

The Changing Face of **Latin America**

WHITE PAPER



CONTENTS

Foreword	1
Authors' note	3
Executive summary	5
I. Latin America in international perspective	8
The region's key characteristics	9
II. Recent economic performance	12
Latin America's economic performance	13
The role of trade	14
Box: Trade initiatives are deepening regional integration	16
Investment for growth and development	17
FDI and current accounts	20
Box: Resources and growth: the African experience	21
III. Current major influences	25
Commodity cycle and US monetary policy	26
Credit and debt	27
Box: Latin America's growing consumer class	28
Conjunctural issues facing specific countries	29
Box: Exchange rate regimes in Latin America	33
IV. Strategic issues	34
Demographics	35
Energy demand	36
Infrastructure and logistics	37
The 'middle-income trap'	38
Box: Integration projects are underway across the region	39
Structural indicators	40
V. Challenges and opportunities	42
Challenges and policy requirements	43
The important role of infrastructure	44
Taking stock	44
Box: Infrastructure's role in economic growth	45
Box: Infrastructure's role in export diversification	46
Box: Panama Canal expansion: opportunities and economic impacts	48
VI. Longer-term prospects	49
Looking ahead	50
Positive perceptions and role models	50
Challenges remain	50
Summing up	51
VII. Country pages	52
Summary macroeconomic outlooks, selected countries	52
End notes	81
References	83

FOREWORD

We are pleased to have commissioned *The Changing Face of Latin America*. This is the latest in a series of in-depth independent reports variously on the economic prospects for selected regions of the world and on subjects of major importance to business leaders, investors, and governments.

Over the past several decades the world economy has undergone profound change, including the globalisation of international trade and finance, the evolution of a global oil market, the IT revolution, and a shifting balance of power between the world's regions.

Over time, Latin America has become deeply immersed in this process and it is no exaggeration to say that it has been one of its success stories. Thirty years or so ago, the general perception of the region was negative. Despite its huge natural resource wealth, hemispheric proximity to the United States, and often European-inspired institutions, it was commonly associated with military dictatorships, exploitation, default, trade protection, hyperinflation, and a litany of missed opportunities. Country after country seemed incapable of breaking out of the 'middle income trap'. Given the choice, the spectacular dynamism of Asia was a greater pull to investors than the unstable and frequently unforgiving states to the south of the Rio Grande. This has now changed.

Today, perceptions both within Latin America itself and across the world at large are altogether more positive. The global financial crisis of 2008/09 was shrugged off without undue trauma. But more importantly, democracy has finally taken root; reasonable macroeconomic stability is the rule rather than the exception; the region has become more integrated into the global economy, acting as primary supplier of food and raw materials for, amongst others, China and India; corruption, crime, and the drugs trade are in retreat, longstanding infrastructure shortcomings are being addressed, and inroads are finally being made into the grinding poverty that was the norm for large swathes of the population. In short, the prospects for finally springing the middle income trap have significantly improved.

Of course, some laggards remain. But how could there not be across such a large and diverse continent? And in any case they are now in a minority. It is the success stories like Mexico and Chile (both now members of the OECD), Colombia and Peru, and, notwithstanding a recent set-back, Brazil, that are capturing the headlines and firing the imagination of policymakers and the public at large. Their progress and development is attracting productive investment, new technologies and much-needed expertise from the rest of the world, and providing a powerful positive demonstration effect to other developing nations.

This is not to deny that, as with all regions undergoing structural change, Latin America must confront a number of major challenges, not least the recent sharp fall in many commodity prices, if its economies are to come close to maximising their potential and grow sustainably. And this applies as much to the more progressive and disciplined nations as it does to the recidivists. Greater sectoral flexibility and diversity remain a priority.

Hence, further advances are needed in the quality of the economic and financial institutions and of policymaking mechanisms. Structural policies need to evolve as the economies themselves become ever more complex and the world around them changes. Minds must remain open to new and better trade agreements. Environmental issues need to be confronted and income inequalities and matters of inclusivity addressed.

These issues are considered at length in this report, which demonstrates the extent of the opportunities in this part of the world – particularly, we believe, for well-positioned, flexible, and forward-looking companies, such as Puma Energy.

Puma Energy has global momentum and a unique business model – we have a special relationship with our main shareholder Trafigura and key shareholders. Thanks to our relationship with Trafigura, we benefit from the widening reach, substantial pricing power and security of supply of a large and still expanding trading house. But our independence within this business configuration also allows us to operate with exceptional agility in taking advantage of new opportunities. We are proud to be more capable of adapting to changing market conditions than other larger conglomerates, and of our strong growth, which continued even during the global financial crisis.

Puma Energy is ahead of the competition in the global market, having invested heavily in mid- and down-stream assets in a number of fast-growing frontiers. Our presence in diverse regions, ranging from Central and South America to Sub-Saharan Africa, and across to South East Asia and Oceania, is fundamental. We believe that there are not enough of the right kind of infrastructure assets in key locations where oil demand is growing – such as in developing Latin America, where the demand for energy is expected to increase by over 50% over the coming 20 years – and have worked hard to improve access to the global supply network. We have built up a strong position structured around our highly efficient distribution network, capable of delivering high quality fuel safely, quickly, reliably, and at a fair price.

We are executing a carefully-planned strategy, designed to capture higher shares of the mid- and down-stream markets in our target regions. We employ close to 7,000 people in close to 45 countries across five continents, handling 20 million m³ of oil products with 5.5 million m³ in storage capacity. A powerful commitment to employing local people and local resources is the foundation of our strength in solving complex problems for our customers in a variety of regulated and unregulated market conditions.

We trust that you will find this report instructive, and that you will come to appreciate the significant opportunity that lies ahead for a unique independent firm such as Puma Energy.

AUTHORS' NOTE

Latin America is a large and culturally diverse region comprising over 30 countries. In many respects it is difficult to describe it meaningfully as a single entity. Yet at the same time many of the countries in the region are subject to similar forces, and face similar challenges.

Most economies in Latin America can be characterised as 'middle-income', although the desire to expand and progress is strong, irrespective of their stage of development. To realise their economic potential, not only is it necessary to maintain short-term macroeconomic stability, each country will also have to embrace an enduring programme of structural adjustment and reform, including the significant modernisation of their infrastructures.

To bring out many of the main issues clearly, it is necessary to "fly over the subject at the right height". This we hope we have done even if, in so doing, we have had to truncate the paper in various areas, each of which could have been a subject of study on its own.

That said, we are often asked what is new in any study, so in this case would highlight the following:

- **Conjunctural issues:** an innovative approach to analysing near-term macroeconomic risks using the 'rule of four', which considers inflation, and current account and budget deficits (the 'twin deficits') – as a percentage of GDP
- **Structural policy:** measurement of the quality of structural policies, and their change over time, across a range of economies – within and outside the Latin American region
- **Structural settings:** empirical evidence that structural policies matter, with success stories
- **Middle-income trap:** theory and evidence of the link between structural policies and countries currently in the middle-income trap, how hard the trap is to avoid, and countries currently at risk
- **Infrastructure:** how it contributes 'disproportionately' to emerging economies' growth – particularly in transport and energy

The principal authors are Ben Combes and Rose Ferrer.

The whole was edited, and approved for publication, by John Llewellyn and Preston Llewellyn.

LATIN AMERICA

9%

of the world's
population

9%

of world GDP

15%

increase in population
by 2030*

Over the past 20 years or so, Latin America's population has grown by around 40%, to over 600 million. The region is home to 9% of the world's population spread across 33 countries, accounts for 9% of global GDP, and is the world's second most urban region thanks to accelerated decade-on-decade GDP growth.

Energy demand in Latin America is increasing at one of the fastest rates in the world. Over the next 20 years:

- The region's demand for energy is expected to grow by over 50%
- The demand for oil is expected to increase by over 20%
- OECD energy demand, by contrast, is expected scarcely to increase, and oil demand to fall, by around 20%

*UN world population prospects (2012 revision). Medium-fertility scenario estimate from 2014 to 2030.

EXECUTIVE SUMMARY

Latin America in international perspective (I)

- Latin America is a large and culturally diverse region comprising 33 countries.
- The region is home to 9% of the world's people, and is the world's fourth-most populous.
- It produces around 9% of world GDP; a similar proportion to that of the Middle East and Africa combined.
- Most Latin American economies are 'middle-income'.
- Urbanisation has been rapid over the past 60 years or so, making it the world's second-most urban region.
- The region outperforms Emerging Asia, and Middle East & North Africa, in a number of macroeconomic areas.

Recent economic performance (II)

- Latin America's economic growth has accelerated decade-on-decade, and far outpaced that of the developing economies since 2000 – maintaining its share in global GDP, notwithstanding the rapid rise of China and India.
- South America, Central America, and the Caribbean have, notwithstanding quite differing economic structures, followed similar growth cycles, with growth accelerating substantively in each.
- Performance across economies continues to be diverse. Many of the region's previously-slower-growing economies are now growing strongly, while other previously-faster-growing economies have slowed somewhat.
- Latin America's growth is highly dependent on exports and the evolution of world trade in goods and services.
- The US accounts for over one-third of the region's exports, and is Latin America's main trading partner. But regional trade is important and growing, and exports to China have increased eight-fold over the past decade.
- The region's goods exports are predominantly commodities, with a high degree of country specialisation. The region's terms of trade rose substantially during the 2000s commodities boom, but have latterly declined sharply.
- Investment in the region is slightly higher than the OECD average, and is financed largely from domestic saving.
- Sovereign Wealth Funds in resource-rich countries can help manage resource revenues efficiently and insulate against the commodity price cycle. Resource-poor economies face an even bigger challenge.
- FDI flows into the region have been large for some time and, while the majority of the region's countries are in current account deficit, none seem likely to face serious instability from this source in the immediate future.

Current major influences (III)

- The region faces conjunctural challenges, not least from lower commodity prices.
- But the strengthening US recovery continues to provide considerable support, and groundwork is being laid to further improve the region's prospects.
- The region's exposure to US interest rates has diminished somewhat as governments have reduced their reliance on US-denominated debt, and spill-overs onto domestic bond yields have typically been contained.
- Credit has grown in many economies, and leverage has increased, driven by corporate and consumer loans.
- Government debt is generally low compared with the advanced economies.
- Many countries have a degree of fiscal headroom with which to respond to aggregate demand shocks.
- Fiscal policy in general has become more consistently countercyclical in nature in recent years.

Strategic issues (IV)

- The economies of the region are underpinned by some strong fundamentals, but in order for them to realise their potential, much continued investment and reform is still needed.
- Latin America has strong demographics, with around half as many over-60s as Europe and North America, and the active proportion of the population set to increase rather than decrease.
- The region's dependency ratio has fallen significantly over recent decades. It is likely to continue doing so, and by 2020 to have fallen below the world average, thereby remaining one of the lowest dependency-ratio regions.
- Latin America's energy demand is set to grow strongly – by around 16% to 2020 and by over 50% by 2035 – significantly faster than in much of the rest of the world.
- The region's demand for oil is likely to grow too – by around 7% to 2020, and by approximately 20% by 2035.
- The region's logistics networks are poor, hampering longer-term performance. The performance gap is particularly large in the areas of customs practices, timeliness and, especially, infrastructure.
- The region's structural-policy settings have improved over recent decades, and a number of the economies now compare favourably with advanced economies in some areas: but there is still much to be done.

Challenges and opportunities (V)

- Latin America's economies face an array of unique challenges, as identified by the IMF.
- For most countries, boosting growth potential remains central, and improving the region's infrastructure will be an important element of this.
- The main challenge for the financially-integrated economies is to boost productivity and competitiveness.
- The large commodity exporters face differing and varied challenges, from restoring macroeconomic stability to improving the availability of basic goods and sustaining inclusive growth.
- Central America's primary challenge is to consolidate the public finances. Raising productivity and growth will require easing constraints, including security issues, poor infrastructure, and a weak business environment.
- The Caribbean's main challenge is to reduce its (public) debt burden.
- Extensive reforms are necessary, with a focus on the region's structural weaknesses, which include high energy, labour, and cross-border trading costs, and undiversified tourism markets.
- Improvements are essential in the quality of the region's infrastructure – central to the functioning of any economy and a fundamental determinant of economic development and welfare.
- Infrastructure investment does more than merely add to the capital stock: it also contributes importantly to near-term demand as well as to longer-term supply and thereby sustainable growth.

Longer-term prospects (VI)

- Although challenges and risks remain, and country fortunes – determined importantly by policy – are likely to continue to be diverse, positive role models are emerging, perceptions are changing, and there are grounds for cautious optimism.
- The quality of economic and financial institutions and systems and of policymaking is advancing, and the region is becoming better integrated into global trading and financial systems.
- In many countries there seems a greater willingness and ability to tackle corruption, crime, and drugs.
- Enthusiasm to join or work with international organisations, and to enter into trade agreements points to increasing willingness for openness to commerce and a more comprehensive connection to the world economy.
- China and India, although their underlying growth is slowing, continue to develop and will remain hungry for the food, minerals, and energy resources in which the Latin American region is abundant.
- The countries that do well, will provide a demonstration effect to others.

CHAPTER ONE

LATIN AMERICA IN INTERNATIONAL PERSPECTIVE

Latin America is a large and culturally diverse region comprising 33 countries.

- The region is home to 9% of the world's people, and is the world's fourth-most populous
- It produces around 9% of world GDP; a similar proportion to that of the Middle East and Africa combined
- Most Latin American economies are 'middle-income'
- Urbanisation has been rapid over the past 60 years or so, making it the world's second most urban region
- The region outperforms Emerging Asia, and Middle East & North Africa, in a number of macroeconomic areas

THE REGION'S KEY CHARACTERISTICS

Latin America is a large diverse region

Latin America is a large, diverse region. It accounts for around 13% of the world's land, and comprises 33 countries: 12 in South America; 8 in Central America; and 13 in the Caribbean (figure 1).¹ Over the past 20 years or so the region's population has grown by around 40% to just over 600 million.² It is home to 9% of the world's people, and is the world's fourth-most populous region.

The region is culturally diverse, with many spoken languages, including: Spanish, Portuguese, French and Italian; and Native American languages e.g. Quechua, Mayan, Guaraní, Aymara, and Nahuatl.

FIGURE 1: GEOGRAPHIC AND POLITICAL MAP OF LATIN AMERICA



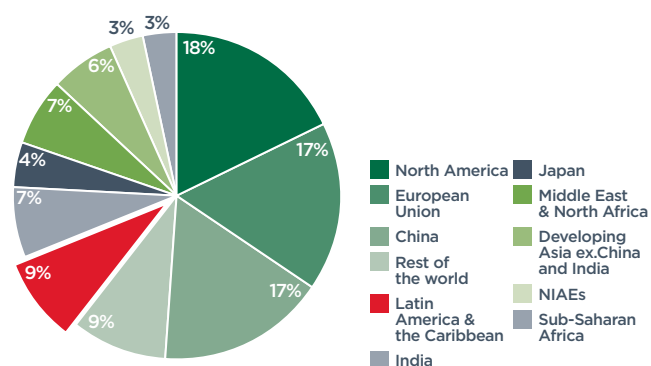
Chapter one: Latin America in international perspective

Countries can be grouped in a number of ways

Latin America's countries can be grouped in a number of ways. Each has its merits, depending on the purpose. Common groupings are by:

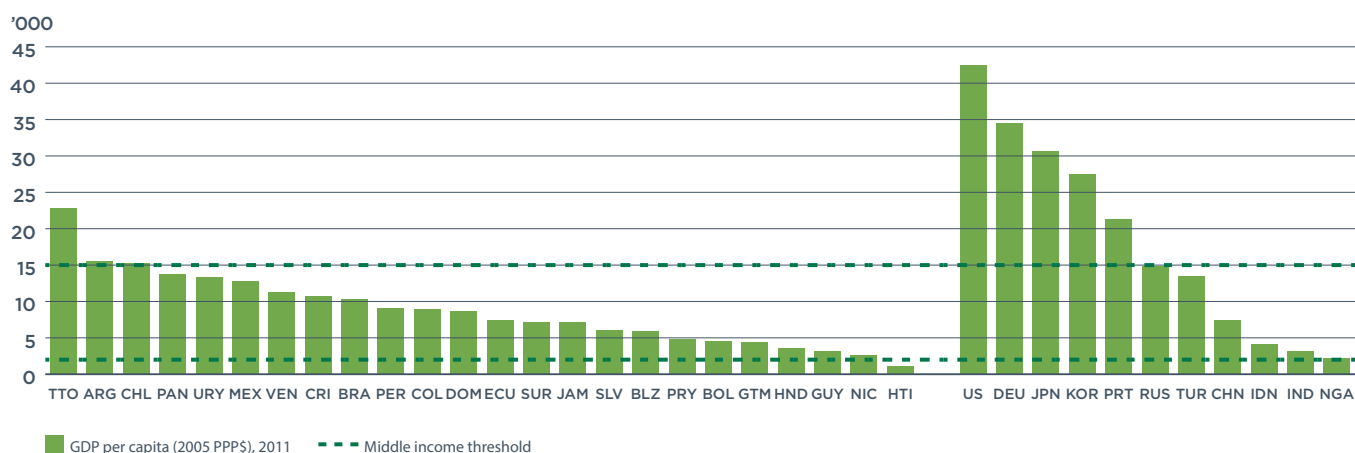
- Geography:
 - e.g. Central America; South America; and the Caribbean
- Economic and financial characteristics:
 - IMF classification (e.g. less financially integrated; tourism-dependent; commodity exporter etc.)
- Stages of development:
 - World Bank classification (e.g. developing country; upper middle income)
- 'Rich club' membership:
 - OECD Membership (only Mexico and Chile are members as yet. Brazil is a key partner)
 - G20 membership (Argentina, Brazil, and Mexico)
- Trade blocks:
 - Mercosur (Argentina, Brazil, Paraguay, Uruguay, and Venezuela); and
 - Pacific Alliance (Chile, Colombia, Mexico, and Peru)

FIGURE 2: SHARE OF WORLD GDP, 2014



Source: IMF World Economic Outlook October 2014
Note: Share of world GDP based on PPP.

FIGURE 3: GDP PER CAPITA (2005 PPP \$), SELECTED LATIN AMERICAN COUNTRIES



Source: United Nations Development Program Database

Notes: Data refer to 2011. Since 2011, the value for Argentina is likely to have fallen: the World Bank in February 2014 classified Argentina as an 'upper middle income' economy.

Latin America produces around 9% of world GDP

Most economies in the region are middle-income

The region is the world's second-most urban

Latin America outperforms in a number of areas

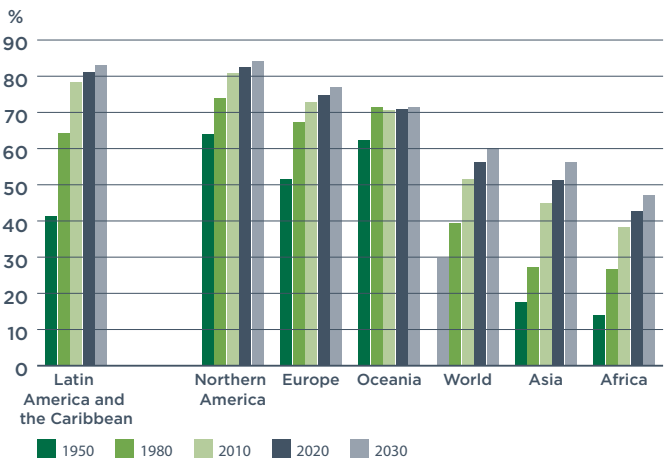
Latin America and the Caribbean collectively produce about 9% of world GDP. This is a similar value to that of the Middle East and Africa combined; about one and a half times that of developing Asia (excluding India and China); and about half that of the EU and of North America (figure 2).

Most Latin American economies are 'middle-income' defined by the IMF as those with per capita income between \$2,000 and \$15,000.³ The region's economies compare with other emerging economies: Turkey, India, and China (figure 3).

Latin America is the world's second-most urban region, and this has happened rapidly: the degree of urbanisation has almost doubled since 1950. The 2010 figure of almost 80% is higher than in Europe, Oceania, Asia, and Africa; and it is only slightly below that of North America (figure 4). Over the coming decades urbanisation is expected to continue, in all regions.

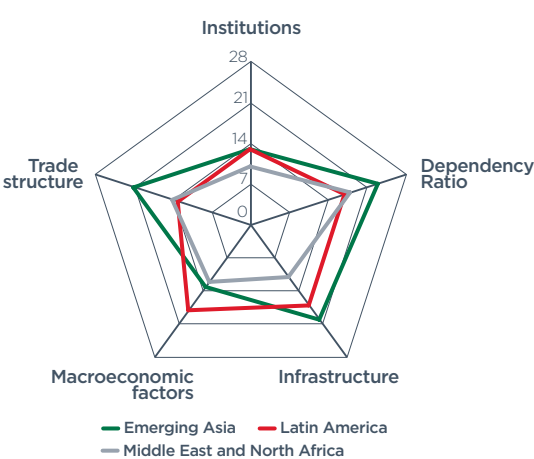
Latin America outperforms Emerging Asia and Middle East & North Africa in a range of macroeconomic respects (figure 5). However, the region underperforms Emerging Asia in terms of: dependency ratios, trade structure (regional integration and vertical supply chains), and infrastructure.

FIGURE 4: PERCENTAGE OF POPULATION RESIDING IN URBAN AREAS, BY REGION, 1950-2030



Source: UN World Urbanization Prospects: 2014 Revision (2014)

FIGURE 5: SPIDER'S WEB FOR EMERGING ASIA, LATIN AMERICA, AND MIDDLE EAST & NORTH AFRICA



Source: IMF Asia and Pacific Regional Outlook 2013
Note: The larger the area within each country's web, the better the performance. Latest available observations on each individual variable, with the exception of dependency ratios, which are projected 2020 values. 'Institutions' includes small government involvement in the economy, strong rule of law, and light regulation; 'Infrastructure' includes telephone lines, and road networks; 'Macroeconomic factors' includes low gross capital inflows, the change over 2008/12 in capital inflows and trade openness, and the (negative of the) change in the investment-to-GDP ratio; 'Trade structure' includes strong regional integration, and low GDP-weighted distance. The numbers represent a simple average of the rankings along each individual variable.

CHAPTER TWO

RECENT ECONOMIC PERFORMANCE

Latin America's economic growth has accelerated decade-on-decade, and far outpaced that of the developing economies since 2000 – maintaining its share in global GDP, notwithstanding the rapid rise of China and India.

- South America, Central America, and the Caribbean have, notwithstanding quite differing economic structures, followed similar growth cycles, with growth accelerating substantively in each
- Performance across economies continues to be diverse. Many of the region's previously-slower-growing economies are now growing strongly, while other previously-faster-growing economies have slowed somewhat
- Latin America's growth is highly dependent on exports and the evolution of world trade in goods and services
- The US accounts for over one-third of the region's exports, and is Latin America's main trading partner. But regional trade is important and growing, and exports to China have increased eight-fold over the past decade
- The region's goods exports are predominantly commodities, with a high degree of country specialisation. The region's terms of trade rose substantially during the 2000s commodities boom, but have latterly declined sharply
- Investment in the region is slightly higher than the OECD average, and is financed largely from domestic saving
- Sovereign Wealth Funds in resource-rich countries can help manage resource revenues efficiently and insulate against the commodity price cycle. Resource-poor economies face an even bigger challenge
- FDI flows into the region have been large for some time and, while the majority of the region's countries are in current account deficit, none seem likely to face serious instability from this source in the immediate future

GDP growth has accelerated over past decades

The region has maintained its global GDP share

The sub-regions follow similar growth cycles ...

... and growth has accelerated substantively in each

Performance across economies is diverse

Latin America's economic performance

Latin America's economic growth has of late accelerated decade-on-decade (figure 6): real GDP growth averaged 2.1% per year in the 1980s; 2.9% in the 1990s; and has grown by 3.3% from 2000 to 2014.

Over the 2000s, Latin America's growth, driven by favourable international conditions (in particular the rapid growth of international trade and rising world commodity prices) outpaced the 2% or so of the advanced economies. The region weathered the financial crisis reasonably well too, and GDP growth has averaged 3.5% since 2010. Growth has however slowed over the past few years, due to a combination of external factors (e.g. weakening commodity prices, including sharply declining oil prices), and domestic supply-side bottlenecks and policy uncertainty.

Latin America's average 3% annual growth since 1995 has led to its share of global GDP remaining relatively constant (at around 9%) since 1995, notwithstanding the rapid rise of China and India (figure 7). This contrasts with the North American, European Union and Japanese bloc of advanced economies, which has seen its portion of world output fall substantially, from 54% to 41%. The big winners over this period have been Developing Asia (including China and India) and the Newly Industrialised Asian Economies (NIAEs), whose combined stake in global GDP has increased from 19% to 31%.

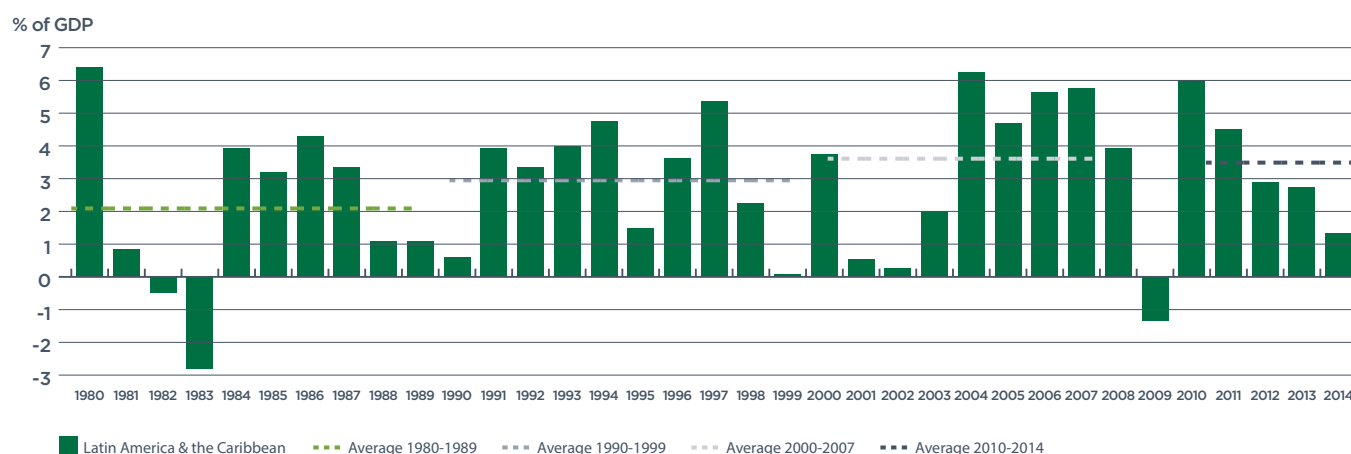
In Latin America's three main sub-regions (Central America, South America, and the Caribbean) real annual GDP growth has averaged 3% since the 1980s, and the three have experienced similar growth cycles (figure 8). This is despite their having quite differing economic structures: some are lower middle income, others are higher middle income, if not high income; some are tourism-dependent, others are overwhelmingly commodity-exporters.

Growth in all the sub-regions has accelerated substantively, particularly in Central America. From 1980-1999: the Caribbean was the fastest growing area, with real GDP growth averaging 2.7% per year; Central America's growth averaged 2.6%; and South America's 2.3%. From 2000-2014: Central America was the fastest growing, averaging 3.9% per year; South America's growth accelerated to 3.5%; and the Caribbean's, to 3.5% (figure 9).

Performance across economies continues to be diverse. Many of the region's previously-slower-growing economies have more recently expanded strongly (figure 10). Between 2010 and 2014: Panama, Paraguay, Peru, Uruguay, and Bolivia averaged over 5% annual real GDP growth; Ecuador, Colombia, Dominican Republic, Chile, Nicaragua, Costa Rica, and Argentina, between 4% and 5%; and Mexico 3.3%.

Others, especially in Central America, having grown strongly in past decades, have slowed more recently: averaging between 2% and 3% per year over the past five years (figure 10).

FIGURE 6: REAL GDP GROWTH, LATIN AMERICA AND THE CARIBBEAN, 1980-2014



Source: IMF World Economic Outlook October 2014

Chapter two: Recent economic performance

GDP per capita growth trends have been similar

Growth is highly dependent on world trade

The US is Latin America's main trading partner

Regional trade is important and growing, however

GDP per capita developments have been broadly similar across the region (figure 11): between 1980 and 2014, growth rates have averaged between 3% or so and just under 6%:

- Chile, Panama, Belize, and Trinidad and Tobago have averaged over 5%;
- Uruguay, Colombia, Costa Rica, Peru, Argentina, El Salvador, and Nicaragua, between 4% and 5%;
- Ecuador, Brazil, Paraguay, Mexico, Honduras, and Bolivia, between 3% and 4%;
- Venezuela and Guatemala have averaged between 2% and 3%.

