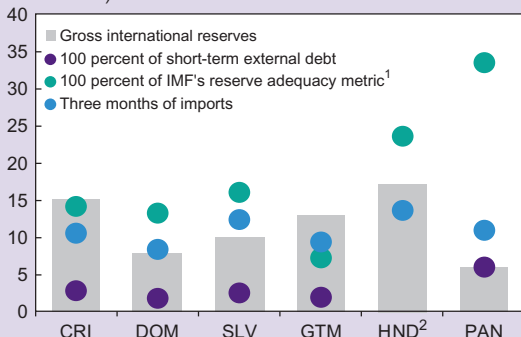
CAPDR: External Current Account Deficits and Net Foreign Direct Investment¹
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic. See page 63 for a list of country name abbreviations.
¹ Annual average for 2010–13.

CAPDR: External Buffers, 2013

(Percent of GDP)



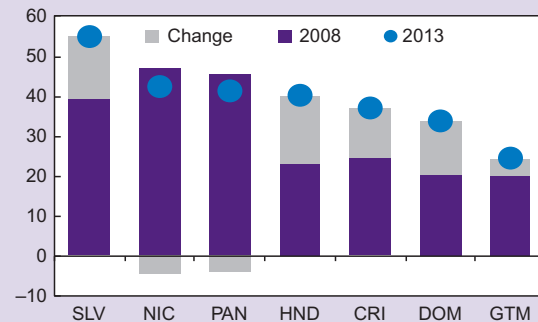
Sources: National authorities; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic. See page 63 for a list of country name abbreviations.
¹ Methodology described in Moghadam, Ostry, and Sheehy (2011).
² For Honduras, import data refer to the following year's imports of nonmaquila goods.

Figure 2.12

Public and external debt has increased in most countries in the CAPDR region. Financial sector vulnerabilities remain significant in some cases.

CAPDR: Public Debt

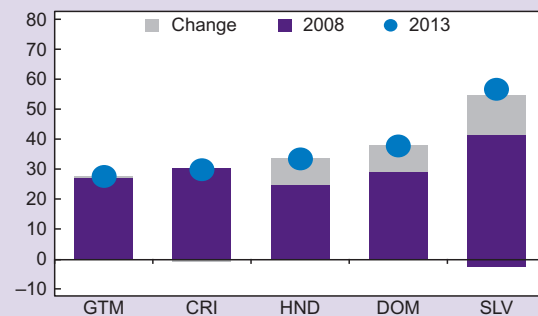
(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic. See page 63 for a list of country name abbreviations.

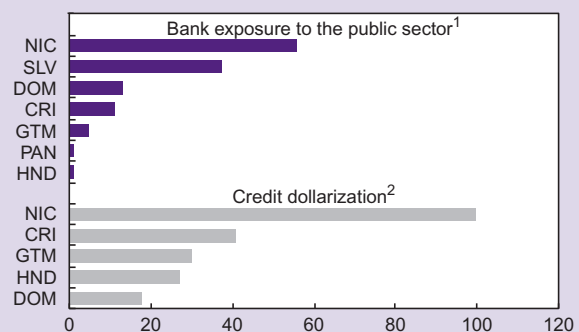
Selected CAPDR: Total External Debt

(Percent of GDP)



Sources: National authorities; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic. See page 63 for a list of country name abbreviations.

CAPDR: Financial System Vulnerabilities, 2012



Sources: National authorities; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic. See page 63 for a list of country name abbreviations.
¹ Net bank sector claims toward the nonfinancial public sector in percent of net domestic assets.
² Credit in foreign currency in percent of total private credit.

external shocks. Financial vulnerabilities related to dollarization should be addressed through enhanced prudential regulation to create stronger incentives for agents to internalize currency risks. Some countries are taking steps in this direction by imposing more stringent criteria for assessing credit risks of unhedged borrowers and raising provisioning requirements. Moreover, regulators will need to ensure that banks rigorously stress test their customers' as well as their own foreign exchange exposures.

A key medium-term challenge is to raise productivity and potential growth, which remain constrained by a weak business environment, security issues, and poor infrastructure. Priorities include improving the investment climate and upgrading the quality of the labor force through better education and health care. Meanwhile, improving governments' revenue-generating capacity would allow directing more resources to productive public investment.

The Caribbean

Developments and Outlook

Growth remains tepid in most of the Caribbean (Figure 2.13). In the tourism-dependent economies, real GDP growth picked up modestly in 2013 (to $\frac{3}{4}$ percent, up from close to zero in 2012). Construction activity seems to have bottomed out, but tourist arrivals and spending have continued to underperform in most countries. Ongoing financial sector stress is further weighing on growth in some cases. Growth has been stronger among the region's commodity exporters—in particular Guyana and Suriname—and in Haiti, whose economy expanded 4 percent on the back of ongoing reconstruction spending and increased agricultural output and textile exports. Inflation is generally low across the region, as domestic demand remains weak and food and fuel prices soften.⁴

External positions remain very weak in the tourism-dependent economies. Their current

⁴ An exception is Jamaica, where inflation rose to almost 10 percent (from 8 percent in 2012), reflecting the pass-through of nominal depreciation and higher administered prices.

account deficits averaged 17 percent of GDP in 2013, similar to the previous two years, reflecting a high oil import bill and persistently poor competitiveness. These large deficits continue to be financed mainly through net foreign direct investment and official flows, including from the IMF. Financing from Venezuela's PetroCaribe is also important in some countries (Guyana, Haiti, Jamaica, and most of the Eastern Caribbean Currency Union [ECCU], where it represents as much as 4–7 percent of GDP per year). A sudden interruption of any of these flows would cause severe financing difficulties (see Box 2.2).⁵

Fiscal balances deteriorated in most of the region in 2013. Public debt levels remain especially high in the tourism-dependent economies (averaging more than 90 percent of GDP), where strong and sustained efforts will be required to bring debt to a sustainable path. In some countries, governments already face considerable financing challenges (Antigua and Barbuda, Barbados, Belize, Grenada, St. Lucia), underscoring the urgency of consolidation efforts.⁶ Public debt levels are significantly lower among the Caribbean commodity exporters (50 percent of GDP on average), but fiscal adjustment is still warranted in some countries to ensure debt sustainability.

Financial sector issues are prominent in the ECCU, where indigenous banks remain under stress. Reflecting the sluggish economy and high and rising nonperforming loans, along with a regulatory interest rate floor on savings deposits, banks' profitability has been generally low and credit to the private sector has remained subdued.

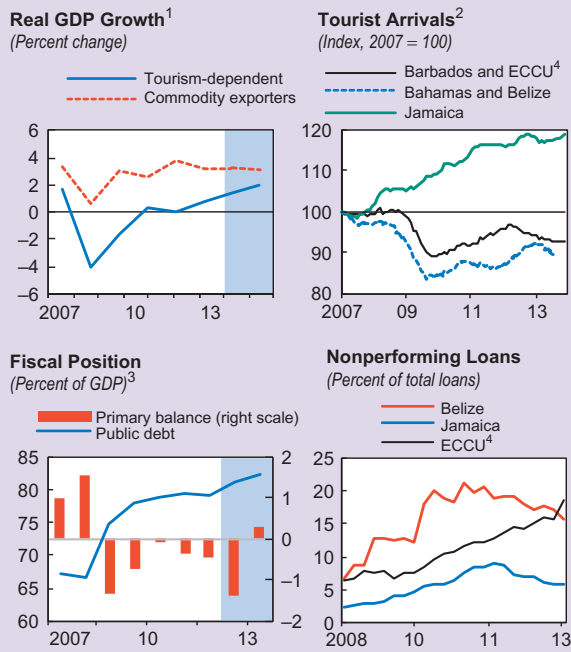
On the positive side, provisioning for nonperforming loans has improved and deposits have recovered in some countries.

