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Latin America and the Caribbean: Stuck in Low Gear

After disappointing growth over the past few years, economic activity in Latin America remains on track to recover gradually in 2017–18 as the global economy gathers steam and recessions in a few countries in the region come to an end. Long-term growth, however, remains weak, hampering income convergence toward advanced economy levels. Fiscal space to support demand is limited, particularly for commodity exporters. But monetary policy can play a supportive role because inflation has been moderating rapidly. More importantly, this is the time to urgently press ahead with much-needed structural reforms to ensure sustainable and inclusive growth. Priorities include closing infrastructure gaps, investing in human capital, encouraging female labor force participation, reducing labor market informality, enhancing governance and curbing corruption, and furthering trade and financial integration.

Global Growth Is on Track

The pickup in global activity that started in 2016 has gathered further steam, in particular reflecting firmer domestic demand growth in advanced economies and in China and other large emerging market economies in the first half of 2017. Global financial conditions remain easy, but commodity prices are softer than in April, with the exception of metal prices. Global growth forecasts, at 3.6 percent for 2017 and 3.7 percent for 2018, are 0.1 percentage point higher than in April (October 2017 *World Economic Outlook* [WEO]).

Nevertheless, growth remains subdued in many countries. Stubbornly weak price and wage inflation in many advanced economies suggests continued slack. At the same time, medium-term prospects for growth in GDP per capita are also weak for many advanced and emerging market economies. Around the world, exporters of commodities, especially fuel, are particularly hard hit as the adjustment to the loss in commodity revenues continues.

Short-term risks are broadly balanced, but medium-term risks are skewed to the downside. Stronger confidence and favorable market conditions could spur pent-up demand. At the same time, in an environment of high policy uncertainty, risks to currently favorable market confidence and asset valuations could materialize, leading to a tightening of global financial conditions. In the medium term, risks include an inward turn of policies in advanced economies and increased protectionism, a sharp slowdown in China, and greater fallout from geopolitical conflicts.

In the *United States,* weakness in consumption in the first quarter turned out to be temporary, while business investment continued to strengthen, reflecting in part a recovery in the

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energy sector. Growth is projected at 2.2 percent for 2017 and 2.3 percent for 2018 (respectively, 0.1 and 0.2 percentage point lower than projected in April). These changes in growth projections mainly reflect downward revisions for early 2017 and changes in fiscal assumptions relative to the April forecast (which embedded a fiscal impulse of 1 percent of GDP between 2017 and 2019 on the basis of anticipated corporate and personal income tax reductions). The fiscal stance is now projected to be broadly neutral in 2017 and tighter in 2018. Hurricanes Harvey, Irma, and Maria increase near-term uncertainties, including about the size and timing of rebuilding efforts.

Inflation projections for the United States have been revised downward relative to the April WEO, reflecting weak price pressures in recent months, including for cell phones and prescription drugs. Consumer price inflation is projected to reach 1.8 percent in 2017 (compared with 2.7 percent in the April WEO), down from 2.2 percent in 2016. Core personal consumer expenditure inflation remains subdued and is projected to rise more slowly, slightly exceeding 2 percent in 2019 before returning to 2 percent over the medium term. The forecast assumes a somewhat more gradual normalization of the policy interest rate in the United States than projected in the April 2017 WEO, given weaker projected demand and diminished inflation pressures. With markets pricing in a more gradual normalization of US monetary policy, nominal yields on 10-year US Treasury bonds have declined since March 2017 (as of mid-September). With narrowing interest differentials, the US dollar weakened in real effective terms by over 7 percent from March to mid-September 2017, more than reversing its gains after the US election.

Following a failure to reach agreement on health care reform in the summer, the administration and Congress have shifted their focus back to fiscal policy. With deadlines on the debt ceiling and on federal spending authority looming, an agreement was reached in September to raise the debt limit and to continue to fund the government until December (as part of legislation to provide hurricane relief). The US administration has outlined, in broad terms, their plans for tax reform. The administration's stated goals include simplifying the personal income tax with lower rates for individuals and families, increasing the standard deduction and child tax credit, eliminating the alternative minimum tax and estate tax, lowering the tax rate for pass-through entities, lowering the corporate tax rate and moving to a territorial system, allowing for immediate write-off of the cost of new investments, and imposing a one-time, low tax rate on the profits of US multinationals that have accumulated overseas. Given the uncertainties about the details, the proposed tax reform is not incorporated into the IMF staff forecast.

Despite the downward revision to US growth, *Canada's* growth forecast for 2017 has been revised upward from 2.5 to 3 percent, owing to a stronger-than-expected growth outcome in the first half of 2017 and the authorities' supportive cyclical policies. The economy expanded by an annualized rate of 4.5 percent in the second quarter, marking the strongest quarterly growth rate since 2011. Household spending, buoyed by gains in employment and earnings, and energy exports were the most important contributors to second quarter growth, while business investment and non-energy exports showed further signs of recovery. Housing activity slowed, with investment in residential structures declining by 4.7 percent in the second quarter, as local and federal governments tightened measures to cool the housing market. With the economy back in full swing and the output gap narrowing sharply, the Bank of Canada raised the policy rate twice this year to 1 percent.

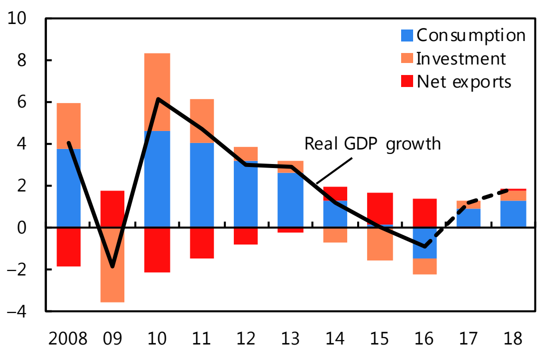
Cyclical Recovery Is Underway

After disappointing growth over the past few years, economic activity in Latin America and the Caribbean remains on track to recover gradually in 2017–18 as recessions in a few countries—notably Argentina and Brazil—come to an end. Domestic demand is recovering gradually, while the contribution of net exports to growth is declining as real imports increase with higher domestic demand (Figure 1). The external environment provides support to this recovery, with improved partner demand and supportive financial conditions, given global financial market volatility at historic lows and resilient capital inflows. Venezuela, however, remains in a full-blown economic, humanitarian, and political crisis with no end in sight, with real GDP projected to fall by 35 percent in the period 2014–17 and the economy headed toward hyperinflation.

Figure 1. Selected Latin America and the Caribbean Countries: Contributions to Real GDP Growth

(Year-over-year percent change)

Domestic demand in LAC is recovering.



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. Excludes Dominica, Grenada, Guyana, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines due to data limitations. LAC = Latin America and the Caribbean.

The region is expected to grow by 1.2 percent in 2017 (0.1 percentage point higher than in the April WEO) and 1.9 percent in 2018 (0.1 percentage point lower than in April) (Figure 2). The upward revision in 2017 mainly reflects better-than-expected outcomes for the first half of the year for some large economies. The output gaps remain sizable for both years, closing only gradually over the projection horizon.

Inflation is moderating in many countries as pass-through effects of earlier exchange rate

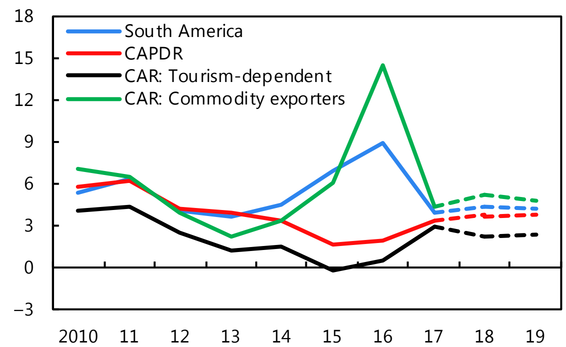
Figure 2. Growth and Inflation

LAC is recovering from recession with inflation stabilizing.

1. Real GDP Growth[1]
(Percent)

			Projections	
	2015	2016	2017	2018
LAC	**0.1**	**–0.9**	**1.2**	**1.9**
South America	–1.2	–2.6	0.6	1.6
CAPDR	5.1	4.6	4.1	4.4
Caribbean				
Tourism-dependent	0.9	1.4	1.8	2.3
Commodity exporters	–0.4	–4.9	–1.9	2.0
Memorandum				
LA6	–0.3	–0.3	1.5	2.0
Brazil	–3.8	–3.6	0.7	1.5
Mexico	2.6	2.3	2.1	1.9

2. Inflation Comparison[2]
(End of period; annual percent change)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic; CAR = Caribbean; LAC = Latin America and the Caribbean; LA6 = Brazil, Chile, Colombia, Mexico, Peru, Uruguay.
[1]Purchasing-power-parity GDP-weighted average.
[2]Simple average. South America excludes Argentina and Venezuela.

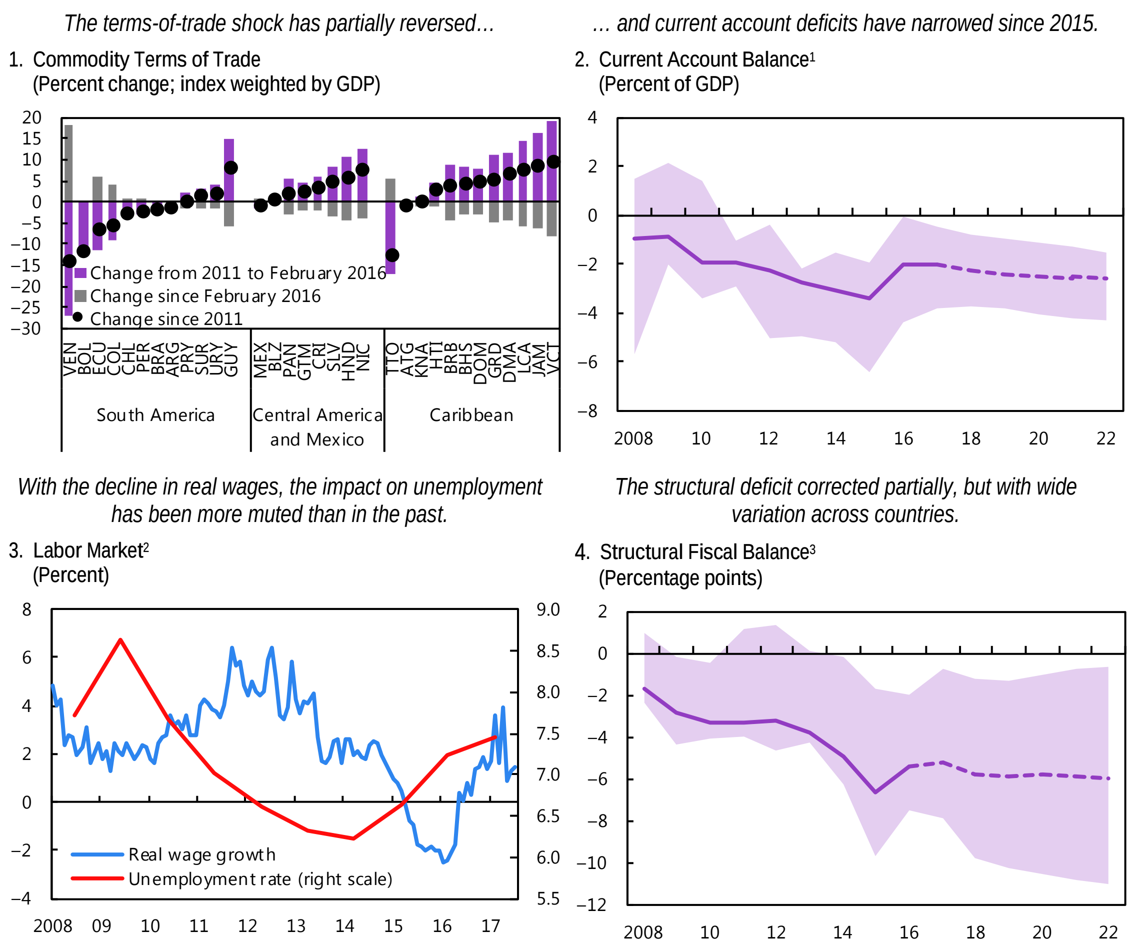
depreciations subside and some currencies appreciate. This moderation also reflects continued economic slack and low food and energy prices. As a result, inflation at the regional level is expected to decline to 4.2 percent in 2017 (from its peak of 6.2 percent in 2015) and to remain at about 3½ percent thereafter.

Ongoing Tale of Two Adjustments

The sizable terms-of-trade shock that hit the region has partially reversed, alongside the moderate recovery in commodity prices, but still implies large income losses for net commodity exporters (mainly in South America) and gains for others (the tourism-dependent Caribbean and Central America) (Figure 3). External balances have adjusted to this shock in many countries, with the region's current account deficit narrowing substantially from its peak in 2015. Increased exchange rate flexibility has helped facilitate this adjustment, as countries that allowed the exchange rate to adjust have experienced milder declines in their domestic demand and drew less on their buffers (Chapter 3 of the April 2017 *Regional Economic Outlook: Western Hemisphere*). The associated decline in real wages also helped smooth the labor market impact, with unemployment increasing only in countries with substantial slack.

