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Stunted by Uncertainty

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Preface

The October 2019 *Regional Economic Outlook: Western Hemisphere* was prepared by Antonio David with contributions from Carlos Gonçalves and Jaime Guajardo, under the guidance of Jorge Roldós and the overall direction of Alejandro Werner and Krishna Srinivasan. Ding Ding and Carlos Janada coordinated the Caribbean and Central America sections, respectively. Genevieve Lindow, Pablo Bejar, and Dan Pan provided excellent research assistance. The report reflects the contents of a set of background papers (IMF 2019a, 2019c, 2019d) and an online annex on spillovers from China and the United States (IMF 2019f), which are available online at http://www.imf.org. The background papers were prepared by the following contributors: Antonio David, Carlos Gonçalves, Jaime Guajardo, Camila Pérez, Samuel Pienknagura, Jorge Roldós, and Juan Yépez. Ravi Sundararajan provided outstanding production support. Cheryl Toksoz of the Communications Department coordinated editing and production. Virginia Masoller and Carlos Viel led the translation and editing team in the production of the Spanish edition and Solange dos Santos led the translation of the Portuguese edition. This report reflects developments and staff projections through the end of September 2019.

Outlook for Latin America and the Caribbean: Stunted by Uncertainty

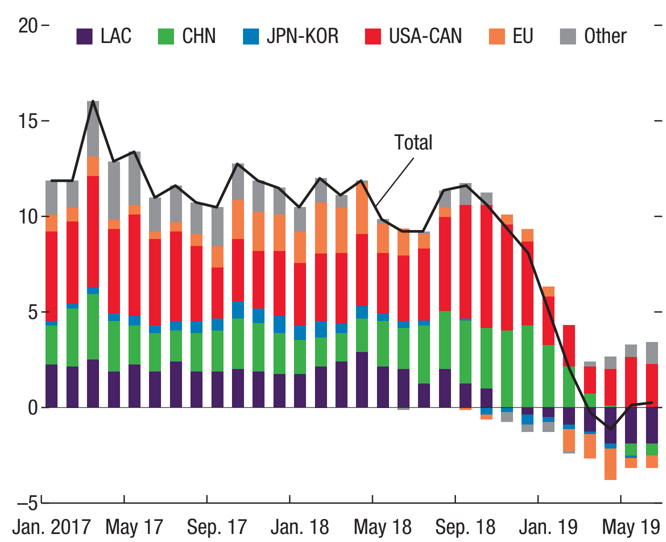
Growth in Latin America and the Caribbean (LAC) has slowed from 1.0 percent in 2018 to 0.2 percent in 2019, but a tentative pick-up to 1.8 percent is expected in 2020. External factors remain a headwind to economic prospects in the region, led by sluggish global growth, subdued commodity prices, and volatile capital flows, although easier global financial conditions provide some respite. Policy uncertainty in some large LAC countries continues to be a drag on growth, while Venezuela's economic and humanitarian crisis continues to drive large migration flows to other countries in the region. Against this backdrop, the LAC economies will need to rely on domestic sources of growth to accelerate the recovery, which hinges on a pickup in private consumption and investment anchored on a rebound in business and consumer confidence. Risks to the outlook remain skewed to the downside, including further falls in global growth and commodity prices, spikes in risk premiums, heightened domestic policy uncertainty, contagion from the financial turmoil in Argentina, and natural disasters. Given the challenging global environment and still negative output gaps in the region, policies will need to strike a balance between supporting growth and rebuilding policy space. Fiscal consolidation to lower public debt remains a priority in several countries. Monetary policy can continue to support growth given the stable inflation outlook and well-anchored expectations. Corporate vulnerabilities require enhanced surveillance. Structural reforms, aimed at greater openness to trade and investment, bolstering competitiveness, and addressing stringent labor market regulations, remain an imperative.

A Faltering External Environment

The global economy has slowed, with important consequences for growth prospects in LAC. The slowdown in economic activity has been broad-based among advanced economies and more pronounced in emerging markets and developing economies, partly reflecting trade and geopolitical tensions (October 2019 *World Economic Outlook*). Global growth is projected to decline from 3.6 percent in 2018 to 3.0 percent in 2019—the lowest level since the global financial crisis, before recovering to 3.4 percent in 2020. More importantly, growth is projected to decline in 2019–20 in the United States and China, which are LAC's two main trading partners.