⁵ Some countries have taken steps to confront these risks. Antigua and Barbuda, Guyana, and St. Kitts and Nevis, for example, have been saving a substantial part of the PetroCaribe financing.

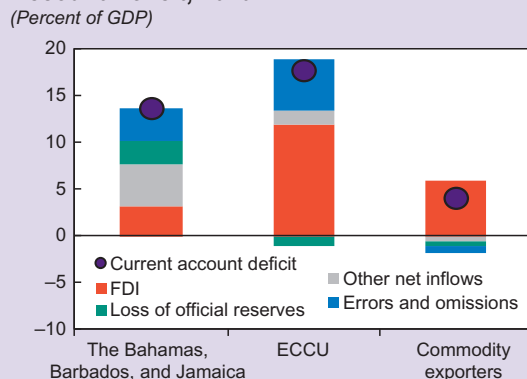
⁶ In Antigua and Barbuda and in Anguilla, the high resolution costs of failed banks add to fiscal pressures. In Belize, financing needs are exacerbated by the potential costs of the nationalization of two utility companies.

Figure 2.13

In most of the Caribbean, growth remains low, constrained by high public debt and significant external and financial vulnerabilities.



Caribbean: Financing of External Current Account Deficit, 2013¹



Looking ahead, growth in the tourism-dependent economies is expected to rise somewhat this year but remain constrained by debt overhang, weak competitiveness, and necessary fiscal consolidation. The fallout from further delays in the resolution of troubled financial institutions constitutes an important risk to the ECCU's outlook. In the commodity-exporting economies, growth is expected to remain broadly stable in 2014.

Policy Priorities

Reducing high public debt levels is a key challenge in much of the Caribbean. The urgency and desirable speed of fiscal consolidation is directly related to the extent of the debt burden. Although fiscal consolidation can prove challenging in a context of slow growth, the cost of the status quo is likely to be more disruptive economically and socially at some point. Improving medium-term fiscal policy frameworks, lowering current spending to make room for capital expenditure, and reducing the level of tax waivers and concessions would help enhance the consolidation process. The recent introduction of an enhanced fiscal rule in the context of Jamaica's Extended Fund Facility-supported program is an example of such reforms.

Reducing financial vulnerabilities is critical in the ECCU. An updated asset quality review of banks and legislative reforms to strengthen the bank resolution framework should be priorities. Additionally, strengthening the legal and regulatory framework to facilitate financial sector resolution and crisis management, and enhancing supervision of the entire system are also required to address financial sector weaknesses.

Boosting potential growth remains the main challenge for most of the Caribbean countries. Decisive reforms to foster competitiveness, enhance productivity, and raise private sector investment are necessary. In particular, reforms should focus on addressing key structural weaknesses (such as high energy and labor costs), reducing the cost of cross-border trading, and diversifying tourism markets.

Box 2.1

Taking the Pulse: Leverage and Debt Servicing Capacity among Firms in Latin America

Several consecutive years of strong corporate debt issuance have given rise to concerns that companies across the financially integrated economies of Latin America may be reaching problematic degrees of financial leverage. To assess the issue, we consider a database of about 1,000 listed nonfinancial firms in Brazil, Chile, Colombia, Mexico, and Peru, tracking key indicators over the past decade.

Focusing initially on the median firm, a trend increase in indebtedness—measured as the ratio of total liabilities (i.e., all funding sources other than equity) to total assets—is readily visible since 2006, although the indicator has eased from its 2009 peak. At about 53 percent, the median LA5 firm turns out to be as leveraged in 2013 as it was 10 years ago (Figure 2.1.1). As regards the composition of debt, the ratio of bond debt to total assets has increased since 2009, while the ratio of bank term debt to total assets has remained broadly stable.

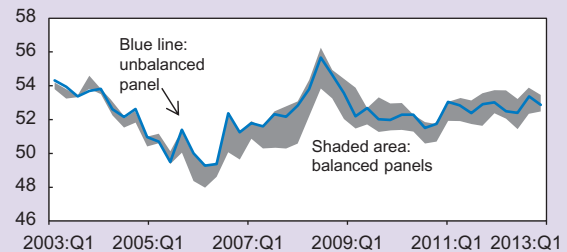
A closer look at country-specific data shows that median leverage is highest among Brazilian firms, followed by their Mexican peers. Firms from Chile and especially Mexico rely relatively more on bond debt than on bank term loans, whereas the opposite holds for Brazil. From a sectoral perspective, industrial companies stand out as having geared up the most, with liabilities now representing more than 60 percent of total assets on average.

The rise in leverage in recent years does not yet appear to have compromised the debt-servicing capacity of the median company in the sample. Earnings before interest and taxes are three to four times higher than interest payments in most countries (Figure 2.1.2). However, these ratios are prone to marked declines in the event of a pronounced economic downturn or rise in interest rates. Moreover, statistics for the median firm conceal vulnerabilities in the weaker tail of companies. Data for 2013 reveal that some 30 percent of the companies in the sample had an interest coverage ratio below one (Figure 2.1.2). This group includes disproportionately many Brazilian companies. Looking across sectors, low interest coverage ratios are concentrated in the consumer sector, followed by materials, industrials, and energy.

Close monitoring of corporate sector financial data is important to ensure that remaining buffers do not get eroded too far, notably in countries whose firms already appear more highly geared. Authorities also need to be particularly vigilant to any indication—impossible to verify from the data used for this box—that the increased issuance of hard currency bonds by Latin American firms in recent years is creating problematic open positions in foreign currency.

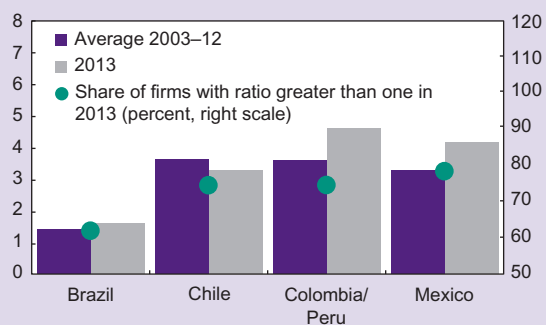
Note: This box was prepared by Fabiano Rodrigues Bastos, Andre Meier, and Anayo Osueke.

Figure 2.1.1

LA5: Median Ratio of Total Liabilities to Total Assets for Panels of Companies, 2003–13
(Percent)

Sources: Standard & Poor's Capital IQ; and IMF staff calculations.
Note: The dataset includes listed companies from Brazil, Chile, Colombia, Mexico, and Peru. The shaded area refers to a set of balanced panels, each starting in a given quarter and comprising all companies for which an uninterrupted time series through 2013:Q3 is available. Sample sizes range from 266 companies for the longest panel to 914 companies for the shortest.

Figure 2.1.2

LA5: Median Ratio of Earnings before Interest and Taxes to Interest Expenditure, 2003–13¹

Sources: Standard & Poor's Capital IQ; and IMF staff calculations.
¹ The statistics shown are based on median values for unbalanced panels of companies covering the period 2003:Q1 through 2013:Q3. Companies for Colombia and Peru are considered in the same group to ensure a sufficient sample size.