Declining commodity revenues resulted in significant worsening of fiscal balances in commodity-exporting countries. Although the regional structural deficit corrected partially in 2016–17, the fiscal impulse is expected to turn positive in 2018 and remain broadly neutral thereafter. There is, however, wide variation in the expected adjustment across countries.

Figure 3. The Ongoing Adjustment to the Terms-of-Trade Shock



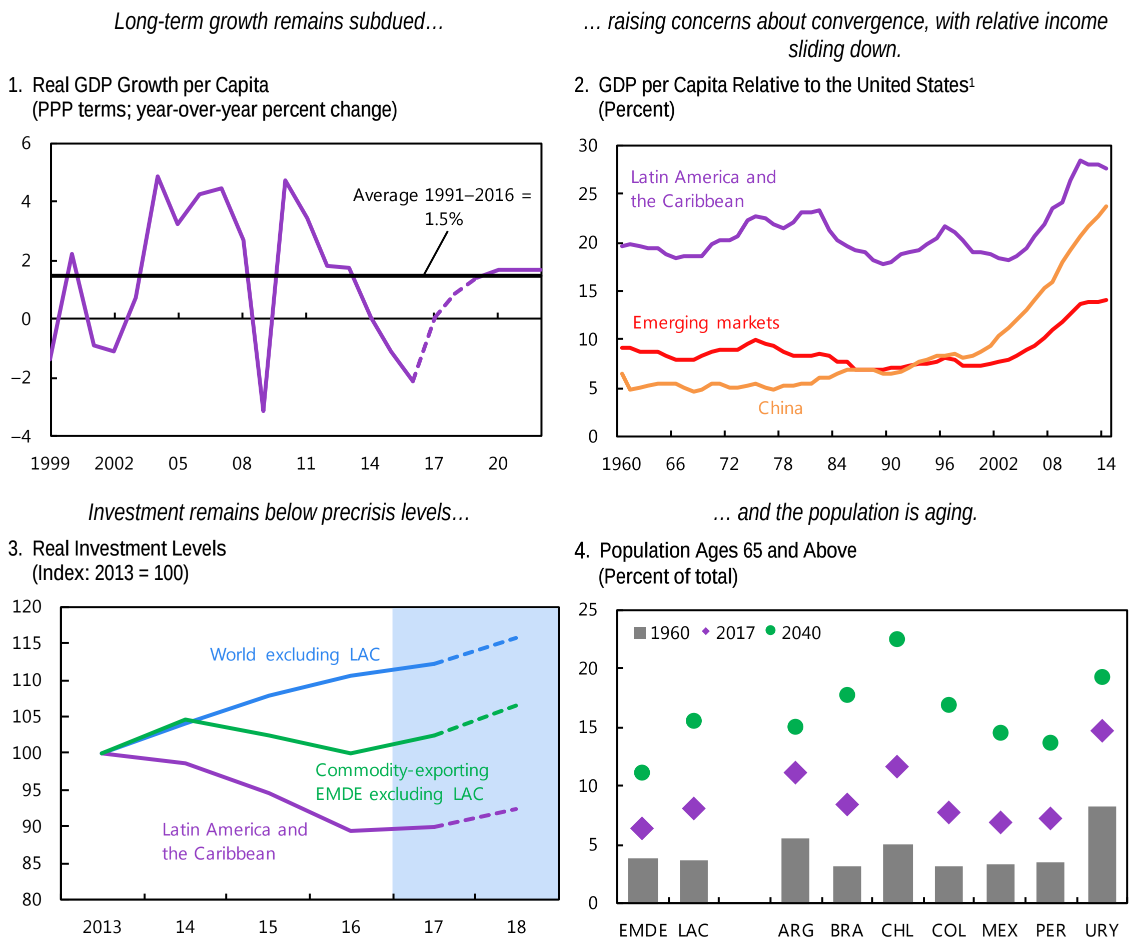
Sources: Gruss 2014; Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. LA7 = Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay.
[1]US dollar nominal GDP-weighted average. Shaded area refers to the max-min range of the LA7 countries.
[2]Simple average of Brazil, Chile, Colombia, Ecuador, Mexico, Peru, and Uruguay. Definitions may vary across countries. Real wage growth is 12-month percentage change; seasonally adjusted.
[3]Fiscal year US dollar nominal GDP-weighted average of Argentina, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Grenada, Guyana, Mexico, Panama, Paraguay, Peru, Suriname, and Uruguay. Shaded area refers to the max-min range of the LA7 countries. A positive sign denotes fiscal tightening.

While Brazil's structural balance is expected to deteriorate throughout the projection horizon, Mexico and Argentina are expected to continue to adjust during 2018–19. The adjustments in Chile and Peru are expected to be more back-loaded, starting in 2018–19.

Subdued Convergence Prospects

Despite this ongoing recovery, prospects for strong long-term growth in Latin America and the Caribbean look dimmer now than they did a few years ago. In the medium term, Latin America is projected to grow 1.7 percent in per capita terms (Figure 4). This growth rate is almost identical to the region's performance over the past quarter century—a figure that is well below the rates observed for emerging market and developing economies (3¼ percent) and vastly below the growth rate in China (9 percent). Worryingly, these growth rates are only marginally better than those in advanced economies, raising concerns about convergence. Indeed, the region's income level

Figure 4. Growth, Investment, and Demographic Trends



Sources: IMF, World Economic Outlook database; Penn World Tables 9.0; World Bank staff estimates based on age/sex distributions of United Nations Population Division's World Population Prospects; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. EMDE = emerging markets and developing economies; LAC = Latin America and the Caribbean; PPP = purchasing power parity.
[1]Emerging markets exclude China and Latin America and the Caribbean countries.

relative to the United States has already started to slide, after picking up temporarily in the mid-2000s (from its historical level of about 20 percent to about 28 percent).

Low productivity continues to be a drag on overall growth (Box 1). In addition, both capital and labor are expected to contribute less than their historical patterns. Investment remains substantially below its precrisis levels (partly reflecting lower commodity-related investment and cuts in public capital expenditures), feeding into both lower capital stock and lower productivity (Adler and others 2017). The contribution of labor force accumulation will likely decline as the region prepares to face a demographic transition to an aging population—the share of the population older than 65 is growing steadily at different rates in the region.

Risks

Domestic Risks

Political risks and uncertainty. With elections in several Latin American countries over the next 12–18 months, a key risk pertains to the uncertainty of policy stances following the elections. In particular, the risk of populist agendas and reversal of ongoing reform and adjustment efforts, which these economies can ill afford, could undermine sentiment and fledgling economic recovery.

Spillovers from the ongoing crisis in Venezuela are expected to be minimal because trade linkages with neighboring countries are limited and financing through PetroCaribe had already fallen significantly before the worsening of the crisis. The spillover effects of a possible sovereign default by Venezuela would be contained because investor portfolios have already factored in this risk. However, the main risk to the region relates to the humanitarian crisis and ensuing migration of Venezuelans to neighboring countries. The number of Venezuelans arriving in Brazilian and Colombian border towns has been rising sharply as the crisis in Venezuela intensifies.

External Risks

Capital flow reversals and tightening financial conditions. Although capital flows to the region have been resilient, a sudden increase in global risk aversion and market volatility or faster-than-expected monetary policy normalization in advanced economies could lead to capital flow reversals. For example, if the Chicago Board Options Exchange Volatility Index were to increase by about 10 points (similar to the magnitudes seen in mid-2011 at the beginning of the euro area sovereign crisis), capital inflows to LA7 countries (Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay) would decline by about 2 percent of GDP from the current level of about 4 percent of GDP. Similarly, an unanticipated monetary policy tightening in the United States of about 50 basis points would lead to a drop in capital inflows of about 1 percent of GDP (Chapter 4 of the April 2017 *Regional Economic Outlook: Western Hemisphere*).

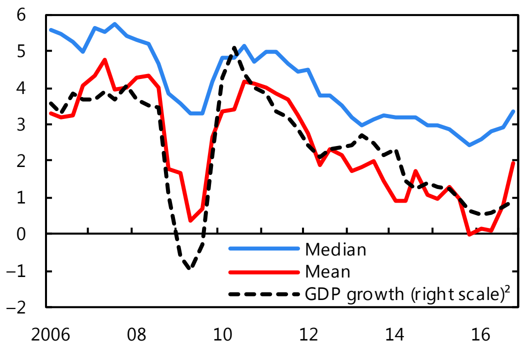
Such reversals could lead to tighter financial conditions and pressure highly leveraged sovereigns and corporations (Box 2). The balance sheets of Latin American nonfinancial firms are improving, with declining leverage and rising profitability. Nevertheless, corporate bond spreads are highly sensitive to global volatility shocks and leverage remains high (Chapter 3 of the April 2016 *Regional Economic Outlook: Western Hemisphere*). Worsening sovereign and corporate balance sheets could spill over to the banking sector, particularly in places where nonperforming loans are elevated, and profitability and overall credit to the private sector are low (Figure 5).

Financial stability risks in China. Although the baseline growth in China has been revised upward, the forecast embeds a slower rebalancing of activity toward services and consumption, a higher debt trajectory, and a diminished amount of fiscal space available to respond to an abrupt adjustment. The baseline,

Figure 5. Corporate and Bank Balance Sheets

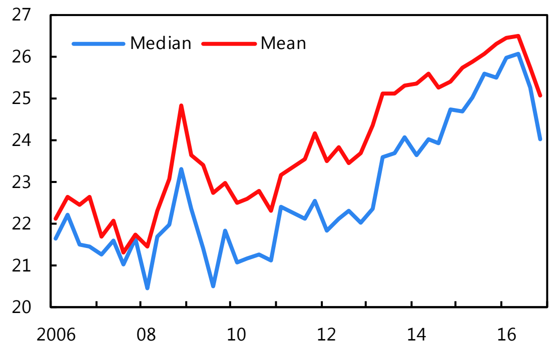
Corporate profitability is rising…

1. Corporate Profitability[1]
(Return on assets; percent)



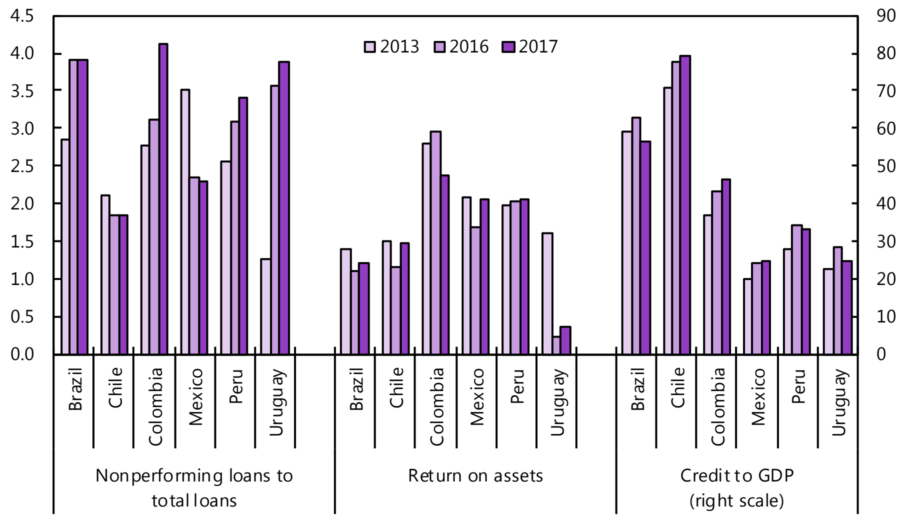
… and leverage is declining.

2. Corporate Leverage[1]
(Debt to assets; percent)



While nonperforming loans remain higher than in the past, bank profitability has started to improve, with credit to GDP remaining broadly stable except for a few countries.

3. Financial Soundness and Credit Indicators
(Percent)



Sources: Bloomberg Finance L.P., Haver Analytics; IMF, Financial Soundness Indicators database; IMF, International Financial Statistics database; national authorities; and IMF staff calculations.
[1]The results are the median and mean for the nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.
[2]GDP growth is the purchasing-power-parity GDP-weighted average for Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

therefore, implies a heightened probability of a sharp slowdown in China's growth, with adverse spillovers to the region through weaker trade, investment flows, commodity prices, and confidence.

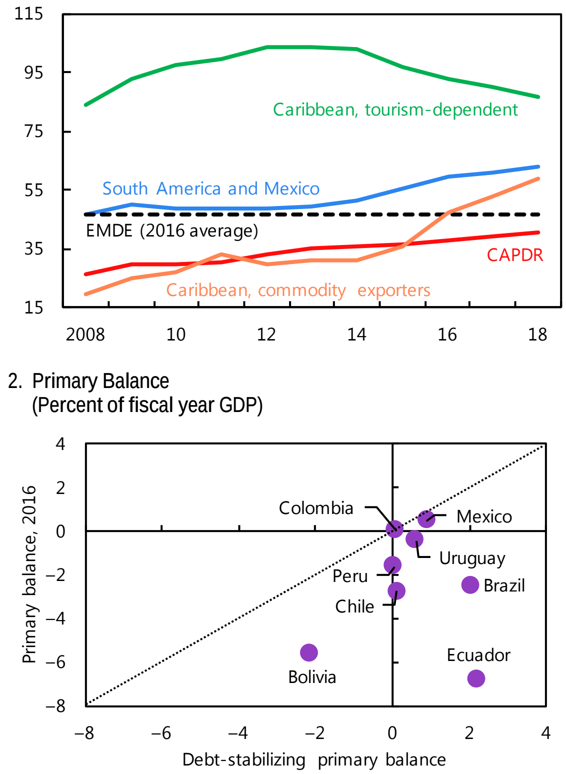
A retreat from cross-border economic integration. A failure to lift inclusive potential growth in advanced economies could exacerbate the risk of a retreat from cross-border integration (October 2017 WEO). Increased protectionism could reduce demand for the region's products and raise the cost of tradable consumer goods. Similarly, advanced economies' curbing of immigration flows or imposition of more aggressive deportation policies would reduce remittances to parts of the region, which have played an important role in cushioning the impact of economic shocks (Chapter 5 of the April 2017 *Regional Economic Outlook: Western Hemisphere*).