The role of trade

Latin America's growth is highly dependent on the evolution of world trade in goods and services. Significant up- and down-turns in trade are usually followed by similar directional changes in the region's GDP growth (figure 12).

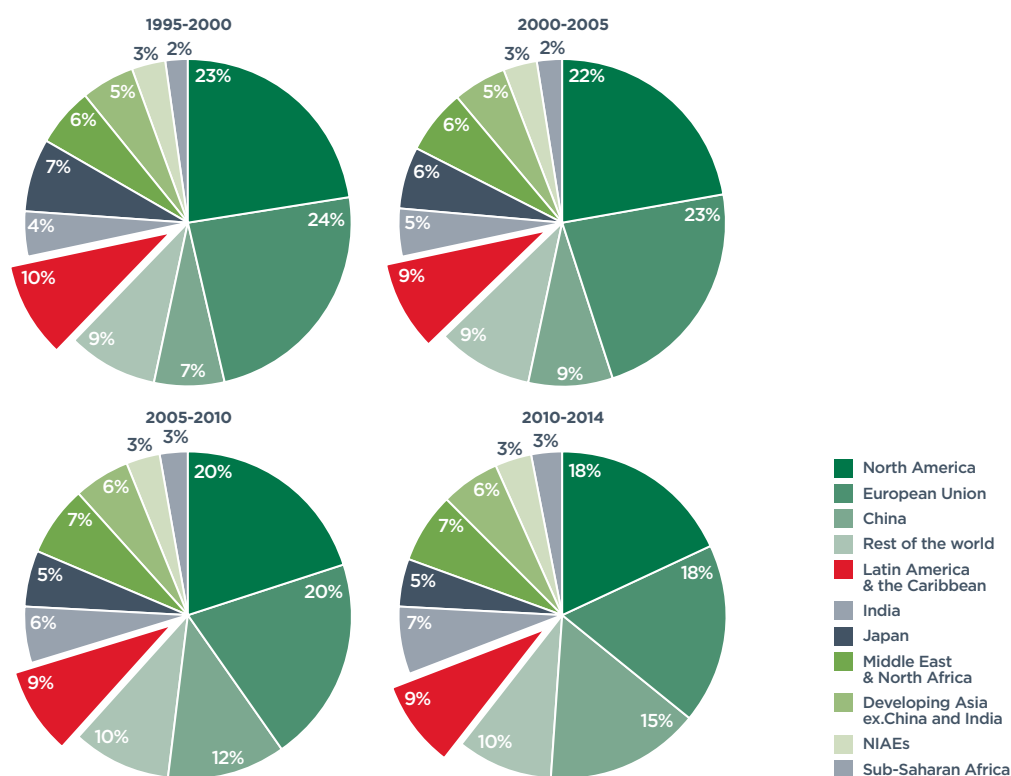
The region's economies are particularly export dependent. Export shares in Panama, Honduras, and Bolivia are 45% or more of GDP (figure 13). The rest of the Latin American countries range between 15% and 45%; Brazil however has a low export share (13%), which is comparable with that of the US.

The US is Latin America's main trading partner. With over one-third of Latin America's exports heading in that direction (figure 14), the region is heavily exposed to the US business cycle. The United States takes:

- 80% of Mexico's exports;
- 43% of Colombia's;
- 37% of Costa Rica's, and;
- 28% of Venezuela's.

That said, regional trade is important and growing. Nearly one-fifth of Latin America's exports are within the region. By contrast, trade exposure to Europe, at 12%, is modest (figure 14).

FIGURE 7: CONTRIBUTION TO GLOBAL GDP, 1995-2014



Source: IMF World Economic Outlook October 2014

Notes: GDP is measured in purchasing power parity (PPP) terms. The contribution to global GDP is measured as the proportion of GDP of each region with respect to world GDP. Numbers may not add up to 100%, due to rounding.

China's role as a trading partner is growing too

Commodities make up the bulk of goods exports

Countries within the region are often specialised

China's role is growing in importance as a trading partner too: its share of Latin America's exports has expanded eight-fold over the past decade, from under 1% to 8% (in 2011).⁴

Some countries are particularly dependent on continuing Chinese investment spending:

- Were, for example, Chinese investment growth to slow by just one percentage point, Chilean growth could slow by almost 0.4 percentage points.⁵

Others are more diversified, less open, and thereby less dependent:

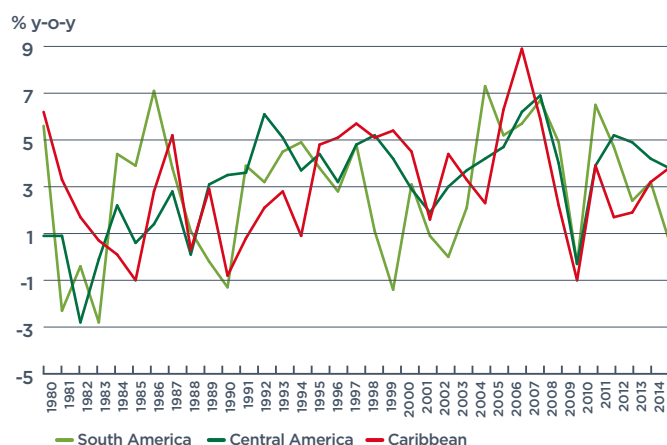
- A slowdown in Chinese investment, by the same amount, would reduce Brazil's growth by probably less than one tenth of a percentage point.⁶

Latin America's goods exports are preponderantly commodities. These account for around 60% of the region's exports (and nearly 80% if Mexico is excluded), up from 40% at the turn of the century.

The region's goods exports are spread across four major categories: foodstuffs; metals and minerals; fuels; and manufactures (figure 15). Individually, however, countries are often particularly dependent on a single category or commodity:

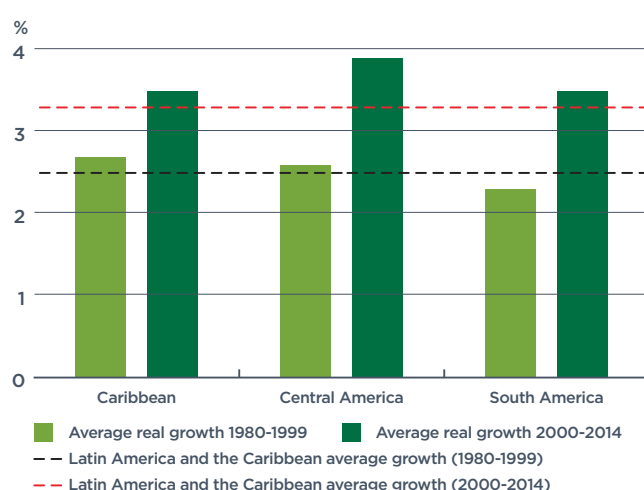
- Uruguay's exports are around two-thirds foodstuffs;
- Venezuela's almost all fuel (oil);
- Chile's are nearly two-thirds metals and minerals;
- Mexico's are almost 70% manufactured goods.

FIGURE 8: REAL GDP GROWTH BY LATIN AMERICAN SUB-REGION, 1980-2014



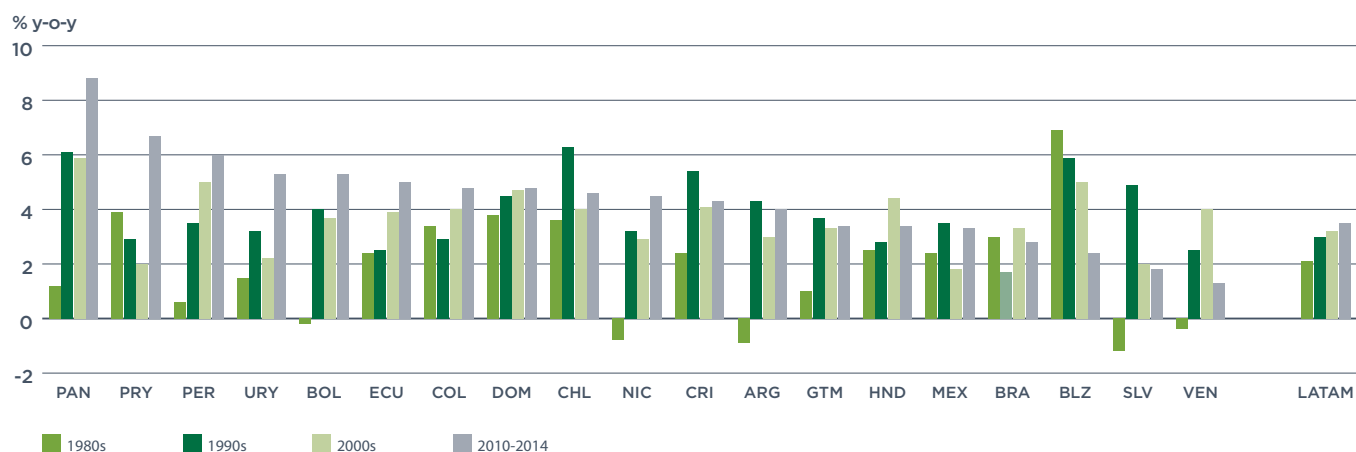
Source: IMF World Economic Outlook October 2014

FIGURE 9: REAL GDP GROWTH BY LATIN AMERICAN SUB-REGION, AVERAGE OVER PERIOD



Source: IMF World Economic Outlook October 2014

FIGURE 10: REAL GDP GROWTH BY COUNTRY, AVERAGE OVER PERIOD



Source: IMF World Economic Outlook October 2014

BOX:

TRADE INITIATIVES ARE DEEPENING REGIONAL INTEGRATION

Regional market

Initiatives and institutions to deepen Latin America's inter-regional trade began in the latter part of the 20th century. Nevertheless, inter-regional trade as a proportion of total trade remains lower than in other economic regions.⁷ The hope is that the region's two principal trading blocs – the Mercosur and Pacific Alliance – will in due course change this.

Mercosur

The Mercosur – the market of the south – was established in 1991 by Argentina, Brazil, Paraguay, and Uruguay. Venezuela joined in 2012. The bloc aims to engender the free movement of goods, capital, services, and people. The Mercosur and EU are currently negotiating a trade agreement.

Pacific Alliance

The Pacific Alliance was created in 2011 by Chile, Colombia, Mexico, and Peru. All border the Pacific Ocean. Costa Rica is set to join shortly.

The bloc's stated objectives are to:

- Deepen economic integration and the free circulation of goods, services, capital, and people;
- Promote growth, development, and competitiveness of the members' economies; and
- Become a platform for political articulation, and economic and trade integration.

The bloc represents around one-third of the Latin American region's GDP, is responsible for around half of the trade total, and attracts some two-fifths of the region's foreign direct investment.⁸

Outlook and challenges

- For the Mercosur, concluding a trade agreement with the EU would be a significant positive. To maximise trade opportunities the bloc also needs to avoid any reversion to old-style protectionist tendencies.
- The Pacific Alliance has taken a number of positive steps in its first few years of operation. That said, the Alliance's strong marketing and clarity of intent needs to be matched with broader and bolder initiatives.

Latin America's terms of trade rose in the 2000s

Many commodity producers saw large price gains

Domestic and foreign saving are the two sources for investment

Investment is largely domestic saving financed

Latin America's terms of trade (the ratio of its exports prices relative to its imports prices) surged by 25% in the 2000s, from (an index number value of) 100 in 2000 to just over 125 in 2011 (figure 16). The global financial crisis slowed this rise for just one year (2009), following which the upward trend resumed, before slackening, to stand at 120 in 2014. Given recent developments in the commodity markets, a further significant decline seems likely in 2015.

A number of major commodity producers saw substantial price increases during the commodities boom: major oil exporters, e.g. Norway and Saudi Arabia, saw rises of around 10% (figure 17). Other major commodity exporters, e.g. India and Australia, saw rises of 6% and 8% respectively. In Latin America: Venezuela, a major oil producer, saw price increases of 11%. Rises in Chile and Colombia, at around 8%, were large too; and major exporters Argentina and Bolivia, saw price increases of 5% and 6% respectively. These price increases are likely to be reversed, over the coming years, if commodity prices weakness continues.

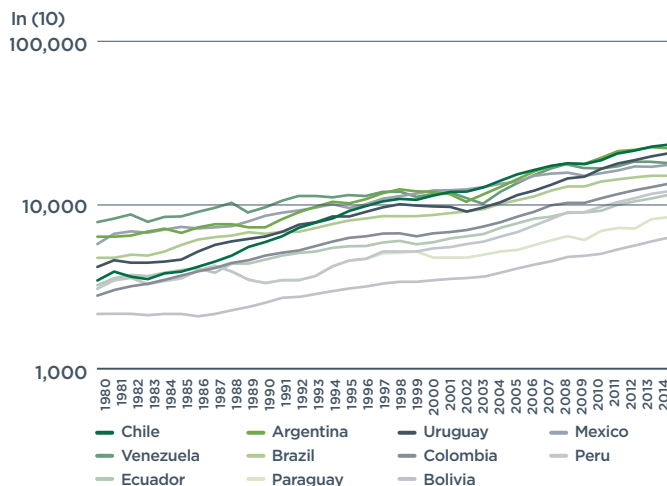
Investment for growth and development

Economies need investment in order to grow and develop, not least to finance infrastructure.

In Latin America, total investment typically averages around 21% of GDP⁹ – a level similar to the 20% OECD country average.¹⁰ Some developing regions have much higher ratios however; China's, at nearly 50%, is particularly high.¹¹

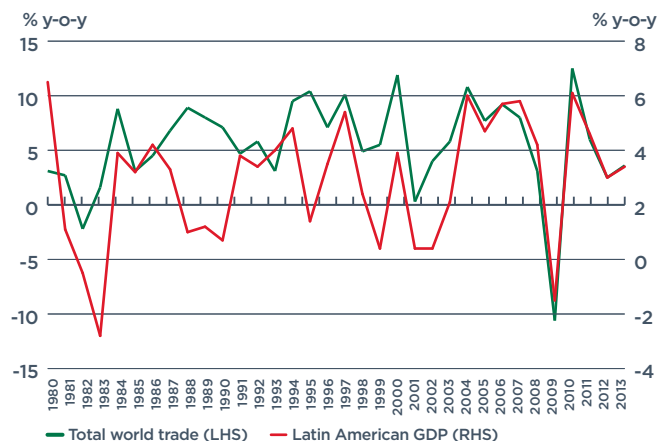
Investment can be financed from only two sources: domestic saving and foreign saving. Domestic saving typically provides the major share, and this is the case for Latin America.

FIGURE 11: GDP PER CAPITA (PPP CURRENT INT. \$), MAJOR LATIN AMERICAN ECONOMIES, 1980-2014



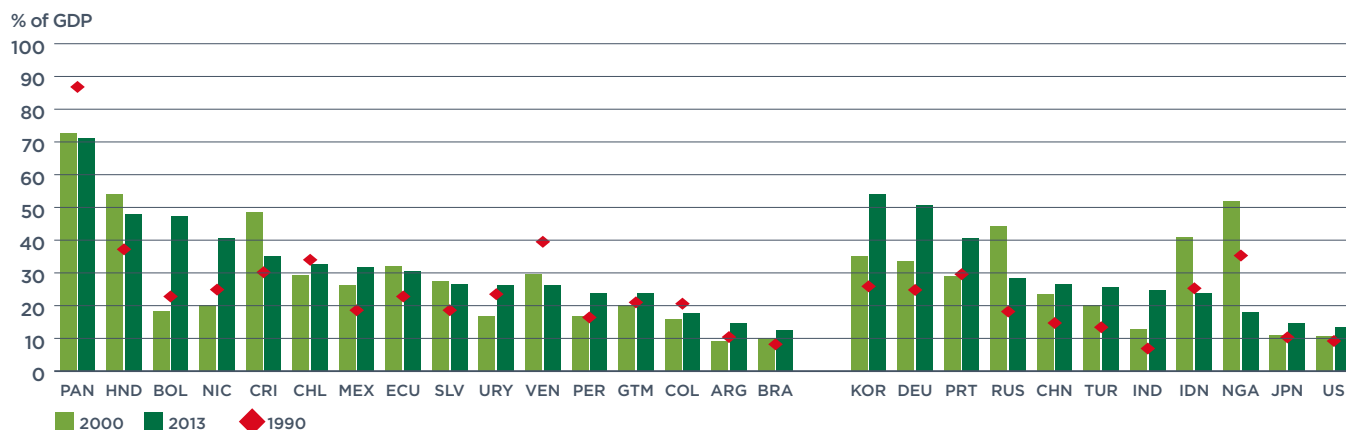
Source: IMF World Economic Outlook October 2014

FIGURE 12: GROWTH IN WORLD TRADE AND LATIN AMERICAN GDP, 1980-2013



Source: OECD Latin America Economic Outlook 2014

FIGURE 13: EXPORTS OF GOODS AND SERVICES (% OF GDP)



Source: World Development Indicators, World Bank October 2014
Note: 2013 figures for Uruguay, Venezuela, Japan, and the US refer to 2012.

Chapter two: Recent economic performance

Commodities revenues can fund investment

Resource-rich economies face three challenges

Mobilising domestic saving is easier in commodity-rich economies:

- Resource-rich economies can divert a portion of the revenues from their generally-exported commodities before they enter into domestic incomes; whereas
- Resource-poor countries however have to save out of generally-low per capita incomes.

Nevertheless, being resource-rich poses problems too.

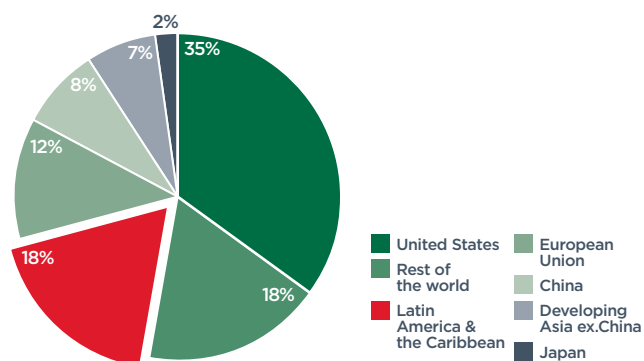
Investment in resource-rich economies

Commodity revenues can fund investment, particularly when commodity prices rise and exporters receive a major boost to income. The actual benefit to a specific economy from such price rises, however, is dependent on, inter alia, the economy's commodity export/import mix.

Commodities are generally exported, as demand at home is much smaller than demand worldwide, and the surging export revenues from commodities typically present a 'resource challenge', which can take any of three forms:

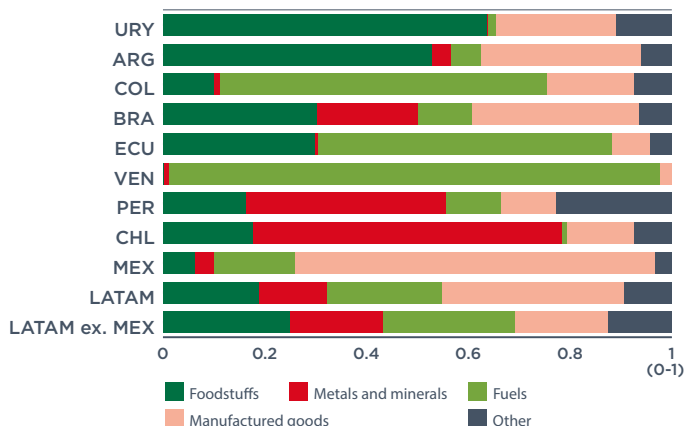
1. **The 'consume-it-today' temptation:** governments, especially in poor countries, are often tempted, or pressured, to extract and consume, rather than extract and invest;
2. **High export revenues per person,** and correspondingly high real incomes across the economy damage cost competitiveness of other activities, e.g. manufacturing – so-called 'Dutch disease';
3. **Boom-bust volatility:** meeting public spending commitments when commodity prices and/or volumes weaken is challenging to fiscal policy.

FIGURE 14: SHARE OF LATIN AMERICA'S EXPORTS, 2011



Source: OECD Latin American Economic Outlook 2014

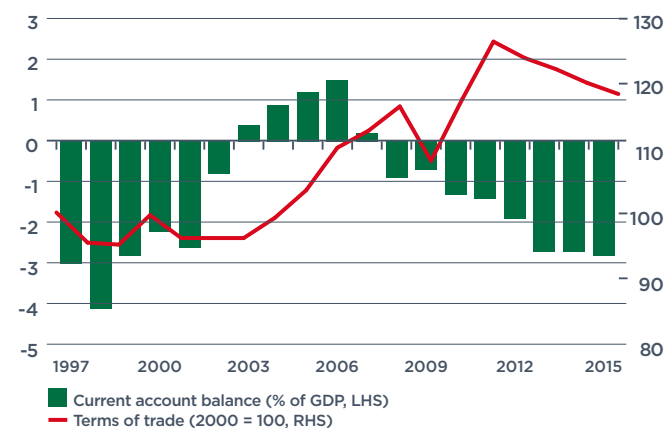
FIGURE 15: COMPOSITION OF GOODS EXPORTS, SELECTED LATIN AMERICAN COUNTRIES, 2011



Source: OECD Latin American Economic Outlook 2014

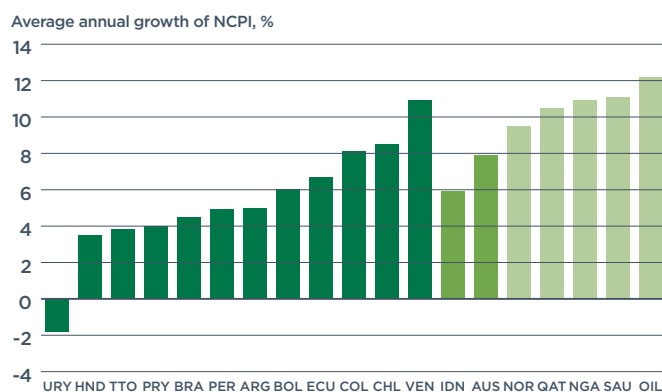
Notes: 'Other' includes codes 21, 23, 24, 25, 26, 29, 667 and 9 of SITC Rev.3 – basically 'commodities and transactions not classified elsewhere' (Section 9) and agricultural raw materials. Data for Uruguay refer to 2009.

FIGURE 16: CURRENT ACCOUNT AND TERMS OF TRADE, LATIN AMERICA AND THE CARIBBEAN



Sources: IMF Western Hemisphere Economic Outlook April 2014

FIGURE 17: COMMODITY PRICE GROWTH, LATIN AMERICA AND THE CARIBBEAN, 2003–2011



Sources: IMF Western Hemisphere Economic Outlook April 2014

Notes: NCPI is a net commodity price index. The sample includes the 12 largest commodity exporters in LAC. Other commodity exporters outside LAC are shown for reference (mid green and light green bars, the latter corresponding to oil producers).

SWFs help manage resource revenues

Managing the resource challenge, whatever its form, requires good macroeconomic and structural policies, for which solid and transparent institutions are nearly always a prerequisite. Unsurprisingly, not all countries with abundant natural resources have handled their situation well (see Resources and growth: the African experience box).

Sovereign Wealth Funds (SWFs) emerged in the 1950s as one solution to the challenge of managing foreign revenue accumulated from commodity sales, other strong exports, or high savings. SWFs are usually government-owned investment vehicles, managed either by a state-controlled entity or by external managers.

SWFs in rich and comparatively small countries, e.g. Norway or Singapore, typically invest abroad. Norway, already rich, is one of the world's top 20 oil exporters, and a large part of its oil revenues have been invested abroad, mostly in equities. In this way SWFs can be effective in at least partially insulating resource-rich economies from the commodity price cycle, and in providing income for future generations when the resource supply starts to dwindle.

In the case of less developed economies, however, it is generally more appropriate to invest at home. The priority generally is to finance growth and development for the current generation. But given that the expenditure is on investment – including importantly in long-lived infrastructure – rather than consumption, this stands to benefit future generations, who will inherit a sustainably higher level of GDP per capita than they would have otherwise.

Investment in resource-poor economies

Resource-poor economies face a tougher challenge

Resource-poor economies – which do not have resource revenue from which to invest in physical and human capital – face an even bigger challenge. These economies need, instead, to finance investment out of saving from current income. This is particularly demanding when per capita incomes are low:

- Households cannot easily save a significant proportion of current income; and
- Government cannot readily raise savings through increases in taxation.

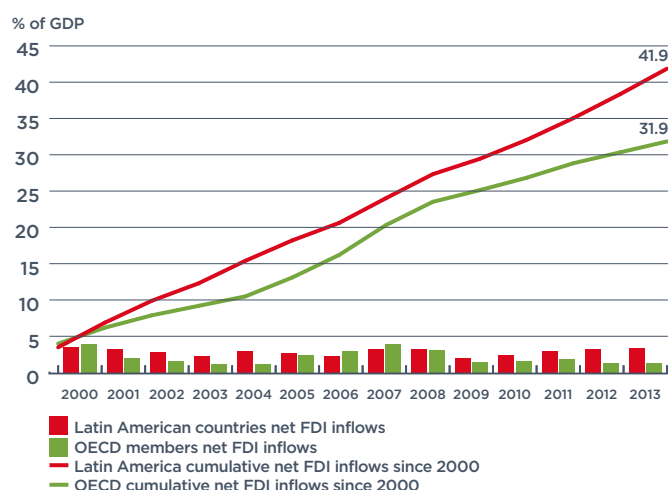
In some respects at least the challenge gets easier as countries become richer. But this nevertheless requires good macro policies and resource-poor economies, like resource-rich economies, need to develop good institutions.

Transformation can be achieved: Japan went all the way

Resource-poor economies can achieve transformation. Japan, which lacked nearly all of the key natural resources necessary for industrial activity, particularly oil and land, nevertheless managed to go 'all the way' to becoming the world's second-largest economy – all without relying on natural capital to fund investment, and despite losing an estimated one third of its national wealth in World War II.

Another fascinating, and more recent, example of a country making an impressive transition is Ethiopia. Despite not having significant natural resources, Ethiopia has recorded its 11th straight year of robust growth (in 2014). Government-initiated five-year development plans over the past decade have been central. The current plan (2010/11 to 2014/15) is aiming for high and broad-based growth, with a particular emphasis on agricultural transformation and industrial development.

FIGURE 18: NET FDI INFLOWS INTO LATIN AMERICAN COUNTRIES AND OECD MEMBERS (% OF GDP)



Source: World Bank, World Development Indicators

Chapter two:
Recent economic
performance

Ethiopia is an
African example

FDI inflows to the
region have been
large for some time

Ethiopia has attracted significant foreign investment in textiles, leather, commercial agriculture, and manufacturing. The country has also made considerable strides with social and human development, including towards meeting the Millennium Development Goals (MGD).

The clear implication of such cases is that, while natural resources can assist in financing growth and development, they have not proved essential in all cases.

FDI and current accounts

While typically most of a country's investment is financed by domestic saving, countries do also typically finance a portion of their investment through inflows of capital from abroad – i.e. total investment somewhat exceeds domestic saving. This is reflected in a deficit on the current account of the balance of payments.

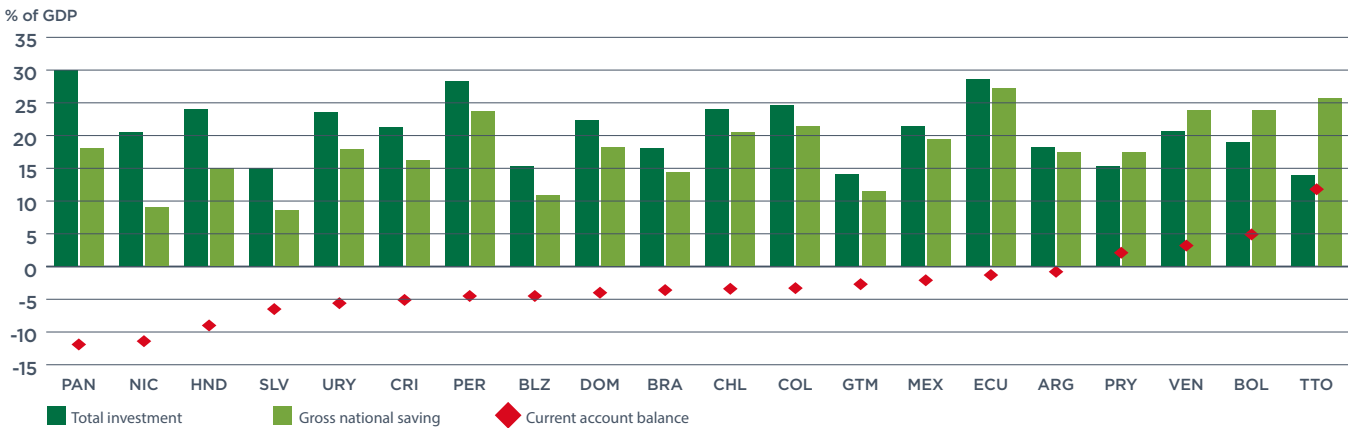
Across OECD countries FDI averages around 1.5% of GDP (2013). Across Latin American economies, by contrast, FDI averages around 3.5% (2013),¹² and such inflows have been substantial for some time (figure 18). Between 2000 and 2013:

- Net FDI inflows into Latin American countries averaged some 3% of GDP per year
 - Cumulating to 42% of the countries' GDP over the period
- Net FDI inflows into OECD countries averaged 2.3% of GDP per year
 - Cumulating to 32% of these countries' GDP over the period

The situation differs, of course, between countries. While in 12 Latin American economies, domestic saving finances the bulk (between 71% and 96%) of investment, in four countries (Nicaragua, Panama, Honduras, and El Salvador) domestic saving covers just 44% to 63% of total investment.