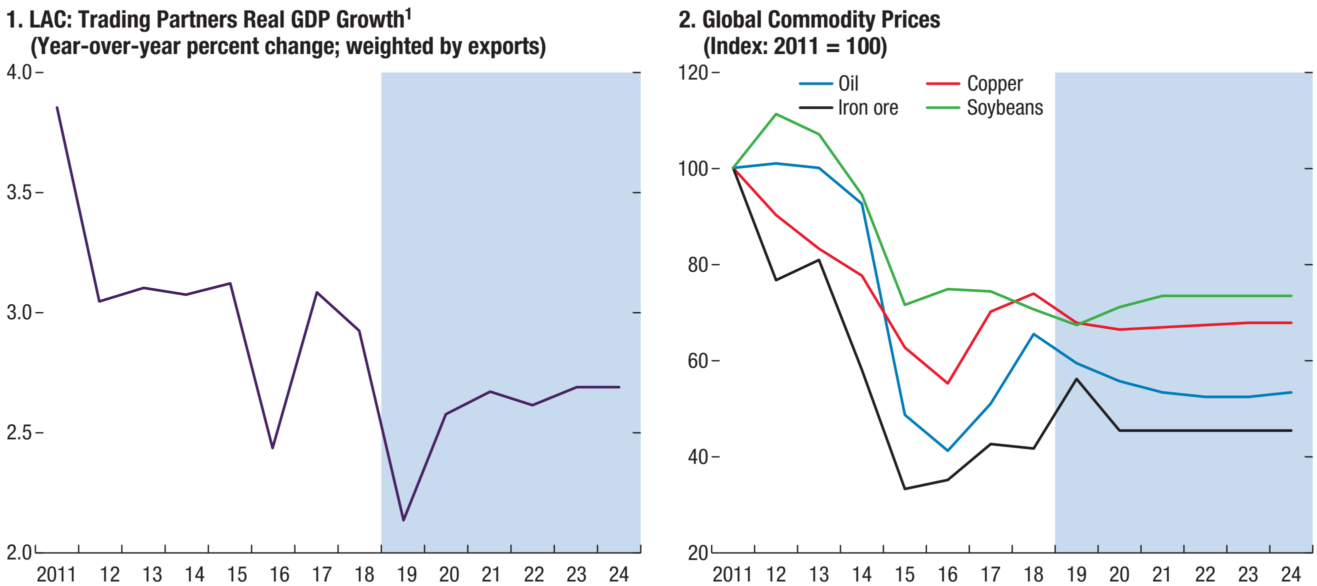
The ongoing sluggishness of global growth and trade is affecting export growth in LAC, posing significant headwinds to the outlook (Figure 1). External demand for the region remains subdued, with trading partner growth (including China, Europe, other LAC countries, and the United States) projected to decline from 3 percent in 2017–18 to 2.1 percent in 2019, before recovering modestly over the medium term (Figure 2, panel 1). Moreover, commodity prices (notably energy and metals), key drivers of growth in LAC

Figure 1. LAC: Exports Growth
(Percent)



Sources: IMF, Direction of Trade Statistics database; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. EU = European Union; LAC = Latin America and the Caribbean.

Figure 2. Trading Partners Growth and Outlook for Commodity Prices



Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LAC = Latin America and the Caribbean.
[1]Based on data for partner countries that together account for 100 percent of trade of the reporting country.