Natural disasters and climate change. The forecasts reported in this document are based on data available before the impact of recent hurricanes in the Caribbean and the earthquakes in Mexico. The near-term growth forecasts, especially for Caribbean countries, are thus subject to downside risks, and recovery costs associated with these disasters could add pressure on balance of payments and fiscal positions. Recurrent climate-related catastrophes are expected to increase in frequency and impact as part of climate change, as discussed in Chapter 3 of the October 2017 WEO, posing further risks to the region's long-term outlook.

Figure 6. Fiscal Indicators

Public debt remains high and primary deficits are still below debt-stabilizing levels.

1. General Government Gross Debt[1]
(Percent of fiscal year GDP)



Sources: IMF, World Economic Outlook database; latest published Debt Sustainability Analysis from Article IV staff reports; and IMF staff calculations.
Note: CAPDR = Central America, Panama, and the Dominican Republic; EMDE = emerging market and developing economies.
[1]Fiscal year US dollar nominal GDP-weighted average.

Policy Priorities

Cyclical Support: Limited Fiscal but Improved Monetary Policy Space

Limited Fiscal Space

The primary fiscal deficit in Latin America and the Caribbean increased from 0.1 percent in 2013 to 2.7 percent in 2016, reflecting large declines in commodity-related government revenues—due to the collapse in commodity prices—and drops in other income with the slowdown in economic activity. As a result, public debt increased from about 49 percent of GDP to 58 percent of GDP over the same horizon (higher than the average level for emerging markets) and is projected to increase further in many large economies (Figure 6).

With primary balances still below debt-stabilizing levels, many countries would need to continue to adjust to put their public finances on a sustainable footing. The needed pace of adjustment, however, depends on numerous factors, including debt dynamics, market conditions, and the likely impact on economic activity, particularly given already-weak growth prospects. In particular, fiscal multipliers—the change in GDP in response to fiscal adjustment—could turn out to be larger than what recent studies for the region suggest: an average of only 0.3. This rate is well below the average of fiscal multiplier estimates for other emerging market economies (0.6) and advanced economies (0.9), and as a result might give a false sense of security.[1] Therefore, the necessary fiscal adjustment needs to be designed in a manner that minimizes the impact

[1]These averages are based on a survey of 130 estimates from the literature.

on growth and protects priority spending, including on the most vulnerable.

So far, the adjustment patterns have differed across the region (Figure 7). Some countries have relied on expenditure cuts. Because cutting current expenditures, particularly employee compensation, is usually politically and socially difficult, governments often have resorted to cutting capital expenditures, which, in turn, has contributed to a decline in potential output given sizable infrastructure gaps. As a result, some countries have also relied on other measures to raise revenues, including one-offs such as transfers of past profits from central banks. More important, many countries—including Argentina, Chile, Colombia, and Mexico—also made changes to their tax systems. Although it is still too early to assess the full impact of these tax reforms on recurrent revenues because many are still in progress, the associated revenue gains are nonnegligible (Box 3). Overall, a balanced fiscal strategy should also involve raising the efficiency of public spending to improve the quality of public goods and maintaining expenditures related to human and physical capital.

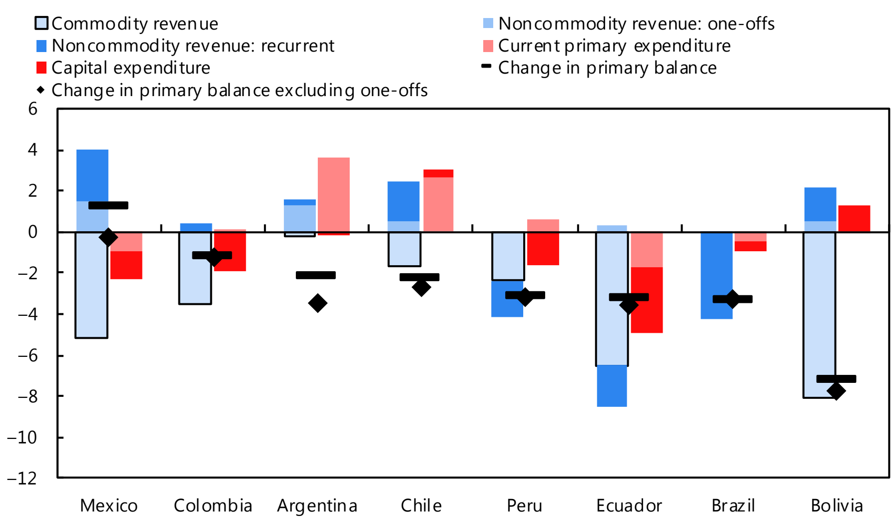
Expanding Monetary Space

With rapidly declining inflation (in some cases faster than expected), many central banks have been reducing their policy rates (Brazil, Chile, Colombia, and Peru) (Figure 8). Declining inflation—with inflation and inflation expectations at or below target ranges—increases the room for monetary policy to play a more supportive role, particularly given the limited fiscal space and continued economic slack. At the same time, in countries where inflation remains above the target range (such as Argentina), monetary policy will need to remain tight.

Increased exchange rate flexibility has been an effective shock absorber for the region, reducing the impact of external shocks on domestic demand and thereby helping preserve fiscal and reserve buffers. In addition, the pass-through to inflation has been limited relative to past episodes, reflecting improved monetary frameworks (Chapter 4 of the April 2016

Figure 7. Fiscal Adjustment in Selected Countries, 2013–16

In response to declining commodity revenues, adjustment patterns have differed.



Sources: IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: One-off revenues include: proceeds from the oil hedge and transfer from Banxico (Mexico); measures following the earthquake and the import safeguards net of the one-off expenditure for the payment of Occidental Petroleum (Ecuador); revenue from a tax holiday for repatriation of capital (Chile); tax amnesty (Argentina); and budget items classified as current transfers, other capital revenues, capital revenues from enterprises, and sales of goods (Bolivia).

Figure 8. Inflation and Monetary Policy Developments

(Latest available data; percent, unless otherwise indicated)

With declining inflation, many central banks have room to play a more supportive role.

	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Paraguay	Peru	Uruguay
Inflation[1]	2.6	2.7	1.7	3.4	0.1	6.4	4.0	2.9	5.2
Inflation expectations, two-year ahead[1]	...	4.2	3.0	3.4	...	3.6	4.5	2.7	7.0
Bilateral exchange rate, NC/US$[2] (percent change since December 2015)	...	–17.2	–6.5	–6.3	...	5.0	–4.3	–3.8	–3.8
Policy rate[3]	...	9.25	2.50	5.50	...	7.00	5.50	3.75	...
Ex ante real policy rate[3]	...	5.09	–0.50	2.12	...	3.42	1.00	1.02	...

Sources: Bloomberg Finance L.P.; Global Data Source; Haver Analytics; national authorities; and IMF staff calculations.
Note: Latest data are as of July 2017. NC = national currency.
[1]Red: higher than the target range; Green: below the maximum target range.
[2]Red: depreciation; Green: appreciation. Data are monthly averages except for Paraguay, which is end of period.
[3]Green: decline relative to December 2015; Red: increase relative to December 2015; No color: change is between –0.5 and 0.5.

Regional Economic Outlook: Western Hemisphere). In this context, effective communication and increased transparency have been essential to anchoring expectations and increasing the effectiveness of monetary policy (Box 4).

Structural Policies: Shifting Gears toward Convergence

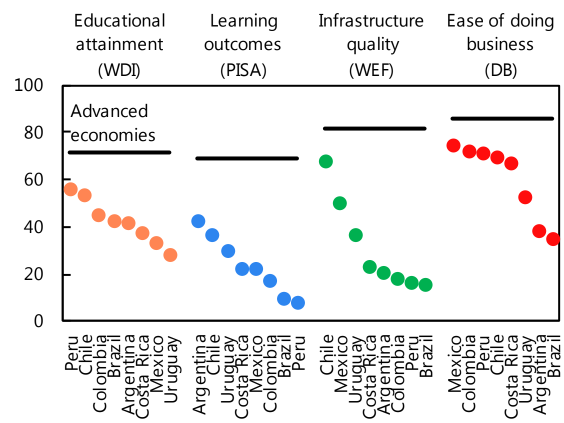
With prospects for income convergence dimming, countries need to push forward much-needed structural reforms with a greater sense of urgency to ensure sustainable and inclusive growth. Policy priorities include the following:

Closing infrastructure gaps to support productivity and competitiveness (Figure 9). Despite upgrades over the past decade, infrastructure quality across individual countries often compares poorly with their export competitors and, more important, considerable catch-up is still required relative to advanced economies. In addition, for most Latin American countries, the efficiency of public investment remains below the levels achieved by advanced economies, notwithstanding improvements in fiscal institutions (Chapter 5 of the April 2016 *Regional Economic Outlook: Western Hemisphere*).

Figure 9. Structural Performance Indicators

(Percentile ranks, unless otherwise indicated)

Education, infrastructure quality, and governance gaps remain significant.



Sources: Organisation for Economic Co-operation and Development, *2015 Programme for International Student Assessment* (PISA); World Bank, *2017 Doing Business* (DB) database; World Bank, World Development Indicators (WDI) database; World Economic Forum (WEF), *2016–17 Global Competitiveness Report*; and IMF staff calculations.
Note: Solid black lines refer to the simple average of advanced economies. For WDI, educational attainment refers to the percentage of population ages 25 and over that attained or completed upper secondary education. For PISA, WEF, and DB, the scale reflects the percentile distribution in all countries for each respective survey.

Enhancing female labor force participation where it is still low. Although the region has made great strides in raising female participation (to about 54 percent), sizable gaps persist in some countries (for example, in Central America, Argentina, and Mexico) (Novta and Wong

2017). Policy actions could include ensuring equal remuneration for equal work and nondiscrimination based on gender, providing or extending early childhood education and child care services, strengthening women's education, improving transportation to reduce unproductive time, and upgrading labor laws to allow for greater flexibility.

Reducing labor market informality, which remains high across the region despite significant progress. Reducing informality would increase efficiency and productivity, improve allocation of resources, and reduce negative externalities on public infrastructure.

Investing in human capital. Despite significant improvements in educational attainment, learning outcomes remain below those of advanced economies. Ensuring broad-based access to high-quality education promotes productivity, more equitable distribution of income, and adaptability of the workforce to structural transformation (October 2017 WEO).

Improving governance and curbing corruption. Weak governance and entrenched corruption are weighing on inclusive and sustainable growth in Latin America and the Caribbean. Although corruption is inherently difficult to quantify, various measures are highly positively correlated among themselves and negatively correlated with the level of development (IMF 2017a). In addition, higher corruption tends to be accompanied by higher inequality. Across various measures, however imperfect, Latin America and the Caribbean appears to be on par with other emerging market economies, but fares substantially worse than advanced economies. With increasing public discontent, Latin America now faces a window of opportunity to curb corruption. There is no fixed formula, and learning by doing will always be an important part of the process. Nevertheless, earlier experiences suggest that a successful anticorruption strategy would entail strong political leadership, legal and judicial reforms, enhanced transparency and accountability, and above all, stronger monitoring and enforcement. To sustain the momentum, efforts are also needed to tackle potential transitory costs that may result from ongoing anticorruption efforts.

Furthering regional trade and financial integration. Despite significant liberalization and the increase in regional trade agreements, trade integration in Latin America remains low. Weighted average tariff rates remain higher than those in other regions, and regional trade is about 15 percent of total exports (as compared with 55 percent in Asia). Increasing intraregional trade is estimated to have important growth benefits: for every 10 percentage point increase in intraregional trade, per capita growth can increase by 32 basis points (IMF 2017b).

Regional financial integration can support trade integration, including through increased diversification of market risks, enhanced competition, and reductions in financing costs. Measures to further the regional financial integration agenda include development of nondiscriminatory statutory and regulatory frameworks for entry and operation of cross-border financial institutions, harmonization of regulatory and accounting frameworks following best international standards, development of a stable and transparent tax regime for domestic and cross-border financial activities, and modification of regulatory limits on pension funds, thereby allowing them to invest regionally and to finance regional infrastructure projects. Greater financial integration also brings financial stability risks and spillover risks. Thus, financial integration needs to go hand in hand with strengthening of regulatory, supervisory, and resolution frameworks and increased cooperation among supervisory entities (Enoch and others 2017).

South America

Developments and Outlook

After bottoming out in 2016, growth in South America is gradually picking up, as recessions in a few countries come to an end. As domestic demand gains strength, imports accelerate, shifting the balance from net exports to domestic demand. Although external demand and financial conditions are supportive of this recovery, domestic developments continue to play a key role in many countries in the region.