Interestingly, domestic saving exceeds investment in Trinidad and Tobago, Bolivia, Venezuela, and Paraguay (figure 19).

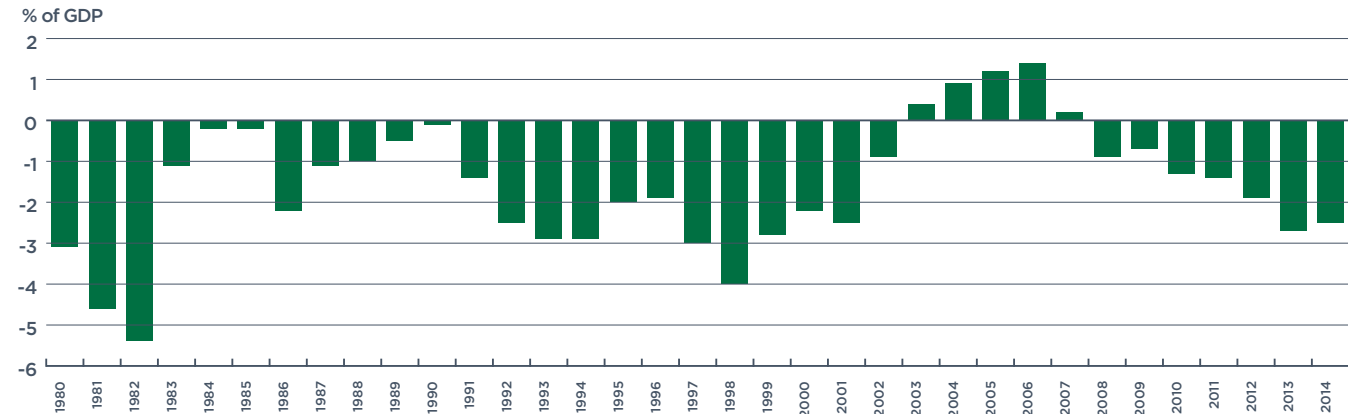
FIGURE 19: TOTAL INVESTMENT AND GROSS NATIONAL SAVING, BY COUNTRY, 2013



Source: IMF World Economic Outlook October 2014

Notes: Gross national saving is defined as the sum of private (household and corporate) and public savings; and is calculated as gross national income minus consumption.

FIGURE 20: CURRENT ACCOUNT, LATIN AMERICA AND THE CARIBBEAN



Source: IMF World Economic Outlook October 2014

BOX: RESOURCES AND GROWTH: THE AFRICAN EXPERIENCE

Recent GDP growth

Africa's experience shows that resources do not guarantee strong growth. Similarly, resource absence does not guarantee slow growth – see figure A.

Between 2000 and 2012:

- **Strong growth:** Nigeria and Ethiopia both grew at around 8%, well over Africa's average. Yet:
 - Nigeria is a significant oil producer; while
 - Ethiopia is resource-poor, its primary activities being agriculture and services.
- **Weak growth:** Malawi, Congo and Botswana all grew at a similar rate, below the African average. Yet:
 - Congo is a significant African oil producer; and
 - Botswana is one of the world's largest sources of diamonds.

Lessons from the African experience

Commodity endowments, therefore, are important but they need to be managed well. Rapid growth has been achieved in countries without resources. The relationship between resources and growth is not as strong as might be expected. Resources evidently are not everything; other factors too are at work.

A potentially important determinant is likely to be the quality of a country's institutions. Quality institutions help countries to realise their potential regardless of whether they are resource-rich or resource-poor: challenges faced by both necessitate quality institutions to manage different types of structural transformation.

FIGURE A: GDP GROWTH, SELECTED RESOURCE-RICH AND RESOURCE-POOR AFRICAN COUNTRIES, 2000-2012

		Resources	
		Resource poor	Resource rich
Africa average GDP growth (5.1%)	Above average	Rwanda Ethiopia Cape Verde	Eq. Guinea Angola Nigeria Sudan Zambia
	Below average	Mauritius Malawi Kenya Burundi Guinea-Bissau Eritrea Zimbabwe	Congo, Rep. D.R.C. Botswana Cameroon Guinea Gabon Ivory Coast

Source: IMF Data Mapper, World Economic Outlook Dataset (2013)

Notes: Countries listed top to bottom in order of growth rate. 'Resource-rich' countries selected from OECD (2013), IMF (2012) and World Bank (2012) reports as those explicitly defined as such in all of the three sources. 'Resource-poor' countries have been taken to be those both listed as non-resource-rich by the IMF (2012), and also not listed by the OECD (2013) and World Bank (2012) as resource-rich.



Latin America's current account is habitually in deficit

Current account balances vary across the region

LA6 net FDI inflows exceed current account deficits

Current accounts – the counterpart

The counterpart to this FDI inflow is that Latin America is habitually in deficit on its current account (figure 20).

The sustainability of external positions

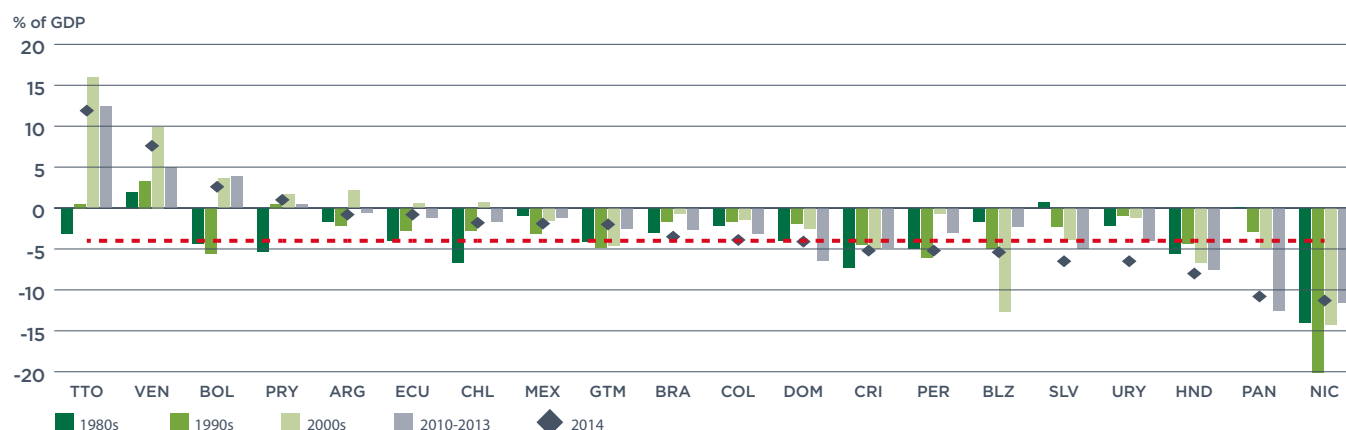
While the majority of Latin American countries are in current account deficit (figure 21), these have failed to present any serious challenge to stability over recent years, for two reasons.

First, these deficits have narrowed in a number of countries over the past decade:

- Many, at under 4% of GDP, are moderate, e.g.:
 - Argentina, Ecuador, Chile, Mexico, Guatemala, Brazil, and Colombia.
- Some, however, are large:
 - Nicaragua (11% of GDP); Panama (11%); and Honduras (8%).
- Trinidad and Tobago, Venezuela, Bolivia, and Paraguay, by contrast, are running current account surpluses.

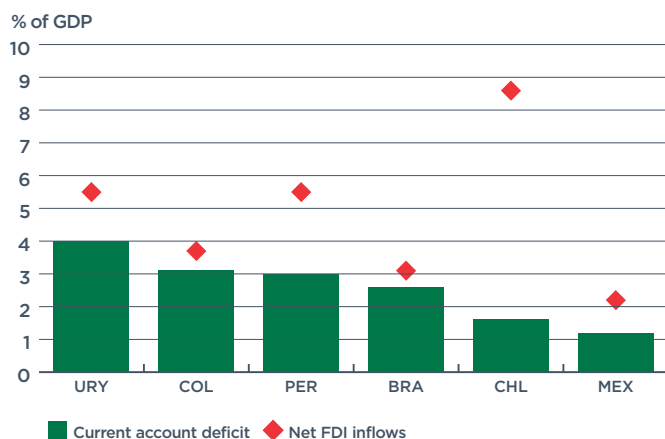
Second, in most cases, FDI has been a primary cause of the current account deficits:¹³ national investment is thereby greater than national savings. Hence the current account deficit is acceptable on two counts. First, the deficit (foreign borrowing) is financing investment, not consumption. Second, FDI inflows are relatively stable compared with other more volatile sources of (shorter-term) capital. Hence, these external deficits are more sustainable than would otherwise be the case.

FIGURE 21: CURRENT ACCOUNT BY COUNTRY, 1980-2014



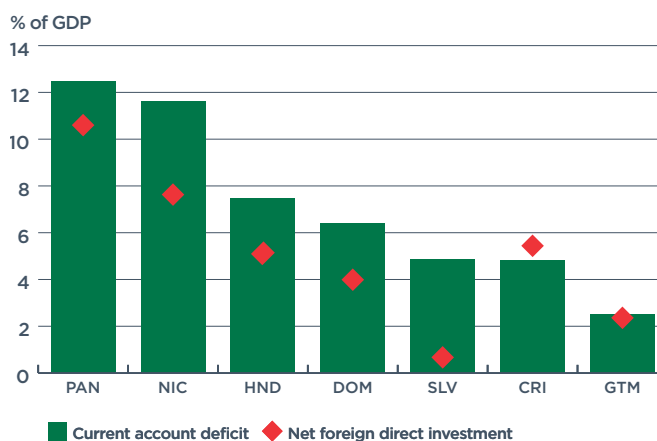
Source: IMF World Economic Outlook October 2014

FIGURE 22: CURRENT ACCOUNT DEFICIT AND NET FDI INFLOWS INTO LA6, AVERAGE 2010-2013



Source: World Bank World Development Indicators, IMF World Economic Outlook October 2014

FIGURE 23: CURRENT ACCOUNT DEFICIT AND NET FDI INTO CAPDR, AVERAGE 2010-2013



Source: IMF Western Hemisphere Economic Outlook April 2014, WB WDI, IMF WEO October 2014

Net FDI inflows have exceeded current account deficits across 'LA6'¹⁴ economies. Between 2010 and 2013, net FDI inflows averaged 4.8% of GDP across the LA6, while external deficits averaged just 2.6% of GDP (figure 22).

Central American external deficits have been largely FDI financed. Between 2010 and 2013: current account deficits in Central America, Panama, and the Dominican Republic (CAPDR) averaged 7% of GDP (figure 23). In Panama, over four-fifths of the current account deficit (12% of GDP) was financed by net FDI flows. In Costa Rica and Guatemala, it was even higher. In Nicaragua, Honduras, and the Dominican Republic, it was around two-thirds. This contrasts with El Salvador, where only one-eighth of the deficit is FDI financed. Thus only El Salvador appears to cover a large part of its deficit with short-term finance.

One developing concern, however, is that a significant proportion of the FDI into Latin America over recent years has been into the resource sector. With commodity prices now softening and threatening to continue to slide, these flows are likely to diminish, and perhaps sharply. The danger of balance of payments crises, especially in the event for whatever reason of a 'sudden stop' in global capital flows, has therefore increased. It is also worth noting that US interest rates appear to be at the beginning of an up-cycle and that the US dollar has been rallying hard. Historically, such periods have been associated with considerable turbulence in the emerging world.

CHAPTER THREE

CURRENT MAJOR INFLUENCES

The region faces conjunctural challenges, not least from lower commodity prices. But the strengthening US recovery continues to provide considerable support, and groundwork is being laid to further improve the region's prospects.

- The region's exposure to US interest rates has diminished somewhat as governments have reduced their reliance on USD-denominated debt, and spill-overs onto domestic bond yields have typically been contained
- Credit has grown in many economies, and leverage has increased, driven by corporate and consumer loans
- Government debt is generally low compared with the advanced economies
- Many countries have a degree of fiscal headroom with which to respond to aggregate demand shocks
- Fiscal policy in general has become more consistently countercyclical in nature in recent years

Chapter three: Current major influences

Lower commodity prices present a challenge

US monetary policy presents a risk

Commodity cycle and US monetary policy

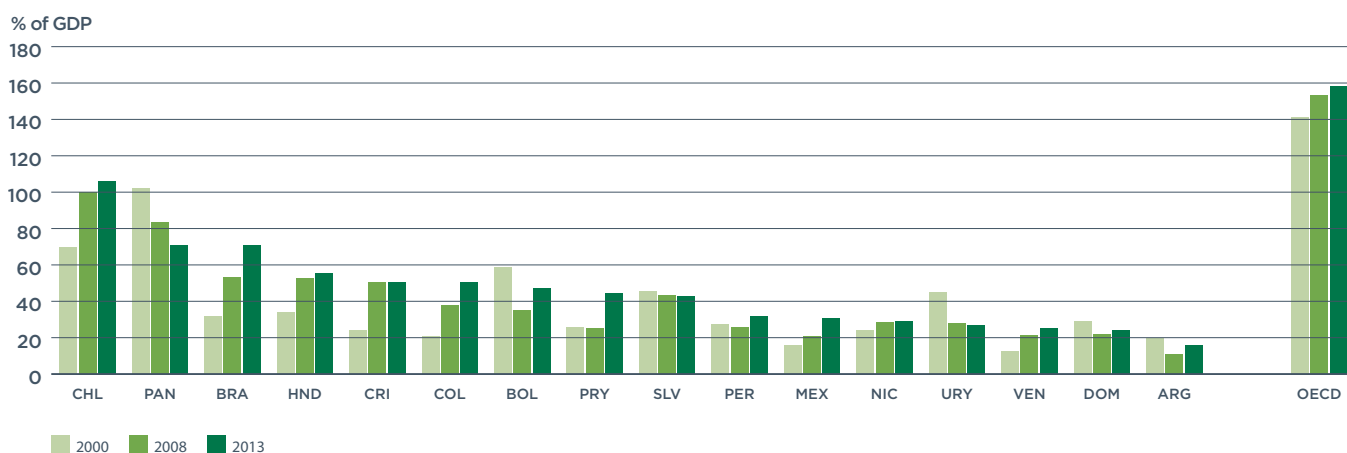
The weakening of commodity prices over the past year or so, extending latterly to sharp declines in oil prices, has contributed significantly to the marked slowdown in the region's economic growth in 2014. To the extent that the commodities super-cycle has now passed its peak, as seems increasingly likely, commodity-exporting countries face a risk of significantly-slower growth over the coming several years at least.

Replacing this weaker external demand simply by short-term domestic demand stimulus would be an inappropriate policy response; it would likely lead to macroeconomic problems, including importantly balance of payments issues. Besides seeking to provide support to domestic demand, policy should be focused in significant part on strengthening structural policies so as to facilitate adjustment, raise productivity, and increase resilience to future shocks.¹⁵

Meanwhile, the burgeoning US recovery is helping to provide some underlying support for Latin America's exports. This will be of particular importance to the Central American and Caribbean countries that have strong trade, financial, and tourism links with the US. Stronger US growth is however likely to be accompanied by a progressive normalisation of US monetary conditions, including the potential for higher interest rates, and if history is anything to go by, this could have far reaching, and far from comforting, repercussions on the region.

Past exits from periods of low interest rates in the US have tended to produce significant volatility in emerging markets as capital flowed back to the US, with important spill-over effects in local funding and foreign exchange markets. One consolation, however, is that Latin American exposure to US interest rates has diminished somewhat over recent years as governments have reduced their reliance on US-denominated debt,¹⁶ and the associated spill-overs onto domestic bond yields have typically been contained.¹⁷ That said, serious risks remain, as the events of mid-2013 and associated market turmoil demonstrate.

FIGURE 24: DOMESTIC CREDIT TO THE PRIVATE SECTOR (% OF GDP), 2000-2013



Source: OECD Latin American Economic Outlook 2014, WB WDI

In Latin America: credit has grown in many economies ...

... And leverage has increased ...

... Driven by corporate and consumer loans

Government debt in Latin America is generally low

Credit and debt

Since 2000, Latin American economies have become increasingly indebted and in many cases highly leveraged. The ratio of domestic credit to the private sector (as a percentage of GDP) has increased considerably in many Latin American economies (figure 24), although the picture is far from even. Between 2000 and 2013, as a percentage of GDP, total credit:

- **Increased** in Brazil (by 39pp); Colombia (29pp); Costa Rica (26pp); Honduras (21pp); and Paraguay (19pp); while it has
- **Decreased** in Panama (by 31pp), Uruguay (18pp); Bolivia (12pp); Dominican Republic (5pp); and Argentina (4pp).

Leverage in the banking sector is also high in some countries (figure 25):

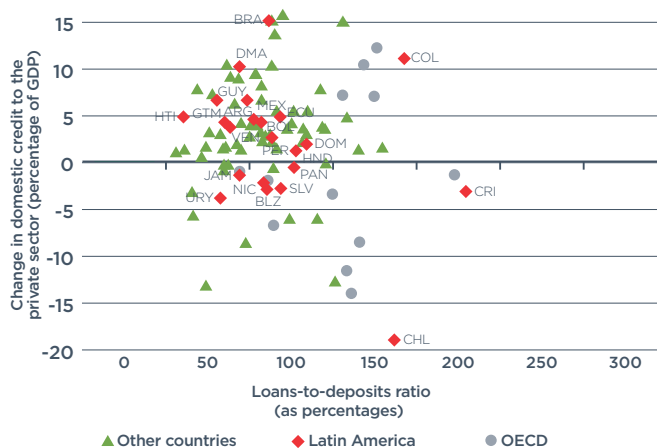
- Chile, Colombia, and Costa Rica have the highest loan-to-deposit ratios (close to 150%):
 - In both Chile and Costa Rica, however, credit to the private sector is falling
- Argentina, Brazil, Mexico, Uruguay, and Venezuela have lower loan-to-deposit ratios (around 60-70%):
 - In some of these economies, however, credit to the private sector is increasing

Consistent with the development of an increasingly sophisticated consumer class, mortgage and consumer loans have been a key aspect of the increased reliance on credit. Between 2002 and 2012 mortgages as a proportion of total credit grew significantly, reaching 11% in Brazil, 12% in Peru, and 22% in Chile. In the region as a whole, mortgages account for around 16% of total credit. Such figures however are not particularly high in international comparison: in developed economies (e.g. the US, Spain, and Ireland, for example), mortgages account for up to 40% of the total.¹⁸

Corporate credit in the region has expanded too. In 2012 alone corporate bond issues (international debt obligations) grew by more than 24%. Domestic bond issues also increased by 7% in Colombia, 12% in Mexico, and 42% in Peru.¹⁹

Government debt in Latin America is generally relatively low in an international context, notwithstanding some increases since 2008. In the mid-2000s, strong GDP growth and high commodity prices enabled central governments to reduce gross debt: between 2003 and 2008, Latin America and the Caribbean general government gross debt levels fell as a proportion of GDP – from 60% to 46%. Since 2008, however, there has been some reversal: in Central America and the Caribbean gross debts have risen by around 10 percentage points of GDP.²⁰

FIGURE 25: GROWTH IN DOMESTIC CREDIT TO THE PRIVATE SECTOR (2008-11) AND LOANS-TO-DEPOSITS RATIO



Source: OECD Latin American Economic Outlook 2014

BOX: LATIN AMERICA'S GROWING CONSUMER CLASS

Growing middle class

Latin America's consumer class is growing strongly. The region's middle class²¹ is estimated to have grown from 21% of the population in 1995 to 32% of the population in 2011.²²

The middle class has grown as a proportion of the population in all regions. In 2011 in the:

- Southern Cone region (including Argentina, Brazil, Chile, Paraguay and Uruguay) the middle class accounted for 39% of the population – and was the largest economic class;
- Andean region (including Bolivia, Colombia, Ecuador, and Peru) it was 28% of the population; and
- Central American region (including Costa Rica, Dominican Republic, Guatemala, Honduras, Mexico, Nicaragua, Panama and El Salvador) the middle class accounted for 25%.

Poverty reduction

Latin America has made significant progress in reducing extreme poverty. The poor class²³ is estimated to have declined from 43% in 1995 to 27% in 2011. For the first time, the middle class is outnumbering the poor.²⁴

Surging vehicle sales

A number of countries have seen rapid growth in their passenger car fleets in recent years²⁵. Between 2005 and 2013, official registration or sales in:

- **Panama** increased from 3.0 registrations or sales per 1,000 people to 10.2;
- **Peru** rose from 0.5 per 1,000 people to 4.6;
- **Brazil and Chile** almost doubled, from 7.4 registrations or sales per 1,000 people to 13.8, and from 8.6 to 15.9, respectively;
- **Colombia** went up from 2.8 registrations or sales per 1,000 people to 4.9.

Chapter three: Current major influences

A number of economies face conjunctural issues

But Latin America's growth is expected to pick up

The resulting government debt levels differ considerably across regions. In 2013, Central America and the Dominican Republic's gross debt-to-GDP ratio was just 38%: in the Caribbean, by contrast, it was more than double, at 78%.²⁶ And In South America and Mexico, the 2013 figure was a mere 36% of GDP.²⁷

These levels of government indebtedness are in general significantly lower than in the group of G20 advanced economies,²⁸ where the average of government gross debt in 2013 was around 113% of GDP.²⁹

Conjunctural issues facing specific countries

A number of Latin American economies face conjunctural issues. These can be illuminated by the so-called 'Rule of Four' framework which considers inflation, and current account and budget deficits (the 'twin deficits') – each expressed as a percentage of GDP.³⁰

Values above four for any of the variables are taken as indicative of potential issues. Multiple values above four generally spell imminent trouble (figure 26).

For Latin America:

- **Twin deficits:** Honduras, Costa Rica, and El Salvador have values above 4%;
- **Single deficits:** Venezuela, Nicaragua, Uruguay, Panama, Argentina, Dominican Republic, Mexico, Belize, Peru, and Ecuador, all have values above 4%;
- **Inflation:** All countries bar Panama, El Salvador, Belize, Colombia, Peru, Ecuador, and Trinidad and Tobago have inflation rates equal to or above 4%. That said, faster-growing economies often do have higher inflation rates (the so-called 'Balassa-Samuelson' phenomenon);
- **Positive outlooks:** Trinidad and Tobago and Colombia have positive near-term macroeconomic outlooks, and the outlook for Guatemala, Ecuador, Chile, and Bolivia is generally positive and improving.

Notwithstanding conjunctural issues, the IMF expects Latin America's growth to pick up in 2015 and 2016 (figure 27). Since this projection was made, however, sharp declines in primary commodity prices have conspired to generate considerable downside risks to this outlook. On the other hand, a continuing US recovery may boost exports to North America. However, a strong US economy brings with it the risk of faster than expected interest rate rises.

FIGURE 26: 'RULE OF FOUR' INDICATORS HEAT MAP, LATIN AMERICA AND THE CARIBBEAN, 2014

VARIABLE (UNIT)	VEN	HND	NIC	URY	PAN	CRI	ARG	BRA	SLV	DOM	MEX	BLZ	COL	PER	GTM	ECU	CHL	PRY	BOL	TTO
Budget deficit (% of GDP)	14.2↓	6.0↓	0.9↑	3.5↑	3.9↑	6.3↑	4.5↑	3.9↑	4.2↑	2.9↓	4.2↑	1.7↓	1.5↑	0.1↑	2.1↓	4.3↓	1.8↑	0.7↓	0.4↑	-0.1↓
Current account deficit (% of GDP)	-7.9↓	8.0↓	11.3↓	6.5↑	10.8↓	5.2↑	0.8	3.5↓	6.5↓	4.1↑	1.9↓	5.4↑	3.9↑	5.2↑	2.0↓	0.8↓	1.8↓	-1.0↑	-2.6↑	-11.9↓
Private sector deficit (% of GDP)	-21.8↓	2.0↑	10.4↓	3.1↓	6.9↓	-1.1↓	-3.7↓	-0.3↓	2.2↓	1.2↑	-2.3↓	3.7↑	2.4↑	5.1↓	-0.1↓	-3.4↑	0.1↓	-1.7↑	-2.9↓	-11.8↓
CPI inflation rate	69.8↑	6.8↑	7.0↑	8.6↑	3.0↓	5.5↑	10.9	6.2↑	2.0↑	4.5↑	4.0↑	2.0↑	3.3↑	2.9↑	4.0↓	3.0↑	4.2↑	5.1↑	5.5↓	3.7↓
Total	76.4	20.8	19.2	18.6	17.7	16.9	16.3	13.7	12.7	11.5	10.2	9.1	8.6	8.3	8.1	8.1	7.8	4.7	3.3	-8.3
Gross debt (% of GDP)	46↓	47↑	30↓	66↑	43↑	39↑	49↑	66↓	58↑	36↑	48↑	77↑	34↓	19↓	25↑	27↑	14↑	19↑	30↓	31↓
Real GDP growth (% y-o-y)	-3.0↓	3.0↑	4.0↓	2.8↓	6.6↓	3.6↑	-1.7↓	0.3↓	1.7	5.3↑	2.4↑	2.0↑	4.8↑	3.6↓	3.4↓	4.0↓	2.0↓	4.0↓	5.2↓	2.3↑

Source: Qvigstad, J.F. and Llewellyn, J. (2012) *The 'Rule of Four'*; IMF World Economic Outlook October 2014

Notes: 'Total' is the sum of the three variables; the cell is coloured red (pink) if the sum is greater/equal to 12% (6%); grey = below 6%. Arrows indicate an increase or decrease from previous year. For Argentina, data are as reported by the IMF, and the CPI figure refers to 2013; however, the IMF has requested that the Argentine authorities implement actions to remedy the inaccurate provision of data for Consumer Price Index (CPI) and Gross Domestic Product (GDP).



Many countries have fiscal headroom

In terms of available fiscal space – the room afforded by a country's public sector deficit and debt positions for responding effectively to aggregate demand shocks – countries in the region fall basically into three groups (figure 28):

1. South American commodity exporters with fiscal surpluses and low government debt:
 - Chile, Bolivia, and Peru
2. Central American and Caribbean countries with large fiscal deficits and high debt-to-revenue ratios, especially:
 - Dominican Republic and Costa Rica
3. Countries in an intermediate position, notably:
 - Mexico, Colombia, and Honduras

From 2011 and 2012 public spending growth in most countries slowed substantially (figure 29). Public spending in a number of countries has been broadly in line, or below, 2012 trend GDP growth, notably in:

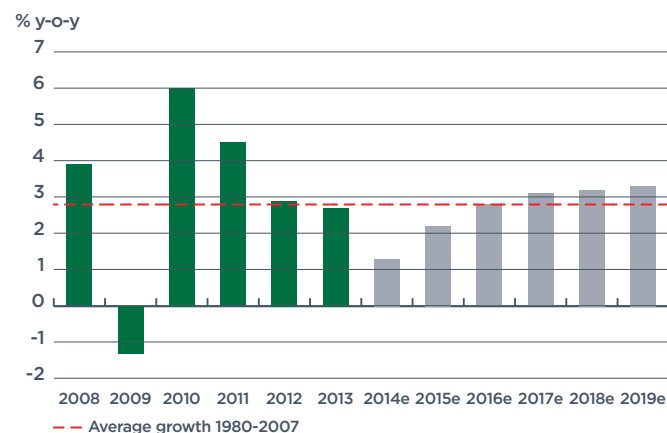
- Peru, Chile, Mexico, Brazil, Nicaragua, El Salvador, and Guatemala.

In a few, public spending growth dramatically exceeds GDP growth, especially in:

- The Dominican Republic and Paraguay.

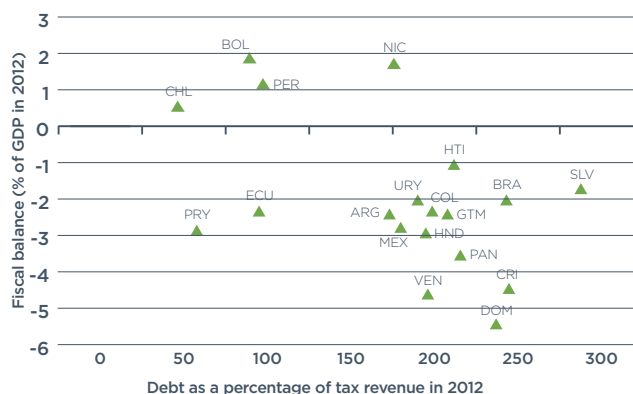
In most advanced OECD economies, fiscal policy is designed to operate counter-cyclically, in large part through the operation of the so-called 'automatic stabilisers' – the tendency for social spending to rise (fall) and tax revenue to fall (rise) as the economy weakens (strengthens). This has a moderating effect on aggregate demand over the business cycle.