Box 2.2

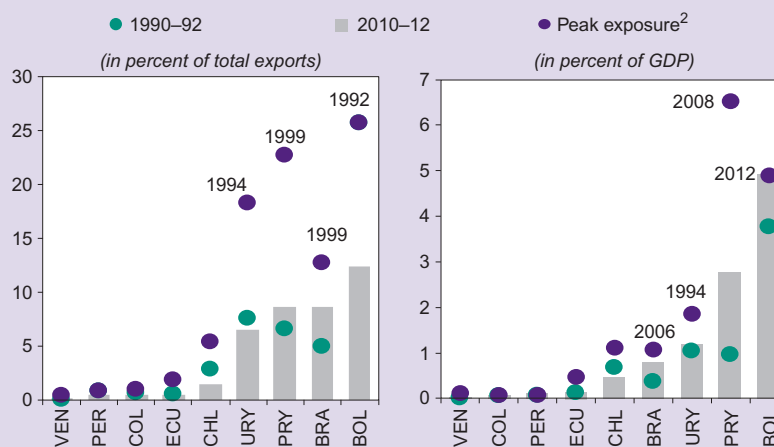
Potential Spillovers from Argentina and Venezuela

Argentina represents more than 10 percent of Latin America's GDP, but model-based results suggest that it would have limited real-sector spillovers to most neighbors, except for Uruguay. Financial market spillovers are also judged to be modest. In contrast, economic distress in Venezuela could pose spillover risks to some countries in the region, mostly in Central America and the Caribbean.

Spillovers from Argentina

The level of trade in goods between Argentina and its Latin American neighbors is relatively small. Only some economies (Bolivia, Brazil, Chile, Paraguay, Uruguay) exhibit a meaningful trade exposure to Argentina (Figure 2.2.1). Bolivia, in particular, experienced a remarkable increase in exports to Argentina over the past decade (reaching 12 percent of total exports, almost 5 percent of GDP), mainly as a result of rising exports of natural gas. In the other economies of the region, trade with Argentina has always been, and remains, almost negligible.

Figure 2.2.1

Selected Latin America: Trade Exposure to Argentina¹

Sources: IMF, Direction of Trade Statistics database; and IMF staff calculations.

Note: See page 63 for a list of country name abbreviations.

¹ Exports of goods to Argentina.

² Maximum exposure during 1990–2012, based on three-year moving averages. Corresponding year reported next to observation.

Other potential spillover channels are generally limited. In particular, Argentina's direct financial ties with neighbors are generally weak. In Bolivia and Uruguay, some channels other than trade in goods could play a role. In Uruguay, these channels include (i) trade in services (tourism from Argentina); (ii) foreign direct investment from Argentina (2 percent of GDP); and (iii) Argentine deposits in Uruguayan banks. In Bolivia, remittances from Argentina (1 percent of GDP) could be another transmission channel.

Results from vector autoregression estimations suggest that the impact of shocks to Argentina's output on its neighbors' output is not significant—except for Uruguay.¹ After controlling for common global factors, Argentina-specific output shocks have a significant impact on Uruguay, with the largest effect observed one quarter after the shock (Figure 2.2.2).²

Note: This box was prepared by Sebastián Sosa.

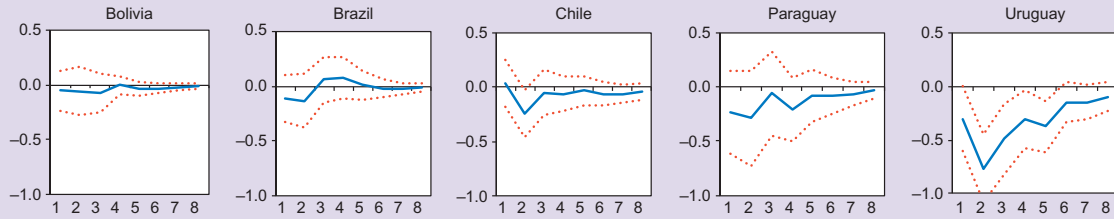
¹ We estimate country-specific vector autoregression models that include global factors (demand, financial conditions, and commodity prices), Argentina's real GDP growth, and the neighbor's real GDP growth. The model is estimated using quarterly data starting in 1990:Q1.

² Spillovers from Argentina to Uruguay are also evident from a simple variance decomposition analysis, with shocks from Argentina accounting for 20 percent of the variance of Uruguay's GDP at standard horizons.

Box 2.2

Figure 2.2.2

Selected Latin America: Output Response to a Negative Shock to Argentina's Output¹



Source: IMF staff calculations.

¹ Response to a one-standard-deviation shock to Argentina's GDP (1.5 percentage points) ± 1.5 standard errors (dotted lines). Time horizon in quarters.

Moreover, the impact of Argentina's output shocks on Uruguay today is significantly weaker than in the past. Several factors have contributed to this: (i) the share of Argentina in Uruguay's total exports of goods is at historical lows (5 percent, or 1 percent of GDP, in 2013, compared with an average of more than 10 percent of exports in the last two decades); (ii) the share of Argentina in Uruguay's tourism receipts has declined; and (iii) the share of Argentine deposits in Uruguayan banks has fallen from 40 percent of total deposits in 2001 to about 10 percent in 2013. Moreover, risks associated with nonresident deposits are manageable, as Uruguayan banks are highly liquid in dollars. Preliminary econometric analysis using only the more recent period suggests a lower sensitivity to Argentina than in the past.

Results from the vector autoregression model may understate the impact of Argentina's output fluctuations on Bolivia. Bolivia's trade exposure to Argentina has increased significantly in recent years; however, the estimation measures the average sensitivity over the entire sample.

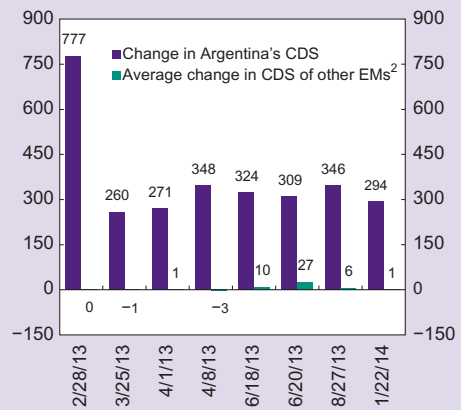
The estimated impact of a shock to Argentina's GDP on Brazil's GDP is not significant. This is consistent with the fact that exports to Argentina represent only 8 percent of total exports (1 percent of GDP). However, 85 percent of those exports are manufacturing goods (mainly durable consumption goods); thus, a negative shock in Argentina may have a negative impact on specific sectors.

Argentina is also not likely to generate financial market spillovers to its neighbors. In fact, the recent large increases in Argentina's sovereign credit default swap spreads have not been highly correlated with changes in spreads of their neighbors or emerging markets more generally (Figure 2.2.3). Three main factors appear to account for these limited spillovers: (i) Foreign investors are largely absent from local currency bond markets, while the stock of external debt has continued to shrink.³ (ii) A narrow investor base—although detailed data are not available, existing evidence suggests that the subset of investors still active in the Argentine market consists mainly of hedge funds and dedicated emerging market and distressed-debt investors, which typically have high risk tolerance and are less prone to fire sales. (iii) Proxy hedging (that is, selling other assets to hedge Argentine risk) is quite uncommon, reflecting the large idiosyncratic component of Argentina's market moves.

Figure 2.2.3

Behavior of Emerging Markets' CDS Spreads on Days of Large Increases in Argentina's CDS Spread

(December 2012–February 2014, basis points)¹



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

Note: CDS = credit default swap; EM = emerging market.