Recession Is Coming to an End in Several Countries

Argentina is recovering from last year's recession and is expected to grow by about 2½ percent in 2017 as investment firms up (driven by greater spending on public works) and private consumption is sustained by a gradual recovery in both real wages (as inflation moderates) and employment. Growth in 2018 is expected to remain stable as private domestic demand continues to gradually improve amid tight macroeconomic conditions, reflecting the beginning of fiscal rebalancing and still-high real interest rates, consistent with the disinflation process. Inflation is expected to continue to slow as wage and price formation become more forward looking, although at a slower pace than required to meet the inflation targets. Upside risks to this outlook include a stronger positive impact of the reform process. But greater inertia in the evolution of wages and prices or tighter external financial conditions, or both, could require tighter fiscal and monetary policy stances than assumed in the baseline and slow the rebound of economic activity.

After entering positive territory in the first half of 2017, growth in *Brazil* is expected to reach 0.7 percent for the year as a whole and 1.5 percent in 2018. A bumper agricultural crop and a boost to consumption, including from allowing workers to draw on savings accumulated in their severance accounts, led to an upward revision of 0.5 percent in 2017 relative to the April WEO, but ongoing weakness in investment and an increase in political and policy uncertainty led to a downward revision of the 2018 forecast by 0.2 percent. A gradual restoration of confidence—as key reforms to ensure fiscal sustainability are implemented—should raise growth to 2 percent in the medium term. Inflation is forecast to decline faster than projected in April, reflecting stronger effects from negative output gaps, currency appreciations, and favorable supply shocks to food prices. Although progress has been made in containing discretionary expenditure, the official primary deficit targets for 2017 and 2018 were increased by about 0.5 percentage point, reflecting lower-than-expected revenue collection.

Economic activity in *Ecuador* continues to recover, with growth in 2017 expected to be slightly positive. The significant revision from earlier projections reflects larger public spending, financed via better access to international capital markets.

Venezuela Remains in Crisis

The *Venezuelan* economy continues contracting for the fourth consecutive year. After a contraction of 16.5 percent in 2016, the economy is projected to fall another 12 percent in 2017 and an additional 6 percent in 2018, driven by a continued reduction in oil production and intermediate imports. Inflation, projected to exceed 1,000 percent this year, is on the path to hyperinflation, driven by the use of the central bank to finance the economy's large fiscal deficits and the loss of confidence in the national currency. Political instability remains high, and the population continues to face a humanitarian crisis.

Growth Is Stuck in Low Gear in Most Others

In *Chile,* growth in the first half of 2017 remained weak, notwithstanding resilient household spending. Economic activity was dragged down by disruptions in copper production from extended labor strikes and by subdued business confidence and investment due, in part, to policy uncertainty. Growth is expected to gain traction in the second half of this year and to pick up further in 2018, sustained by household spending, recovery in partner demand, higher copper prices, and looser monetary conditions.

In *Colombia,* the orderly economic slowdown continues, given the permanent shock to commodity income and the structural tax reform. Growth has been weaker than anticipated as a result, in part, of disruptions in the oil sector and weak residential construction. Inflation has moderated rapidly and returned to the target range, guided by the normalization of food prices and timely policy tightening last year. Downside risks stem from relatively high (but moderating) gross external financing needs. A flexible exchange rate, ample reserves, and the Flexible Credit Line with the IMF remain important buffers against external shocks.

Peru's economy slowed in the first half of 2017 (2.3 percent growth year over year), reflecting El Niño-related flooding and landslides and spillovers from the Odebrecht corruption scandal. Overall, growth was supported by primary sectors (for example, mining, fishing), while domestic demand remained largely flat. Downside risks remain. Investment could be weaker than expected as uncertainties related to the Odebrecht corruption probe continue.

A Few Countries Are Growing at a Higher Rate Than the Rest of the Region

Economic activity in *Bolivia* remains strong by regional comparison, with real GDP growth projected to be 4.2 percent in 2017. Inflation has remained moderate as a result of falling import prices and stable administered prices. This favorable performance largely reflects supportive credit and fiscal policies that, combined with lower hydrocarbon revenues, have led to large fiscal and external current account deficits since 2014. Reserve buffers remain sizable, and public debt is still at moderate levels, which gives the authorities room to adjust policies more gradually to the permanent terms-of-trade shock. In the absence of a material policy adjustment, however, fiscal and external deficits are expected to remain large, and under the stabilized exchange rate, macro imbalances are likely to lead to a steady decline in reserves, worsening Bolivia's vulnerabilities in the medium term.

Paraguay is expected to grow close to its potential rate, with signs of stronger domestic demand, bolstered by public investment. However, risks to the outlook are to the downside, including from a possibly weaker recovery in key trading partners.

The *Uruguayan* economy has withstood the recessions in its large neighbors well, with growth projected to recover to 3.5 percent in 2017. A relatively tight monetary policy stance and an appreciating exchange rate have contributed to a marked decline in inflation, bringing it within the central bank's target range (3 to 7 percent) for the first time in years.

Policy Priorities

In *Argentina,* reducing inflation and the fiscal deficit are key policy priorities. Achieving the announced targets of cutting the primary federal fiscal deficit by 2 percentage points of GDP over 2018–19 would be critical. An even faster reduction could help lower real interest rates while being consistent with the disinflation process, and relieve pressures on the exchange rate, which still appears to be somewhat overvalued in real terms. Lower fiscal deficits would also reduce risks from a sudden change in external financial conditions and the crowding-out effects on private investment. Fiscal rebalancing would need to be based on further reductions in the generous and ill-targeted energy subsidies and on a rationalization of spending in many other areas, including wages, goods and services, and discretionary transfers to the private sector and provinces. Lower spending would also allow the excessive tax burden on both households and firms to be reduced, thus sustaining the rebound in private domestic demand. Strengthening private investment and productivity would also require continued efforts to advance the much-needed structural reform agenda, which would include introducing more flexibility in labor markets, reducing informality, opening up the economy to international trade, and improving domestic competition in product markets.

In *Brazil,* tackling the unsustainable expenditure mandates, including through reform of the pension system, is of first-order importance for strengthening confidence and fostering sustained growth in private investment. Should the economy recover faster than expected, a more front-loaded fiscal adjustment than envisaged in the budget would be warranted. Disinflation has been more rapid than expected, which has allowed monetary policy easing in recent months. Ongoing efforts to make the infrastructure concessions program more attractive to investors while strengthening high standards of governance and program design would help alleviate key supply-side bottlenecks while supporting near-term demand. More broadly, continued efforts to enhance governance and the rule of law would help rein in corruption, thereby strengthening business confidence and providing a boost to investment.

In *Bolivia,* adjustments in fiscal and credit policies are needed to restore internal and external equilibrium, slow the decline in foreign reserves, and prevent accumulation of unnecessary financial sector risks. Progress in structural reforms is needed to enhance private sector activity and potential growth. These reforms include reducing subsidies to improve resource allocation in the economy coupled with offsetting social safety net measures to limit the impact on the most vulnerable, improving the investment climate (in both hydrocarbon and nonhydrocarbon sectors), phasing out export quotas, and aligning wage growth more closely with productivity growth.

In *Chile,* monetary policy is appropriately accommodative, but there may be scope for further easing given downward pressures on inflation expectations. With the subdued growth outlook, fiscal consolidation should be gradual, but it would signal a commitment to fiscal prudence and appease possible concerns about fiscal uncertainty.

In *Colombia,* with inflation pressures dissipating, the central bank has started an easing cycle to support the recovery while protecting well-anchored inflation expectations. The infrastructure agenda, the positive impact of the peace agreement, and the tax reform for public and private investment will buttress medium-term growth.

In *Ecuador,* because debt has been on an increasing trend, a stronger-than-envisaged fiscal adjustment would be necessary. In the medium term the government needs to address weak competitiveness, structural labor market rigidities, and a burdensome regulatory environment to put the country on a sustained and inclusive growth path.

Peruvian authorities have been implementing a countercyclical policy stance in response to large reconstruction needs and a negative output gap. In particular, the government has invoked the escape clause under the fiscal rules framework to increase the deficit to 3 percent of GDP in 2017 (from 2.5 percent), and further to 3.5 percent of GDP in 2018 (from 2.3 percent). The central bank has also reduced its policy rate, along with making cuts in reserve requirements. The authorities are focusing on growth-enhancing structural reforms, placing emphasis on policies to increase labor market formalization and close infrastructure gaps.

In *Uruguay,* the steadfast implementation of this year's fiscal consolidation package is key to a gradual reduction in the budget deficit and the stabilization of net public sector debt in the medium term. To keep inflation close to the center of the target range, monetary policy needs to remain tight. Continued strong growth will also depend on the realization of planned infrastructure upgrades and structural reforms, in particular in education.

Mexico, Central America, Panama, and the Dominican Republic

Developments and Outlook

In *Mexico,* economic activity remained solid in the first half of the year despite uncertainty about future trade relations with the United States, a decline in oil production, and relatively tight monetary and fiscal policies. As a result, growth is projected to reach 2.1 percent in 2017. However, the uncertainty surrounding the negotiations of the North American Free Trade Agreement, along with domestic political uncertainty and tighter financial conditions, will increasingly weigh on consumption and investment, more than offsetting the positive contribution from net exports. Thus, growth is projected to slow to 1.9 percent in 2018. Inflation is temporarily running above the central bank's target and is projected to reach 5.9 percent, on average, in 2017 before gradually converging to 3 percent by early 2019.

In *Central America,* oil price dynamics, uncertainty about future US migration policies, and higher external demand have underpinned growth performance in the first half of 2017, which, in aggregate, remains close to potential and close to the April 2017 projections (Figure 10). Inflation accelerated in the first quarter of 2017 in most countries as a result of recovering oil and food prices and, partially, domestic and external demand. In the second quarter of 2017, given small output gaps, a slowdown in the oil price recovery softened inflation pressures.

Potential changes in US migration policy (significant scaling up of deportations or imposition of restrictions in remittances) and extension of temporary protection status for *El Salvador, Honduras,* and *Nicaragua,* while remaining a major risk, so far have benefited the region through higher remittances inflows that supported private consumption. Exports of agricultural and manufacturing goods benefited from both higher external demand from the United States and better terms of trade. External demand for tourism in *Costa Rica*, the *Dominican Republic*, and *Panama* also expanded at a solid pace. Panama's services balance additionally benefited from the expansion of the Panama Canal. These factors helped narrow current account deficits, which continue to be largely financed by foreign direct investment. Financial systems are stable and sovereign spreads have contracted for all countries except *El Salvador.*

Going forward, the downward revision of 2017 US GDP growth implies lower external demand for Central American exports, which would be partly offset by an extended period of easy financial conditions. Retreat from cross-border integration by the United States remains a lingering, albeit moderate, risk. In contrast, a Honduras-Guatemala customs union agreement signed in June 2017, with the expectation that *El Salvador* and *Nicaragua* will join in mid-2018, should enhance trade and growth in the region.

On the domestic side, persistent public sector deficits and rising public debt are the main concerns in *Costa Rica*, *El Salvador*, and to a lesser extent in the *Dominican Republic.* Dollarization remains a major financial risk in the region (Costa Rica, Honduras, Nicaragua). The risk of losing correspondent banking relationships so far has been limited. Political uncertainties weigh on growth in the face of upcoming elections in *Costa Rica, El Salvador*, and *Honduras* and an upsurge in corruption scandals in *Guatemala.*

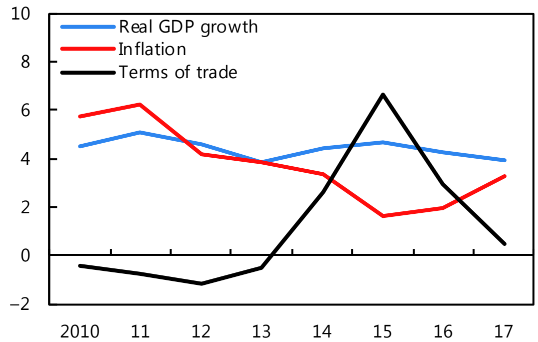
Policy Priorities

In *Mexico,* macroeconomic policies should remain focused on maintaining macroeconomic stability and market confidence. Ongoing fiscal consolidation efforts will help stabilize public debt as a share of GDP. Moreover, strengthening the fiscal framework would enhance the long-term credibility and countercyclicality of fiscal policy. Considerable

Figure 10. Central America, Panama, and the Dominican Republic (CAPDR)

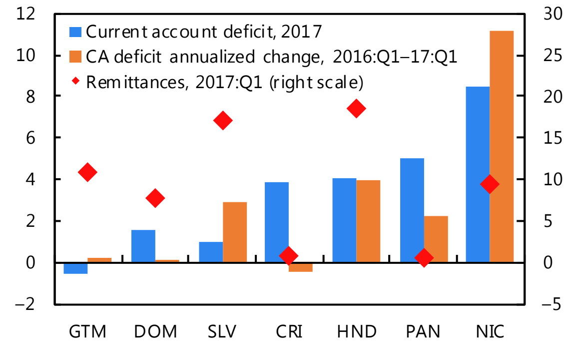
Growth is solid, with little slack and subdued inflation.