FIGURE 27: REAL GDP GROWTH ACTUAL AND PROJECTED, LATIN AMERICA AND THE CARIBBEAN



Source: IMF Western Hemisphere Economic Outlook 2014, IMF WEO October 2014

FIGURE 28: INDICATORS OF FISCAL SOLVENCY, SELECTED LATIN AMERICAN COUNTRIES, 2012



Source: OECD Latin American Economic Outlook 2014

Chapter three: Current major influences

Fiscal policy is increasingly countercyclical

In many Latin American economies, by contrast, fiscal policy has often in the past tended to be pro-cyclical, and thereby destabilising:

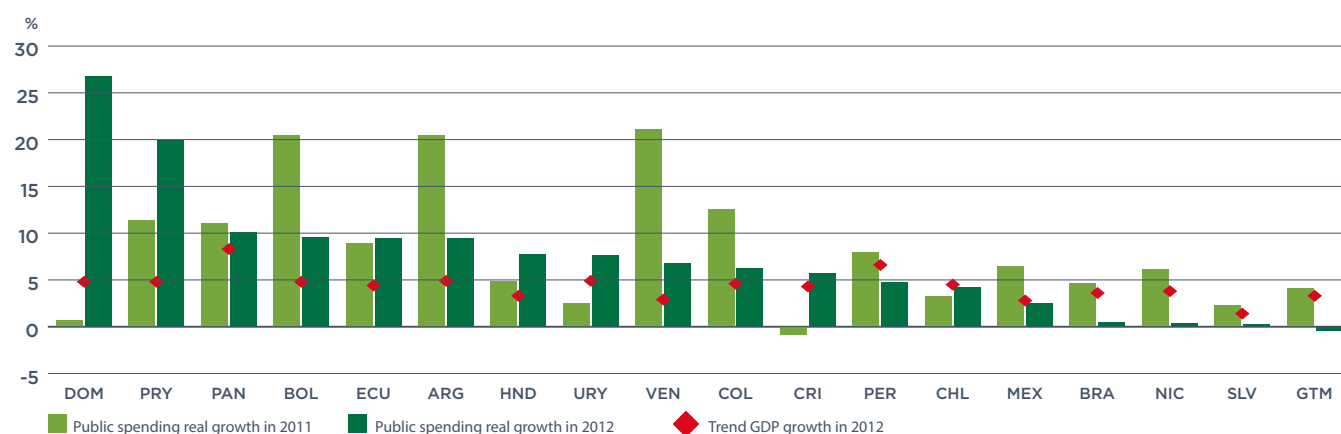
- Periods of economic expansion prompted a rapid increase in government expenditure to meet pressing demands to fulfil social objectives and infrastructure needs;
- The public finances therefore did not improve during the cyclical upswing;
- When economies fell into recession, spending had to be cut, often sharply.

More recently, however, a handful of Latin American countries, as identified by the IMF, are apparently moving away from pro-cyclical policy, and more towards countercyclical policy³¹:

- Brazil, Chile, Colombia, El Salvador, and Mexico

Importantly, three of these countries – Chile, Colombia, and Mexico – have not only managed to move towards more countercyclical policy, but have also been able to do so while following a reasonably conservative fiscal rule in order to contain public deficits and debt.

FIGURE 29: PUBLIC SPENDING REAL GROWTH AND TREND GDP GROWTH, LATIN AMERICA



Source: OECD Latin American Economic Outlook 2014

Notes: Public spending refers to central government spending, adjusted for each country's consumer price index. Trend GDP is estimated by applying the Hodrick-Prescott filter to the real GDP series, extended with WEO forecasts (April 2013) for the period 2013-18.

BOX:

EXCHANGE RATE REGIMES IN LATIN AMERICA

Choice of regime

The choice of exchange rate regime reflects a number of considerations, including:

- **Size and trading patterns**
 - Small open economies primarily trading with the US can be inclined to pursue dollarization; and
 - Larger open economies are likely to pursue freely floating regimes in the medium- to long-term.
- **Economic philosophy of government**
 - Exchange rate regimes give an indication of governments' political priorities.
- **Priorities accordingly for growth and inflation**
 - Frameworks can give an indication of governments' economic priorities from period to period.
- **Development level**
 - Developed economies tend to gravitate towards a free floating and inflation targeting regime.
- **Historical inertia**
 - Some economies are reluctant to abandon regimes deemed to have been successful.

Regimes in Latin America³²

A range of exchange rate regimes exist in Latin America – from dollarization to free floating:

- **Dollarized:** Ecuadorian Sucre; El Salvadorian Colon; Panamanian Balboa;
- **Multiple exchange rates and currency controls:** Venezuelan Bolivar;
- **Crawling peg:** Bolivian Boliviano; Costa Rican Colon; Nicaraguan Cordoba;
- **Managed float:** Argentinian Peso; Guatemalan Quetzal; Paraguayan Guarani;
- **Auction plus band:** Honduran Lempira; and
- **Free floating:** Brazilian Real; Chilean Peso; Colombian Peso; Dominican Republic Peso; Mexican Peso; Peruvian Sol; Uruguayan Peso.

CHAPTER FOUR

STRATEGIC ISSUES

The economies of the region are underpinned by some strong fundamentals, but in order for them to realise their potential, much continued investment and reform is still needed.

- Latin America has strong demographics, with around half as many over-60s as Europe and North America, and the active proportion of the population set to increase rather than decrease
- The region's dependency ratio has fallen significantly over recent decades. It is likely to continue doing so, and by 2020 to have fallen below the world average, thereby remaining one of the lowest dependency-ratio regions
- Latin America's energy demand is set to grow strongly – by around 16% to 2020 and by over 50% by 2035 – significantly faster than in much of the rest of the world
- The region's demand for oil is likely to grow too – by around 7% to 2020, and by 21% by 2035
- The region's logistics networks are poor, hampering longer-term performance. The performance gap is particularly large in the areas of customs practices, timeliness and, especially, infrastructure
- The region's structural-policy settings have improved over recent decades, and a number of the economies now compare favourably with advanced economies in some areas: but there is still much to be done

Latin America has strong demographics

The region's active population is expected to grow ...

Demographics

Latin America has strong demographics. In 2010, only 10% of the region's population was over 60 years old. Europe, by contrast, with around 22% of over-60s, has the highest proportion. North America follows closely with 19% (figure 30).

By 2030, Latin America's proportion is likely to have risen somewhat, to around 17%, a level similar to that in Asia, but much lower than in North America, where it is expected to reach 26%, and in Europe, nearly 30%. Only Africa, at 6%, stands to have a lower proportion of over-60s.

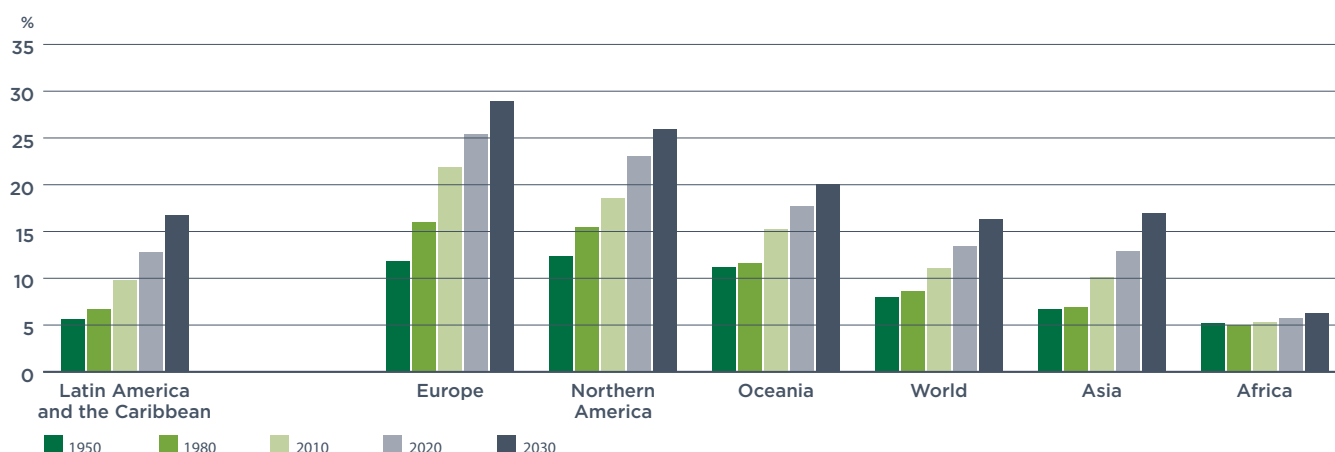
Latin America's active population is set to grow as a proportion of the total. This contrasts sharply with the advanced economies in which, between 2010 and 2030, the active proportion is expected to fall from 68% to 61%.

In some Latin American countries increases in the active proportion of the population are likely to be substantial:

- Peru: from 64% to 67%;
- Honduras: 59% to 65%;
- Mexico: 64% to 67%; and
- Nicaragua: 61% to 66%.

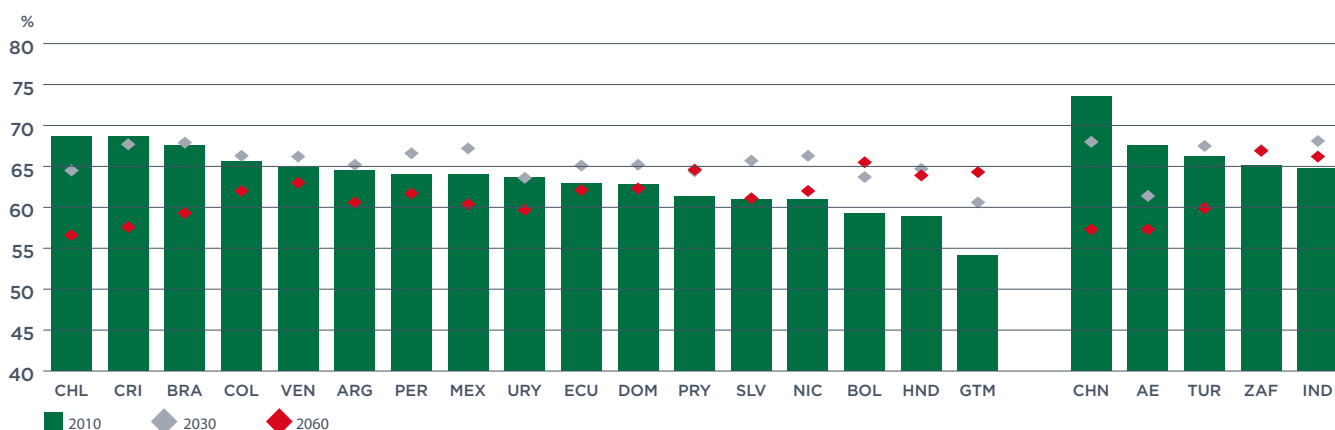
By 2060, many countries in the world are likely to see their active populations decline as a proportion of the total. Nevertheless, in at least some Latin American countries the proportion still stands to be comparatively high (figure 31).

FIGURE 30: POPULATION AGED 60 OR ABOVE (% OF TOTAL POPULATION), BY REGION



Source: UN World Population Prospects: 2012 Revision (2013)
Note: Medium fertility projections.

FIGURE 31: ACTIVE POPULATION, CURRENT AND PROJECTED, SELECTED ECONOMIES



Source: OECD Latin American Economic Outlook 2014
Note: Working population as the percentage of 15- to 64-year olds. Actual data from 2010 and projections for 2030 and 2060. AE = Advanced Economies.

Chapter four:
Strategic issues

... and the dependency
ratio to continue falling

Latin America's energy
demand is likely to
grow strongly ...

Latin America's dependency ratio – the ratio of those not of working age to those of working age – declined sharply from 1980 to 2010, from over 120% to under 80%. This decline is expected to continue, and by 2020 to be just under 70% – below the world average.

Latin America's ratio is expected to remain at its 2020 level for a further decade, in which case it will remain a region with one of the lowest dependency ratios (figure 32).

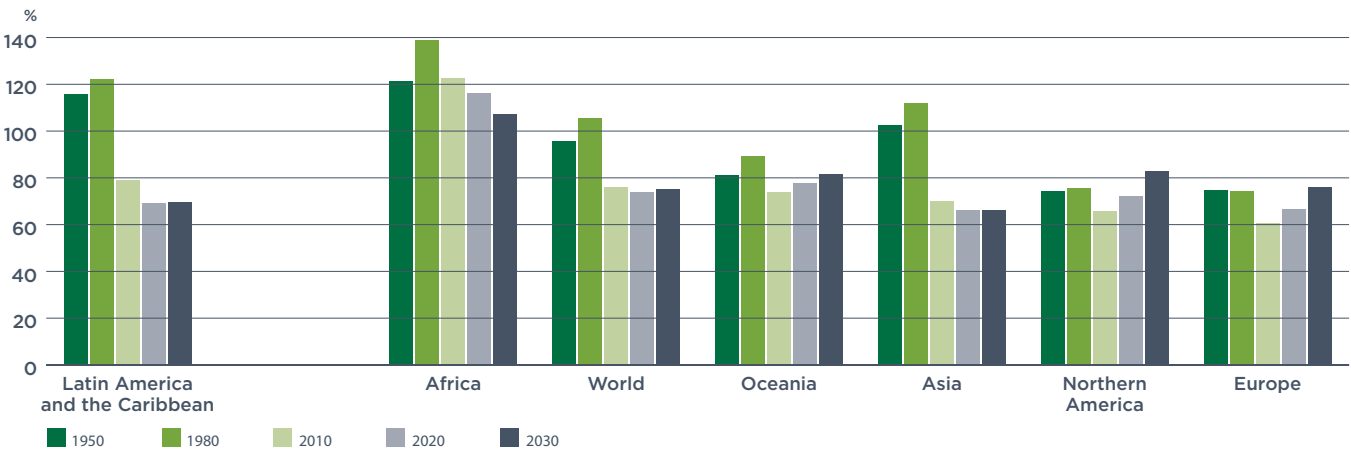
Energy demand

Latin America's energy demand is set to grow rapidly, and significantly faster than in much of the rest of the world. Between 2012 and 2020:

- Global primary energy demand is likely to grow by around 12%, driven largely by the non-OECD economies;
- Latin America's demand is likely to grow by 16%;
- Non-OECD demand is expected to grow similarly; but
- OECD demand, by contrast, is expected to rise by only around 4%.

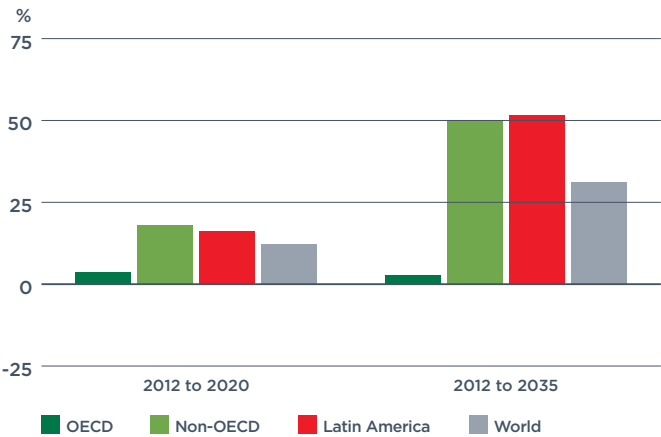
By 2035, global primary energy demand is expected to have grown by 31%; non-OECD demand by 50%; Latin America's by 52%; but OECD demand by only 3% (figure 33).

FIGURE 32: DEPENDENCY RATIOS (THOSE AGED 0-19 AND 65+ OVER THOSE AGED 20-64)



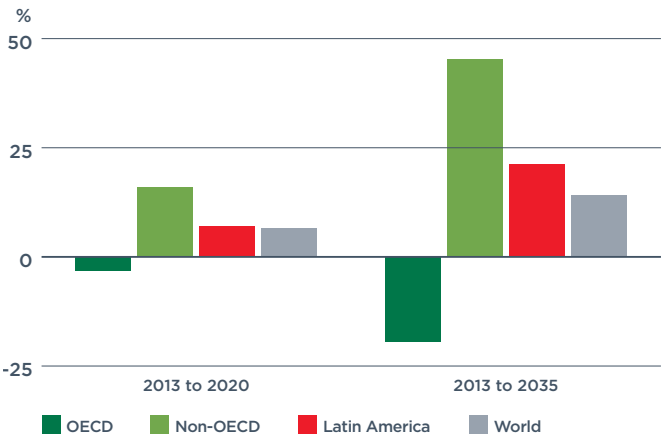
Source: UN World Population Prospects: 2012 Revision (2013)
Note: Medium fertility projections.

FIGURE 33: PRIMARY ENERGY DEMAND BY REGION, CHANGE OVER PERIOD



Source: IEA World Energy Outlook (2014)
Notes: New Policies Scenario. World includes international marine and aviation bunkers (not included in regional totals).

FIGURE 34: OIL DEMAND BY REGION, CHANGE OVER PERIOD



Source: IEA World Energy Outlook (2014)
Notes: New Policies Scenario.

... and its demand for oil is expected to be robust

Latin America's logistics are hampering longer-term performance

Latin America's demand for oil is expected to remain robust. Between 2013 and 2020:

- Global oil demand, driven principally by non-OECD countries, is expected to expand by around 7%, from 90 mb/d to 96 mb/d;
- Non-OECD demand is expected to increase by about 16%, from 42 mb/d to 48 mb/d;
- Latin America's by about 7%, from 5.7 mb/d to 6.1 mb/d;
- OECD demand, by contrast, is expected to fall slightly, by 3% or so, from 42 mb/d to 40 mb/d.

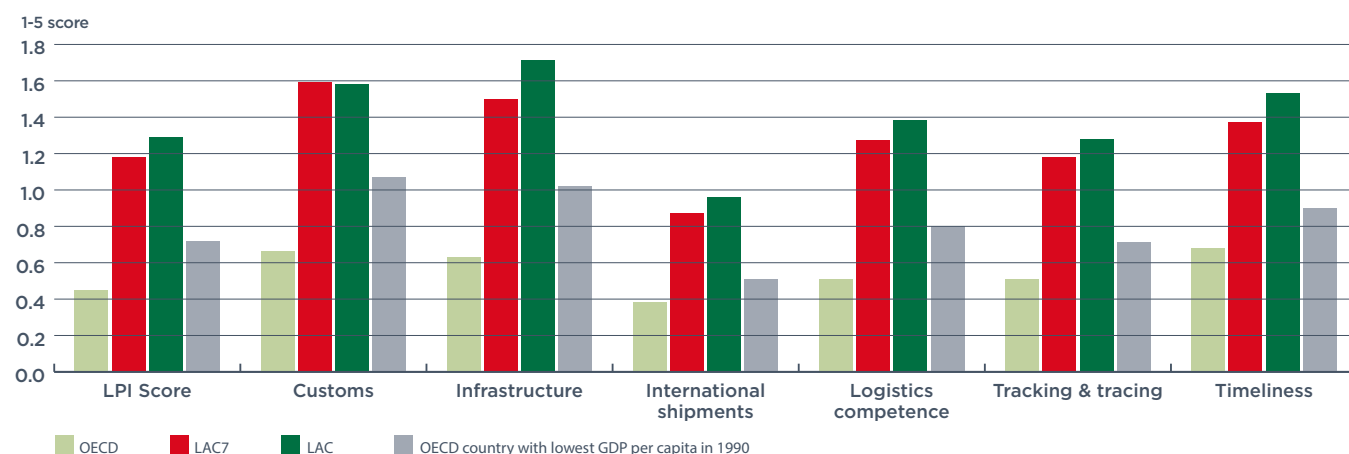
Between 2013 and 2035, global oil demand is projected to have grown by 14%; non-OECD by 45%; Latin American demand by 21%; and OECD demand, by contrast, is expected to have dropped by 20% (figure 34).

Infrastructure and logistics

Latin America's logistics networks are hampering the region's longer-term performance. The gap between Latin America's logistics performance and that of OECD countries is large. However, it narrows when just the region's seven largest economies (the 'LAC7') are considered.³³

The gap is particularly sizeable in the areas of customs, infrastructure, and timeliness.³⁴ The region's performance is also poor when compared with the poorest OECD countries in 1990 (figure 35).

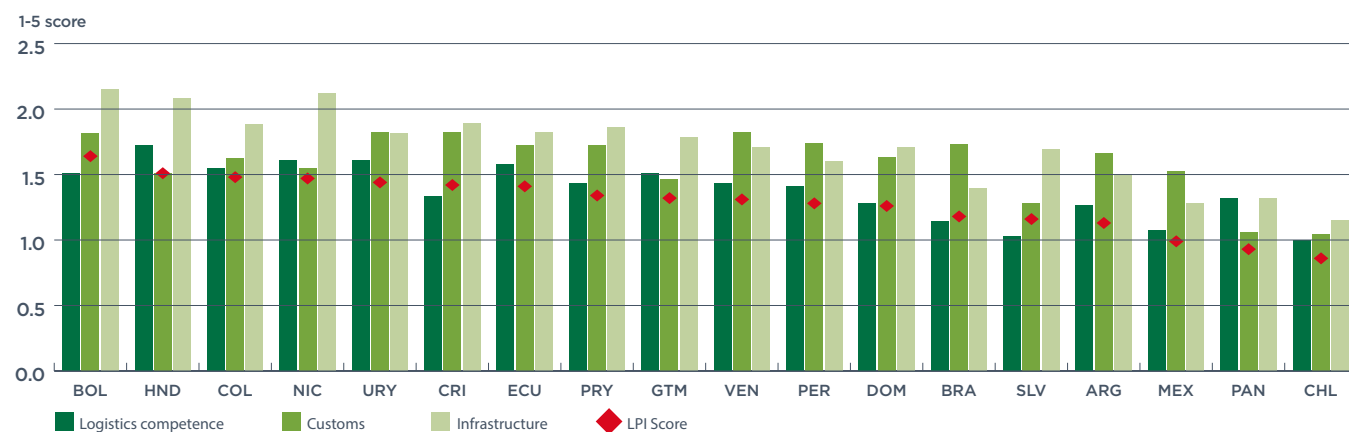
FIGURE 35: LOGISTICS PERFORMANCE GAP TO THE BEST-PERFORMING OECD COUNTRY, 2014



Source: OECD Latin American Economic Outlook 2014; World Bank Logistics Performance Index 2014

Note: The Logistics Performance Index (LPI) has a scale of 1 to 5, where 5 represents the best logistics performance. The gap refers to the difference for each logistics component with the best-performing OECD country, which is Germany for the LPI score, infrastructure, tracking and tracing; Norway for customs and logistics competence; and Luxembourg for international shipments, and timeliness. Latin America and the Caribbean (LAC) consists of 18 countries (ARG, BOL, BRA, CHL, COL, CRI, DOM, ECU, GTM, HND, MEX, NIC, PAN, PER, PRY, SLV, URY, VEN). LAC7 refers to the seven largest economies as measured by GDP: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela (Bol. Rep. of). The OECD countries with the lowest GDP per capita in 1990 were Chile, Czech Republic, Estonia, Hungary, Korea, Mexico, Poland, Slovak Republic, Slovenia, and Turkey.

FIGURE 36: LOGISTICS PERFORMANCE GAP, BY COUNTRY, 2014



Source: OECD Latin American Economic Outlook 2014; World Bank Logistics Performance Index 2014

Note: The Logistics Performance Index (LPI) has a scale of 1 to 5, where 5 represents the best logistics performance. The gap refers to the difference for each logistics component with the best-performing OECD country, which is Germany for the LPI, infrastructure, tracking and tracing; Norway for customs and logistics competence; and Luxembourg for international shipments and timeliness.

Chapter four: Strategic issues

Logistics performance across countries is mixed

Countries often get trapped once they reach middle-income

Growth trajectories for many countries have levelled off

That said, logistics performance differs from country to country, as do the associated policy challenges. Bolivia, Honduras, Colombia, and Nicaragua have the largest overall logistics gap when compared with the best OECD performer (figure 36).

In most countries the gap is largest in infrastructure, and particularly so in Bolivia, Nicaragua, and Honduras. In some, the gap is largest in customs regulations, notably in Brazil, Venezuela, Peru, Argentina, and Mexico.

Chile, Peru, and Bolivia are the only countries with particularly logistics-intensive exports, but most of the region's exports are time sensitive. This is particularly the case in the Central American economies of Nicaragua, Guatemala, Panama, and Belize; and South America's Paraguay and Argentina (figure 37).

The 'middle-income trap'

Countries often get 'trapped' and struggle to develop further, once they reach middle-income status. In the initial, typically rapid, development phase, low-cost labour and 'easy' technology adoption drive growth from low to middle-income.³⁵

- Low-income countries compete in international markets by producing labour-intensive, low-cost products, using technologies developed abroad;
- Investment flows are progressively reallocated from low-productivity agriculture to high-productivity manufacturing, bringing large productivity gains to the economy.

When countries reach middle-income, however, the influence of these factors diminish:³⁶

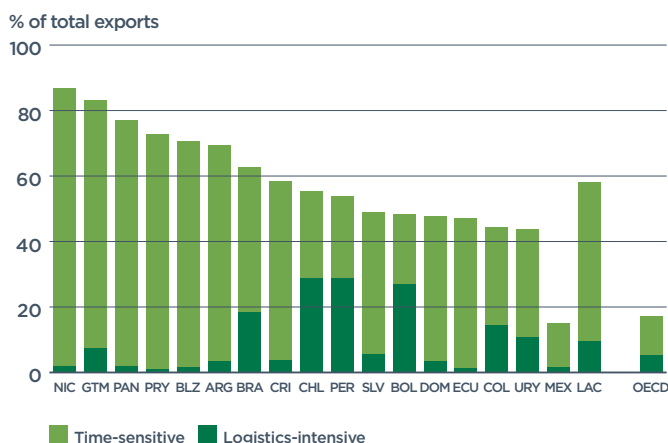
- Productivity growth from sectoral shifts and technology catch-up is eventually exhausted;
- Rising wages make labour-intensive exports less competitive internationally.

At this stage in the development process, productivity increases through domestic innovation are what is needed. Countries that fail to make the transition are often 'stuck' in middle-income status.

Historically, development trajectories for many countries have levelled off, often for an extended, if not seemingly permanent period. A number of Latin American economies entered a long episode of stagnation after growth durably slowed in the 1970s/early 1980s (figure 38). Of the 52 middle-income countries in 2010 globally, perhaps as many as 35 (nearly 70%) were caught up in the 'middle income trap'.³⁷

However, middle-income status does not necessarily result in economic slowdown and stagnation. Some Asian economies have made it 'all the way' to high-income status, e.g. Japan, South Korea, and Taiwan, as well as the city states of Singapore and Hong Kong.

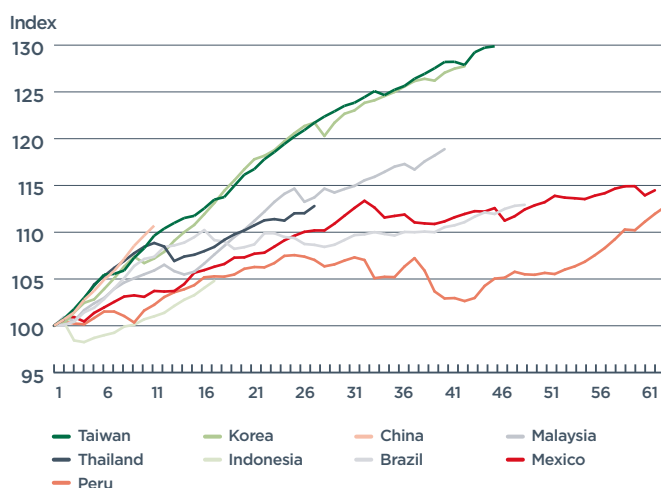
FIGURE 37: TIME-SENSITIVE AND LOGISTICS-INTENSIVE EXPORTS (% OF TOTAL EXPORTS), 2010



Source: OECD Latin American Economic Outlook 2014

Note: Logistics-intensive sectors include mining, forestry and logging, wood manufacturing, paper publishing and printing. Time-sensitive sectors include agriculture, fisheries, food and drink manufacturing, and clothing and horticulture. Latin America and the Caribbean (LAC) consists of 17 countries (ARG, BOL, BRA, CHL, COL, CRI, DOM, ECU, GTM, HND, MEX, NIC, PAN, PER, PRY, SLV, URY).