¹ Identified as days with the top 1 percent increases in the country's sovereign CDS spread since 2007.

² Average of 11 other emerging market sovereign CDS spreads.

³ Argentina's current weight in leading global emerging market bond benchmarks (such as the Emerging Market Bond Index Global Diversified) is about 1–2 percent.

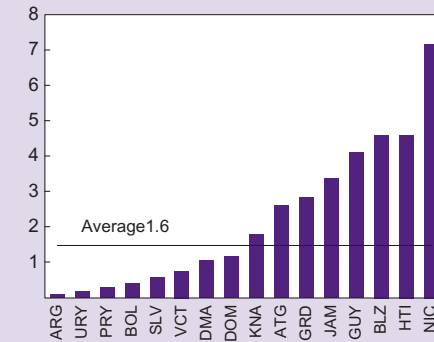
(continued)

Box 2.2 (concluded)

Spillovers from Venezuela

Over the last decade, Venezuela has provided financial support to several countries in Latin America and the Caribbean through various energy cooperation agreements. Under the agreements (including those under the PetroCaribe initiative), Venezuela provides financing under very favorable terms to beneficiary countries (including sometimes the possibility to repay in kind). Some countries in Latin America and the Caribbean are highly dependent on financing from these arrangements (Figure 2.2.4). Financing from Venezuela has averaged about 1½ percent of the recipient country’s GDP per year, but in some cases has represented up to 6–7 percent of GDP. Accordingly, these countries’ stock of debt to Venezuela is as high as 15 percent of GDP (Haiti) or 20 percent of GDP (Nicaragua). A sudden interruption of these agreements, or an abrupt change in their conditions, would create significant balance of payments problems for the recipient country, which would have to find alternative sources of external financing.⁴

Figure 2.2.4
External Financing from Venezuela, 2012
(Percent of GDP)



Sources: National authorities; Petroleos de Venezuela S.A.; and IMF staff calculations.
Note: See page 63 for a list of country name abbreviations.

⁴ An orderly reduction in oil exports under these agreements is already taking place. Oil exports to PetroCaribe declined by 15 percent in 2013. Venezuela also started to shorten maturity and increase interest rates to some countries.

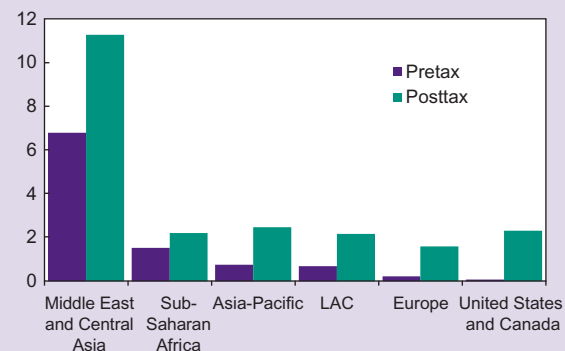
Box 2.3

Energy Subsidies in Latin America and the Caribbean

High oil prices since 2008 have increased pressures on countries to provide energy subsidies—even though these have fiscal costs and nontransparent effects on distribution and efficiency.

Energy subsidies are a worldwide phenomenon, and broadly speaking, are as prevalent in Latin America and the Caribbean (LAC) as in other regions. Depending on how they are measured, fuel and electricity subsidies amounted to between 0.7 and 2.2 percent of GDP in the average LAC country during 2011, broadly similar to the average for countries in the Asia-Pacific and sub-Saharan Africa regions, and somewhat higher than in Europe (Figure 2.3.1).¹ This range, however, masks much variety in the size of subsidies (large in

Figure 2.3.1
Global: Total Energy Subsidies, 2011
(Percent of GDP)



Source: Clements and others (2013).
Note: LAC = Latin America and the Caribbean.

Note: This box was prepared by Gabriel Di Bella with Lawrence Norton, Joseph Ntamungiro, Sumiko Ogawa, Issouf Samake, and Marika Santoro.

¹ Data for world region averages are taken from Clements and others (2013). The lower number refers to “pretax” subsidies (that is, transfers to bridge the gap between domestic and international prices); the higher number also includes an estimate of foregone revenues and negative externalities (or “posttax” subsidies). Measuring electricity subsidies also requires an evaluation of whether all costs and losses (including theft) are reflected in the tariffs set for the public.

Box 2.3

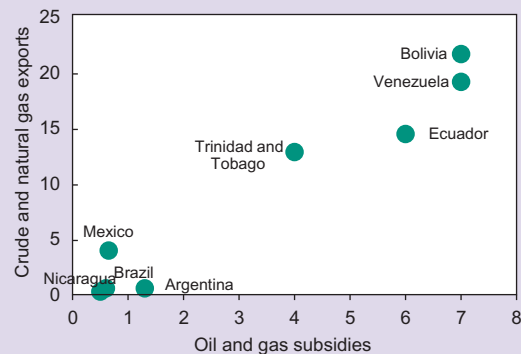
some energy-rich LAC countries), the type of subsidies (with some countries mainly subsidizing fuel, and others subsidizing the electricity sector or public transport), whether they give rise to budgetary transfers, or whether they account for a significant share of government revenues, thereby constraining fiscal policy.

Fuel subsidies tend to be larger and more entrenched in energy-rich LAC countries (Figure 2.3.2). This is similar to what is observed in energy exporters in the Middle East and Central Asia. Some countries set domestic fuel prices below international prices as a permanent form of social policy to transfer natural resource wealth to the public. Others provide subsidies when they fix domestic fuel prices temporarily, following hikes in the world price of energy or fuel (or do not allow a full pass-through of the world price, as in Mexico, especially since the mid-2000s). The costs associated with these decisions range from foregone tax revenue (if taxes are lowered to cushion the impact of higher import prices) to outright transfers (if domestic prices are kept below international prices). In some countries (for instance, Venezuela and, to a lower extent, Brazil), the fuel price policy has made national oil companies less profitable and more indebted. The gap between international and domestic prices of fuel products is particularly large in Venezuela (where subsidies represented about 7 percent of GDP in 2013), Ecuador (6 percent of GDP), and Trinidad and Tobago and Bolivia (4 percent of GDP each).² Some fuel importers also provide subsidies—for instance, Haiti and, to a lower extent, St. Lucia. In turn, Bolivia subsidizes natural gas consumption (for about 3 percent of GDP in 2013). Other countries subsidize public transportation, usually in cities, either by subsidizing companies directly or by giving them access to lower fuel prices (for example, Argentina, Nicaragua).

Subsidies to the electricity sector are also important in some LAC countries (Figure 2.3.3). Measuring these subsidies is complex. In the electricity sector, subsidies arise not only when tariffs do not fully cover costs, but also when they do not fully compensate for nontechnical losses (including electricity theft). These losses can be sizable. Tariffs high enough to cover all losses imply a cross-subsidy between the users that pay for the service and those who do not. When tariffs do not cover the bill, the public sector has to pay, either directly or indirectly. For instance, electricity tariffs are set below

² Figures for Venezuela do not include concessional financing provided in the context of its regional energy cooperation agreements (such as PetroCaribe). This financing carries a cost for Venezuela in terms of foregone oil income, but has allowed recipient countries to cushion the impact of higher oil prices.