1. CAPDR: Recent Developments[1]
(Year-over-year percent change)



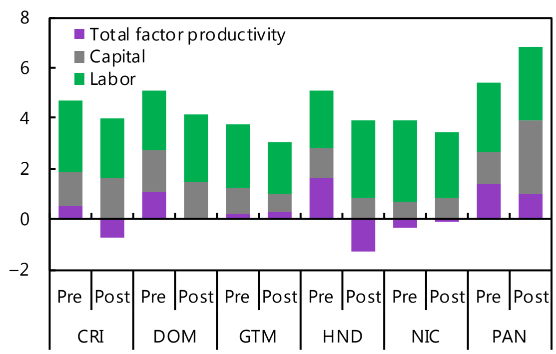
Current accounts narrowed in the first half of 2017 on the back of stronger exports and remittances inflows.

2. CAPDR: External Sector
(Percent of GDP)



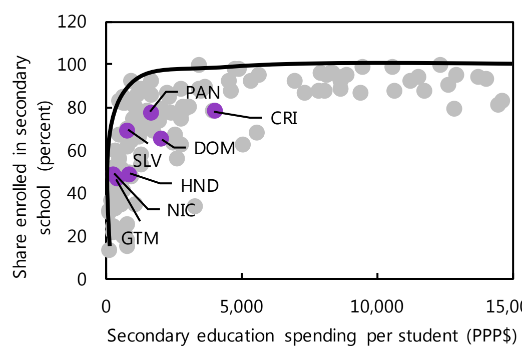
After the 2008 crisis, growth ebbed due to slower productivity growth.

3. CAPDR: Contributions of Production Factors to Growth, before and after the 2008 Crisis
(Percent change; 2000–07 versus 2008–14)



To ameliorate it, both quantity and quality of public investment, specifically in education, need to increase.

4. CAPDR: Public Spending in Secondary Education and School Enrollment Relative to Other Emerging Markets



Sources: IMF, Expenditure Assessment Tool; IMF, World Economic Outlook database; national authorities; Penn World Tables 9.0; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. CA = current account; PPP = purchasing power parity.
[1]Simple average.

monetary policy tightening since the end of 2015 has been successful in keeping medium- and long-term inflation expectations well anchored around the inflation target. As inflation declines early next year, and contingent on inflation expectations remaining in check, the central bank should stand ready to ease monetary policy to support economic activity. Clear communication remains crucial to guide market expectations.

In *Central America,* reducing corruption and improving the rule of law while reinvigorating the structural reform and social development agenda (for example by investing more in human capital and encouraging female labor force participation) are necessary to boost potential growth and make it more inclusive.

Since the global financial crisis, economic growth in all *CAPDR* countries except *Panama* slowed by 1 percentage point, on average (panel 3 of Figure 10). The decline is almost entirely due to a decline in productivity. Given already-low income levels and subdued medium-term prospects, reversing this decline and boosting potential growth are essential to improve living standards in *Central America.* Labor productivity in many countries could be boosted significantly by prioritizing investment in education and health, particularly given the high share of the young population in the region *(El Salvador, Guatemala, Honduras, Nicaragua)*. In addition, maintaining or bringing public finances to sustainable levels could lower the cost of capital, support private investment, and free resources for infrastructure investment. Persistent crime, high levels of corruption, and weak rule of law are all contributing to low returns on investment. Creating room for security expenditures—which remain significantly below the world average, particularly in *El Salvador*, *Guatemala*, and *Honduras*—could help reduce crime. Enhancing transparency—including through wider use of online portals and the single-window system—and reducing business transaction costs could help reduce corruption and red tape.

To create the necessary fiscal space, *Costa Rica*, the *Dominican Republic*, *El Salvador*, *Guatemala*, *Nicaragua,* and *Panama* need to boost fiscal revenues through additional taxes or by expanding the tax base. Most of the countries in the region will benefit from improved tax administration and a reduction of untargeted tax exemptions (specifically untargeted energy and value-added-tax exemptions). There is room for containing current spending in *Costa Rica*, *El Salvador*, and *Honduras*. Cross-country experience shows that existing quality of education and health spending can be significantly improved (Figure 10).

The Caribbean

Developments and Outlook

Economic prospects for the *Caribbean* are generally improving. The baseline projections reflect data available before the impact of Hurricanes Harvey, Irma, and Maria, which hit the Caribbean recently, and do not, therefore, reflect the devastating impact of these hurricanes on a number of countries in the region and the risk they pose to their growth outlook, at least in the short term.

Growth in tourism-dependent economies in 2017–18 is projected to be 2.4 percent, up from 2.1 percent in 2016 (Figure 11). For commodity exporters, growth is projected to rise in 2017–18 to 1.3 percent, from –3.3 percent in 2016. There is, however, substantial variation across countries.

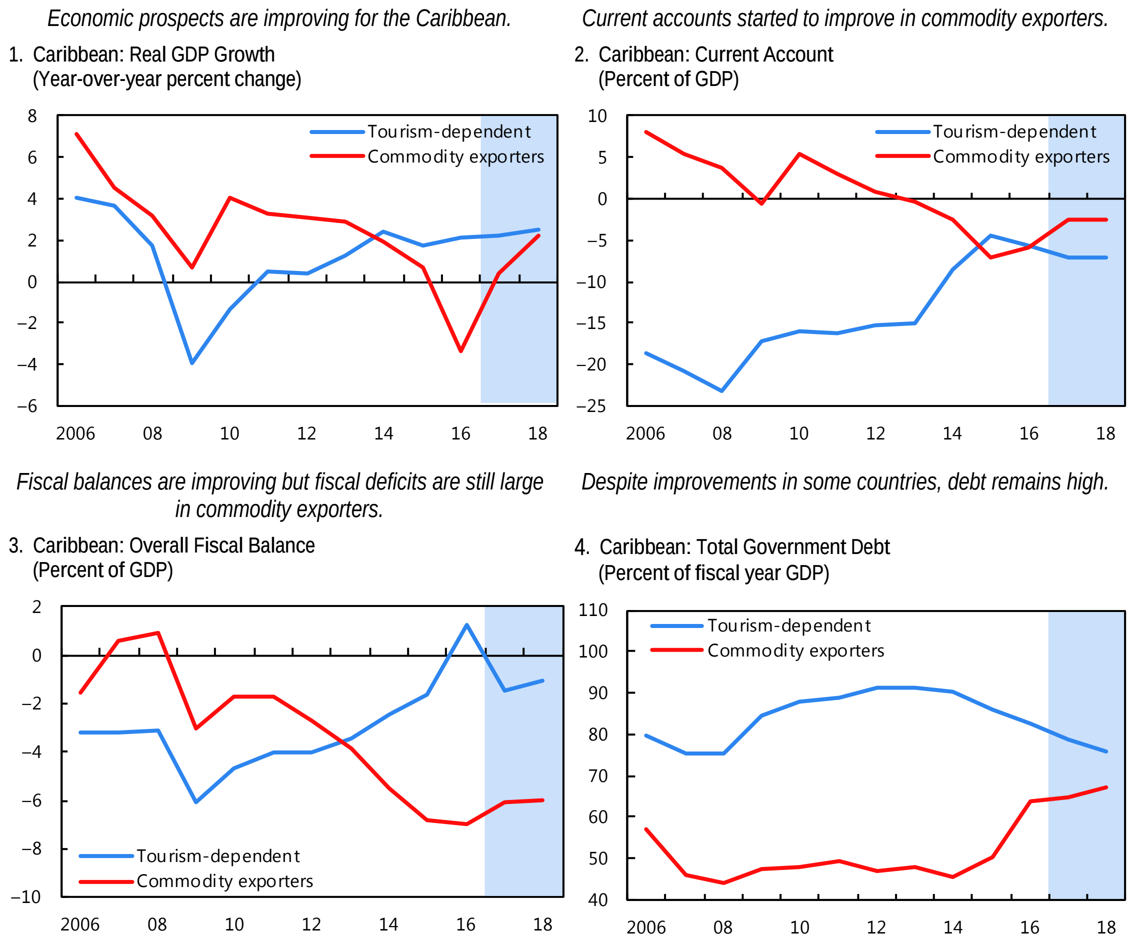
Economic activity in tourism-dependent economies is estimated to have expanded in the first half of 2017. There are a few exceptions, however, such as *Barbados,* where growth in 2017 is estimated to have slowed, reflecting necessary fiscal consolidation efforts. In a number of cases, weather swings and hurricanes are expected to take a toll on overall growth this year, including in *Antigua and Barbuda*, *Dominica*, *St. Kitts and Nevis,* and *Haiti*, which is still rebuilding from the effects of Hurricane Matthew in October 2016. Slightly faster growth is projected for 2018, based on the acceleration in global demand, as well as country-specific factors, such as the expected entry into full operation of a new international airport in *St. Vincent and the Grenadines*. Reconstruction activity following the hurricanes could have a positive impact on growth in subsequent years beyond what is projected in the baseline.

The performance of commodity exporters has generally been weaker. *Trinidad and Tobago* was hit hard by lower oil and gas prices and production outages in 2014–15, and *Suriname* by lower commodity prices, the shutdown of alumina production, and necessary fiscal consolidation. The downturn in these economies is estimated to have extended into 2017, and positive growth is projected for 2018. Growth has been stronger in *Guyana,* supported by two new large gold mines and positive sentiment ahead of the beginning of oil production in 2020.

Policy Priorities

A number of Caribbean economies have made inroads into reducing their debt burden, but the majority face high and, in some cases, rising

Figure 11. The Caribbean



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Simple average. Shaded area refers to projections. Data labels use International Organization for Standardization (ISO) country codes.

sovereign debt levels that weigh on their prospects for strong and sustainable growth. In *Antigua and Barbuda, Grenada, Jamaica,* and *St. Kitts and Nevis,* the government debt-to-GDP ratio has been declining from very high levels, reflecting sustained fiscal discipline, debt restructuring, and a recovery in growth. In some countries, strong inflows from economic citizenship programs have supported debt reduction. In most other countries, however, additional fiscal consolidation is necessary to put government finances on a sustainable path, build buffers against future adverse shocks, and help address external imbalances.

Despite progress on financial sector reform, numerous banks in the region are saddled with high levels of nonperforming loans, which constrain credit availability and economic activity and increase banks' vulnerability to shocks (Beaton and others, forthcoming). In the *Eastern Caribbean Currency Union,* the authorities have made progress on reforms to strengthen bank resilience, including through regulatory enforcement of capital requirements and efforts to clean up banks' balance sheets. Reforms to strengthen the financial sector are also underway in other countries in the region. Further steps are required, however, including developing markets for distressed loans to facilitate banks' disposal of bad assets, addressing deficiencies in insolvency and debt-enforcement frameworks, strengthening oversight of nonbank financial institutions, and further enhancing the capital adequacy of indigenous banks. To promote stability in the nonbank financial sector, regulatory gaps for credit unions and the insurance industry should be addressed promptly. An additional priority for strengthening financial sector resilience is securing correspondent banking relationships through more effective implementation of anti–money laundering/combating the financing of terrorism frameworks, bank consolidation, and improved communication and information exchange with correspondent banks.

Stronger implementation of structural reforms is also necessary to enhance competitiveness, private investment, and growth. Policy priorities include, in several countries, reducing high electricity costs by conserving energy and diversifying the energy mix, deepening financial systems and enhancing access to credit, tackling violent crime, and reducing high unemployment and brain drain by improving the business climate and strengthening institutions. Enhancing economic integration of Caribbean economies, including by coordinating the search for solutions to shared and intertwined macroeconomic and structural challenges, would provide further impetus to sustained growth in incomes and jobs.

Additional steps are needed to mitigate the costs of recurrent natural disasters and climate change. Focusing on better preparation, mitigation, and response can help reduce the human and economic cost of disasters and climate change and build resilience to future shocks. Countries can build disaster and climate change risks explicitly into policy frameworks, including in the design of budgets, fiscal rules, and public investment plans. Insurance and financial hedging tools can protect governments from the burden of disasters and increase their capacity to respond appropriately. Regional coordination could facilitate the pooling of insurance coverage at the Caribbean level, while the international community could support countries by providing capacity building, tools for risk management, and financing.

Box 1

Long-Term Productivity in Latin America and the Caribbean

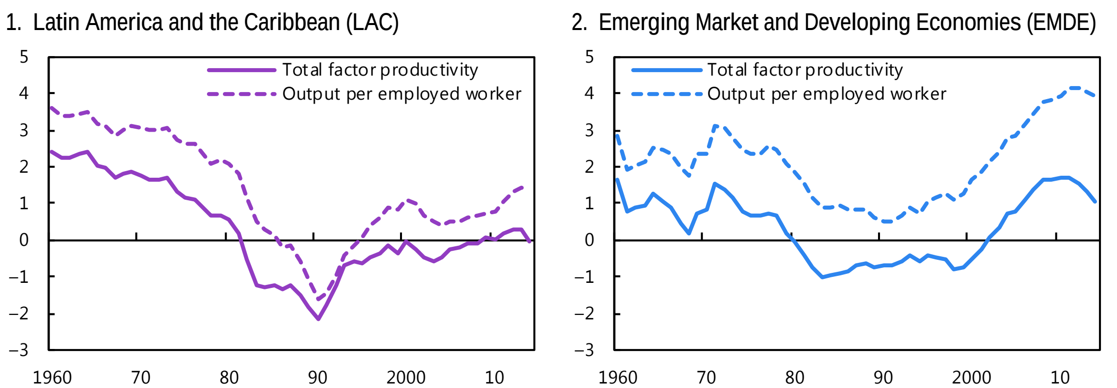
After disappointing growth outcomes over the past few years, economic activity in Latin America and the Caribbean (LAC) is recovering, but medium-term growth is expected to remain subdued. This box explores the role of productivity—the efficiency with which capital and labor inputs are converted into produced goods and services—in driving these long-term growth rates, and compares the experience in LAC[1] with that of emerging market and developing economies.[2]

Living standards, as measured by output per worker,[3] deteriorated steadily until the 1990s, and despite some recovery, have remained weak since then (Figure 1.1). By contrast, the group of emerging market and developing economies has improved its living standards in every decade since 1960, and these growth rates accelerated during the early 2000s.