FIGURE 38: PAST GROWTH TRAJECTORIES, SELECTED ECONOMIES



Source: IMF Asia and Pacific Regional Outlook 2013

Note: GDP per capita is in 2005 PPP adjusted terms. Log scale indexed. The slope of each series reflects the growth rate. Period 1 is defined as the year when GDP per capita for the country considered reached US\$3,000 in PPP terms.

BOX:

INTEGRATION PROJECTS ARE UNDERWAY ACROSS THE REGION

Background

There are three main infrastructure integration initiatives in the Latin America region:³⁸

- Integration of Regional Infrastructure in South America (IIRSA);
- Mesoamerica Project (MP) in Central America; and
- The Caribbean Community (CARICOM) in the Caribbean.

IIRSA

Initiated in 2000, the IIRSA developed from cooperation between governments and development banks in South America, and is the most advanced of the three initiatives. The IIRSA, with the agreement of governments, defined a number of multinational 'strips' (or geographical corridors). There are currently eight of these so-called integration and development axes:

- Mercosur-Chile; Andean; Central Inter-Oceanic; Amazon; Guyana Shield; Peru-Brazil-Bolivia; Capricorn; and Southern

The programme includes all bi-national or multinational projects that contribute to regional integration in:

- Transportation (road, rail, sea, and air); Logistics; Energy (generation, transmission, and distribution); and telecommunications.

The IIRSA has over 500 projects with an investment requirement of over \$150 million.

- In mid-2013, around 100 of these projects, accounting for around one-tenth of the total investment requirements,³⁹ were prioritised for completion by 2020.

Mesoamerica

The Mesoamerica Project (MP) was created in 2008 and aims to improve and integrate infrastructure, transport, and trade logistics:

- 10 countries are involved: Belize, Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, and Dominican Republic.
- Investments and priorities: road infrastructure; customs procedures; power grid infrastructure; and telecommunications infrastructure.
- Central projects: International Network of Mesoamerican Highways; International Land Transit of Goods (TIM) project; and Short Distance Sea Transport project.

CARICOM

Established in 1973 to promote the integration of economies and people of the Caribbean region, CARICOM covers a number of areas, including foreign policy, cultural development, as well as infrastructure, communications, and logistics.

Chapter four: Strategic issues

Factors causing economic slowdowns can be measured

Structural indicator scores flag concerns from the supply side

Moreover, the factors causing economies to slow down are becoming increasingly well understood. The IMF has identified five specific areas,⁴⁰ and within them a range of factors that could be expected to contribute to the risk of economic slowdown in a hitherto rapidly-growing, increasingly-sophisticated, but less-than-advanced economy.

These key considerations are:

- **Institutions:** the (change in) *Size of Government; Strength of Rule of Law, and Weight of Regulation* – the larger the value, the greater the vulnerability;
- **Demographics:** the *Dependency Ratio* (dependents to workers) and the (change in) the *Sex Ratio* (men to women) – the larger the figure, the greater the probability of growth slowdown;
- **Infrastructure:** *Road Networks and Telephone Lines* – the lower the (per capita) value, the greater the vulnerability;
- **Macroeconomic environment and policies:** (the rate of) *Gross Capital Inflows* (the higher the value, relative to GDP, the greater the risk of serious decline or even reversal); the *Investment Share* – the higher the value, the greater the risk; and *Trade Openness and Sectoral Diversity* – the higher the values, the lower the vulnerability;
- **Trade structure:** *Distance from major markets and Regional Integration* – the smaller a country's GDP-weighted distance from potential trade partners, partners, and the greater its regional integration, the lower is the risk of sustained slowdown.

Structural indicators

Not only can factors causing economies to slow down durably be identified, they can also be quantified using structural indicators of various aspects of the supply side of market economies.

On the basis of these scores, a few Latin American economies are identified and measured as comparatively well positioned, many, however, are not (figure 39):

- Chile, Panama, and Mexico rank relatively highly in an international context, and compare favourably with the advanced economies.
- Peru, Costa Rica, and Uruguay have above-average scores in some areas, and compare favourably with some OECD countries.
- Venezuela, Bolivia, Paraguay, Ecuador, Dominican Republic, Nicaragua, Brazil, El Salvador, Guyana, and Colombia have low scores in all policy areas.

All countries in the region have low scores for institutions, infrastructure, the labour market, and innovation.

FIGURE 39: STRUCTURAL POLICY HEAT MAP OVER EIGHT POLICY AREAS, 2014

POLICY AREA SCORE (1-7)	VEN	BOL	PRY	HND	ARG	ECU	DOM	NIC	BRA	SLV	GUY	GTU	COL	JAM	URY	CRI	PER	MEX	PAN	CHL
Institutions and contracts	3.1	3.2	3.5	2.0	3.9	3.8	3.6	4.8	3.4	4.0	4.3	3.7	2.7	3.3	4.3	3.6	3.7	4.3	3.5	4.9
Infrastructure	3.3	3.5	3.2	3.5	3.7	4.0	3.8	3.6	3.7	4.2	3.7	4.1	3.5	4.1	3.8	3.8	3.8	4.4	4.9	4.8
Human capital	4.7	4.3	3.9	4.2	5.1	4.9	4.2	4.2	4.7	4.3	4.6	4.2	4.7	4.5	5.1	5.3	4.5	4.7	4.9	5.2
Labour market	2.7	3.5	3.7	3.4	3.3	3.6	4.1	4.1	3.8	3.7	4.8	3.9	4.1	4.7	3.6	4.4	4.6	3.9	4.0	4.5
Business environment	2.4	2.4	3.7	3.1	2.5	2.8	3.3	3.6	3.1	3.5	4.1	3.5	4.5	5.1	5.0	4.2	4.5	4.8	5.3	5.6
Openness to trade and FDI	3.2	3.8	3.5	4.1	4.3	4.1	4.8	3.9	4.8	4.3	3.7	4.0	4.7	3.6	4.1	4.8	5.0	5.3	5.1	5.3
Financial system	3.4	4.0	4.3	5.4	4.0	4.5	4.1	4.2	4.1	4.6	3.7	5.5	4.9	4.3	4.6	4.1	5.4	5.1	5.3	5.3
Innovation	2.9	3.2	3.0	3.2	3.4	3.6	3.5	3.1	4.0	3.4	3.6	3.6	3.5	3.5	3.7	4.1	3.4	3.8	4.1	4.1
AGGREGATE SCORE (1-7)	3.2	3.5	3.6	3.6	3.8	3.9	3.9	3.9	4.0	4.0	4.1	4.1	4.1	4.1	4.3	4.3	4.4	4.5	4.6	5.0

POLICY AREA SCORE (1-7)	OECD		WORLD		
	BEST	WORST	BEST	WORST	AVERAGE
Institutions and contracts	6.5	3.7	6.5	1.8	4.3
Infrastructure	6.0	4.4	6.0	2.9	4.3
Human capital	6.5	4.7	6.5	2.3	4.8
Labour market	5.8	3.5	6.0	2.7	4.3
Business environment	6.1	3.5	6.3	2.0	4.3
Openness to trade and FDI	6.5	4.3	6.5	2.0	4.5
Financial system	6.2	3.5	6.5	2.8	4.8
Innovation	5.8	3.7	5.8	2.4	3.9
AGGREGATE SCORE (1-7)	5.8	4.3	6.1	2.7	4.4

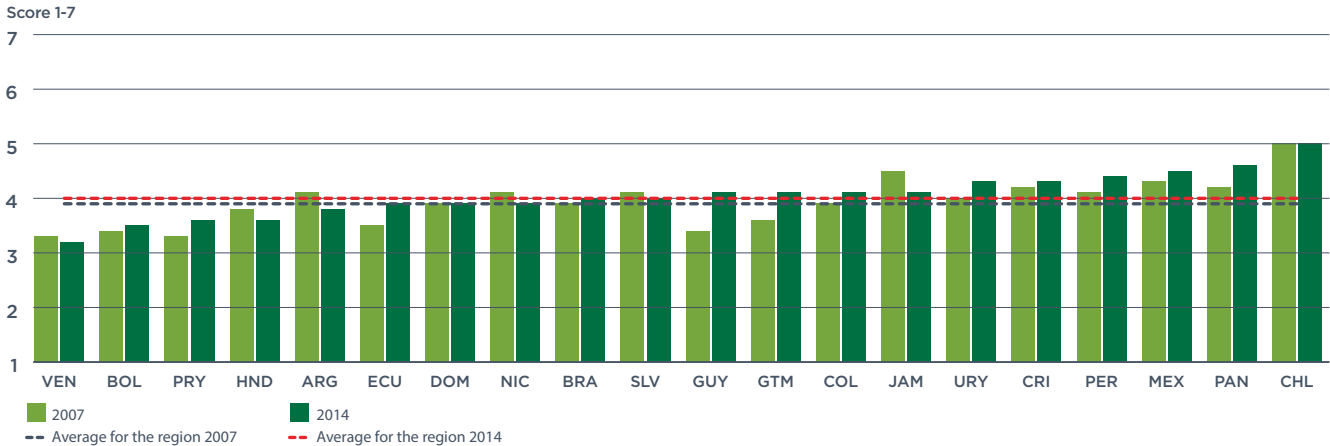
Source: IMF (2012); The Fraser Institute Index of Economic Freedom 2013; WEF Global Competitiveness Report 2013-14; WB Doing Business 2014

Notes: Scores below 3.6 are coloured red. Pink cells = scores between 3.6 and 4.9. Scores between 6 and 7 are coloured dark green. Light green = between 5 and 5.9.

Structural indicator scores in Latin America have risen slightly

- Latin America’s structural indicator scores, an average over eight policy areas, have edged up over recent years – from 3.9 to 4.0 (out of a possible 7) (figure 40).
- There is a fairly strong tendency for countries which had a given score in 2007 to have a similar score in 2014. In other words, there is ‘persistence’ in countries’ scores:
 - The rank correlation coefficient of the scores is 0.6 (and statistically significant).
 - Interestingly, however, the persistence of scores for the Latin American countries is less strong than for the world as a whole:
 - The rank correlation coefficient of the scores is 0.8 when a wide range of world economies – 103 countries – is considered.
 - Guyana, Guatemala, Ecuador, and Panama have seen the largest improvement in their structural policy scores; while Argentina and Jamaica have seen the largest deterioration.

FIGURE 40: STRUCTURAL SCORES OVER EIGHT POLICY AREAS, 2007 AND 2014



CHAPTER FIVE

CHALLENGES AND OPPORTUNITIES

Latin America's economies face an array of unique challenges, as identified by the IMF. For most countries, however, boosting growth potential remains central. Improving the region's infrastructure will be an important element of this.

- The main challenge for the financially-integrated economies is to boost productivity and competitiveness
- The large commodity exporters face differing and varied challenges, from restoring macroeconomic stability to improving the availability of basic goods and sustaining inclusive growth
- Central America's primary challenge is to consolidate the public finances. Raising productivity and growth will require easing constraints, including security issues, poor infrastructure, and a weak business environment
- The Caribbean's main challenge is to reduce its (public) debt burden
- Extensive reforms are necessary, with a focus on the region's structural weaknesses, which include high energy, labour, and cross-border trading costs, and undiversified tourism markets
- Improvements are essential in the quality of the region's infrastructure – central to the functioning of any economy and a fundamental determinant of economic development and welfare
- Infrastructure investment does more than merely add to the capital stock: it also contributes importantly to near-term demand as well as to longer-term supply and thereby sustainable growth

Challenges and policy requirements

It is evident, not least from the evidence summarised in the preceding chapters, that the various economies of Latin America face an array of challenges if their economic performance is to continue to improve.⁴¹

The IMF identifies a range of policy requirements

Inevitably, each country's challenges are in significant measure unique. Nevertheless, it is possible to some extent at least to group countries by the types of challenges that they face. The IMF groups the economies of Latin America into four, in a categorisation that is part geographic, part economic: the financially-integrated economies; large commodity exporters; Central America, Panama, and the Dominican Republic; and the Caribbean.

Financially-integrated economies need to boost productivity

Financially-integrated economies. For Latin America's financially-integrated economies (Brazil, Chile, Colombia, Mexico, Peru, and Uruguay) the main challenge is to boost medium-term growth potential, including importantly productivity. Total factor productivity (TFP) in the region has increased over the past decade, but the pace has lagged behind that of other fast-growing emerging economies.

Faster TFP growth would enable these economies better to handle two of their most important potential constraints on growth:

- First, the enduring fragility of global investor sentiment towards emerging markets. Episodes of market turbulence tend to drive up funding costs; and
- Second, the volatility of commodity prices, and in particular the threat of continued weakness of natural resource prices in the short term.

Governments will also need to address longstanding shortcomings in infrastructure, education, and aspects of the wider business environment – notwithstanding recent structural reform efforts.

The large commodity exporters face differing challenges

Large commodity exporters. The five large commodity exporters of the region – excluding the financially-integrated economies – face quite different challenges:

- Argentina
 - To restore macroeconomic stability, particularly if commodity prices continue to weaken; reduce state influence in the private sector, renew access to international capital markets and bolster foreign direct investment.
- Venezuela
 - To avoid the shock to confidence that a sovereign debt default would deliver; bring inflation under control; improve the availability of basic goods; generally reanimate the private sector, and reduce reliance on oil. This will require wide-ranging and fundamental policy adjustment.
- Ecuador
 - To strengthen resilience against finance-straining falls in the oil price and to moderate government spending.
- Paraguay and Bolivia
 - To sustain inclusive growth. Efforts to enhance productivity, improve functioning of the financial markets, and raise education and health standards will need to remain a central part of this endeavour.

Central America's challenge is to consolidate public finances

Central America, Panama and the Dominican Republic. Central America's principal challenge is to consolidate the public finances. Fiscal consolidation would almost certainly have to involve both reducing expenditure and raising tax revenues. Expenditure restraint ought to be combined with rationalisation, including stricter control of the public wage bill and better targeting of subsidies. Ideally, consolidation would be accomplished within strengthened medium-term fiscal frameworks, with clearly specified and respected objectives and rules. Appropriate rules could also be helpful in minimising fiscal risks from public-private partnerships.

The region's non-dollarized economies stand to benefit from greater exchange rate flexibility, which should enhance their ability to adjust to shocks. Transitioning to full-fledged inflation targeting would also bolster resilience. A key challenge, particularly for the medium term, is to raise productivity and growth potential: important constraints include security issues, poor infrastructure, and a weak business environment.

The Caribbean's main challenge is to reduce its debt burden

The Caribbean. The Caribbean's main challenge is to reduce its debt burden. The speed and extent of fiscal consolidation will have to be dependent on the size of the burdens in individual countries. Consolidation must be embraced even in economies with slow growth, because high debt levels often prove ultimately to be more disruptive than dealing with the problem when the debt is smaller. Financial sector risks also remain high. Decisive reforms are necessary to clean up banks' balance sheets and resolve failing institutions.

Chapter five: Challenges and opportunities

The quality of infrastructure in Latin America has risen

However, very few
countries have high
quality infrastructure

Boosting growth potential remains the central challenge for most of the region's countries. Extensive reforms are necessary. A focus is needed on the structural weaknesses of the region, which include in particular: high energy, labour, and cross-border trading costs, and the undiversified tourism markets.

The important role of infrastructure

A particular challenge for Latin American countries – but also a fundamental opportunity – lies in improving the quality of their infrastructure. Infrastructure is central to the functioning of any economy, a fundamental determinant both of its development and the welfare of its people, and this applies with particular force to the Latin American region.

There are two fundamental reasons why, over the coming several decades, infrastructure investment stands to be particularly important in helping to meet basic challenges that the region is likely to face:

- Near term, infrastructure investment can add importantly to demand; while
- Longer term it adds to supply and thereby to sustainable growth.

Both elements are likely to prove central to the overall success of the region, as well as the comparative success of different economies: the effects of well-chosen, well-executed infrastructure are pervasive, and have effects on economic growth that extend beyond merely adding to the capital stock. Such investment facilitates:

- Trade and the division of labour;
- Competition in markets;
- More efficient allocation of activity across regions;
- The diffusion of technology;
- Better organisational practices; and
- Access to new resources, both physical and human.

Taking stock

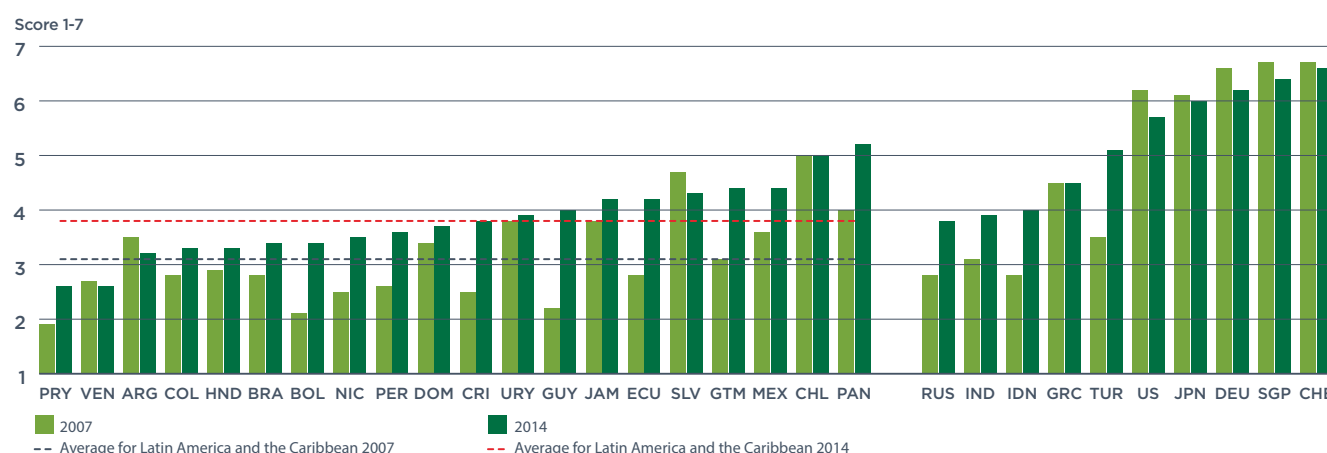
It is not easy to assess the quality of a country's infrastructure, but various efforts have been made and, to the extent that it is possible to reduce such a complex concept to a single number, these suggest that the Latin American countries with the best infrastructure are probably Panama, Chile, and Mexico, which are scored at between 5.2 and 4.4 (out of a possible 7).

There is, however, considerable room for improvement: by way of international comparison, Switzerland, the world's top performer, scores 6.6. And at the other extreme, some countries in Latin America, notably Paraguay and Venezuela, have particularly poor quality infrastructure, scoring below 3.

Progress is being made, however: between 2007 and 2014 the region's average score for infrastructure quality increased from 3.1 to 3.8. Moreover, some countries – Guyana, Ecuador, Bolivia, Guatemala, Costa Rica, and Panama – have improved the quality of their overall infrastructure by more than one point.

El Salvador, Argentina, and Venezuela, by contrast, have seen the quality of their infrastructure, as measured, deteriorate over the period (figure 41).

FIGURE 41: QUALITY OF OVERALL INFRASTRUCTURE, SELECTED ECONOMIES, 2007 AND 2014



Source: WEF Global Competitiveness Report 2013-14; Llewellyn Consulting

BOX:

INFRASTRUCTURE'S ROLE IN ECONOMIC GROWTH

Definition

A broad definition of infrastructure includes both physical (tangible) and non-physical (non-tangible) assets. Infrastructure can be thought of as the economic arteries and veins that enable people, capital, goods, commodities, water, energy, information, and more to move efficiently both within, and into and out of, an economy:

- It includes the economy's networks for: transport; energy generation, and storage; communications; waste management; and water distribution and treatment;
- It extends to: roads, railways, airports, seaports, power lines, pipes and wires; electricity and gas; electronic communications, including broadband; water, sewerage and waste; flood defences; and intellectual capital;
- Most economists would also include 'social infrastructure', namely housing; hospitals; schools; universities; the legal system; government research institutions, and more.

Macroeconomic effects

Macroeconomic effects of infrastructure spending can be large. But much depends on the quality and timing of investment. The relationship between infrastructure and output likely depends on:

- The precise nature of the spending;
- The project's longevity;
- The stance of monetary policy and the state of the business cycle;
- The health of the financial sector and the extent of credit constraints on the household and business sectors; and
- Externalities and spillover effects.

Empirical evidence suggests that effects differ both across countries and sectors, and vary over time, with episodes of under- and over-provision, and efficient and inefficient use. Infrastructure apparently exerts a greater long-term impact on growth at lower levels of provision (See Egert, B., Kozluk, T. and Sutherland, D., 2009. *Infrastructure and growth empirical evidence*. OECD Economic Department Working Paper No. 685. and Calderón, C. and Servén, I., 2004. *The Effects of Infrastructure Development on Growth and Income Distribution*. World Bank Policy Research Working Papers, September).

Multipliers

Multipliers for infrastructure depend on specific circumstances. Values are larger when an economy is working below full capacity. The value of the infrastructure multiplier – the increase in GDP following a (1%) increase in infrastructure spending – will depend on the quality, nature, and timing of the investment. And in particular on the potential for long-term impacts on productive potential and productivity.

It is likely that multipliers are larger:

- For public investment than for other fiscal policy measures;
- When the stance of monetary policy is easy;
- The private sector is unable or unwilling to borrow;
- Unemployment is high; and
- The economy is working below full capacity.

A survey of a broad range of pre-crisis literature on infrastructure suggests a short-term multiplier range of between 0.5 and 1.5. More recent, post-crisis estimates have put the value as high as 2.0 or more (See IMF, 2010. *Effects of Fiscal Stimulus in Structural Models*. IMF Working Paper 10(73)).

BOX: INFRASTRUCTURE'S ROLE IN EXPORT DIVERSIFICATION

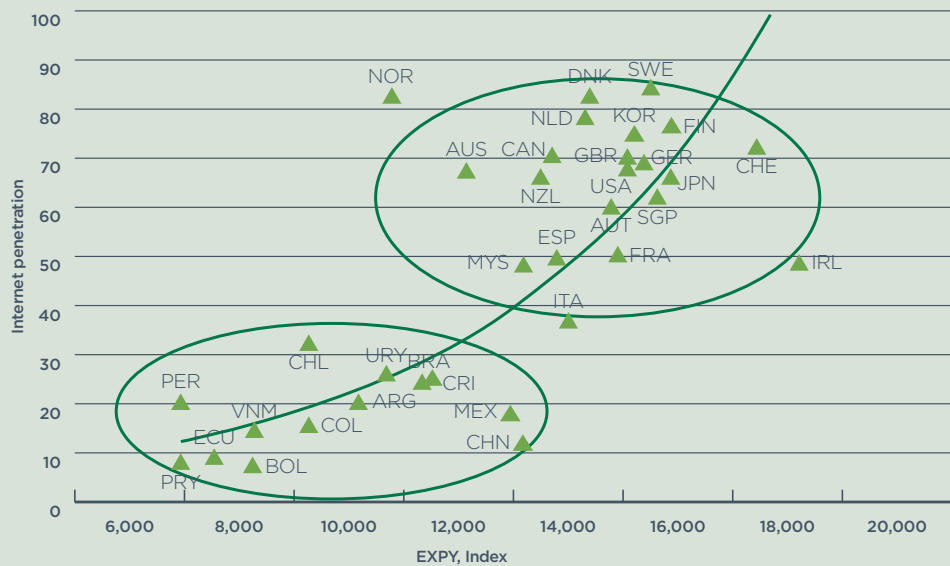
A challenge for many is to diversify exports

For export diversity infrastructure is needed in a range of areas, including transport and power, but also communications. Perhaps for this reason there seems to be a close relationship between internet penetration and export diversity (figure A).

European and Asian economies generally have a high dissemination of ICT and diverse exports (northeast quadrant). Many Latin American economies have achieved neither (southwest quadrant).

New technologies boost growth potential by driving new activities, sectors, and markets.

FIGURE A: RELATIONSHIP BETWEEN INTERNET PENETRATION AND SOPHISTICATION OF EXPORTS (2003-2008 AVERAGE)



Source: OCED Latin American Economic Outlook 2014

Notes: EXPY is an indicator of the sophistication of exports, calculated as a weighted average (weighted by the share of exports) of the income per capita of the goods where the country has a revealed comparative advantage.

Infrastructure investment stands to play a major role in the region's development

Infrastructure investment is thus potentially able to play a major role in the development of the economies in Latin America. Although it is not possible to make a precise quantification of the potential gains, the World Bank has estimated that, for many members, the effect could be considerable.

In a paper published in 2004, Calderón and Servén⁴² found that if Latin American countries with particularly poor infrastructure (at that time Bolivia, Guatemala, Honduras, and Nicaragua) raised the quality of their infrastructure up to that of the best in the region (then Costa Rica), this could in each case add around 4% to annual GDP per capita growth (figure 42). Were they to attain the infrastructure of the median East Asian country at that time, Korea, this could add more than 5% to annual GDP per capita growth.

The authors also showed that infrastructure lowers income inequality as well as raising growth. If all Latin American countries were to catch up with the regional leader on infrastructure then their GINI coefficients would decline by 0.02 to 0.10 out of 1. The authors posited, as a result, that as infrastructure has 'win-win' elements, spending on infrastructure could be viewed as a priority when considering poverty reduction measures.

FIGURE 42: GROWTH IMPROVEMENT IN LATIN AMERICAN COUNTRIES ATTRIBUTABLE TO HIGHER INFRASTRUCTURE DEVELOPMENT (%)

	Improvement to levels of LAC leader			Improvement to levels of EAP median		
	Stocks	Quality	Total	Stocks	Quality	Total
Argentina	1.3	0.4	1.7	2.2	0.9	3.2
Bolivia	3.8	0.5	4.3	4.8	1.0	5.8
Brazil	1.5	1.4	2.9	2.4	1.9	4.4
Chile	1.3	0.0	1.3	2.3	0.6	2.8
Colombia	1.9	1.2	3.1	2.9	1.7	4.6
Costa Rica	–	–	–	1.0	0.5	1.5
Dominican Republic	1.3	0.1	1.4	2.3	0.7	2.9
Ecuador	2.0	1.0	3.0	3.0	1.5	4.5
Guatemala	3.3	0.4	3.7	4.2	0.9	5.2
Honduras	3.1	1.1	4.2	4.1	1.6	5.7
Mexico	1.4	0.2	1.7	2.4	0.8	3.2
Nicaragua	3.4	1.4	4.8	4.4	1.9	6.3
Panama	1.4	0.2	1.5	2.4	0.7	3.1
Peru	3.0	0.6	3.5	4.0	1.1	5.0
El Salvador	1.6	0.4	2.1	2.6	1.0	3.6
Uruguay	0.7	0.4	1.1	1.7	0.9	2.6
Venezuela	1.1	0.4	1.4	2.0	0.9	2.9

Source: Calderón, C., and Servén, L., 2004. *The Effects of Infrastructure Development on Growth and Income Distribution*. World Bank Policy Research Working Papers, September 2004

Notes: The median country of East Asia and the Pacific (EAP) is Republic of Korea.

BOX:

PANAMA CANAL EXPANSION: OPPORTUNITIES AND ECONOMIC IMPACTS

Background

The Panama Canal – connecting the Pacific and Atlantic Oceans – opened in 1914. In the late 20th century containerisation drove an increase in ships' cargo volumes to 'Panamax' size, and beyond. Panama began expanding the canal in 2007 to double cargo capacity and boost efficiency. The expansion includes building new lock complexes, deepening the canal, and digging entirely new canals. Expectations are that construction work will be completed in 2015, and the widened canal opened in 2016.

Capacity increase

The volume of cargo is likely to increase by around 3% per year:

- By 2025, the cargo volume is expected to reach 600 million tonnes, double the volume transported in 2005.⁴³

Larger 'post-Panamax' ships – around 25% longer and 50% wider than 'Panamax' ships – will be able to navigate the expanded canal.

Economic impact

The Panama Canal is a central driver of Panama's trade and GDP growth, and accounts for around one-third of the country's GDP. Panama's economy has been growing strongly, at 9% on average since 2005. Projected income from the expanded canal in 2025 is €4,700 million per year,⁴⁴ a near ten-fold increase on 2005 levels. Canal expansion will likely have important economic spillover effects, particularly in Colombia, El Salvador, Nicaragua, and Costa Rica.⁴⁵

Supporting infrastructure

An expanded canal will require upgraded regional infrastructure:⁴⁶

- New logistics centres will be needed to handle increased cargo volumes
 - The Dominican Republic is one example with the new Caucedo Logistics Centre
- Larger and deeper ports will be required to handle bigger vessels
 - Projects are underway to expand port capacity at selected ports in Brazil, Chile, Colombia, Ecuador, El Salvador, and Honduras.

CHAPTER SIX

LONGER-TERM PROSPECTS

Although challenges and risks remain, and country fortunes – determined importantly by policy – are likely to continue to be diverse, positive role models are emerging, perceptions are changing, and there are grounds for cautious optimism.