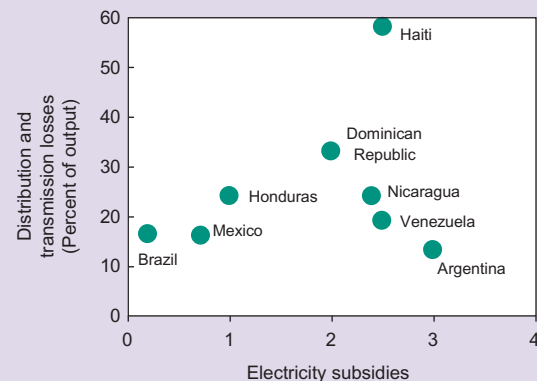
Figure 2.3.2

Selected Latin America: Oil and Gas Subsidies¹
(Percent of GDP)

Sources: UN Comtrade; and IMF staff estimates.

¹ Data for Argentina and Nicaragua refer to subsidies to public transportation; data on exports come from UN Comtrade; subsidies are based on IMF staff estimates.

Figure 2.3.3

Selected Latin America: Electricity Subsidies
(Percent of GDP, unless otherwise noted)

Sources: World Bank, *World Development Indicators* (2011); and IMF staff estimates.

(continued)

Box 2.3 (concluded)

production costs in some cities of Argentina, and in Mexico and Venezuela, with government transfers filling the gap. In Brazil, below-average rainfall since 2013 has prompted the government to bear the cost of substituting more expensive thermal energy for hydroelectricity. In other cases (for example, the Dominican Republic, Haiti, Honduras, Nicaragua), subsidies also result from setting tariffs at levels that do not fully cover nontechnical losses. Without government transfers, the electricity sector may be able to absorb the subsidies for some time, but at the cost of under-investing and eventually becoming decapitalized—which will have consequences for the rest of the economy, and eventually for public finances.

The shortcomings of energy subsidies are well known.

- *They may give rise to fiscal sustainability concerns, particularly when open ended.* In many countries, they are the main factor driving fiscal deficits. They also tend to be equivalent to a large share of tax revenues such as in Argentina (19 percent in 2013), Bolivia (25 percent), Haiti (35 percent), Ecuador (about 40 percent), and Venezuela (at least 50 percent). Their size and volatility constrain fiscal policy—governments that fix or do not fully adjust domestic energy prices during periods of rising world prices face the choice of abandoning fiscal targets, reducing other spending, or raising taxes. Partly for these reasons, they tend to give rise to episodes of domestic payment arrears (including to the energy sector), which are often difficult to unwind.
- *While popular, their social calculus is not well understood.* Energy subsidies are often not well targeted. In some LAC countries, they are larger than spending on education and health. The fact that they are often recorded only as costs to state-owned oil companies or utilities rather than reported in budget documents raises fiscal transparency concerns.
- *They can hurt growth, efficiency, and competitiveness.* Mispricing tends to be associated with under-investment in energy, not only when the sector is not compensated, but when energy prices fall below their opportunity cost. Conversely, subsidies elicit overconsumption and environmental damage. In electricity and other parts of the energy sector, the combination of high production costs and shortages undermines competitiveness and growth.

Dismantling subsidies is often optimal but typically very difficult. International experience underscores the importance of dismantling subsidies pragmatically—gradually, and with well-targeted mitigating measures to the most vulnerable and to groups most affected by the reform. A communication strategy to garner support should complement policy implementation.³ A main objective should be to depoliticize the price setting of the subsidized product, either by allowing the market to set prices or by adopting an automatic adjustment mechanism. This mechanism could pass through international price changes to domestic prices contemporaneously, or gradually to cushion the impact of volatility. Often, state-owned enterprise management reform is a vital supporting measure.

³ Jordan began to gradually decrease fuel subsidies in 2005, culminating in a full price pass-through in 2008; the government simultaneously increased the minimum wage, maintained an electricity lifeline tariff, and provided cash transfers to low-income households. Mitigating measures were also implemented together with fuel price increases in 2008 in both Indonesia and Mozambique. Clements and others (2013) refer to some successful historical reform episodes.

Annex 2.1. Data Disclaimer

The data for GDP in Argentina are officially reported data prior to the late March 2014 revisions of GDP series announced by the statistical agency. The IMF has issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official GDP data.

The data for inflation in Argentina are officially reported data. Consumer price data from January 2014 onward reflect the new national consumer price index (CPI; IPCNu), which differs substantively from the preceding CPI (the CPI for the Greater Buenos Aires Area [CPI-GBA]). Because of the differences in geographical

coverage, weights, sampling, and methodology, the IPCNu data cannot be directly compared with the earlier CPI-GBA data. Because of this structural break in the data, IMF staff forecasts for CPI inflation are not reported in the April 2014 *World Economic Outlook* (IMF, 2014a). Following a declaration of censure by the IMF on February 1, 2013, the public release of a new national CPI by end-March 2014 was one of the specified actions in the IMF Executive Board's December 2013 decision calling on Argentina to address the quality of its official CPI data. The Executive Board will review this issue again as per the calendar specified in December 2013 and in line with the procedures set forth in the IMF's legal framework.