A traditional neoclassical growth model can be used to decompose this growth in living standards into a component due to capital deepening and another component, known as total factor productivity (Solow 1956; Swan 1956).[4] Both in LAC and emerging market and developing economies, given that the capital deepening component grows at a relatively constant rate over time, growth rates in total factor productivity appear to drive growth rates in living standards over long periods (Figure 1.1). Strikingly, total factor productivity in LAC has worsened, or changed very little, since the 1980s.

Figure 1.1. Long-Term Trends in Living Standards and Productivity in LAC and EMDE

(Percent growth per year)



Sources: Penn World Tables (PWT) 9.0; and IMF staff calculations.
Note: Ten-year rolling average of purchasing-power-parity GDP-weighted average across countries; growth rates in constant price national currency units. Total factor productivity data are as given in the PWT 9.0.

This box was prepared by Galen Sher with excellent research assistance from Genevieve Lindow.

[1] Based on data availability, the LAC countries included are Argentina, Barbados, Bolivia, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.

[2] This analysis is related to the earlier work in Daude and Fernández-Arias (2010) and arrives at similar conclusions about the role of productivity. Adler and others (2017) document global productivity developments and study the determinants of productivity.

[3] Output per person is a measure of living standards, and output per worker is often used as a close substitute because these two measures behave similarly over long periods.

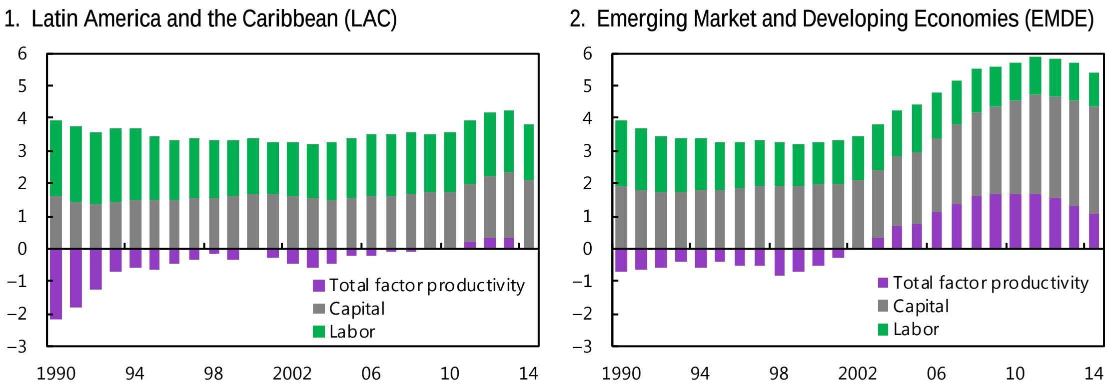
[4] The decomposition is $\Delta(Y/L) = \alpha\Delta(K/L) + \Delta TFP$, where $\Delta(Y/L)$ is the growth rate of output per worker, $\Delta(K/L)$ is the growth rate of the ratio of the capital stock to the number of employed persons, and ΔTFP is the growth rate of total factor productivity.

Box 1 *(continued)*

Figure 1.2 follows the same methodology to provide a full decomposition of long-term real GDP growth rates into components due to the accumulation of capital and labor, and the total factor productivity residual.[5,6] These decompositions show that long-term economic growth in LAC has been driven in equal parts by the accumulation of capital and labor, while total factor productivity has either been a negligible influence or a drag on economic growth.

Within LAC, long-term economic growth in Brazil and Colombia has relied more on a growing and more educated labor force, while that in Chile, Mexico, and Peru has relied more on investment in physical capital. Growth in the number of educated workers has also supported growth in LAC more than in emerging market and developing economies, while emerging market and developing economies have benefited from stronger physical capital accumulation.

Figure 1.2. Decomposition of Economic Growth in LAC and EMDE
(Percent)



Sources: Penn World Tables (PWT) 9.0; and IMF staff calculations.
Note: Ten-year rolling average of purchasing-power-parity GDP-weighted average across countries; growth rates in constant price national currency units. Total factor productivity is calculated based on the translog production function, time-varying labor shares. Labor includes number employed, years of schooling, and returns to education, as published in the PWT 9.0.

Weak investment performance and prospects could also have negative spillovers to productivity growth. Real investment in LAC fell by 3.6 percent per year between 2013 and 2016. If about a quarter of investment passes through to total factor productivity growth, as estimated in Adler and others (2017), this drop in investment would imply a drop in total factor productivity growth of 0.9 percent per year during this period.

Overall, weak productivity growth appears to play an important role in explaining subdued growth outcomes in the region. Although policies to address bottlenecks to physical and human capital accumulation could support productivity growth, structural reforms are also needed to raise productivity directly. These reforms could include, among other, improving the governance and business environment to allocate resources to their most productive uses, making room for investment in research and development, and encouraging regional trade and financial integration.

[5]Figure 1.1 shows growth rates in real GDP per worker, while the bars in Figure 1.2 add up to the growth rates in real GDP.
[6]Note that the proper measurement of the stock of capital and labor is an open debate among economists. In Figure 1.2, the labor stock reflects the number of employed workers, their number of years of schooling, and estimates of the wage return to education. Consequently, the total factor productivity residual should not reflect the behavior of these factors.

Box 2

Market Views on Latin American Prospects and Risks

In September, market participants were generally upbeat on the *economic outlook* for Latin America. Overall, the region is seen to be making progress in its adjustment process—more externally than fiscally—to lower commodity prices, including by allowing currency depreciation. With local currencies recovering and inflation pressures receding (except in Mexico), markets anticipate further rate cuts by several central banks, which, in turn, are expected to provide support to a nascent recovery.

External risks are seen by markets as consequential for possible financial disruption in Latin America, though not necessarily likely shocks. Although financial conditions remain favorable, compressed risk spreads and "stretch for yield" might reflect market complacency or mispricing in fixed-income assets—many trading with negative yields in real terms (Figure 2.1). However, this market attitude is viewed as a worldwide feature not specific to emerging markets. While a "risk off" episode could cause turbulence in asset markets in Latin America, an inflation scare or major policy misstep by the Federal Reserve (or European Central Bank) is not considered to be a likely trigger for sharp increases in yields and risk spreads. In the process of balance sheet normalization, sophisticated investors are assumed to respond to expected stocks (not flows) of central bank holdings that are likely to remain largely in place for a long time. From the market's perspective, geopolitical risks could also trigger a rise in global risk aversion but with more ramifications for equities than bonds, given a perceived shortage of safe-haven assets worldwide. A financial crisis or sharp growth slowdown in China is also seen as a potential threat for Latin America with a regional impact through commodity markets, although some believe sufficient domestic countermeasures are available to prevent instability.

Who would be more vulnerable to externally driven financial shocks? If external risks generated a sharp financial tightening and market turmoil, market participants believe the effects would be felt similarly across the region at the outset. Differentiation would occur later depending on market perceptions of underlying vulnerabilities (larger financing needs, shorter maturity structure, and so on) and on available policy space across economies.

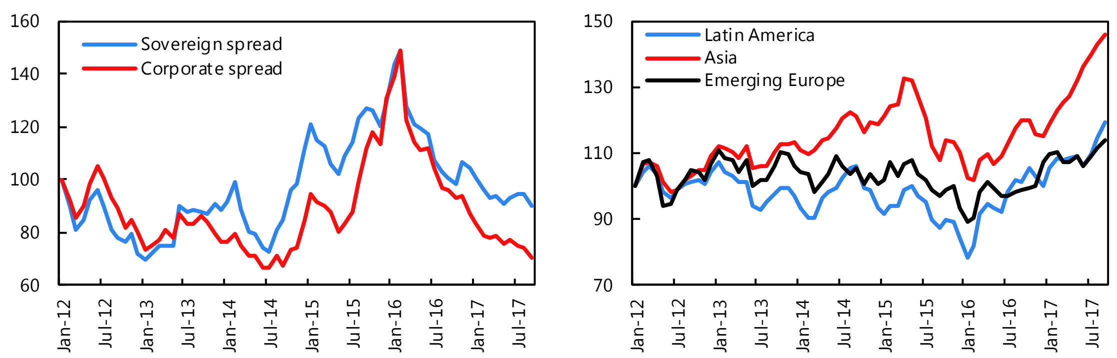
According to markets, the main domestic risks center around political risks with upcoming national elections throughout the region and the ongoing crisis in Venezuela. The possibility of antiestablishment candidates and populist agendas is particularly worrisome in those economies that could ill afford policy mistakes given present conditions.

Figure 2.1. Financial Indicators

(Index: January 2012 = 100)

1. Latin America: Sovereign and Corporate Spreads[1]

2. Equity Indices[2]



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

[1]Sovereign spread refers to J.P. Morgan Emerging Market Bond Index Global and corporate spread refers to J.P. Morgan Corporate Emerging Markets Bond Index Broad Diversified. Basis points indexed to 100 in January 2012.

[2]Refers to Morgan Stanley Capital International (MSCI) index.

This box was prepared by the Regional Studies Division based on IMF staff discussions in New York with market participants during September 11–12, 2017.

Box 3

Fiscal Adjustment and Tax Reforms: Some Evidence from Latin America

As Latin America continues to adjust to low commodity prices, sluggish medium-term growth prospects, and weaker fiscal balances since the global financial crisis, many countries—including Argentina, Chile, Colombia, and Mexico—are implementing changes to their tax systems to help with the adjustment. The coverage (income versus indirect taxes), the purpose (raising revenues, reducing distortions, improving competitiveness, enhancing equity), and the tax revenue effects of these reforms have varied significantly. In particular, tax reforms in Chile (2014), Colombia (2014 and 2016), Mexico (2013), and Peru (2011) were expected to raise revenues. Focusing on recent reforms in, Chile, Colombia, and Mexico the expected revenue gains have ranged between 2 and 3 percent of GDP in cumulative terms.

Chile passed a comprehensive tax reform in 2014 to help finance its structural reform agenda. In addition to measures to improve revenue collection, the bulk of the reform introduced profound changes to the taxation of capital income. Under the new system, the corporate income tax rate for most large corporations was gradually increased from 20 percent to 27 percent. At the individual level, the top marginal rate was reduced from 40 percent to 35 percent. However, whereas under the previous system shareholders could claim a tax credit of 100 percent for all taxes paid by their corporations (to avoid double taxation), this credit is now limited to 65 percent. The combination of a higher corporate income tax rate and some double taxation of capital income (dividends) more than offsets the lower rates at the personal level and therefore tax rates on capital income are now higher.

Colombia implemented a revenue-neutral tax reform in 2012 and revenue-increasing tax reforms in 2014 and 2016. The 2014 tax reform included a temporary increase in corporate income taxes to replace lost oil revenue amid the end of the commodity super-cycle. The 2016 tax reform is an important overhaul of the tax system that will protect investment and social programs, while complying with the fiscal consolidation mandated by the fiscal rule. Key measures include an increase in the value-added tax rate of 3 percentage points starting in 2017, a gradual reduction in corporate tax rates, and the unification of multiple income taxes (on both corporate and personal income).

Mexico passed a comprehensive tax reform in 2013, covering taxes on income, value added on "sin" products, and more stringent customs regulations to improve collection. Changes in the income tax code included limits on deductions and exemptions, new tax brackets, new taxes on certain dividends and gains, elimination of the tax consolidation regime for corporate groups, and elimination of both the tax on cash deposits and the business cash flow tax. Changes in value-added taxes included the elimination of a reduced rate for border states. "Sin" taxes included a new tax on sugary beverages and high-calorie food, pesticides, and carbon-producing products.

This box was prepared by Pelin Berkmen, Carlos Goncalves, and Galen Sher, with contributions from country teams.