- The quality of economic and financial institutions and systems and of policymaking is advancing, and the region is becoming better integrated into global trading and financial systems
- In many countries there seems a greater willingness and ability to tackle corruption, crime, and drugs
- Enthusiasm to join or work with international organisations, and to enter into trade agreements points to increasing willingness for openness to commerce and a more comprehensive connection to the world economy
- China and India, although their underlying growth is slowing, continue to develop and will remain hungry for the food, minerals, and energy resources in which the Latin American region is abundant
- The countries that do well, will provide a demonstration effect to others

Looking ahead

It is natural, in the light of the issues and experiences considered in the earlier chapters, to look ahead and speculate about how the region may develop over the coming decade and beyond.

Clearly, country fortunes are likely to continue to be diverse. Commodity price trends will, for example, endure as a powerful, and sometimes destabilising, influence on relative short-term economic performance and will have to be managed. More fundamentally, however, Latin America being a geographic grouping of countries united only up to a point by cultural links and traditions, its constituent countries' political, strategic, and commercial characteristics will continue to differ importantly. External influences will differ too. The US has a lingering clear political and economic hegemony in Central America, and in particular Mexico and the Caribbean, whereas further south, where its influence has been less dominant, there is considerable variance of styles of economic organisation and forms of integration.

Furthermore, when so much of the future will be determined by politics and policies, which are inherently unpredictable, it is not possible to say with any certainty how the various individual countries and economies of the region will evolve. Nevertheless, there are pointers.

Perceptions of the region are changing

Positive perceptions and role models

Whereas 30 or so years ago the region overall was considered to be largely a political and economic 'basket-case', with deep-rooted problems ranging from malign dictatorships to successive bouts of hyperinflation, from expropriation to widespread sovereign default, this is no longer uniformly the case. Today there is, within reason, a positive and improving perception of the region, both from within and from outside the region.

Political and financial systems are maturing

A number of Latin American countries are becoming more mature in terms of their political processes. There seems to be a somewhat greater willingness and ability to tackle corruption, crime, and drugs. The region is now becoming better integrated into the global trading and financial system as a whole. And there is the emergence of China and India. Although these countries are now experiencing something of a slowdown in their underlying growth rates and the ebbs and flows of their cyclical performance will be reflected more broadly in global commodity price trends, they are likely to account for a growing proportion of global output and remain hungry for the food, mineral, and energy resources in which the Latin American region is abundant.

Positive role models are emerging

Also contributing to this change of perception are a number of individual-country success stories. Chile, Colombia, Mexico, and Peru each demonstrate that economies in the region are capable of developing and growing in a sustained manner, overcoming challenges that earlier seemed insuperable. Brazil too, at least until the last few years, has been something of a success story and it is to be hoped that it will soon put its recent problems behind it.

This improving perception is important not only because it is well founded, but also because the realisation that a better economic performance is possible has positive potential consequences. It strengthens the hand of national policymakers who wish to advance policies conducive to long-term growth and development. And it increases the likely extent of foreign participation, which brings investment, technology, and know-how, including, importantly, access to markets abroad.

Challenges remain

None of this should, however, be taken to suggest that 'the job is done'. Even in respect of the most progressive and disciplined countries of the region, considerable challenges lie ahead. It is not certain that these improvements and the motivations behind them will continue, although there are reasons for being cautiously optimistic, about some countries at least.

There are grounds for cautious optimism

On the economic front, the extent to which performance will continue to improve will depend largely on the region's governments continuing to advance the quality both of their economic and financial institutions and of their policymaking. For economies to be able to grow sustainably, to prove resilient in the face of shocks, and over time avoid the 'middle-income-trap', their structural policies will have to be up to the task. Moreover, these policies will need to continually evolve, as the economies themselves develop and become more complex, and as the world around them changes, in respect of technology, new patterns of demand, and new sources of competition.

It is thus constructive that there is enthusiasm on the part of some countries in the region to learn from others by joining, or at least working closely with, international organisations, including, importantly, the IMF, World Bank, and OECD – that club of wealthier nations that believes in evidence-based policymaking; exchanging information on best-practice policies; holding one another to account through peer review; and on occasion making policies in concert when the desired outcome cannot be achieved by acting individually. Mexico became a member of the OECD in 1994, and Chile in 2010. And importantly Brazil, in 2007, became a 'Key Partner' – often a pre-cursor to full membership.

Brazil, of course, is also a member of the BRICs group that recently announced its intention to co-operate more closely and set up a development bank. This too appears to have the potential to bring benefits to the region, although there is some concern that it could merely replace the US's enduring dominance over certain countries with that of China.

Finally, recent trade agreements, including the 'Pacific Alliance' (comprising Mexico, Colombia, Chile, Peru, created in 2011) show that countries in the region are eager to be more open in their approach to commerce and connected more comprehensively to the global economy. That said, not all previous trade agreements have been an unalloyed success. The earlier, much-vaunted, 'Mercosur', was plagued by a series of damaging political confrontations between Argentina and Brazil.

Notwithstanding the positives, risks remain

There will be other challenges too. Economic growth and development tends to lead to a growing middle class, and with that comes a range of environmental (pollution etc.) and social (welfare provision etc.) consequences that will increasingly need to be addressed. Experience from elsewhere suggests that the politics of managing these consequences can be a significant test. Income inequality – which tends to multiply as economies grow – will require active management also.

Summing up

Taking everything together, it is obviously unlikely that all countries in the region will develop strongly and consistently over the coming years. Faced with such a wide and taxing array of challenges, there is a risk of some countries falling back into old patterns of behaviour, not least of which could for some include a recrudescence of erstwhile protectionist tendencies. Argentina, Venezuela and Ecuador provide evidence that old habits can die hard, particularly in difficult economic times.

Some countries will do well, providing a demonstration effect to others

However, it seems more likely than it did a generation or so ago that some countries in the region will continue to do relatively well. They will thereby provide both a direct economic impetus to their trading partners and, through a demonstration effect, provide encouragement to politicians in neighbouring countries who want to pursue the range of sound macroeconomic and structural policies that, while not always politically popular, have been shown to be the cornerstones of good economic performance over the long term.

CHAPTER SEVEN

COUNTRY PAGES

The summary macroeconomic country outlooks are drawn from a number of sources, including particularly the IMF Western Hemisphere Regional Economic Outlook, and the IMF's Article IV Consultation reports.

ARGENTINA

Argentina has a population of around 43 million, produces around 10% of Latin America's output (2014, PPP), and has an income per capita of just over \$18,500 (2013, PPP).

Growth prospects. Increasing macroeconomic and policy imbalances have triggered a collapse in growth, accelerating inflation, and a further widening in the differential between the parallel and official exchange rates. Real GDP growth⁴⁷ is estimated to have fallen 1.7% in 2014 and a similar decline looks to be in the offing in 2015, as uncertainty over exchange rate policy and yet another sovereign default have undermined confidence and pushed up inflation expectations, and the country's terms of trade have deteriorated sharply. Moreover, the risks are on the downside, given the threat of further weakness in global commodity prices, Brazil's travails, the uncertainties generated by the forthcoming Presidential election, and the enduring failure to reach agreement with the country's outstanding creditors.

Inflation outlook. CPI inflation was officially estimated at 10.9% in 2013, but this figure is highly questionable.⁴⁸ Other sources⁴⁹ suggest it was significantly higher, at more than 28%. Between January and October 2014, the rise in the official CPI is put at 33%. Private sector forecasts⁵⁰ suggest that inflation will run around 40% in 2014/15.⁵¹

Macroeconomic policy

Monetary policy. The monetary stance continues to lack coherence. Inflation clearly remains excessive, but the central bank has proved reluctant to drive it consistently lower. The peso was devalued by 19% in January to arrest a persistent drain on foreign exchange reserves.

Fiscal policy. The budget deficit narrowed to around 3% of GDP in 2013 but is expected to run between 4 and 6% of GDP in 2014/15. Gross general government debt is estimated to have been around 50% of GDP in 2014.

External position. The current account deficit was nominally just under 1% of GDP in 2013. Little change is expected over 2014/15.

Structural policy. Argentina can boast a large domestic market, with important potential for economies of scale; relatively good digital penetration and telecoms infrastructure; good quality scientific research institutions and management schools; and high primary and university enrolment. On the other hand, it is weighed down by significant exchange rate, price, and trade controls, and needs to implement significant reforms to boost its medium-term potential.

Priorities

- **Improve institutions:** Strengthen governance, property rights, and the rule of law; fight corruption; raise government efficiency.
- **Make goods and financial markets more efficient:** Increase competition; improve tax incentives to invest; make it easier to start a business; reduce energy subsidies and barriers to FDI.
- **Improve the functioning of the labour market:** Relax labour market restrictions; reduce skills mismatch; increase female participation; reduce redundancy costs; improve labour-employer relations and hiring/firing practices.
- **Improve infrastructure:** including importantly enhancing the quality of transport networks.
- **Improve the quality of education and training.**
- **Further improve the capacity for innovation.**

BELIZE

Growth prospects. Growth plummeted to 0.7% in 2013, due to falls in oil and agricultural output. Real GDP growth has been estimated at around 2-2.5% in 2014 and could struggle to remain as strong in 2015. Output is weighed down by lower oil production, although it will be supported by tourism and construction. Weaker-than-expected growth in the advanced economies and the end of the Venezuelan oil financing programme remain external risks to the outlook. Domestically, the main risks are debt sustainability, and banking sector vulnerabilities.

Inflation outlook. Inflation in Belize edged up to 1.6% in 2013, has been estimated at 2% for 2014, and is expected to remain around this level in 2015.

Monetary policy. The Belize dollar is pegged to the USD, leaving the central bank little monetary policy autonomy.

Fiscal policy. The broadly-defined budget deficit stood at 2.3% of GDP in 2013, and the shortfall is estimated at around 2% of GDP in both 2014 and 2015. General government gross debt is expected to have been 77% of GDP in 2014.

External position. The external deficit is estimated to have widened from 4.5% of GDP in 2013 to between 5-6% in 2014. Little change is expected in 2015, as expansionary fiscal policies stand to put more pressure on the current account.

Structural policy. A broad reform programme needs to be implemented to promote sustainable and inclusive growth, enhance the country's competitiveness, place debt on a sustainable path, and enhance external sector resilience.

Priorities:

- **Strengthen fiscal consolidation, while protecting flagship social programmes:** Raise primary surplus; attain a sustainable debt path; improve tax administration and efficiency of public investment.
- **Improve institutions:** Strengthen the rule of law; fight crime and corruption; increase security conditions.
- **Increase primary and secondary education enrolment. Improve quality and coverage of the health system.**
- **Diversify the export base. Tackle major impediments to doing business.**
- **Labour market:** Encourage vocational training, and female participation; reduce restrictions in working hours.
- **Infrastructure:** Improve road maintenance, port infrastructure and access to affordable energy.
- **Address weaknesses in the financial sector.**

BOLIVIA

Growth prospects. Sound macro policies, a commodity boom, and political and social reforms have yielded an extended expansion. In 2013, real GDP grew by around 7%. The economy is expected to have grown at around 5% in 2014 and a similar figure is projected for 2015, owing to expansionary fiscal policy and strong domestic demand. Declining energy prices and lower-than-expected growth in key trading partners remain significant risks to the outlook.

Inflation outlook. Higher food prices pushed CPI inflation to 6.5% in 2013, but it is expected to slow to 5% by 2015.

Monetary policy. Banco Central de Bolivia began tightening policy in late 2012, gradually reducing liquidity with a view to bringing inflation down. In Q3 2014, policy became a little more accommodative, in response to falling inflation and lower growth in key trading partners. The balance between supporting activity and keeping inflation in check will continue to dictate policy for now.

Fiscal policy. The budget was in approximate balance in 2013 but is expected to have slipped into a deficit of around 0.4% of GDP in 2014 and to remain in approximate balance in 2015. Public debt is expected to have been 30% of GDP in 2014.

External position. The current account surplus fell to around 3% of GDP in 2013, due to weaker terms of trade and higher imports. The external surplus is expected to have narrowed to 2.5% of GDP in 2014, and a further deterioration in 2015 would not be surprising. Net FX reserves were a more-than-adequate 48% of GDP at end-2013.

Structural policy. Living standards have benefited from concerted efforts to combat poverty and inequality, and improve access to public services. A medium-term fiscal framework to manage resource wealth is also now in place.

Priorities:

- **Strengthen the legal framework** to improve the business climate, and promote private investment.
- **Further increase public investment** to deepen diversification and industrialisation of the economy.
- **Strengthen the non-hydrocarbon fiscal balance:** Rationalise social transfers and energy subsidies; reform taxes; strengthen tax compliance; and make revenue agencies more efficient.
- **Strengthen the monetary policy framework.**
- **Improve health service and education quality,** including education enrolment at all levels.
- **Develop infrastructure:** Improve the quality of transport, electricity, and water and sanitation infrastructure.
- **Labour regulations:** Cut redundancy costs; ease hiring and firing; strengthen training; raise female participation.

BRAZIL

Brazil has a population of just over 200 million, and it is the largest economy in Latin America, producing nearly a third of the continent's output (2014, PPP). Brazil's income per capita is just over \$12,200 (2013, PPP).

Growth prospects. After a strong initial rebound from the 2008 global financial crisis, growth has traced a much more modest trajectory in the face of developing monetary restraint, household deleveraging, weaker external demand and private investment, and supply-side bottlenecks. Real GDP declined in the first half of 2014, weighed down by political uncertainty during the Presidential election, tighter financial conditions, low business confidence, and moderated consumption. Activity is expected to recover only slowly: real growth is estimated to have been a mere 0.3% in 2014, and is projected at around 1% in 2015. Volatility in global financial markets, lower external growth, and weaker commodity prices remain major downside risks.

Brazil's medium-term challenges are boosting productivity and investment, while encouraging domestic savings so as to keep the current account deficit in check.

Inflation outlook. Inflation has run close to the top of the 2% band around the central bank's 4.5% target for a year and a half, and inflation expectations have tended to drift higher in sympathy. Despite lower commodity prices, it is likely to fall only slowly, due to limited spare capacity, wage pressures, and increases in administered prices.

Macroeconomic policy

Monetary policy. In April 2013, the Banco Central do Brasil initiated a monetary tightening cycle to contain inflation. The policy rate stood at 11.75% at the time of writing. Given the outlook for inflation, monetary policy is likely to remain restrictive for now, but to be gradually loosened further out. A tighter fiscal stance would take some of the pressure off monetary policy.

Fiscal policy. The fiscal position has deteriorated of late. In 2013, the broadly-defined budget deficit stood at around 3% of GDP, but it is estimated to have been around 4% in 2014. The deficit is tentatively projected at 3% of GDP in 2015, but much will depend on the priorities of the new Finance Minister. Public sector debt is put at 66% of GDP in 2014, which means it is relatively high by Latin American standards.

External position. The current account deficit widened to around 3.5% in 2013. Little change is expected for 2014/15. Indeed, further commodity price weakness could increase the deficit. Between 2010 and 2013, Brazil received net FDI inflows averaging 3% of GDP per annum, which acted to more than finance the external shortfall. The question is whether the commodity price and international financial environment in general proves conducive to a continuation of these flows.

Structural policy. Brazil can boast a large market, a sophisticated business community, and some innovative high-value-added activities. However, growth could be higher if there was more progress on structural and institutional reform.

Priorities:

- **Sustainable and inclusive growth:** Increase investment in physical and human capital. Further develop long-term credit markets and provide credit to credit-constrained firms.
- **Infrastructure:** Further develop infrastructure, implement electricity tax reductions, and a more transparent and stable framework for electricity concessions in the future.
- **Labour market:** Address low skill levels. Allow legally binding labour agreements at the firm level.
- **Trade:** Lower levels of protection, and encourage participation in international trade and global production chains.
- **Tax reform:** Reform of indirect taxation; introduce easier tax procedures. Increase progressivity of the tax system.
- **Education:** Increase quality of education and training.
- **Institutions:** Lower levels of corruption; strengthen governance; improve tax compliance; fight tax evasion.

CHILE

Chile has a population of nearly 18 million people, produces 5% of Latin America's output, and has the highest income per capita on the continent, at just over \$19,000 (2013, PPP). It is an open economy: trade-openness was 71% of GDP between 2004 and 2013. The poverty rate, at 2.9% of population, is also low.

Growth prospects. Sound macroeconomic policies, a commodity price boom, and easy financial conditions have yielded a long phase of economic growth and job creation. In particular, until recently Chile has benefited from strong demand and high prices for copper – its principal natural resource – and both export revenues and mining investments surged as a result. Since mid-2013, however, growth has decelerated markedly as slower Chinese growth has curtailed the global copper boom and private investment growth has moderated. The economy is expected to have expanded by 2% in 2014, although a disappointing third quarter suggests some downside risks. Growth is projected at around 3% in 2015, led by supportive monetary and fiscal policy, and stronger external demand. However, further copper price declines could render such projections over-optimistic, while business confidence has responded badly to tax increases and policy reforms of the new left-of-centre government.

Inflation outlook. CPI inflation picked up to 3% in 2013 but it remained on target and historically low. In 2014, inflation is expected to have picked up to 4.2%, due to the fast pass-through from peso depreciation to consumer prices (the local currency has depreciated 17% against the USD since April 2013). Inflation, however, is projected to decrease to 3% in 2015, and medium-term inflation expectations remain anchored, at around 3%.

Macroeconomic policy

Monetary policy. In 2014, monetary policy remained accommodative so as to support activity, with official rates being gradually cut throughout the year to stand at 3% at the time of writing. Room for further easing has clearly narrowed but some latitude remains as long as inflation expectations remain well anchored.

Fiscal policy. Prudent fiscal policy afforded Chile ample scope to respond to two major shocks: the 2008 financial crisis and the 2010 earthquake. Subsequent restraint prevented overheating in the economy, tempered currency strength and a larger deterioration in the current account balance. The public finances remain strong, and there is space for stimulus in the event of a further downturn. The broadly-defined budget deficit is expected to have increased to around 2% of GDP in 2014 and to edge down in 2015, to around 1% of GDP. Moreover, public debt is put at a mere 14% of GDP. The new government has sought to fund a major educational reform via higher taxes on corporates.

External position. Strong domestic demand, weak export volumes growth, and a deterioration of the terms of trade have pushed the current account into deficit. Until recently, however, the external shortfall has been largely financed by FDI (around 82% in 2013). The deficit is generally expected to stabilise or narrow over 2014/15. However, falling commodity prices will continue to have a deleterious effect on export values and it remains to be seen whether a weaker real exchange rate will provide the necessary offset. Lower inward investment into the mining industry and a tightening in global financing conditions could also render the financing of the external deficit more challenging.

Structural policy. Chile has a number of strengths: strong institutions and low levels of corruption; well-functioning markets with high levels of domestic competition; a large and internationally-integrated financial sector; and its trade-openness. Chile has also implemented reforms to make it easier to open a business and access financing. The ultimate impact of the latest education and tax reforms is less clear however. Efforts are needed to diversify the economy and move towards higher-value-added activities. Besides education, priorities span inclusive and sustainable growth, the labour market, and innovation.

Priorities

- **Sustain rapid growth:** Close tax loopholes, fight evasion, and reduce tax distortions. Encourage more effective public services, not least by further development of health care and expansion of social protection programmes.
- **Strengthen energy generation and infrastructure:** Tackle high costs and foster investment in the sector.
- **Improve the quality of education:** Facilitate access to good quality education for the most vulnerable groups.
- **Make labour markets more inclusive:** Lower minimum wage and employment protection, cut severance payments, relax working hour rigidities. Strengthen training framework, and raise female and youth participation.
- **Boost entrepreneurship and innovation:** Encourage innovative investment in the private sector, increase business R&D and enhance industry and research linkages.

COLOMBIA

Colombia has a population of around 48 million, produces some 7% of Latin America's output (2014, PPP), and has an income per capita of just under \$11,200 (2013, PPP).

Growth prospects. Improved macroeconomic policy, a commodity boom, and better security conditions have encouraged strong growth since the early 2000s. Real GDP growth averaged 5% per year between 2003 and 2013. The economy is expected to continue growing robustly at around 4.5% over 2014 and 2015, led by strong domestic demand, especially investment and construction activity, and some pickup in exports.

Sharply declining oil prices, the potential for higher US interest rates, a deterioration in global financial conditions, and lower-than-expected growth in key trading partners remain risks to the outlook. Domestically, the main concerns are house prices and consumer credit. The strength of the US recovery – the US is Colombia's main trading partner – remains a risk on the upside.

Inflation outlook. Annual inflation averaged 2.7% in the period 2009 to 2013, is expected to be around the official target of 3% in 2014 and 2015.

Macroeconomic policy

Monetary policy. Monetary policy was restrictive in the first three quarters of 2014, as growth was higher than expected in the first half of the year and the economy has been operating close to full capacity. Banco Central de Colombia increased the policy rate progressively from 3.25% to 4.5% between April and August 2014, but has left it unchanged since, in the face of a worsening in the terms of trade, and uncertainty over world economy and global financing conditions. Monetary policy will need to remain relatively flexible in the period ahead.

Fiscal policy. Improvements in Colombia's fiscal framework have afforded policymakers ample room to respond to shocks and effectively manage demand. The broadly-defined budget slipped into a deficit of 1% of GDP in 2013. In 2014/15, the deficit is expected to increase further, to around 1.5% of GDP. The end of the commodity boom could have a big impact on the budget, given that the mining and energy sector account for roughly 20% of government revenues (2013 data). Public debt is expected to have been around 34% of GDP in 2014.

External position. The current account deficit remained broadly stable in 2013, at 3.3% of GDP, slightly above the 2010-13 average of 3.1%. However, the deficit is expected to widen to around 4% of GDP in 2014/15. FDI inflows (mostly directed to the energy sector) were 4.4% of GDP in 2013. However, the fall in oil prices will slow the influx of capital and could render the financing of the external deficit more challenging.

Structural policy. Colombia has a number of strengths: a relatively sophisticated financial services sector; considerable market size, and relatively high levels of education enrolment (both in secondary and tertiary education). However, challenges remain: continued reforms are needed to boost productivity and potential growth, reduce the performance gap between large companies and SMEs, and diversify the economy away from mineral resources.

Priorities

- **Sustain rapid growth:** Enhance SME access to finance, promote investment, and streamline regulation.
- **Institutions:** Strengthen institutions and the rule of law to ensure better contract enforcement and reduce corruption.
- **Infrastructure:** Better overall quality needed especially in transport as a means to reduce internal freight costs.
- **Labour market:** Encourage cost flexibility; labour, product market, and tax reforms to reduce informal sector.
- **Tax reform:** Address commodity revenue swings, raise revenue to finance infrastructure, reduce income inequality.
- **Education:** Improve its educational system to match the needs of an increasingly sophisticated business environment.
- **Innovation:** Increase R&D investment and improve the research institutions.

COSTA RICA

Growth prospects. Growth softened to around 3.5% in 2013, following a 5% or so annual expansion rate over the previous three years. Growth is expected to be around 3.6% in 2014 and 2015, weighed down by the closure of Intel manufacturing and lower public investment, but supported by stronger external demand (a maturing US recovery). Continued oil price weakness stands to have a positive impact, however, risks from global financial volatility and lower-than-expected growth in other external markets remain.

Inflation outlook. CPI inflation was 3.7% at the end of 2013, having averaged 4.6% in 2012. Inflation remains well below the recent historical average. It is expected to have increased to 5.5% in 2014, but to fall back within the central bank's 3-5% target band in 2015.

Monetary policy. Banco Central de Costa Rica increased the policy rate from 3.75% to 4.75% in March 2014 and to 5.25% in May 2014. The rate has remained unchanged since. The tightening was in response to the depreciation of the exchange rate, which the authorities believed threatened the inflation target. Policy is unlikely to change dramatically in the near term.

Fiscal policy. The broadly-defined budget deficit amounted to 5.6% of GDP in 2013, and it is expected to expand to over 6% in 2014 and 2015. The persistence of large fiscal deficits in the context of high capital market volatility could pose serious challenges to Costa Rica. Public sector debt is expected to have accounted for 39% of GDP in 2014.

External position. The current account deficit is expected to be around 5% of GDP in 2014 and 2015. Some 90% of this deficit is financed by FDI. Costa Rica has attracted one of the highest levels of FDI per capita in Latin America. However, a drop in FDI inflows following the recent Intel exit could render the financing of the external deficit more challenging.

Structural policy. Costa Rica benefits from a fairly open economy; a high-quality educational system; strong institutions; and a relatively high rate of technological diffusion and business sophistication. Nevertheless, continued efforts are needed to boost potential growth and competitiveness (especially after the withdrawal of Intel), improve public sector efficiency, and reduce the high costs associated with crime and violence.

Priorities:

- **Implement tax reform to contribute to primary surplus.** Boost revenues and lower primary spending.
- **Improve infrastructure.** Costa Rica scores particularly poorly on the quality of port infrastructure, roads, and railroads. Moreover, its infrastructure has suffered from a lack of maintenance and new investment.
- **Stimulate competition in the banking sector; foster capital market development; enhance access to financing:** Deepen local equity market; increase access to loans; and improve availability of venture capital.
- **Education:** Improve the quality of education spending, especially on childcare, early childhood, and lower levels of education.
- **Increase labour force participation of women.**
- **Energy:** Increase private sector participation in the energy sector; review tariff setting procedures to better reflect costs.

CUBA

Cuba has a population of around 11 million. The economy is largely state-controlled and planned, 80% of the labour force is government-employed, it is the subject of numerous international trade and other sanctions, and its integration into the global economy is limited. The administration is seeking to ease the situation, but the result is unclear at this stage.

Growth: Real growth stood at 2.7% in 2013. Little variation is expected over 2014/15.⁵² Nevertheless, an ending to the Venezuelan oil financing programme remains a major risk. Other downside risks include a further softening in commodity prices.

Inflation: The inflation rate stood at 5.5% in 2013, and it is expected to edge down to 3-4% in 2014/15.⁵³

Strengths: Cuba has one of the highest literacy rates in the world; a high school graduation rate of 94%; and a universal education and health care system. Cuba has recently started implementing market-friendly reforms to boost the economy, such as property ownership (cars, housing) and allowing small businesses and co-ops to set up.

Priorities:

- **Institutions:** Improve government efficiency, governance, and reduce red tape.
- **Improve the functioning of the goods market:** Make it easier to open a business; increase competition; reduce barriers to private and foreign ownership.
- **Modernise infrastructure.**
- **Labour market:** Allow legally binding labour agreements between private firms and employees; strengthen workers' labour rights.

DOMINICAN REPUBLIC

Growth prospects. Real GDP growth in the Dominican Republic has been strong over recent years, averaging 5.7% per year between 2005 and 2013. After a slow start, growth recovered to average 4.6% in 2013, driven by mining, construction, agriculture, and tourism; and it is expected to have been 5.3% in 2014. Growth is projected to moderate to 4.2% in 2015. A strengthening of the US recovery – the US is the Dominican Republic's main trading partner – and a sustained fall in commodity prices represent risks on the upside.

Inflation outlook. In 2013, CPI inflation averaged 3.9% y-o-y, the same rate as 2012, and below the central bank's target range. However, inflation is expected to pick up and run between 4 and 4.5% in 2014 and 2015.

Monetary policy. The central bank eased monetary policy in May 2013 to support activity. However, in August 2013, the policy rate was increased from 4.25% to 6.25% in response to currency weakness. Policy has been on hold since, albeit with a restrictive bias.

Fiscal policy. The broadly-defined budget deficit increased significantly in 2012, to stand at 7% of GDP. In 2013, the shortfall eased to 3.6% of GDP and is expected to be around 3% of GDP in 2014 and 2015. General government debt is expected to have been 35% of GDP in 2014.

External position. The current account deficit amounted to 4% of GDP in 2013, down from 6.6% in 2012. For 2014/15, the shortfall is expected to widen to 4-5% of GDP. Net FDI inflows have been large, covering on average 60% of the deficit between 2010 and 2013. Nevertheless, any tightening of global financing conditions or lessening support from Venezuela on oil imports payments could render the financing of the external deficit more problematic.

Structural policy. The Dominican Republic boasts a relatively flexible labour market, with good labour-employer relations. It also has good quality ports and airports by regional standards, and low barriers to foreign investment. Growth has been accompanied by political stability and democratic consolidation, and a series of structural reforms (tax administration, banking, and the electricity sector) have been implemented. Nevertheless, the Dominican Republic still faces a series of economic, social, and institutional challenges.