Table 2.1. Western Hemisphere: Main Economic Indicators¹

	Output Growth (Percent)					Inflation ² (End of period, percent)					External Current Account Balance (Percent of GDP)				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
			Est.	Projections				Est.	Projections			Est.	Projections		
North America															
Canada	2.5	1.7	2.0	2.3	2.4	2.7	0.9	1.0	1.8	2.0	-2.8	-3.4	-3.2	-2.6	-2.5
Mexico	4.0	3.9	1.1	3.0	3.5	3.8	3.6	4.0	4.0	3.7	-1.1	-1.2	-1.8	-1.9	-2.0
United States	1.8	2.8	1.9	2.8	3.0	3.1	1.8	1.2	1.5	1.7	-2.9	-2.7	-2.3	-2.2	-2.6
South America															
Argentina ³	8.9	1.9	4.3	0.5	1.0	9.5	10.8	10.9			-0.6	-0.1	-0.9	-0.5	-0.5
Bolivia	5.2	5.2	6.8	5.1	5.0	6.9	4.5	6.5	5.5	5.2	0.3	7.8	3.7	3.7	2.4
Brazil	2.7	1.0	2.3	1.8	2.7	6.5	5.8	5.9	5.8	5.4	-2.1	-2.4	-3.6	-3.6	-3.7
Chile	5.7	5.4	4.2	3.6	4.1	4.4	1.5	3.0	3.0	3.0	-1.2	-3.4	-3.4	-3.3	-2.8
Colombia	6.6	4.2	4.3	4.5	4.5	3.7	2.4	1.9	2.7	3.0	-2.9	-3.2	-3.3	-3.3	-3.2
Ecuador	7.8	5.1	4.2	4.2	3.5	5.4	4.2	2.7	2.7	2.5	-0.3	-0.3	-1.5	-2.4	-3.1
Guyana	5.4	4.8	4.8	4.3	4.0	3.3	3.4	3.5	4.3	4.3	-13.1	-13.3	-17.9	-18.3	-19.9
Paraguay	4.3	-1.2	13.0	4.8	4.5	4.9	4.0	3.7	5.0	5.0	0.5	-1.0	0.9	-0.9	-1.6
Peru	6.9	6.3	5.0	5.5	5.8	4.7	2.6	2.9	2.3	2.0	-1.9	-3.4	-4.9	-4.8	-4.4
Suriname	5.3	4.8	4.7	4.0	4.0	15.3	4.4	0.6	2.2	3.3	5.8	0.6	-4.7	-4.5	-6.7
Uruguay	6.5	3.9	4.2	2.8	3.0	8.6	7.5	8.5	8.5	7.6	-3.0	-5.4	-5.9	-5.5	-5.2
Venezuela	4.2	5.6	1.0	-0.5	-1.0	27.6	20.1	56.1	75.0	75.0	7.7	2.9	2.7	2.4	1.8
Central America															
Belize	2.1	4.0	1.6	2.5	2.5	2.5	0.6	0.4	2.0	2.0	-1.1	-2.2	-4.2	-4.5	-4.8
Costa Rica	4.5	5.1	3.5	3.8	4.1	4.7	4.6	3.7	4.5	4.5	-5.3	-5.2	-5.0	-5.1	-5.1
El Salvador	2.2	1.9	1.6	1.6	1.7	5.1	0.8	0.8	2.0	2.6	-4.9	-5.4	-6.7	-6.3	-5.9
Guatemala	4.2	3.0	3.5	3.5	3.5	6.2	3.4	4.4	4.3	4.2	-3.4	-2.6	-3.0	-2.6	-2.3
Honduras	3.8	3.9	2.6	3.0	3.1	5.6	5.4	4.9	7.0	6.0	-8.0	-8.6	-8.8	-7.4	-6.0
Nicaragua	5.4	5.2	4.2	4.0	4.0	8.0	6.6	6.9	7.0	7.0	-13.2	-12.9	-13.2	-12.7	-12.2
Panama	10.9	10.8	8.0	7.2	6.9	6.3	4.6	3.7	3.6	3.5	-15.9	-10.6	-11.9	-11.5	-11.2
The Caribbean															
Antigua and Barbuda	-2.1	2.8	0.5	1.6	1.9	4.0	1.8	1.1	1.1	2.0	-10.4	-14.0	-13.8	-12.3	-11.4
The Bahamas	1.7	1.8	1.9	2.3	2.8	3.2	0.7	0.3	5.5	2.5	-15.3	-18.4	-19.6	-14.7	-10.4
Barbados	0.8	0.0	-0.7	-1.2	0.9	9.5	2.4	2.2	1.8	1.6	-11.4	-10.1	-11.4	-7.8	-7.3
Dominica	0.2	-1.1	0.8	1.7	1.7	2.0	2.0	-0.9	2.3	1.7	-14.5	-18.9	-17.0	-17.7	-16.7
Dominican Republic	4.5	3.9	4.1	4.5	4.1	7.8	3.9	3.9	4.5	4.0	-7.9	-6.8	-4.2	-4.5	-5.2
Grenada	0.8	-1.8	1.5	1.1	1.2	3.5	1.8	-1.2	1.7	1.6	-21.8	-19.2	-27.2	-22.6	-21.0
Haiti ⁴	5.5	2.9	4.3	4.0	4.0	10.4	6.5	4.5	5.7	5.0	-4.3	-5.4	-6.5	-5.8	-5.7
Jamaica	1.4	-0.5	0.5	1.3	1.7	6.0	8.0	9.7	8.5	8.0	-13.4	-13.0	-10.4	-8.6	-7.4
St. Kitts and Nevis	-1.9	-0.9	1.7	2.7	3.0	2.8	0.1	0.4	1.5	2.0	-15.7	-11.9	-8.5	-17.4	-17.1
St. Lucia	1.4	-1.3	-1.5	0.3	1.0	4.8	5.0	-1.4	2.4	1.8	-18.8	-12.8	-11.8	-11.4	-11.4
St. Vincent and the Grenadines	0.3	1.5	2.1	2.3	2.9	4.7	1.0	0.2	1.7	1.7	-29.4	-27.8	-28.9	-30.7	-24.4
Trinidad and Tobago	-2.6	1.2	1.6	2.2	2.2	5.3	7.2	5.6	4.0	4.0	12.4	4.9	10.2	10.1	8.9
Memorandum:															
LAC¹	4.6	3.1	2.7	2.5	3.0	6.6	5.3	7.6	8.6	8.2	-1.4	-1.9	-2.7	-2.7	-2.8
Financially integrated LAC ⁵	5.4	4.1	3.5	3.5	3.9	5.3	3.9	4.4	4.4	4.1	-2.0	-3.2	-3.8	-3.7	-3.6
Other commodity exporters ⁶	6.1	3.3	5.9	2.8	2.6	10.9	8.7	16.0	22.1	21.9	1.5	1.9	1.0	0.5	-0.2
CADR ⁷	4.1	3.8	3.2	3.4	3.4	6.2	4.1	4.1	4.9	4.7	-7.1	-6.9	-6.8	-6.4	-6.1
Caribbean															
Tourism-dependent ⁸	0.3	0.1	0.7	1.4	1.9	4.5	2.5	1.1	2.9	2.6	-16.8	-16.2	-16.5	-15.9	-14.1
Commodity exporters ⁹	2.6	3.7	3.2	3.2	3.2	6.6	3.9	2.5	3.1	3.4	1.0	-2.5	-4.2	-4.3	-5.6
ECCU ¹⁰	-0.1	0.2	0.5	1.4	1.8	4.1	2.4	0.1	1.8	1.9	-18.2	-17.1	-17.6	-17.1	-16.7

Source: IMF staff calculations and projections.

Note: ECCU = Eastern Caribbean Currency Union; LAC = Latin America and the Caribbean.

¹ Regional aggregates are purchasing power parity GDP-weighted averages unless otherwise noted. Current account aggregates are U.S. dollar nominal GDP-weighted averages. Consumer price index forecasts exclude Argentina.

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

³ See Annex 2.1 for details on Argentina's data.

⁴ Fiscal year data.

⁵ Simple average for Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

⁶ Simple average for Argentina, Bolivia, Ecuador, Paraguay, and Venezuela.

⁷ Simple average of Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

⁸ Simple average of the Bahamas, Barbados, Jamaica, and ECCU member states.

⁹ Simple average of Belize, Guyana, Suriname, and Trinidad and Tobago.