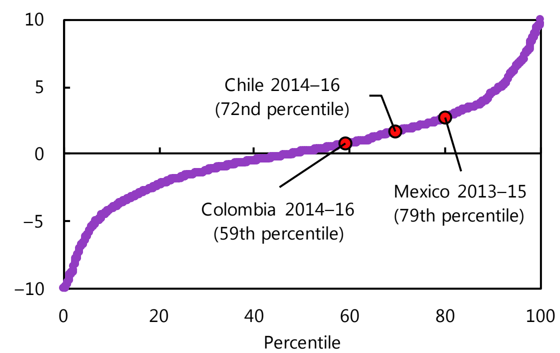
Box 3 *(continued)*

Higher Tax Revenues

In the years following these tax reforms, tax revenues indeed increased significantly. Although a part of these increases is attributable to one-off measures, overall revenue increases are sizable. Indeed, once tax revenue changes are adjusted to exclude the impact of the state of the business cycle and shifts in commodity prices, countries in Latin America fare well relative to the historical changes in all emerging market economies over a two-year window.[1]

Mexico's adjusted tax revenue increase during 2013–15 (about 2½ percentage points of GDP, of which approximately 1 percentage point is due to increases in fuel excises) places it at the 79th percentile (about the 72nd percentile excluding fuel excises)—which means that the increase in Mexico's tax revenues is higher than 79 percent of all historical episodes of two-year adjusted tax revenue changes in emerging markets. Similarly, Chile's adjusted tax revenue increase after the reform period (1¾–2 percentage points) ranks high (above the 72nd percentile) compared with historical episodes in emerging markets. Colombia has also experienced revenue gains since its 2014 reform (¾ percentage point)—which includes effects of some improvements in tax administration—and its 2016 reform is expected to advance these gains further (Figure 3.1).

Figure 3.1. Two-Year Variation in Tax Revenues
(Percent share)



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

[1]The econometric results are obtained using panel regressions of annual data. The elasticities linking output gap and commodity price swings to tax revenues are the same for all countries. The problem with using country-by-country regressions is short time dimension. Using other measures of output gap and commodity prices yields similar results.

Box 4

The Use of Board Minutes as a Communication Channel in Latin American Central Banks

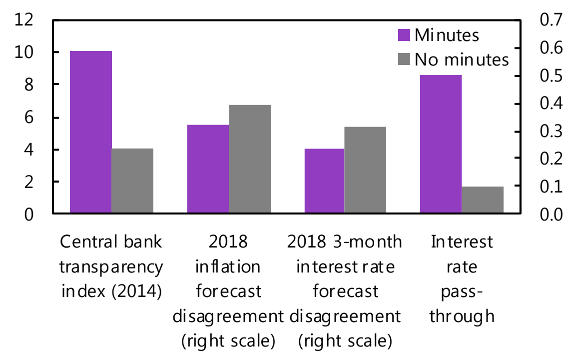
Central banks in the region have established a wide range of communication channels—including press releases, inflation reports, parliamentary hearings, and the release of minutes from policy meetings—to improve their communication to the public, and as part of their transparency and accountability frameworks.

There is broad consensus that transparency about monetary policy objectives, outlook, and strategies; past policy misses; and the direction of future policy reduces uncertainty, enhances the ability of policymakers to manage expectations, and amplifies the effect of monetary policy on longer-term interest rates. These effects increase the ability of policymakers to influence economic growth and inflation (Bernanke 2008) and allows them to minimize disruptions when policies change (as was seen under the so-called taper tantrum and interest rate liftoff in the United States).[1]

In this context, minutes play a crucial role in central bank communication, particularly for those central banks making policy decisions by voting in a monetary policy committee, which is the case for many in the region. In particular, the minutes provide a more comprehensive explanation of the reasons for the committee's decisions and its views of the risks to the outlook; hence, they provide additional information beyond other communication tools (Kedan and Stuart 2014; Lucca and Trebbi 2009; Garcia-Herrero, Girardin, and Dos Santos 2015; Reeves and Sawicki 2007). Central banks that publish their minutes tend to be more transparent overall, which has been associated with better-anchored inflation expectations (Brito, Carrière-Swallow, and Gruss, forthcoming). Furthermore, there is some evidence of larger pass-through from policy to lending rates in economies where central banks publish minutes (Figure 4.1).

Figure 4.1. Transparency and Effectiveness of Monetary Policy

(Median country)



Sources: Consensus Forecasts; Dincer and Eichengreen 2014; and IMF staff calculations.

Minutes disseminated by the region's central banks are typically split between a section describing economic conditions and a section describing the committee's policy discussion and decisions.[2] Minutes are generally published two weeks after the policy meeting, except for Paraguay and Guatemala, which publish them one and four weeks after the meetings, respectively. Only the central banks of Brazil and Chile identify how individual committee members voted. The central bank of Peru does not release minutes.

This box was prepared by Etibar Jafarov and Juan Yépez.

[1]These conclusions are supported by empirical evidence. Increasing numbers of analyses suggest that transparency and communication lower average inflation and inflation persistence (Chortareas, Stasavage, and Sterne 2002; van der Cruijsen and Demertzis 2007); improve the predictability of monetary policy decisions (Bernoth and von Haagen 2004; Ferrero and Secchi 2007); weaken the link between realized and expected inflation, thereby improving the output-inflation trade-off; and enable the reduction of both short- and long-term nominal interest rates (Eijffinger, Geraats, and van der Cruijsen 2006).

[2]Since information on the economic environment is often readily available elsewhere, the most valuable component of the minutes is the section containing the monetary policy committee members' policy discussions.

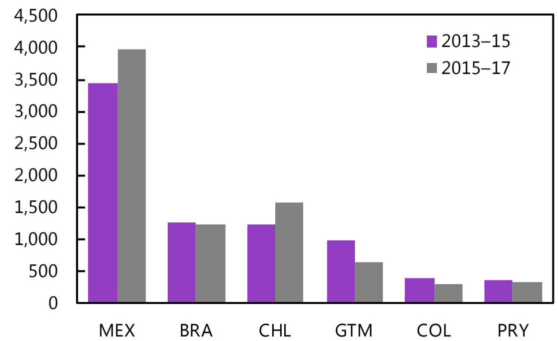
Box 4 (*continued*)

The length of the minutes is a quantifiable characteristic that may reflect both the level of detail that the central banks want to transmit to the public and central banks' efforts to increase procedural transparency (Figure 4.2). With the exception of Chile and Mexico, minutes published by central banks have become more succinct and concise.[3] However, text length of minutes tends to increase when inflation deviates from its target range or when the policy rate is changed.

The content of the discussions, which, according to preliminary IMF staff estimates, appears to predict future policy actions, is important too (Figure 4.3). Barbosa and others (forthcoming) analyze the effects of the information content of the minutes published by central banks in the region on future policy decisions and financial market prices. Results suggest that information in the minutes of the monetary policy committee meeting is useful for predicting future policy changes. (Indices built by comparing the frequency of "hawkish" and "dovish" words connoting the need for tighter and looser policy, respectively, tend to predict policy rate changes in subsequent monetary policy committee meetings). The minutes can affect market rates when they are published (minutes containing a higher frequency of "hawkish" terms tend to increase market rates on the day of publication), which enhances the overall effectiveness of monetary policy.

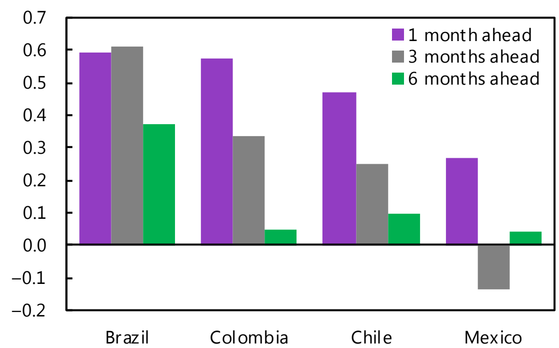
Figure 4.2. Word Count of the Policy Discussions and Decisions Sections in Central Bank Minutes

(Number)



Sources: National authorities; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes.

Figure 4.3. Correlation between "Hawkish" Tone in Minutes and Changes in Future Policy Rates



Sources: National authorities; and IMF staff calculations.
Note: The "hawkish" tone index is calculated using computational linguistics techniques; see Barbosa and others (forthcoming) for details.

[3] The analysis of the minutes was done using the Spanish versions, with the exception of Brazil, for which the English version was used.

Annex 1. Disclaimer

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

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

Projecting the economic outlook in Venezuela, including assessing past and current economic developments as the basis for the projections, is complicated by the lack of discussions with the authorities (the last Article IV consultation took place in 2004), long intervals in receiving data with information gaps, incomplete provision of information, and difficulties in interpreting certain reported economic indicators in line with economic developments. The fiscal accounts include the central government and Petróleos de Venezuela, S.A. (PDVSA), and the fiscal accounts data for 2016–22 are IMF staff estimates. Revenue includes the IMF staff's estimated foreign exchange profits transferred from the central bank to the government (buying US dollars at the most appreciated rate and selling at more depreciated rates in a multitier exchange rate system) and excludes the staff's estimated revenue from PDVSA's sale of PetroCaribe assets to the central bank. Fiscal accounts for 2010–22 correspond to the central government and PDVSA. Fiscal accounts before 2010 correspond to the central government, public enterprises (including PDVSA), Instituto Venezolano de los Seguros Sociales (IVSS—social security), and Fondo de Garantía de Depósitos y Protección Bancaria (FOGADE—deposit insurance).

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

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

	Output Growth (Percent)					Inflation[2] (End of period, percent)					External Current Account Balance (Percent of GDP)				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
			Est.	Projections				Est.	Projections				Est.	Projections	
North America															
Canada	2.6	0.9	1.5	3.0	2.1	2.0	1.3	1.4	1.6	1.9	–2.4	–3.4	–3.3	–3.4	–2.9
Mexico	2.3	2.6	2.3	2.1	1.9	4.1	2.1	3.4	6.1	3.5	–1.8	–2.5	–2.2	–1.7	–2.0
United States	2.6	2.9	1.5	2.2	2.3	0.5	0.7	2.2	1.8	2.3	–2.1	–2.4	–2.4	–2.4	–2.6
Puerto Rico[3]	–1.2	–1.1	–2.6	–2.8	–2.5	0.1	–0.2	0.5	1.1	0.9	…	…	…	…	…
South America															
Argentina[4]	–2.5	2.6	–2.2	2.5	2.5	23.9	...	...	22.3	16.7	–1.5	–2.7	–2.7	–3.6	–3.7
Bolivia	5.5	4.9	4.3	4.2	4.0	5.2	3.0	4.0	4.3	5.0	1.7	–5.7	–5.7	–4.7	–4.8
Brazil	0.5	–3.8	–3.6	0.7	1.5	6.4	10.7	6.3	3.6	4.0	–4.2	–3.3	–1.3	–1.4	–1.8
Chile	1.9	2.3	1.6	1.4	2.5	4.7	4.4	2.8	2.4	2.9	–1.7	–1.9	–1.4	–2.3	–2.8
Colombia	4.4	3.1	2.0	1.7	2.8	3.7	6.8	5.7	4.0	3.1	–5.2	–6.4	–4.3	–3.8	–3.6
Ecuador	4.0	0.2	–1.5	0.2	0.6	3.7	3.4	1.1	0.8	0.7	–0.5	–2.1	1.4	–0.7	–1.6
Guyana	3.8	3.1	3.3	3.5	3.6	1.2	–1.8	1.5	2.6	2.7	–9.6	–5.7	0.4	–2.0	–1.1
Paraguay	4.7	3.0	4.1	3.9	4.0	4.2	3.1	3.9	4.0	4.0	–0.4	–1.1	1.7	1.1	0.4
Peru	2.4	3.3	4.0	2.7	3.8	3.2	4.4	3.2	2.7	2.5	–4.4	–4.8	–2.7	–1.5	–1.6
Suriname	0.4	–2.7	–10.5	–1.2	1.2	3.9	25.1	52.4	9.1	12.3	–7.9	–16.4	–2.8	9.4	6.1
Uruguay	3.2	0.4	1.5	3.5	3.1	8.3	9.4	8.1	6.2	6.7	–4.5	–2.1	–0.1	–0.4	–0.8
Venezuela[5]	–3.9	–6.2	–16.5	–12.0	–6.0	64.7	159.7	302.6	1,133	2,530	2.3	–6.6	–1.6	–0.4	–1.3
Central America															
Belize	4.1	2.9	–0.8	2.5	2.3	–0.2	–0.6	1.1	2.4	2.3	–7.5	–9.9	–9.4	–8.0	–6.6
Costa Rica	3.7	4.7	4.3	3.8	3.8	5.1	–0.8	0.8	2.7	3.0	–4.9	–4.3	–3.2	–3.9	–4.0
El Salvador	1.4	2.3	2.4	2.3	2.1	0.5	1.0	–0.9	2.4	2.0	–4.8	–3.6	–2.0	–1.0	–2.1
Guatemala	4.2	4.1	3.1	3.2	3.4	2.9	3.1	4.2	4.3	4.0	–2.1	–0.3	1.0	0.5	–0.2
Honduras	3.1	3.6	3.6	4.0	3.6	5.8	2.4	3.3	4.5	4.0	–7.0	–5.5	–3.8	–4.0	–4.2
Nicaragua	4.8	4.9	4.7	4.5	4.3	6.5	3.1	3.1	4.0	7.2	–7.1	–9.0	–8.6	–8.4	–8.4
Panama[6]	6.1	5.8	4.9	5.3	5.6	1.0	0.3	1.5	2.5	2.1	–13.7	–7.3	–5.7	–5.1	–3.3
The Caribbean															
Antigua and Barbuda	5.1	4.1	5.3	2.7	3.0	1.3	0.9	–1.1	2.5	2.0	2.0	6.8	0.2	1.4	–0.8
The Bahamas	–0.5	–1.7	–0.3	1.8	2.5	0.2	2.0	0.8	2.4	2.2	–21.9	–13.6	–12.9	–17.8	–14.0
Barbados	0.1	0.9	1.6	0.9	0.5	2.4	–2.5	3.2	6.7	2.4	–9.9	–6.5	–4.6	–3.3	–3.0
Dominica	4.4	–2.5	2.6	3.9	2.8	0.5	–0.5	–0.2	1.4	1.4	–7.2	–1.9	0.8	–6.2	–7.3
Dominican Republic	7.6	7.0	6.6	4.8	5.8	1.6	2.3	1.7	2.9	4.2	–3.3	–2.0	–1.5	–1.6	–2.6
Grenada	7.3	6.4	3.7	2.5	2.3	–0.6	1.1	0.9	3.0	1.8	–4.4	–3.8	–3.2	–7.1	–6.3
Haiti[7]	2.8	1.2	1.4	1.0	3.0	5.3	11.3	12.5	15.3	5.0	–8.5	–3.1	–0.9	–1.1	–0.9
Jamaica	0.5	0.9	1.3	1.7	2.3	6.4	3.7	1.7	5.0	5.5	–7.5	–3.2	–2.2	–2.7	–3.0
St. Kitts and Nevis	5.1	4.9	3.1	2.7	3.5	–0.5	–2.4	0.9	1.5	2.0	–4.9	–9.7	–11.4	–12.8	–11.1
St. Lucia	–0.9	2.0	1.0	1.6	2.8	3.7	–2.6	–3.0	1.4	1.2	3.3	6.8	–1.9	–0.5	–3.6
St. Vincent and the Grenadines	0.3	0.9	0.8	2.2	2.8	0.1	–2.1	1.0	1.9	1.5	–25.7	–14.9	–15.8	–14.7	–13.6
Trinidad and Tobago	–0.6	–0.6	–5.4	–3.2	1.9	8.4	1.6	3.1	3.2	3.2	15.1	3.9	–11.3	–9.0	–8.4
Memorandum															
Latin America and the Caribbean	1.2	0.1	–0.9	1.2	1.9	5.0	6.2	4.6	4.2	3.6	–3.1	–3.4	–2.0	–2.0	–2.3
South America[8]	0.5	–1.3	–2.6	0.6	1.6	5.6	8.6	5.4	3.4	3.6	–3.3	–3.6	–1.8	–1.9	–2.3
Simple average	*2.0*	*1.0*	*–0.6*	*0.9*	*1.9*	*4.9*	*5.6*	*4.4*	*3.5*	*3.6*	*–1.8*	*–3.7*	*–1.7*	*–1.8*	*–2.2*
CAPDR[9]	5.0	5.1	4.6	4.1	4.4	2.7	1.7	2.0	3.2	3.6	–5.7	–3.7	–2.5	–2.6	–2.8
Simple average	*4.4*	*4.6*	*4.2*	*4.0*	*4.1*	*3.3*	*1.6*	*2.0*	*3.3*	*3.8*	*–6.1*	*–4.6*	*–3.4*	*–3.4*	*–3.5*
Caribbean															
Tourism-dependent[10]	0.8	0.9	1.4	1.8	2.3	3.7	1.8	1.2	4.1	3.8	–11.0	–5.9	–5.7	–7.2	–6.4
Simple average	*2.4*	*1.8*	*2.1*	*2.2*	*2.5*	*1.5*	*–0.3*	*0.5*	*2.9*	*2.2*	*–8.5*	*–4.5*	*–5.7*	*–7.1*	*–7.0*
Commodity exporters[11]	0.2	–0.4	–4.9	–1.9	2.0	6.7	4.1	8.2	3.8	4.2	8.6	–0.7	–8.8	–5.8	–5.5
Simple average	*1.9*	*0.7*	*–3.3*	*0.4*	*2.2*	*3.3*	*6.1*	*14.5*	*4.3*	*5.1*	*–2.5*	*–7.0*	*–5.8*	*–2.4*	*–2.5*
Eastern Caribbean Currency Union[12]	3.1	2.8	2.6	2.6	2.8	1.0	–1.0	–0.6	1.8	1.7	–4.7	–1.4	–5.4	–6.6	–7.4