Priorities:

- **Reduce fiscal vulnerability:** Further raise tax revenues, fight tax evasion, and shield the budget from spending pressures relating to natural disasters and transfers to state companies (particularly in the electricity sector).
- **Improve institutions; increase government efficiency; and fight corruption.**
- **Promote inclusive growth and enhance social protection:** Ensure high growth rates translate into lower poverty levels and job creation. Improve health care services, and make the social safety net more effective and efficient.
- **Enhance outcome and equity in education:** Increase enrolment rates at all levels of education.
- **Develop infrastructure:** With a focus on improving roads, railroads, electricity generation and water supply, and bolstering natural disaster management and protection.
- **Make labour market more inclusive:** Cut redundancy costs and lower labour tax wedge. Strengthen training framework, and raise female and youth participation.

ECUADOR

Growth prospects. Growth averaged 4.5% between 2001 and 2013, resulting in a significant reduction in previously high levels of poverty and inequality. Real GDP is expected to expand at a slightly lower rate of around 4% over 2014/15. However, lower oil prices, and the threat of both a rise in US interest rates and a stronger dollar represent important downside risks. This is particularly the case as Ecuador is formally dollarized and there is little room for fiscal policy manoeuvre.

Inflation outlook. Inflation edged down to 2.7% in 2013, and it is expected to remain around 3% in 2014-15.

Monetary policy. Ecuador has been dollarized since 2000, and therefore is entirely beholden to the US Federal Reserve for monetary policy.

Fiscal policy. Lower energy prices stand to put pressure on public finances. The budget deficit widened to 5% of GDP in 2013, up from just under 1% in 2012, due to high capital spending. The deficit is expected to remain between 4-5% of GDP over 2014/15. Public debt is expected to have been around 27% of GDP in 2014.

External position. The current account deficit widened to around 1.5% of GDP in 2013. The shortfall is estimated to have improved to just under 1% of GDP in 2014; however, it is projected to increase again to around 2.5% of GDP in 2015. The fall in oil prices could render the financing of the deficit more challenging.

Structural policy. Ecuador has made major advances in infrastructure, education, and innovation. The economy boasts relatively good quality transport (especially roads) and telecoms infrastructure, and comparatively good innovation capacity, and university-industry R&D collaboration. Nevertheless, much remains to be done in order to boost competitiveness and sustain high growth.

Priorities:

- **Improve institutions:** Strengthen the judicial system and legal framework; reduce corruption and crime. Cut red tape.
- **Increase fiscal space:** Increase tax revenues and compliance; overhaul fuel subsidies; fight tax evasion; make tax administration more efficient.
- **Improve goods and financial markets efficiency:** Increase competition; reduce rigidities in banking system.
- **Labour market:** Cut employment protection and redundancy costs; raise female participation.
- **Further increase overall quality of education; raise secondary and tertiary education enrolment.**
- **Improve the business environment:** Make it easier to start a business; encourage long-term investment.
- **Raise productivity levels; diversify the economy beyond oil.**

EL SALVADOR

Growth prospects. Economic growth has been sluggish since 2008, owing largely to weak private investment and severe supply constraints: The rate of expansion in real GDP averaged around 2% per year between 2010 and 2014, and the economy is expected to continue growing at a similar pace in 2015. A tightening in global financing conditions and lower-than-expected world growth represent downside risks. Closer to home, the main concerns are the external and fiscal imbalances, and the lack of investment and political unity.

Inflation outlook. Headline inflation averaged less than 1% y-o-y in 2012 and 2013. It picked up a little in 2014 and is expected to run at around 2% in 2015.

Monetary policy. The economy of El Salvador has been dollarized since 2001, and is therefore entirely beholden to the US Federal Reserve for monetary policy.

Fiscal policy. The budget deficit has been around 4% of GDP since 2010. It is estimated to remain around 4-4.5% over 2014 and 2015. Gross general government debt is estimated at some 58% of GDP for 2014.

External position. The current account deficit widened to 6.5% of GDP in 2013, and is expected to remain at a similar level over 2014 and 2015. FDI inflows covered only a small proportion of the external shortfall, which is largely financed by more volatile public sector and commercial bank borrowings.

Structural policy. El Salvador benefits from good quality ports and airports, and a good road network by regional standards. The authorities have reduced crime and improved innovative capacity, albeit from a low base. However, reducing the longstanding investment gap and increasing potential output growth remain key.

Priorities:

- **Improve the business climate to enhance growth potential:** Increase access to finance for SMEs; reduce red-tape and bureaucracy; improve security conditions; and fight corruption and crime.
- **Restore fiscal and debt sustainability while protecting social spending:** Implement broad tax reform to support planned fiscal consolidation.
- **Relax labour regulations, and increase female participation in the labour force.**
- **Develop infrastructure:** Improve railroads, and electricity supply. Bolster natural disaster management and protection.
- **Improve the quality of education, and secondary and tertiary education enrolment.**

GUATEMALA

Growth prospects. Real activity rebounded quickly after the global financial crisis, and GDP growth averaged around 3.4% per year between 2010 and 2013, driven by strong domestic demand and higher export prices. The economy is expected to continue to grow at a similar pace in 2014/15. Capital market volatility, lower-than-expected external growth, and weaker commodity prices remain the dominant downside risks. A strengthening of the US recovery represents a potential source of optimism.

Inflation outlook. Inflation stood at around 4.5% in 2013, within the target range of 3-5%. It is expected to run around a slightly lower rate of 4% in 2014/15.

Monetary policy. Monetary policy has been eased progressively since October 2013: cumulative cuts have brought the policy rate down to 4% at the time of writing. The bias continues to be towards a looser stance given weak external conditions and lower food and import prices, and given that inflation expectations are well anchored.

Fiscal policy. The budget deficit is expected to remain around 2% of GDP in 2014/15. Public debt in 2014 is expected to have been around 25% of GDP.

External position. The current account deficit stood at 3% of GDP in 2013 but is expected to have narrowed to 2% in 2014. Little change is expected for 2015. Net FDI inflows averaged 2.2% of GDP per year from 2010 to 2013, and the external deficit is expected to continue to be largely financed by FDI.

Structural policy. Guatemala scores relatively well (by regional standards) on electricity supply, and airport and port infrastructure. It also boasts a flexible labour market; and relatively good technological absorption, capacity for innovation, and university-industry R&D collaboration. Sustainable and inclusive growth, and security conditions remain the key challenges.

Priorities:

- **Foster inclusive growth:** Reduce poverty, and bolster the social welfare net. Improve health care coverage.
- **Improve institutions and security conditions; strengthen governance; fight crime.**
- **Labour market:** Build a skilled and productive labour force.
- **Improve the business climate and reduce anti-competitive practices.**
- **Increase regional integration:** Finish customs union, harmonise trade rules, integrate service and factor markets.
- **Bolster fiscal sustainability:** Improve public spending efficiency, tax and customs compliance, raise low government revenues.
- **Further bolster regulation and supervision of the financial system.**
- **Improve quality of road and railroad infrastructure.**
- **Increase secondary and tertiary education enrolment, and improve the quality of the education system.**

HONDURAS

Growth prospects. Growth decelerated to 2.5% in 2013, due to soft private investment and weaker external demand. The economy is expected to grow at around a 3% annual rate over 2014/15. Weaker external conditions, softer commodity prices, weather-related shocks, and fiscal vulnerabilities remain major risks. The US recovery – Honduras' main trading partner – remains the greatest source of optimism and a risk on the upside.

Inflation outlook. Inflation decelerated to around 5% in 2013, due to softer commodity prices, weaker real activity, and diminished currency depreciation. Inflation is estimated to have picked up to 7% in 2014 but is expected to edge down again in 2015.

Monetary policy. The policy rate remained unchanged at 7% during 2013 and 2014. The bias is towards a tighter stance to protect international reserves and to keep inflation under control. However, further falls in commodity prices could change this.

Fiscal policy. The budget deficit swelled to 7.6% of GDP in 2013, up from a shortfall of around 4% in 2012. A package of consolidative measures is expected to have narrowed the gap to 6% of GDP in 2014 and to bring the deficit down to 5.2% in 2015. Public debt is expected to have been 47% of GDP in 2014.

External position. The current account deficit stood at around 9% of GDP in 2013, although it was largely financed by FDI inflows and workers' remittances from the US. The shortfall is expected to narrow to 7-8% of GDP in 2014/15.

Structural policy. The authorities have recently announced reforms in the electricity sector, and in the pension system and tax administration. However, much remains to be done to promote sustainable and inclusive growth.

Priorities:

- **Strengthen the public finances:** Rationalise public expenditure, prioritising social and infrastructure spending. Reduce subsidies to the electricity sector and further improve the budget process and tax administration.
- **Improve the business climate:** Fight corruption and crime; and improve security conditions.
- **Improve infrastructure and bolster natural disaster management and protection.**
- **Improve quality and coverage of the health system.**
- **Improve the quality of education, and secondary and tertiary education enrolment.**
- **Lessen restrictive labour regulations, reduce informal employment, and promote female participation.**

MEXICO

Mexico has a population of over 118 million, produces around 25% of Latin America's output, and was the first Latin American country to join the OECD (in 1994). Mexico's main exports are oil and manufactures, and it is highly trade dependent with the US (which accounts for 75% of its non-oil exports).

Growth prospects. Mexico initially enjoyed a rapid recovery from the global financial crisis, growing above potential from 2010 to 2012. The expansion was driven by domestic demand; greater export market penetration; substantial improvements in relative unit labour costs; and gains in formal employment. The economy suffered a sharp slowdown in 2013 following tax reforms and public spending cuts, plus weak demand from the US. However, after a slow start, growth is expected to have rebounded to 2.4% in 2014, driven by stronger manufacturing exports (especially to the US), construction activity, and fiscal stimulus. Declining oil prices, capital flow volatility, and lower-than-expected external growth outside the US, however, are meaningful risks to the outlook. On the domestic front, the main concerns are the effectiveness with which structural reforms are implemented, and the current social unrest.

Inflation outlook. CPI inflation rose to 4% in 2013, mainly due to supply-side shocks. Nevertheless, it remained on target and historically low, and inflation expectations are well anchored. Inflation is expected to remain around 4% in 2014/15.

Macroeconomic policy

Monetary policy. Banco de Mexico eased rates on three occasions in 2013 and by a further 50bps in June 2014. The reference rate, at 3%, has remained unchanged since then. Given the contained outlook for inflation and that the economy is operating below potential, the bias for now is towards an accommodative stance.

Fiscal policy. The broadly-defined budget deficit is expected to remain around 4% of GDP in 2014 and 2015, although given that government revenues are heavily dependent on oil, the risks are skewed towards a larger shortfall. Public debt has increased since the recession, and is currently estimated at around 48% of GDP. Recent tax reforms will help to increase long-term fiscal flexibility.

External position. In 2013, the trade account was in broad balance and the current account deficit stood at around 2% of GDP. In 2014 the external deficit is expected to have changed little, but further deterioration is in prospect in 2015. With FDI inflows running at around 3% of GDP in 2013, the shortfall is seen as sustainable. Nevertheless, increased volatility in external markets and a tightening of financing conditions could render the financing of the external account more challenging.

Structural policy. Mexico continues to benefit from: a large and deep internal market that affords important economies of scale; reasonably good transport infrastructure; and a number of sophisticated businesses. Recent structural reforms in the energy, banking, and telecommunications sectors, and in anti-trust, the labour market, and education stands to boost productivity and raise potential growth over the medium term. However, big challenges remain.

Priorities

- **Boost productivity growth:** Ease the regulatory barriers that keep companies small and informal. In particular:
 - Lower the labour tax wedge; scale back employment protection; cut the cost of opening a business;
 - Reduce informal employment and raise labour force participation, especially for women; and
 - Increase access to capital, especially for mid-size companies.
- **Strengthen the functioning of institutions:** Improve contract enforcement and the rule of law; reduce corruption; increase security, and make the civil justice system more effective.
- **Improve education outcomes:** Facilitate access to education for the most vulnerable groups and close the skills gap resulting from the poor-quality educational system.
- **Increase competition:** Further reduce barriers to entry in oil and gas, agriculture, telecommunications, media, transport, and financial services.
- **Reduce poverty and inequality.**
- **Fiscal reform:** Further reduce pro-cyclicality of the current framework. Reduce state and municipality reliance on federal transfers to finance public spending, and fight tax evasion. Widen the tax base/increase tax revenues.
- **Boost entrepreneurship and innovation.**

NICARAGUA

Growth prospects. The economy grew at an average of 4.6% per year between 2010 and 2013. Growth is expected to have decelerated to around 4% in 2014, owing to lower investment, and less favourable external conditions. A similar pace is expected for 2015. Lower oil prices stand to have positive effects, however a tightening in global financing conditions and changes to the Venezuelan oil financing scheme remain a major risk.

Inflation outlook. CPI inflation stood at 5.7% in 2013, and it is expected at 7% in 2014/15.

Monetary policy. Nicaragua is effectively 80% dollarized (although the government would like to de-dollarize). Hence, the central bank has relatively little control over monetary conditions. It has, however, been trying to moderate growth of private sector credit – vital to keep inflation under control – while avoiding putting pressure on the external sector via the exchange rate.

Fiscal policy. The budget balance slipped into a deficit of 0.6% of GDP in 2013. The fiscal deficit is expected to widen to just under 1% of GDP per annum over 2014/15. General government gross debt is expected to have been 30% of GDP in 2014.

External position. The external position is vulnerable: the current account deficit was large, at around 11% of GDP in 2013, and little change is expected in 2014/15. FDI inflows averaged around 7% of GDP per year between 2010 and 2013.

Structural policy. The public investment programme focuses on transport, energy, water and sanitation, and health and education. Recent reforms strengthened the electricity sector – a source of fiscal vulnerability and a significant impediment to growth. Nevertheless, Nicaragua needs to implement a broader programme of reforms.

Priorities:

- **Infrastructure:** Prioritise electricity generation and transport; better disaster management and protection.
- **Reduce informal employment and raise female participation.** Address low education levels and skills.
- **Diversify the industrial structure and increase competition.**
- **Further modernise the financial system.**
- **Public finances:** Reform the social security system, contain current spending, rationalise subsidies.
- **Strengthen institutions:** Reduce corruption and fight crime; increase security conditions.

PANAMA

Growth prospects. Real GDP growth in Panama slowed to 8% in 2013, after the strong expansion of 2011 and 2012 (11% per year). The economy is expected to grow at around 6.5% in 2014 and 2015. Shifts in global trade and financial conditions, domestic overheating, persistent difficulties in neighbouring Venezuela, and further delays in the Panama Canal expansion remain near-term risks to the outlook. However, strong domestic fundamentals and countercyclical fiscal policies should help Panama to mitigate any external shocks.

Inflation outlook. Inflation declined to 3.7% in 2013, in part due to lower food and fuel price increases. Inflation is expected to have edged down to 3% in 2014, and projected to increase to 3.3% in 2015. However, price-wage dynamics remain a risk.

Monetary policy. The economy of Panama has been dollarized since 1904, and therefore is entirely beholden to the US Federal Reserve for monetary policy.

Fiscal policy. A budget deficit equivalent to 3% of GDP in 2013 remained within the legal ceiling despite strong public investment outlays. The shortfall is expected to have remained around 4% of GDP in 2014, and is projected to fall to 2% in 2015. Public debt has declined from about 66% of GDP in 2005 to around 42% in 2013.

External position. The current account deficit remained high, at around 12% of GDP in 2013. Nevertheless, the shortfall is largely financed by FDI. The deficit is expected to remain at around 11% of GDP in 2014 and 2015, but to narrow in 2016, once the Panama Canal expansion has been completed.

Structural policy. Panama has been continuously improving its infrastructure, and benefits from one of the best port and airport networks in the world. Other strengths include its financial markets and its level of technology diffusion. The country has also made progress in improving the quality of education, facilitating business start-ups, and tackling logistics bottlenecks. However, continued reforms are needed to support inclusive and sustainable growth, especially when the current large public investment projects are completed.

Priorities:

- **Strengthen the functioning of institutions; fight corruption and crime.**
- **Make labour regulations less restrictive, reduce informal employment, and promote female labour force participation.**
- **Reduce weaknesses in tax administration; improve tax compliance; and fight tax avoidance.**
- **Increase the quality of education and training:** Close the skills gap resulting from the poor-quality education system.
- **Further develop infrastructure:** Tackle bottlenecks in the generation and transmission of electricity. Reduce cost of transportation logistics. Bolster natural disaster management and protection.
- **Address the gap between the modern, dynamic, and internationally competitive services sector and other smaller, less advanced and competitive domestic sectors.**
- **Strengthen transparency and oversight in the banking sector.**

PARAGUAY

Growth prospects. The economy grew 13.6% in 2013, after a drought-related 1.2% contraction in 2012. Growth has since fallen and is expected to average around 4-4.5% in 2014/15, supported by a resurgent agricultural sector and investment. Weather-related shocks remain a major risk, however, as do lower-than-expected growth in key trading partners and a continued decline in commodity prices.

Inflation outlook. CPI inflation fell to 3.7% in 2013. However, inflation has picked up somewhat since and is expected to run around the Central Bank's target rate of 5% in 2014/15, due in part to rising public services tariffs.

Monetary policy. Official rates were raised progressively from 5.5% in late 2013 to 6.75% in February 2014 to contain inflationary pressures and have remained unchanged since then. The bias is now towards a more accommodative stance on the assumption that inflation remains under control.

Fiscal policy. Paraguay ran a small fiscal deficit of 0.7% of GDP in 2013. The shortfall in 2014 is projected to have increased to around 1% of GDP. Public debt remains low, at around 19% of GDP.

External position. The current account recorded a surplus equivalent to 2.1% of GDP in 2013, as agricultural exports boomed. However, the positive balance is estimated to have fallen back to around 1% of GDP in 2014 and is expected to slip into a small deficit in 2015.

Structural policy. The new government's reform strategy focuses on infrastructure and human capital; improving the business climate; fighting corruption and tax evasion; and better public resources management and transparency. Nevertheless, much remains to be done.

Priorities:

- **The fiscal framework:** Improve spending quality, tax and customs administration; implement pension reforms.
- **Improve management of public enterprises:** Bolster access to basic public services at a reasonable cost.
- **Reduce the informal sector:** Improve training, lower redundancy costs, raise female participation.
- **Further improve the business climate:** Strengthen the legal protection of investment; reduce red tape.
- **Raise quality of education and enrolment at all levels of education.**
- **Increase health standards.**
- **Improve infrastructure:** Focus on transport, energy, telecoms, natural disaster management, and protection.

PERU

Peru has a population of around 30 million, produces some 5% of Latin America's output (2014, PPP), and has an income per capita of just over \$11,000 (2013, PPP).

Growth prospects. Prudent macro policies, far-reaching structural reforms, and a favourable external environment have led Peru to be one of the best performers in Latin America over the past decade: growth averaged 6% per year between 2003 and 2013. However, the pace of expansion has moderated of late due to a decline in competitiveness and a worsening of external conditions and the terms of trade. Growth is estimated to have slowed to around 3.5% in 2014. Moreover, the outlook is increasingly uncertain for 2015. While the IMF and the market consensus are looking for a rebound supported by higher public spending, the recent weakness in commodity prices represents a major headwind.

Continued efforts to boost productivity and sustain investment growth are required, as Peru adjusts to lower growth in China (one of its main trading partners), lower metal prices, and higher external financing costs. On the domestic front, the main risks are mining project delays and a need to revise public spending plans significantly lower.

Inflation outlook. CPI inflation averaged 2.9% between 2003 and 2013 – the lowest in the region. After a slight upward blip in 2014, inflation is expected to return to around 2% in 2015.

Macroeconomic policy

Monetary policy. After maintaining its main policy rate at 4.25% for two and a half years, the central bank lowered the rate progressively from the end of 2013 to 3.5% in September 2014 in an effort to address weaker-than-expected activity. The central bank has also encouraged greater exchange rate flexibility to help the economy to adjust to lower commodity prices. Given the contained outlook for inflation, monetary policy is expected to remain accommodative of growth for some time.

Fiscal policy. Fiscal policy was loosened to support growth in 2013 and the headline budget surplus declined to a mere 0.7% of GDP. The authorities also approved a new fiscal framework (effective in 2015), which focuses on the structural balance and is expected to moderate policy pro-cyclicality. Public debt is estimated to have been 20% of GDP in 2014, one of the lowest in the region.

External position. The current account deficit widened to 4.5% of GDP in 2013 due to a fall in exports and the deterioration in the terms of trade. The deficit has been estimated at around 5% of GDP in 2014, and a narrowing in 2015 seems unlikely, unless recent commodity price trends rapidly reverse. The external deficit has been comfortably funded, with FDI inflows running at around 6% of GDP in both 2012 and 2013. However, lower inward investment into the mining industry, and a tightening in global financing conditions could render the financing of the external deficit more challenging.

Structural policy. Peru boasts large and relatively efficient goods, financial, and labour markets and a business-friendly environment. Efforts have recently been made to reduce barriers to investment, improve bureaucratic effectiveness, develop local capital markets, and reform private pensions. The social policy agenda aims at more inclusive growth. To raise productivity and growth potential, however, further reforms are needed to tackle residual institutional and governance shortcomings and address educational and infrastructure deficiencies.

Priorities

- **Improve institutions; increase government efficiency; and fight corruption.**
- **Increase labour market flexibility:** Relax hiring/firing practices.
- **Improve the quality of education:** Facilitate access to good education for the most vulnerable groups. Improve its education system to match the needs of an increasingly changing economy.
- **Eliminate infrastructure gaps:** Design an infrastructure strategy to improve roads, railroads, ports, and airports.
- **Enhance innovation:** Increase R&D investment, and improve Peru's scientific research system. Boost technology adoption.
- **Foster financial deepening.**

COMMONWEALTH OF PUERTO RICO

The Commonwealth of Puerto Rico has a population of around 3.7 million and an income per capita just above \$34,600 (2012, PPP).

Growth: The economy contracted by 0.1% in FY2013, and is expected to have contracted further, by 3%, in FY2014.⁵⁴

Inflation: CPI inflation stood at 1.0% y-o-y at the end of 2013, and it is estimated to have been 0.6% between January and October 2014.⁵⁵

Monetary policy: Puerto Rico shares a common currency with the US, and so it is entirely beholden to the US Federal Reserve for monetary policy.

Strengths: Secure property rights; strong rule of law; good quality roads, ports, and airports; high literacy rates and tertiary education enrolment; good technological readiness and high business sophistication; it is an open economy, with close ties to mainland US.

Priorities:

- **Institutions:** Promote independent policy evaluation; reduce red tape and corruption; reduce the cost of enforcing contracts.
- **Labour market:** Raise labour participation and formal employment, especially for women; relax firing/hiring practices.
- **Education:** Increase quality of primary and secondary education; foster partnerships between industry and higher education.
- **Diversify the economy.**
- **Reform energy industry.**

TRINIDAD AND TOBAGO

Growth prospects. GDP growth was 1.6% in 2013 but is expected to have edged up to around 2% in 2014 – driven by robust activity in the non-energy sector – and to continue growing at a similar pace in 2015, supported by public sector investment, and a pick-up in exports to other tourism-dependent economies in the Caribbean. The main risks to the outlook are a continued fall in energy prices, higher US interest rates, and lower external growth. On the domestic front, the (lack of) progress in structural reform, and the direction of fiscal policy remain the main uncertainties.

Inflation outlook. Inflation is expected to have been around 3.7% in 2014 and is projected to edge down to 2.4% in 2015. However, tight labour market conditions, resilient consumption (both private and public), and high levels of liquidity in the financial system mean that the risk remains of an overshoot.

Monetary policy. Official rates were on hold for much of 2013 and 2014. Since September 2014, however, the repo rate has been raised progressively to 3.25% in response to inflationary pressures and higher portfolio outflows. Given limited labour market slack and rapid household sector credit growth, the central bank has a tighter policy bias and has intensified efforts to reduce excess liquidity.

Fiscal policy. The budget is currently believed to have been in approximate balance in 2014, but is expected to fall back into deficit in 2015. Gross debt is expected to have been around 31% of GDP in 2014.

External position. The external surplus is expected to be around 11-12% of GDP in 2014 and 2015.

Structural policy. The country benefits from good quality education and electricity supply, and reasonable telecom and transport infrastructure. The authorities have recently implemented measures to facilitate doing business. However, structural reforms are needed to boost long-term growth.

Priorities:

- **Further consolidate the fiscal position:** Improve targeting of social benefits; reduce energy subsidies; increase capital spending; and broaden the non-energy tax base to strengthen revenues.
- **Diversify the economy away from the energy sector by further boosting potential growth in the non-energy sector:** Encourage private investment in the non-energy sector.
- **Further improve business environment.**
- **Reduce distortions in the labour market:** reduce redundancy costs; relax hiring and firing practices.
- **Reduce inefficiencies in the public sector; reduce data shortcomings; fight crime and corruption.**
- **Make the foreign exchange system more flexible.**

URUGUAY

Growth prospects. Uruguay weathered the financial crisis well. Growth has averaged 5% per year since 2003. After a 4.5% expansion in 2013, real GDP growth is expected to moderate to around 3% in 2014 and 2015, due to lower private consumption.

Real activity has been underpinned by a series of institutional reforms; large FDI inflows; a business-friendly environment; and favourable external conditions. Strong growth, full employment, and active social policies have contributed both to declining rates of poverty and of income inequality. A deeper slowdown in Brazil and Argentina – Uruguay's key trading partners – and any deterioration in global financing conditions remain the main downside risks.

Inflation outlook. Inflation ran at 8.5% in 2013, and remains well above the central bank's recently-widened target range of 3-7%. Inflation in 2014 and 2015 is expected to continue to run at 8 or 9%.

Monetary policy. Monetary policy has been tightened considerably since August 2013: Banco Central del Uruguay has been seeking progressively to slow narrow money growth. The prospect is for continued policy tightening.

Fiscal policy. The fiscal deficit has widened since 2012. The broadly-defined shortfall stood at 2.5% of GDP in 2013, is expected to widen to around 3.5% in 2014 and 2015. Public debt is currently expected at 66% of GDP in 2014.

External position. In 2013, the external deficit reached 5.6% of GDP. It is expected to be around 6.5% in 2014 and 2015. Strong FDI inflows suggest that it is reasonably sustainable.

Structural policy. Uruguay benefits from strong and transparent institutions; good communication and energy infrastructure; high tertiary education enrolment; and a positive environment for business start-ups. However, reinforcing resilience to shocks and bolstering potential output remain key challenges.

Priorities:

- **Reduce employment protection:** Improve cooperation in labour-employer relations, and the flexibility of wage determination. Relax hiring and firing practices, cut severance payments, and relax working hour rigidities.
- **Improve quality of education:** Facilitate access to good education for the most vulnerable groups.
- **Strengthen infrastructure:** Improve the quality of roads and airports and, especially, of railroad infrastructure.
- **Enhance innovation:** Improve scientific research institutions and increase numbers of scientists and engineers.

US VIRGIN ISLANDS

The US Virgin Islands have a population of only 105,000 people. Until the closing down of the Hovensa refinery (one of the world's biggest and the islands' largest private employer), oil refining was the major industry. Today, however, the economy is based on tourism, retailing, and the manufacture of rum.

Growth outlook: Real GDP fell by 7.5% in 2011 and by 14% in 2012, owing to a plunge in refined oil exports after the refinery shut down, and a decline in government spending due to lower tax revenues and the initially modest pace of US recovery. In 2013, despite stronger tourism activity and an increase in rum exports, real activity plunged a further 5.5%, as non-rum exports and consumer spending fell away. 2014 appears to have seen little improvement. Risks to the upside are a possible reopening of the oil refinery and a further strengthening of the US recovery.

Monetary policy: The US Virgin Islands is dollarized and beholden to the US Federal Reserve for monetary policy.

Priorities:

- **Encourage consistent, sustainable, and resilient growth; and further diversification of the economy.**
- **Education:** Improve educational attainment and overall quality of the education system.
- **Infrastructure:** Bolster natural disaster management and protection.

VENEZUELA

Venezuela has a population of around 29 million, produces some 5% of Latin America's output (2014, PPP), and has an income per capita of just over \$13,600 (2013, PPP). Venezuela has the largest proven oil reserves in the world and is a major oil exporter.

Growth prospects. The highly expansionary policies of recent years have left Venezuela beset by significant macroeconomic imbalances, while government interference in the form of controls on trade, prices, and the exchange rate have proved highly distortionary and added to social tensions and political instability. Recent years have seen a collapse in growth, as well as widespread shortages and inflation rates exceeding 60%. Real GDP growth declined to 1% in 2013 from 5.6% in 2012, and the economy is estimated to have contracted by around 3% in 2014, with a further drop in output of at least 1%, and perhaps considerably more, expected for 2015. Further falls in oil prices are the dominant risk: 96% of the dollars available to Venezuela come from oil export revenues.

Inflation outlook. CPI inflation was 56% in 2013 – one of the highest in the world – and it is estimated to have risen to 70% in 2014. This reflects the monetisation of the fiscal deficit and severe shortages of foodstuffs and other necessities.