¹⁰ 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 Indicators¹

	Public Sector Primary Expenditure (Percent of GDP)					Public Sector Primary Balance ² (Percent of GDP)					Public Sector Gross Debt (Percent of GDP)				
	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015	2011	2012	2013	2014	2015
			Est.	Projections				Est.	Projections			Est.	Projections		
North America															
Canada	42.3	41.5	41.2	41.0	40.7	-0.2	0.0	0.3	0.7	1.2	83.5	88.1	89.1	87.4	86.6
Mexico	23.9	24.6	24.7	24.9	24.2	-1.0	-1.1	-1.3	-1.5	-0.9	43.3	43.3	46.5	48.1	48.4
United States ³	36.1	34.8	34.3	33.7	33.5	-7.0	-5.7	-3.6	-2.7	-1.8	99.0	102.4	104.5	105.7	105.7
South America															
Argentina ⁴	37.9	40.9	43.5	43.5	43.5	-0.5	-0.6	-0.9	-0.9	-0.9	44.9	47.7	46.9	52.9	58.2
Bolivia ⁵	34.1	35.1	39.0	38.4	37.4	2.1	2.8	1.1	0.5	0.2	34.7	33.4	33.1	29.5	27.1
Brazil	32.0	33.5	34.0	33.1	32.0	3.1	2.1	1.9	1.9	3.1	64.7	68.2	66.3	66.7	66.4
Chile	22.7	23.1	23.1	22.8	22.6	2.0	1.3	-0.1	-0.2	0.0	11.1	12.0	12.2	12.6	13.5
Colombia ⁶	25.9	25.6	26.1	25.8	25.2	0.8	2.8	1.6	1.5	1.8	35.2	32.4	31.8	31.7	30.4
Ecuador	38.2	39.7	42.2	41.4	39.9	0.7	-0.2	-3.1	-2.9	-2.5	18.3	21.3	24.3	24.8	25.5
Guyana ⁷	29.1	30.1	30.1	31.0	31.9	-1.5	-3.5	-2.9	-2.3	-1.9	65.1	64.3	63.9	64.4	64.6
Paraguay	19.7	24.3	22.4	22.1	22.2	1.3	-1.1	-1.5	-1.3	-0.6	12.4	12.6	15.2	14.7	14.5
Peru	18.2	18.5	20.0	20.1	20.3	3.1	3.2	1.5	1.1	1.0	22.4	20.5	19.6	18.1	16.6
Suriname ⁸	25.5	28.6	28.9	27.7	27.1	1.9	-3.1	-4.5	-3.8	-2.4	20.2	22.1	29.2	37.0	42.0
Uruguay ⁹	29.9	31.5	32.5	32.3	32.1	2.0	-0.2	0.5	0.2	0.5	60.0	59.6	59.4	61.2	61.8
Venezuela	37.3	37.3	35.1	34.1	31.8	-9.4	-13.9	-12.2	-10.7	-9.1	43.3	46.0	49.8	51.6	52.7
Central America															
Belize ¹⁰	25.4	25.1	26.7	26.8	26.2	2.3	1.4	1.2	1.1	1.0	79.4	75.4	75.5	80.4	92.6
Costa Rica ⁷	15.7	16.0	16.5	16.7	16.9	-1.9	-2.3	-2.8	-3.1	-3.2	30.6	35.1	37.0	39.4	42.9
El Salvador ⁹	19.3	19.8	20.5	20.8	20.8	-1.7	-1.6	-1.7	-1.9	-2.0	50.0	55.1	54.9	57.1	59.5
Guatemala ¹⁰	12.9	12.5	12.0	12.4	12.3	-1.3	-0.9	-0.5	-0.6	-0.6	23.7	24.4	24.4	25.1	25.7
Honduras	24.8	25.4	27.8	28.4	27.8	-3.0	-4.3	-6.9	-5.3	-4.6	32.1	34.4	40.2	44.9	48.6
Nicaragua ⁹	26.6	26.9	27.6	27.2	27.8	1.9	1.1	0.7	1.0	1.0	45.4	43.2	42.4	40.6	39.7
Panama ¹¹	24.5	24.5	25.6	25.5	24.4	0.3	0.6	-1.0	-1.0	0.2	43.8	42.6	41.3	41.4	41.3
The Caribbean															
Antigua and Barbuda ¹²	22.0	18.9	19.9	29.9	22.1	-1.5	1.1	-1.4	-8.5	-1.5	92.7	87.8	92.2	100.7	102.4
The Bahamas ¹⁰	20.2	21.4	20.6	19.6	19.2	-1.9	-3.3	-4.2	-2.5	-0.6	47.7	51.2	56.3	59.3	59.6
Barbados ¹³	36.0	38.3	36.0	32.4	32.0	1.7	-2.1	-4.0	0.7	1.5	78.0	85.8	92.0	94.7	95.0
Dominica ¹²	33.7	33.9	34.5	34.2	33.9	-2.9	-3.4	-1.1	-1.4	-1.2	69.7	73.3	75.0	75.8	76.3
Dominican Republic	14.5	18.3	15.9	15.5	15.3	-1.1	-4.3	-1.3	-0.2	-0.7	26.3	30.2	33.8	35.4	36.7
Grenada ¹²	25.8	22.7	24.8	27.4	23.5	-2.2	-2.0	-3.4	-2.4	1.3	106.5	108.5	115.0	117.0	115.7
Haiti ¹⁰	25.1	27.8	27.0	26.9	26.4	-3.2	-4.4	-6.2	-6.3	-5.9	12.0	16.4	21.3	24.4	29.4
Jamaica ^{12,14}	22.4	20.4	19.4	19.4	19.5	3.2	5.4	7.5	7.5	7.5	141.9	146.9	138.9	133.7	129.1
St. Kitts and Nevis ¹²	30.6	26.9	27.8	30.6	29.6	6.5	9.0	14.5	3.6	4.0	154.0	137.0	104.9	91.2	84.6
St. Lucia ¹²	29.5	30.3	28.7	27.5	27.5	-3.5	-5.8	-3.0	-2.1	-2.1	66.2	71.7	79.8	83.7	87.0
St. Vincent and the Grenadines ¹²	32.4	26.3	28.4	33.8	25.7	-4.7	0.3	-3.9	-6.9	-0.4	69.2	71.7	76.4	85.0	84.9
Trinidad and Tobago	33.6	30.4	33.4	33.1	32.9	1.8	1.4	-0.6	-0.9	-1.6	33.4	36.9	30.6	33.3	36.7
ECCU ¹⁵	27.7	26.2	27.0	30.4	26.0	-0.6	-0.3	0.1	-3.4	0.5	86.9	86.2	86.2	89.1	88.5
Memorandum:															
LAC	33.7	34.5	34.5	34.3	33.4	-0.3	-0.3	-0.5	-0.4	-0.3	49.7	50.3	50.2	51.1	51.4
Financially integrated LAC ¹⁶	25.4	26.1	26.7	26.5	26.1	1.7	1.3	0.7	0.5	0.9	39.5	39.3	39.3	39.7	39.5
Other commodity exporters ¹⁷	33.4	35.5	36.4	35.9	35.0	-1.2	-2.6	-3.3	-3.1	-2.6	30.7	32.2	33.8	34.7	35.6
CADR ¹⁸	19.0	19.8	20.0	20.1	20.2	-1.2	-2.0	-2.1	-1.7	-1.7	34.7	37.1	38.8	40.4	42.2
Caribbean															
Tourism-dependent ¹⁹	28.1	26.6	26.7	28.3	25.9	-0.6	-0.1	0.1	-1.3	1.0	91.8	92.7	92.3	93.5	92.7
Commodity exporters ²⁰	28.4	28.5	29.8	29.6	29.5	1.1	-1.0	-1.7	-1.5	-1.2	49.5	49.7	49.8	53.8	59.0

Source: IMF staff calculations and projections.

Note: ECCU = Eastern Caribbean Currency Union; LAC = Latin America and the Caribbean.

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.

² Primary balance defined as total revenue less primary expenditures.

³ Data for the United States have been revised significantly following the Bureau of Economic Analysis's recent comprehensive revision of the National Income and Product Accounts along the lines of the 2008 System of National Accounts (SNA). As a result of these methodological changes, the deficit includes several expenditure items not counted as expenditure in other countries which have not yet adopted the 2008 SNA. Moreover, for cross-country comparability, gross and net debt levels reported by national statistical agencies for countries that have adopted the 2008 SNA (Canada and the United States) are adjusted to exclude unfunded pension liabilities of government employees' defined benefit pension plans. See Box 1.1 in the April 2014 *Fiscal Monitor* for more details.

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

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

⁶ Nonfinancial public sector 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.

⁷ Includes central government.

⁸ Primary expenditures for Suriname exclude net lending. Debt data refers to central government and government-guaranteed public debt.

⁹ Consolidated public sector; data for El Salvador include operations of pension trust funds.

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

¹¹ Fiscal data cover the nonfinancial public sector excluding the Panama Canal Authority.

¹² Central government for primary balance accounts; public sector for gross debt.

¹³ 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).

¹⁴ Debt includes PetroCaribe debt (net of its financing to the central government) and projected IMF disbursements and other international financial institutions.