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

[1]Regional aggregates for output growth are purchasing-power-parity GDP-weighted averages unless noted otherwise. Consumer price index (CPI) inflation aggregates exclude Argentina and Venezuela and are geometric averages unless noted otherwise. Current account aggregates are US dollar nominal GDP-weighted averages unless noted otherwise. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is September 22, 2017.

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

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

[4]See Annex 1 for details on Argentina's data.

[5]See Annex 1 for details on Venezuela's data.

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

[7]Fiscal year data.

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

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

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

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

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

Table 2. Western Hemisphere: Main Fiscal Indicators[1]

	Public Sector Primary Expenditure (Percent of GDP)					Public Sector Primary Balance (Percent of GDP)					Public Sector Gross Debt (Percent of GDP)				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
			Est.	Projections				Est.	Projections				Est.	Projections	
North America															
Canada	35.5	37.2	37.9	38.0	37.7	0.2	–0.5	–1.2	–1.5	–1.3	85.4	91.6	92.4	89.6	87.7
Mexico[2]	24.8	24.2	22.7	20.0	19.4	–1.6	–1.1	0.5	1.8	0.6	49.5	53.7	58.4	53.3	52.4
United States[3]	33.0	32.8	33.1	33.1	32.6	–2.0	–1.6	–2.3	–2.2	–1.5	105.1	105.2	107.1	108.1	107.8
Puerto Rico[4]	20.4	19.7	19.6	20.2	20.8	–1.0	–0.2	–0.6	0.2	–0.9	54.5	52.9	49.5	52.1	55.6
South America															
Argentina[5]	37.6	40.5	40.4	39.6	38.2	–3.5	–4.7	–4.8	–4.5	–3.4	43.6	56.0	54.2	53.4	52.0
Bolivia[6]	42.3	43.6	38.8	38.3	37.3	–2.4	–5.9	–5.6	–5.5	–5.2	34.9	38.7	43.4	45.7	47.4
Brazil[7]	31.8	30.1	30.5	30.7	30.2	0.0	–1.9	–2.5	–2.5	–2.3	62.3	72.5	78.3	83.4	87.7
Chile	23.1	24.4	25.5	25.9	26.3	–1.3	–1.9	–2.6	–2.8	–2.1	14.9	17.4	21.3	24.9	27.6
Colombia[8]	26.9	26.6	24.5	24.7	24.6	0.3	–0.7	0.0	–0.2	–0.0	43.7	50.6	50.2	48.5	48.6
Ecuador[9]	42.4	37.4	37.8	36.4	34.4	–4.2	–3.9	–6.8	–3.5	–1.6	22.0	26.1	36.2	39.0	42.7
Guyana[10]	30.2	28.4	32.1	33.4	33.4	–4.4	–0.2	–3.4	–4.0	–3.7	51.2	47.9	48.3	53.4	56.4
Paraguay	22.7	24.3	23.7	23.7	23.5	0.1	–0.3	0.0	–0.0	0.3	19.7	24.0	24.6	25.7	25.4
Peru	21.5	21.2	19.9	19.8	20.5	0.7	–1.3	–1.4	–1.8	–2.2	20.7	24.0	24.4	25.5	27.2
Suriname[11]	31.8	30.6	21.2	18.7	19.8	–7.7	–8.4	–5.5	–3.7	–2.2	26.3	42.6	68.8	63.2	66.1
Uruguay[12]	29.5	28.8	30.0	29.7	29.6	–0.6	–0.0	–0.7	0.0	0.1	61.4	64.6	61.9	59.8	61.3
Venezuela[13]	42.7	35.0	34.1	31.2	31.2	–12.6	–16.0	–16.9	–18.0	–18.5	63.5	32.1	31.4	23.0	19.7
Central America															
Belize[10]	28.9	33.9	31.1	29.1	29.9	0.3	–5.2	–1.2	3.1	2.0	77.7	82.6	99.2	95.3	91.4
Costa Rica[10]	16.3	16.6	16.4	16.8	16.9	–3.0	–3.0	–2.4	–2.8	–2.7	38.3	40.8	44.7	49.1	52.4
El Salvador[14]	19.0	18.8	18.8	18.9	19.1	–1.0	–0.7	–0.0	0.0	–0.1	57.1	58.3	59.5	61.5	62.4
Guatemala[10]	11.9	10.7	10.6	11.1	11.5	–0.4	0.1	0.4	0.0	–0.2	24.3	24.2	24.5	24.6	24.9
Honduras	25.7	24.2	25.1	24.6	24.6	–2.6	0.0	0.2	–0.2	–0.2	39.9	40.1	41.5	44.1	44.9
Nicaragua[14]	23.8	24.6	25.9	26.3	26.0	–0.9	–0.9	–0.9	–0.9	–0.4	28.7	28.9	31.0	32.4	33.1
Panama[15]	21.9	21.0	21.0	21.5	20.9	–1.6	–0.7	–0.6	–0.3	0.1	37.1	38.8	38.8	40.0	39.5
The Caribbean															
Antigua and Barbuda[16]	19.8	23.7	21.8	18.7	18.8	–0.2	–0.1	2.4	0.8	0.3	102.1	98.2	86.2	83.7	82.8
The Bahamas[10]	20.0	21.7	22.4	24.3	23.3	–3.1	–2.2	–0.4	–2.6	–0.6	60.2	64.5	68.0	72.7	73.3
Barbados[17]	28.0	28.9	26.7	26.0	25.9	0.7	0.7	2.5	5.2	5.9	100.3	107.4	105.5	97.9	92.1
Dominica[16]	30.2	30.5	39.9	36.9	31.6	–3.0	1.0	15.7	–2.2	0.2	81.1	77.2	72.7	69.4	69.5
Dominican Republic[14]	15.3	15.1	14.7	15.3	14.9	–0.5	2.4	–0.0	–0.4	–0.1	33.7	33.0	35.0	36.7	37.9
Grenada[16]	25.6	22.3	21.2	21.6	21.4	–1.1	2.1	5.2	4.4	4.3	101.8	90.6	82.1	70.7	64.8
Haiti[10]	24.8	21.5	18.2	18.0	21.3	–5.9	–2.2	0.3	–1.0	–0.7	26.3	30.2	33.7	32.6	32.7
Jamaica[16]	18.7	19.8	20.4	21.6	21.5	7.5	7.1	7.6	7.0	7.0	137.6	120.2	111.9	107.0	101.2
St. Kitts and Nevis[16]	29.9	30.1	28.3	30.1	29.6	12.3	8.7	6.0	0.9	0.3	81.4	70.6	65.6	61.7	59.0
St. Lucia[16]	22.7	21.9	21.8	21.6	21.6	0.1	1.3	2.3	2.0	2.1	69.2	66.7	66.7	66.5	65.7
St. Vincent and Grenadines[16]	29.9	26.5	26.6	25.9	26.2	–1.5	–0.2	2.4	2.5	2.3	79.5	79.4	82.9	78.4	75.9
Trinidad and Tobago[18]	34.9	36.5	34.4	34.7	34.6	–3.8	–6.4	–10.6	–10.2	–9.7	26.2	28.9	39.4	47.2	54.7
Memorandum															
Latin America and the Caribbean	29.8	28.9	28.5	28.0	27.4	–1.3	–2.8	–2.7	–2.2	–2.1	50.7	54.6	58.1	59.8	61.6
South America[19]	32.0	31.2	30.5	30.0	29.6	–2.4	–3.7	–4.1	–3.9	–3.5	38.7	40.6	42.6	42.9	44.0
CAPDR[20]	19.2	18.7	18.9	19.2	19.1	–1.4	–0.4	–0.5	–0.6	–0.5	37.0	37.7	39.3	41.2	42.2
Caribbean															
Tourism-dependent[21]	25.0	25.1	25.4	25.2	24.4	1.3	2.1	4.8	2.0	2.4	90.4	86.1	82.4	78.7	76.0
Commodity exporters[22]	31.5	32.3	29.7	29.0	29.4	–3.9	–5.1	–5.2	–3.7	–3.4	45.3	50.5	63.9	64.8	67.1
Eastern Caribbean Currency Union[16,23]	25.6	25.5	26.9	24.5	23.9	1.3	2.0	2.7	1.8	1.7	81.8	77.0	74.5	70.6	68.6

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

[1]Definitions of public sector accounts vary by country, depending on country-specific institutional differences, including on what constitutes the appropriate coverage from a fiscal policy perspective, as defined by the IMF staff. All indicators reported on fiscal year basis. Regional aggregates are fiscal year US dollar nominal GDP-weighted averages unless noted otherwise. Consistent with the IMF *World Economic Outlook,* the cutoff date for the data and projections in this table is September 22, 2017.

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

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

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

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

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

[7]Nonfinancial public sector, excluding Petrobras and Eletrobras, and consolidated with the Sovereign Wealth Fund (SWF). The definition includes Treasury securities on the central bank's balance sheet, including those not used under repurchase agreements (repos). The national definition of general government gross debt includes the stock of Treasury securities used for monetary policy purposes by the central bank (those pledged as security in reverse repo operations). It excludes the rest of the government securities held by the central bank. According to this definition, general government gross debt amounted to 69.9 percent of GDP at end-2016.

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

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

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

[11]Primary expenditures for Suriname exclude net lending.

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

[13]See Annex 1 for details on Venezuela's data.

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

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

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

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

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

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

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

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

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

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

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