Macroeconomic policy

Monetary policy. The authorities have responded to declining FX reserves by creating a system of multiple exchange rates which has embodied a large effective nominal depreciation of the Bolivar. Overall policy remains extremely lax.

Fiscal policy. In 2013, the budget deficit narrowed slightly. Nevertheless, at 15% of GDP, it remained excessive, as the government resorted to large-scale public spending to boost real activity and maintain social programmes while oil revenues declined. The deficit is not expected to decrease any time soon: it is projected to be between 14-15% of GDP in 2014/15. Falling oil prices stand further to undermine the fiscal. Gross general government debt is expected to have been around 46% of GDP in 2014.

External position. The current account was nominally in surplus to the tune of around 8% of GDP in 2014, and it is expected to remain around 6% in 2015. But this is against a background of import rationing. Furthermore, a continued slide in oil prices would result in a much lower balance.

Structural policy. Venezuela enjoys large foreign and domestic markets; and has a particularly high university enrolment rate. In addition to restoring its macroeconomic stability, addressing the large budgetary shortfall, and solving the chronic shortage of US dollars in the private sector, the government needs to implement a wide range of reforms to enhance growth potential and diversify the economy. The moderation or removal of various direct controls is of paramount importance.

Priorities

- **Improve the functioning of institutions:** Improve government efficiency and cut red tape; fight corruption and crime; make the judicial system more independent; free the media.
- **Education:** Increase primary and secondary education enrolment; improve the quality of the education system.
- **Improve functioning of the goods and financial markets:** Make it easier to open a business and to trade across borders; increase competition; reduce barriers to foreign ownership and to trade; improve access to financing.
- **Infrastructure:** Improve transport networks; address shortages and outages in the electricity sector.
- **Labour market:** Allow legally binding labour agreements at the firm level; relax hiring/firing practices; reduce redundancy costs; increase female participation; strengthen worker labour rights.
- **Diversify economy beyond oil.**
- **Consolidate the fiscal budget:** Reduce subsidies on domestic gasoline and exports of subsidised fuel; increase tax revenues and make them less dependent on oil export revenues.
- **Innovation:** Increase R&D investment and improve research institutions.

FIGURE A: MAIN MACROECONOMIC INDICATORS

ARGENTINA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013e	2014e	2015e
Real GDP growth (%)	1.7	3.4	2.2	3.1	0.1	9.1	8.6	0.9	2.9	-1.7	-1.5
Unemployment (%)	9.4	15.0	11.0	7.9	8.7	7.8	7.2	7.2	7.1	8.8	9.0
CPI inflation (%)	448.3	9.9	323.1	7.2	7.7	10.9	9.5	10.8	10.9	n.a.	n.a.
Current account (% of GDP)	-1.9	2.2	-0.7	1.5	2.0	-0.3	-0.7	-0.2	-0.8	-0.8	-1.1
Private sector balance (% of GDP)	0.4	6.1	2.6	2.2	4.9	0.8	2.0	3.0	2.0	3.7	4.4
Budget balance (% of GDP)	-2.3	-3.9	-3.3	-0.7	-2.9	-1.1	-2.8	-3.2	-2.8	-4.5	-5.5

Source: IMF World Economic Outlook, October 2014

Notes: Data from 2013 are IMF estimates. A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. Average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1995-1999 and 1995-2007, respectively.

BELIZE											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	6.4	5.8	6.2	3.8	0.3	3.1	2.1	4.0	0.7	2.0	2.5
Unemployment (%)	12.6	10.9	11.9	8.2	12.5	13.7	14.9	16.1	14.1	14.1	13.7
CPI inflation (%)	2.2	2.7	2.4	4.4	-0.4	0.0	2.3	0.8	1.6	2.0	2.0
Current account (% of GDP)	-3.4	-14.0	-6.4	-10.6	-4.9	-2.4	-1.1	-1.2	-4.5	-5.4	-6.2
Private sector balance (% of GDP)	0.8	-7.4	-0.6	-11.0	-3.6	-0.8	0.0	-0.7	-2.2	-3.7	-4.5
Budget balance (% of GDP)	-4.1	-6.6	-5.8	0.4	-1.2	-1.7	-1.1	-0.5	-2.3	-1.7	-1.7

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. Average inflation figures for the periods 1980-1999 and 1980-2007 refer to 1989-1999 and 1989-2007, respectively. Average unemployment figures for the periods 1980-1999 and 1980-2007 refer to 1990-1999 and 1990-2007, respectively. Average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1996-1999 and 1996-2007, respectively.

BOLIVIA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013e	2014e	2015e
Real GDP growth (%)	1.9	3.4	2.3	6.1	3.4	4.1	5.2	5.2	6.8	5.2	5.0
Unemployment (%)	n.a.	8.4	n.a.	6.7	6.8	6.5	6.5	6.4	6.4	6.3	6.2
CPI inflation (%)	561.6	4.4	402.4	11.8	0.3	7.2	6.9	4.5	6.5	5.5	5.2
Current account (% of GDP)	-4.9	2.5	-2.8	11.9	4.3	3.9	0.3	8.3	3.3	2.6	2.8
Private sector balance (% of GDP)	2.5	6.1	3.5	8.3	4.3	2.2	-0.5	6.5	2.6	2.9	2.7
Budget balance (% of GDP)	-7.4	-3.6	-6.3	3.6	0.0	1.7	0.8	1.8	0.7	-0.4	0.1

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. No data for unemployment are available before 2001. Average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1981-1999 and 1981-2007, respectively.

BRAZIL											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.3	3.5	2.7	5.2	-0.3	7.5	2.7	1.0	2.5	0.3	1.4
Unemployment (%)	5.5	10.4	6.9	7.9	8.1	6.7	6.0	5.5	5.4	5.5	6.1
CPI inflation (%)	576.9	7.0	408.1	5.9	4.3	5.9	6.5	5.8	5.9	6.2	6.0
Current account (% of GDP)	-2.4	-0.5	-1.8	-1.7	-1.5	-2.2	-2.1	-2.4	-3.6	-3.5	-3.6
Private sector balance (% of GDP)	3.6	3.1	2.5	-0.1	1.8	0.6	0.5	0.3	-0.4	0.3	-0.5
Budget balance (% of GDP)	-5.9	-3.6	-4.4	-1.6	-3.3	-2.8	-2.6	-2.8	-3.3	-3.9	-3.1

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to the periods 1996-1999 and 1996-2007, respectively.

CHILE											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	5.0	4.7	4.9	3.2	-1.0	5.7	5.8	5.5	4.2	2.0	3.3
Unemployment (%)	10.5	9.1	10.1	7.8	10.8	8.2	7.1	6.4	5.9	6.6	7.0
CPI inflation (%)	15.9	3.4	12.3	7.1	-1.5	3.0	4.4	1.5	3.0	4.2	3.0
Current account (% of GDP)	-4.6	1.0	-3.0	-3.2	2.0	1.6	-1.2	-3.4	-3.4	-1.8	-1.4
Private sector balance (% of GDP)	-6.1	-1.4	-4.9	-7.4	6.1	2.0	-2.6	-4.1	-2.8	-0.1	-0.2
Budget balance (% of GDP)	1.5	2.4	1.9	4.1	-4.1	-0.4	1.4	0.7	-0.7	-1.8	-1.2

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to the periods 1990-1999 and 1990-2007, respectively.

COLOMBIA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	3.2	4.3	3.5	3.5	1.7	4.0	6.6	4.0	4.7	4.8	4.5
Unemployment (%)	7.3	13.3	9.1	11.3	12.0	11.8	10.8	10.4	9.7	9.3	9.0
CPI inflation (%)	22.4	6.3	17.8	7.7	2.0	3.2	3.7	2.4	1.9	3.3	3.0
Current account (% of GDP)	-1.9	-1.1	-1.7	-2.6	-2.0	-3.0	-2.9	-3.1	-3.3	-3.9	-3.8
Private sector balance (% of GDP)	0.1	0.7	0.3	-2.4	0.8	0.3	-0.9	-3.2	-2.3	-2.4	-2.4
Budget balance (% of GDP)	-2.0	-1.9	-2.0	-0.3	-2.8	-3.3	-2.0	0.1	-0.9	-1.5	-1.3

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to the periods 1982-1999 and 1982-2007, respectively.

COSTA RICA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	3.9	4.9	4.2	2.7	-1.0	5.0	4.5	5.1	3.5	3.6	3.6
Unemployment (%)	5.9	6.0	5.9	4.9	7.8	7.3	7.7	7.8	8.1	8.2	8.3
CPI inflation (%)	22.0	11.0	18.8	13.9	4.0	5.8	4.7	4.6	3.7	5.5	4.0
Current account (% of GDP)	-5.9	-4.8	-5.6	-9.3	-2.0	-3.5	-5.4	-5.3	-5.1	-5.2	-5.3
Private sector balance (% of GDP)	n.a.	-2.0	n.a.	-9.1	1.6	1.9	-1.0	-0.6	0.6	1.1	1.6
Budget balance (% of GDP)	n.a.	-2.8	n.a.	-0.3	-3.6	-5.4	-4.3	-4.6	-5.6	-6.3	-6.5

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. No data are available for budget balance figures before 2000.

DOMINICAN REPUBLIC											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	4.1	5.3	4.5	3.1	0.9	8.3	2.9	2.7	4.6	5.3	4.2
Unemployment (%)	7.9	6.2	7.1	4.6	5.3	5.0	5.8	6.4	7.0	6.4	6.0
CPI inflation (%)	17.3	14.6	16.5	4.5	5.8	6.2	7.8	3.9	3.9	4.5	4.0
Current account (% of GDP)	-3.0	-1.3	-2.5	-9.4	-4.8	-7.4	-7.5	-6.6	-4.0	-4.1	-4.6
Private sector balance (% of GDP)	-1.9	0.6	-0.8	-6.1	-1.8	-4.7	-4.4	0.0	-0.5	-1.2	-1.4
Budget balance (% of GDP)	-1.0	-1.9	-1.7	-3.3	-3.0	-2.7	-3.0	-6.6	-3.6	-2.9	-3.2

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average unemployment figures for the periods 1980-1999 and 1980-2007 refer to the periods 1991-1999 and 1991-2007, respectively. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1997-1999 and 1997-2007, respectively.

Figure A:
Main macroeconomic
indicators

ECUADOR											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.4	4.0	2.9	6.4	0.6	3.5	7.8	5.1	4.5	4.0	4.0
Unemployment (%)	8.9	10.4	9.5	6.9	8.5	7.6	6.0	4.9	4.7	5.0	5.0
CPI inflation (%)	37.8	17.5	32.0	8.8	4.3	3.3	5.4	4.2	2.7	3.0	3.0
Current account (% of GDP)	-3.3	0.4	-2.3	2.8	0.5	-2.3	-0.4	-0.4	-1.3	-0.8	-2.4
Private sector balance (% of GDP)	-1.6	-1.0	-2.2	2.4	4.0	-1.0	-0.4	0.7	3.4	3.4	2.1
Budget balance (% of GDP)	-1.7	1.4	-0.1	0.5	-3.6	-1.3	0.0	-1.1	-4.7	-4.3	-4.6

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. Average unemployment figures for the periods 1980-1999 and 1980-2007 refer to 1988-1999 and 1988-2007, respectively. Average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1995-1999 and 1995-2007.

EL SALVADOR											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	1.9	2.7	2.1	1.3	-3.1	1.4	2.2	1.9	1.7	1.7	1.8
Unemployment (%)	8.4	6.8	7.7	5.9	8.1	5.9	5.4	5.6	5.7	5.7	5.6
CPI inflation (%)	14.3	3.8	11.3	5.5	0.1	2.1	5.1	0.8	0.8	2.0	2.0
Current account (% of GDP)	-0.7	-3.7	-1.6	-7.1	-1.5	-2.7	-4.9	-5.3	-6.5	-6.5	-6.1
Private sector balance (% of GDP)	2.1	-0.6	1.4	-4.5	4.0	1.8	-0.8	-1.4	-2.9	-2.2	-1.6
Budget balance (% of GDP)	-2.8	-3.1	-3.0	-2.7	-5.6	-4.4	-4.1	-3.9	-3.7	-4.2	-4.5

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average unemployment figures for the periods 1980-1999 and 1980-2007 refer to the periods 1988-1999 and 1988-2007, respectively. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to the periods 1993-1999 and 1993-2007, respectively.

GUATEMALA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.4	3.7	2.7	3.3	0.5	2.9	4.2	3.0	3.7	3.4	3.7
Unemployment (%)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
CPI inflation (%)	13.4	7.8	11.8	9.4	-0.3	5.4	6.2	3.4	4.4	4.0	4.3
Current account (% of GDP)	-4.5	-5.4	-4.7	-3.6	0.7	-1.4	-3.4	-2.6	-2.7	-2.0	-2.2
Private sector balance (% of GDP)	n.a.	-3.6	n.a.	-2.0	3.9	1.9	-0.6	-0.2	-0.6	0.1	0.0
Budget balance (% of GDP)	n.a.	-1.7	n.a.	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1	-2.1	-2.2

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. No data are available for unemployment. Budget balance figures are not available before 2000.

HONDURAS											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.6	5.2	3.4	4.2	-2.4	3.7	3.8	3.9	2.6	3.0	3.1
Unemployment (%)	5.4	4.1	5.0	4.7	4.5	4.6	5.0	4.4	4.4	4.5	4.5
CPI inflation (%)	13.4	8.1	11.9	10.8	3.0	6.5	5.6	5.4	4.9	6.8	5.5
Current account (% of GDP)	-5.0	-5.9	-5.2	-15.4	-3.8	-4.3	-8.0	-8.6	-9.0	-8.0	-7.3
Private sector balance (% of GDP)	n.a.	-2.6	n.a.	-13.7	0.7	-1.5	-5.2	-4.4	-1.4	-2.0	-2.0
Budget balance (% of GDP)	n.a.	-3.3	n.a.	-1.7	-4.5	-2.8	-2.8	-4.2	-7.6	-6.0	-5.2

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. Budget balance figures are not available before 2000.

MEXICO											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.9	2.7	2.9	1.4	-4.7	5.1	4.0	4.0	1.1	2.4	3.5
Unemployment (%)	3.7	3.3	3.6	4.0	5.5	5.4	5.2	5.0	4.9	4.8	4.5
CPI inflation (%)	45.7	4.9	33.6	6.5	3.6	4.4	3.8	3.6	4.0	4.0	3.5
Current account (% of GDP)	-2.0	-1.6	-1.9	-1.8	-0.9	-0.4	-1.1	-1.3	-2.1	-1.9	-2.0
Private sector balance (% of GDP)	1.0	0.5	0.7	-0.8	4.2	3.9	2.3	2.4	1.8	2.3	2.0
Budget balance (% of GDP)	-3.0	-2.0	-2.6	-1.0	-5.1	-4.3	-3.3	-3.7	-3.8	-4.2	-4.0

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average inflation figures for the periods 1980-1999 and 1980-2007 refer to the periods 1981-1999 and 1981-2007, respectively. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1990-1999 and 1990-2007, respectively.

NICARAGUA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	1.2	3.7	1.9	2.9	-2.8	3.3	5.7	5.0	4.6	4.0	4.0
Unemployment (%)	13.9	6.0	11.6	6.1	8.2	7.8	5.9	5.9	5.9	5.9	5.9
CPI inflation (%)	11.2	8.8	9.7	13.8	0.9	9.2	8.0	6.6	5.7	7.0	7.0
Current account (% of GDP)	-17.1	-14.4	-16.3	-17.7	-9.3	-9.6	-12.8	-12.7	-11.4	-11.3	-11.4
Private sector balance (% of GDP)	n.a.	-13.2	n.a.	-17.7	-7.7	-9.7	-13.6	-12.9	-10.8	-10.4	-10.6
Budget balance (% of GDP)	n.a.	-1.2	n.a.	-0.1	-1.6	0.1	0.8	0.2	-0.6	-0.9	-0.9

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average inflation figures for the periods 1980-1999 and 1980-2007 refer to 1995-1999 and 1995-2007, respectively. Budget balance figures are not available before 2000.

PANAMA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	3.6	5.6	4.2	10.1	3.9	7.5	10.9	10.8	8.4	6.6	6.4
Unemployment (%)	13.6	11.8	13.1	5.8	6.9	6.8	4.7	4.2	4.3	4.3	4.3
CPI inflation (%)	2.0	2.0	2.0	6.8	1.9	4.9	6.3	4.6	3.7	3.0	3.3
Current account (% of GDP)	-1.4	-4.6	-2.3	-10.9	-0.7	-11.4	-15.9	-10.6	-11.9	-10.8	-10.6
Private sector balance (% of GDP)	-1.9	-2.7	-1.7	-11.3	0.3	-9.5	-13.9	-9.1	-8.9	-6.9	-8.6
Budget balance (% of GDP)	0.5	-1.8	-0.6	0.4	-1.0	-1.9	-2.1	-1.5	-3.0	-3.9	-2.0

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to the periods 1990-1999 and 1990-2007, respectively.

PARAGUAY											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	3.4	2.2	3.1	6.4	-4.0	13.1	4.3	-1.2	13.6	4.0	4.5
Unemployment (%)	5.8	7.4	6.3	5.7	6.4	5.7	5.6	5.8	5.4	5.5	5.5
CPI inflation (%)	22.1	9.0	18.3	7.5	1.9	7.2	4.9	4.0	3.7	5.1	5.0
Current account (% of GDP)	-2.4	1.6	-1.3	1.0	3.0	-0.3	0.5	-0.9	2.1	1.0	-1.1
Private sector balance (% of GDP)	-3.0	1.3	-1.7	-1.9	2.4	-1.9	-0.7	0.3	2.8	1.7	-1.2
Budget balance (% of GDP)	0.6	0.3	0.5	2.9	0.6	1.6	1.1	-1.2	-0.7	-0.7	0.1

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average unemployment figures for the periods 1980-1999 and 1980-2007 refer to 1983-1999 and 1983-2007, respectively. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1989-1999 and 1989-2007, respectively.

Figure A:
Main macroeconomic
indicators

PERU											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.1	4.9	2.9	9.1	1.0	8.5	6.5	6.0	5.8	3.6	5.1
Unemployment (%)	7.3	9.0	7.8	8.4	8.4	7.9	7.7	6.8	7.5	6.0	6.0
CPI inflation (%)	726.7	2.2	503.8	6.7	0.2	2.1	4.7	2.6	2.9	2.9	2.2
Current account (% of GDP)	-5.4	-0.3	-4.0	-4.3	-0.5	-2.4	-1.9	-3.3	-4.5	-5.2	-5.0
Private sector balance (% of GDP)	n.a.	0.1	n.a.	-7.0	1.1	-2.3	-3.9	-5.5	-5.2	-5.1	-4.9
Budget balance (% of GDP)	n.a.	-0.4	n.a.	2.7	-1.6	-0.1	2.0	2.2	0.7	-0.1	-0.1

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average inflation figures for the periods 1980-1999 and 1980-2007 refer to the periods 1982-1999 and 1982-2007, respectively. Budget balance figures are not available before 2000.

TRINIDAD AND TOBAGO											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	1.3	8.3	3.3	3.4	-4.4	0.2	-2.6	1.2	1.6	2.3	2.1
Unemployment (%)	16.6	9.0	14.4	4.6	5.3	5.9	5.0	4.8	3.7	5.0	5.0
CPI inflation (%)	6.4	5.7	6.1	14.5	1.3	13.4	5.3	7.2	5.6	3.7	2.4
Current account (% of GDP)	-1.3	15.0	3.4	30.5	8.5	20.3	12.4	5.0	11.8	11.9	11.2
Private sector balance (% of GDP)	n.a.	13.4	n.a.	22.5	17.6	24.1	12.4	5.3	14.2	11.8	13.2
Budget balance (% of GDP)	n.a.	1.6	n.a.	8.0	-9.1	-3.8	-0.1	-0.3	-2.3	0.1	-2.0

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average unemployment figures for the periods 1980-1999 and 1980-2007 refer to 1981-1999 and 1981-2007, respectively. Budget balance figures are not available before 2000.

URUGUAY											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010	2011	2012	2013	2014e	2015e
Real GDP growth (%)	2.4	1.5	2.1	7.2	2.4	8.4	7.3	3.7	4.4	2.8	2.8
Unemployment (%)	10.4	13.5	11.4	7.6	7.3	7.0	6.3	6.3	6.6	6.8	6.9
CPI inflation (%)	51.7	9.0	39.5	9.2	5.9	6.9	8.6	7.5	8.5	8.6	8.4
Current account (% of GDP)	-1.5	-0.7	-1.3	-5.7	-1.3	-1.9	-2.9	-5.4	-5.6	-6.5	-6.4
Private sector balance (% of GDP)	n.a.	1.3	n.a.	-4.1	0.5	-0.4	-2.0	-2.7	-3.2	-3.1	-3.0
Budget balance (% of GDP)	n.a.	-2.0	n.a.	-1.6	-1.7	-1.5	-0.9	-2.8	-2.4	-3.5	-3.4

Source: IMF World Economic Outlook, October 2014

Notes: A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average unemployment figures for the periods 1980-1999 and 1980-2007 refer to the periods 1983-1999 and 1983-2007, respectively. Budget balance figures are not available before 1999.

VENEZUELA											
Variable (unit)	1980-1999	2000-2007	1980-2007	2008	2009	2010e	2011e	2012e	2013e	2014e	2015e
Real GDP growth (%)	1.0	4.7	2.1	5.3	-3.2	-1.5	4.2	5.6	1.3	-3.0	-1.0
Unemployment (%)	9.8	13.4	10.9	7.4	7.9	8.5	8.2	7.8	7.5	8.0	10.4
CPI inflation (%)	42.8	19.6	34.7	30.9	25.1	27.2	27.6	20.1	56.2	69.8	55.9
Current account (% of GDP)	2.6	10.9	5.0	11.0	1.0	3.2	8.2	3.7	5.0	7.6	6.4
Private sector balance (% of GDP)	5.0	10.8	6.3	14.5	9.6	13.6	19.8	20.2	19.9	21.8	21.3
Budget balance (% of GDP)	-2.3	0.1	-1.4	-3.5	-8.7	-10.4	-11.6	-16.5	-14.9	-14.2	-14.9

Source: IMF World Economic Outlook, October 2014

Notes: Data from 2010 are IMF estimates. A red coloured cell indicates a deficit (as a % of GDP) or inflation 4% or above; pink = between 2% and 4%; grey = below 2%. The average inflation figures for the periods 1980-1999 and 1980-2007 refer to 1985-1999 and 1985-2007, respectively. The average budget balance figures for the periods 1980-1999 and 1980-2007 refer to 1988-1999 and 1988-2007, respectively.

END NOTES

- ¹ IMF Definition. **South America:** Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Guyana, Paraguay, Peru, Suriname, Uruguay, Venezuela; **Central America:** Belize, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama; **Caribbean:** Antigua and Barbuda, The Bahamas, Barbados, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Haiti, Dominican Republic, Cuba; Trinidad and Tobago. (And Puerto Rico)
- ² UN World Population Prospects: the 2012 Revision (2014).
- ³ In 2005 PPP dollars.
- ⁴ OECD, Latin American Economic Outlook 2014.
- ⁵ OECD, Latin American Economic Outlook 2014.
- ⁶ OECD, Latin American Economic Outlook 2014.
- ⁷ OECD Latin American Economic Outlook 2014.
- ⁸ <http://alianzapacifico.net/en/home-eng/strategic-value>
- ⁹ IMF, World Economic Outlook, October 2014. The figure refers to the unweighted average of 20 countries in Latin America: Argentina, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Trinidad and Tobago, Uruguay, and Venezuela.
- ¹⁰ IMF, World Economic Outlook, October 2014. The figure refers to the unweighted average for the 34 OECD member countries.
- ¹¹ IMF, World Economic Outlook, October 2014.
- ¹² World Bank, FDI net inflows (% of GDP).
- ¹³ The current account is made up of four accounts: trade; services; income; and transfers. The income account is divided into labour and capital service compensations; the latter can be further divided into flows from FDI, portfolio, and other investments. FDI, therefore, increases the income account deficit (the gap between Gross Domestic Product and Gross National Product), which in turn increases the current account deficit. Any exchange rate appreciation that results from FDI leads to imports increasing relative to exports, widening the trade deficit and the current account deficit (or reducing the surplus).
- ¹⁴ The IMF defines the 'LA6' countries as the six Latin American countries (Uruguay, Peru, Colombia, Brazil, Chile, and Mexico) that have adopted formal inflation targeting framework and have relatively more developed domestic capital markets.
- ¹⁵ IMF, Regional Economic Outlook – Western Hemisphere, April 2014.
- ¹⁶ IMF, Regional Economic Outlook – Western Hemisphere, April 2014.
- ¹⁷ IMF, Regional Economic Outlook – Western Hemisphere, April 2014.
- ¹⁸ OECD, Latin American Economic Outlook 2014.
- ¹⁹ OECD, Latin American Economic Outlook 2014.
- ²⁰ IMF, World Economic Outlook, October 2014
- ²¹ \$10 to \$50 a day per capita (2005 purchasing power parity).
- ²² World Bank, 2013. *Shifting gears to accelerate shared prosperity in Latin America and the Caribbean*.
- ²³ Less than \$4 a day per capita (2005 purchasing power parity).
- ²⁴ World Bank, 2013. *Shifting gears to accelerate shared prosperity in Latin America and the Caribbean*.
- ²⁵ OICA www.oica.net; population data from the World Bank.
- ²⁶ The figure refers to the unweighted average of gross debt to GDP ratios for 13 countries in the Caribbean, and seven in Central America.
- ²⁷ IMF, World Economic Outlook, October 2014. The figure refers to the unweighted average of gross debt to GDP ratios for 12 countries in South America.
- ²⁸ The group of G20 advanced economies includes Australia, Canada, France, Germany, Italy, Japan, South Korea, the UK, the US, and the EU.
- ²⁹ IMF Fiscal Monitor October 2014.
- ³⁰ The 'Rule of Four' was initially proposed by Norges Bank Deputy Governor Jan Qvigstad to provide a simple-to-calculate, easily-understood portent of danger in the OECD economies, and it can also usefully be applied to emerging market economies. The rule focuses on a country's inflation rate, and its current account and budget deficits expressed as a percentage of GDP. In the advanced economies, a value of 4 or above for any of these variables is generally a warning signal, while a value of more than 4 for two or more of these variables almost certainly spells serious trouble. See Qvigstad, J. and Llewellyn, J., 2013. *The 'Rule of Four'. The Business Economist*.
- ³¹ IMF, Regional Economic Outlook – Western Hemisphere, April 2014.
- ³² Consensus Economics (2014).

- ³³ LAC7 refers to the seven largest economies as measured by GDP: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela (Republic of Bolivia).
- ³⁴ 'Timeliness', as measured by the World Bank in the Logistics Performance Index (LPI), refers to the frequency with which shipments reach consignees within scheduled or expected delivery times.
- ³⁵ World Bank, 2013. *China 2030*.
- ³⁶ World Bank, 2013. *China 2030*.
- ³⁷ See Asian Development Bank, 2012.
- ³⁸ OECD, Latin American Economic Outlook 2014.
- ³⁹ Ibid.
- ⁴⁰ IMF, 2013. *Asia and Pacific Regional Outlook*.
- ⁴¹ A broad discussion is to be found in IMF, April & October 2014. Regional Economic Outlook – Western Hemisphere.
- ⁴² Calderón, C. and Servén, L., September 2004. *The Effects of Infrastructure Development on Growth and Income Distribution*. World Bank Policy Research Working Papers.
- ⁴³ OECD, Latin American Economic Outlook 2014.
- ⁴⁴ Ibid.
- ⁴⁵ Ibid.
- ⁴⁶ Ibid.
- ⁴⁷ The IMF has issued a declaration of censure and called on Argentina to adopt remedial measures to address the quality of the official GDP data. Alternative data sources have shown significantly lower real growth than the official data since 2008.
- ⁴⁸ The official CPI data are, like the GDP data, highly questionable. The official consumer price data from January 2014 onwards reflect the new national CPI (IPCNU). This differs substantively from the previously published CPI, which only covered the Greater Buenos Aires area. As the IMF states: "Because of the differences in geographical coverage, weights, sampling, and methodology, the IPCNU data cannot be directly compared to the earlier CPI-GBA data."
- ⁴⁹ The CPI Congreso numbers presented here represent the average inflation rate reported by eight independent consultants.
- ⁵⁰ Consensus Economics forecasts, based on estimates from a range of private sector forecasters.
- ⁵¹ % change Dec-on-Dec for 2014 and 2015.
- ⁵² Trading Economics and National Office of Statistics of Cuba.
- ⁵³ Trading Economics
- ⁵⁴ As measured by the Economic Activity Index published by the Government Development Bank. Calculation of Puerto Rico's real activity is currently subject to serious debate and it is likely to undergo major revisions stretching back decades.
- ⁵⁵ Government Development Bank.

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