¹⁵ ECCU members are Anguilla, Antigua and Barbuda, Dominica, Grenada, Montserrat, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines. Central government for primary balance accounts; public sector for gross debt.

¹⁶ Simple average for Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

¹⁷ Simple average for Argentina, Bolivia, Ecuador, Paraguay, and Venezuela.

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

¹⁹ Simple average of the Bahamas, Barbados, Jamaica, and ECCU member states.

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

Table 2.3. Western Hemisphere: Selected Economic and Social Indicators, 2004–13¹

	2013			2004–13 Average						2013		Latest Available		
	GDP ² (\$US bil.)	Population (Million)	GDP per Capita (\$PPP)	Output Share of LAC Region ² (Percent)	Real GDP Growth (Percent)	Consumer Price Index Inflation ³ (Percent)	Current Account (Percent of GDP)	Domestic Saving (Percent of GDP)	Trade Openness ⁴ (Percent of GDP)	Gross Reserves (Percent of GDP)	Unemployment Rate (Percent)	Poverty Rate ⁵	Gini Coefficient ⁵	Sovereign Credit Rating ⁶
North America														
Canada	1,825.1	35.1	43,472	—	1.9	1.8	-0.9	22.5	64.7	3.9	7.1	—	32.0	AAA
Mexico	1,258.5	118.4	15,563	21.8	2.6	4.2	-1.1	21.8	59.4	14.0	4.9	11.4	49.1	BBB
United States	16,797.5	316.4	53,094	—	1.8	2.4	-4.0	16.6	27.7	0.9	7.4	—	47.7	AAA
South America														
Argentina ⁷	488.2	41.5	18,750	8.5	6.7	9.4	1.3	23.4	42.5	6.3	7.1	4.2	42.0	CCC+
Bolivia	29.8	11.0	5,364	0.5	4.9	6.2	6.4	24.5	66.0	48.4	—	17.0	46.5	BB-
Brazil	2,242.9	198.3	12,221	38.8	3.7	5.5	-0.9	17.4	25.4	15.9	5.4	10.4	52.3	BBB
Chile	277.0	17.6	19,068	4.8	4.7	3.4	0.5	23.0	71.2	14.8	5.9	2.9	50.8	AA-
Colombia	381.8	47.2	11,189	6.6	4.8	4.1	-2.4	20.1	34.7	11.2	10.3	17.5	53.4	BBB
Ecuador	94.1	15.8	10,080	1.6	4.8	4.0	0.6	25.8	59.7	3.6	4.7	12.9	46.2	B
Guyana	3.0	0.8	8,250	0.1	3.6	5.7	-11.1	7.4	132.5	26.4	—	—	—	—
Paraguay	28.3	6.8	6,823	0.5	4.8	6.0	1.1	17.1	102.3	19.7	5.4	14.4	52.6	BB-
Peru	206.5	30.9	11,124	3.6	6.6	2.9	-1.1	22.0	48.0	31.2	7.5	11.1	45.3	BBB+
Suriname	5.1	0.5	13,116	0.1	4.9	8.3	2.3	—	101.6	14.6	—	—	—	BB-
Uruguay	56.3	3.4	16,723	1.0	5.5	7.4	-2.6	17.2	56.9	28.9	6.3	2.5	41.3	BBB-
Venezuela	374.0	30.0	13,605	6.5	5.9	26.0	8.0	33.0	50.7	1.8	9.2	18.1	43.3	B-
Central America														
Belize	1.6	0.3	8,716	0.0	2.8	2.2	-6.0	11.4	123.7	25.1	16.3	—	—	B-
Costa Rica	49.6	4.8	12,942	0.9	4.7	8.4	-5.0	17.8	90.2	14.8	9.0	4.7	48.5	BB+
El Salvador	24.5	6.3	7,515	0.4	1.8	3.4	-4.6	10.4	72.0	10.2	5.7	14.7	41.8	BB-
Guatemala	54.4	15.5	5,282	0.9	3.5	6.1	-3.3	13.7	64.0	12.9	—	40.5	52.2	BB+
Honduras	18.8	8.1	4,839	0.3	4.1	6.7	-7.2	20.2	124.0	17.3	4.4	37.4	57.2	B
Nicaragua	11.3	6.1	4,554	0.2	3.9	9.1	-12.1	16.8	102.6	17.7	6.2	29.3	45.7	B-
Panama	40.3	3.7	16,658	0.7	8.6	4.2	-8.5	16.0	73.7	7.1	4.5	11.8	51.9	BBB
The Caribbean														
The Bahamas	8.4	0.4	32,037	0.1	0.8	2.1	-12.5	15.5	94.6	8.8	16.2	—	—	BBB+
Barbados	4.3	0.3	25,181	0.1	0.9	5.4	-8.8	7.8	98.6	13.5	11.9	—	—	BB-
Dominican Republic	60.8	10.4	9,911	1.1	5.9	8.2	-4.8	11.9	63.6	7.7	7.0	14.0	47.4	B+
Haiti	8.5	10.3	1,315	0.1	1.5	9.8	-2.6	25.7	64.1	20.4	—	—	—	—
Jamaica	14.3	2.8	9,048	0.2	0.2	11.1	-11.6	12.8	91.3	12.7	14.9	—	—	B-
Trinidad and Tobago	27.7	1.3	20,438	0.5	3.2	7.7	18.5	34.6	100.4	38.3	5.0	—	—	A-
Eastern Caribbean Currency Union	5.3	0.6	14,696	0.1	1.5	2.8	-20.0	12.7	98.4	20.6	—	—	—	—
Antigua and Barbuda	1.2	0.1	18,558	0.0	1.4	2.4	-17.7	19.3	112.2	16.0	—	—	—	—
Dominica	0.5	0.1	14,283	0.0	2.1	2.0	-19.1	0.9	89.8	17.1	9.8	—	—	—
Grenada	0.8	0.1	13,724	0.0	0.9	2.9	-23.7	6.0	82.0	16.4	—	—	—	SD
St. Kitts and St. Nevis	0.8	0.1	15,606	0.0	1.7	3.5	-16.7	29.8	86.5	37.7	—	—	—	—
St. Lucia	1.3	0.2	12,730	0.0	1.8	2.9	-18.3	12.5	107.8	13.1	20.6	—	—	—
St. Vincent and the Grenadines	0.7	0.1	12,207	0.0	1.6	3.2	-26.5	-0.3	86.9	18.5	—	2.9	40.2	B
Latin America and the Caribbean¹	5,775.3	593.1	12,667	100.0	4.2	6.3	-0.5	18.0	44.7	13.9	—	12.3	52.0	—

Sources: Bloomberg, L.P.; national authorities; IMF, International Financial Statistics database; 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 GDP-weighted averages, except for regional GDP in U.S. dollars and population where totals are computed.

² At market exchange rates, except for Argentina and Venezuela for which data used comes from national authorities and private analysts.

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

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

⁵ Data from Socio-Economic Database for Latin America and the Caribbean, based on the latest country-specific household surveys. In most cases, the surveys are from 2011 or 2012, though the data for Guatemala (2009) and Venezuela (2006) are less recent. Poverty rate is defined as the share of the population earning less than US\$2.50 per day. Gini index is calculated by the World Bank using pooled data for each country. Data for the United States are from the U.S. Census Bureau; those for Canada are from Statistics Canada.

⁶ Median of long-term foreign currency ratings published by Moody's, Standard & Poor's, and Fitch.

⁷ See Annex 2.1 for details on Argentina's data.