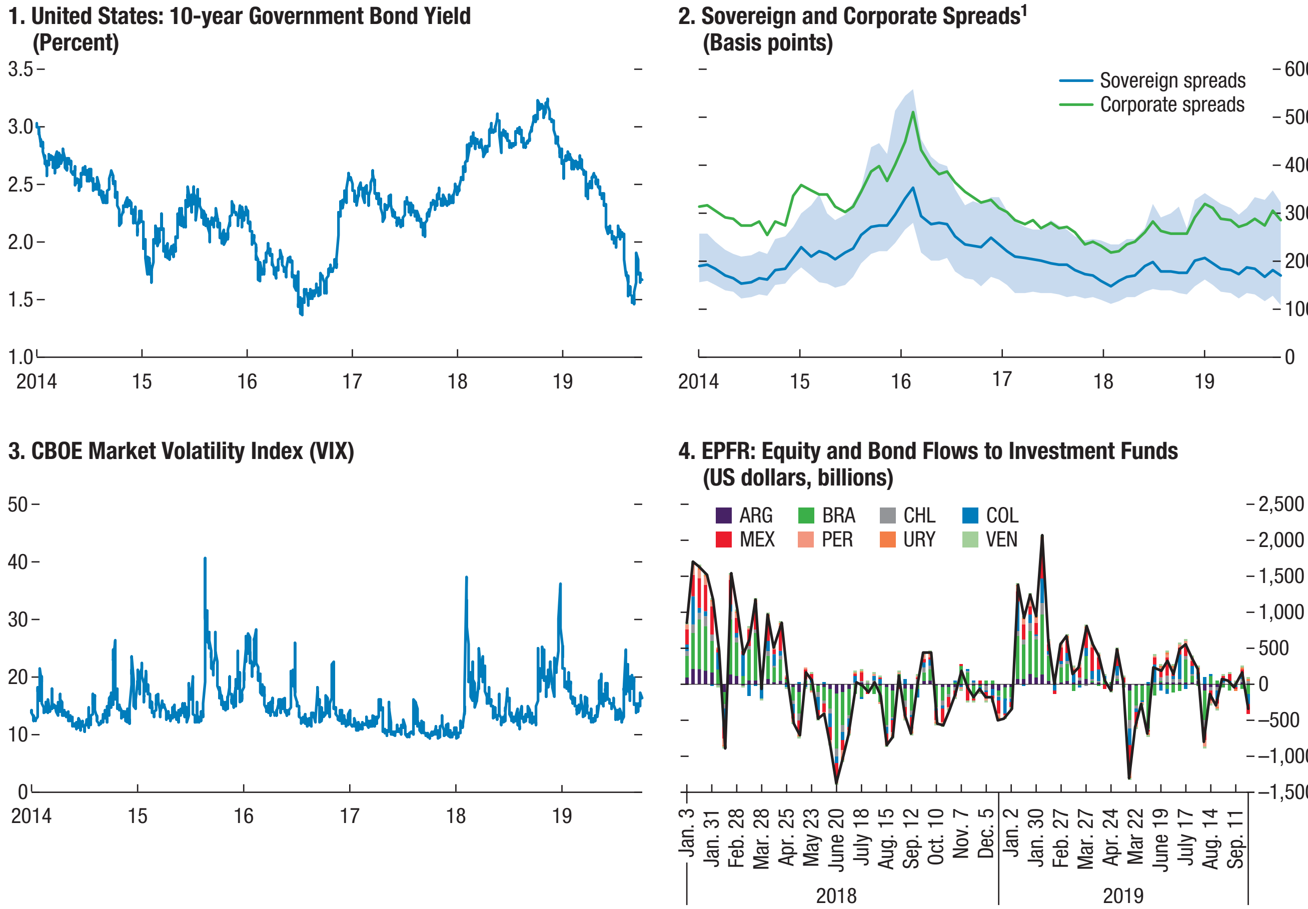
in the past, are projected to decline (Figure 2, panel 2), with a likely modest negative impact on regional growth going forward.

Easier global financial conditions, due, in part, to policy measures to counter this challenging external environment, are providing some offset to these headwinds. Sharp declines in market interest rates have eased financial conditions in advanced economies, with their respective central banks cutting policy rates and adopting a more accommodative tone of forward guidance (October 2019 *Global Financial Stability Report*). Sovereign and corporate spreads in the region have been stable during the year, with the decline in 10-year US government bond yields implying lower external borrowing costs for the region on average (Figure 3). Going forward, easier global financial conditions may contribute to a further buildup of vulnerabilities in the global financial system, which are already at an elevated level, implying downside risks to global growth over the medium term (October 2019 *Global Financial Stability Report*).

However, capital flows to LAC have moderated and their composition has become riskier as the share of more stable flows, such as foreign direct investment, fell in the first half of 2019. Portfolio flows to the region recovered in the first quarter of 2019, following a dovish turn in monetary policy in advanced economies, but have been subdued thereafter, with some countries experiencing sharp reversals more recently (Figure 3). Since 2012, portfolio inflows have driven most of the variability of capital flows to LAC (Annex 1 and IMF 2019a). Moreover, the sensitivity of capital flows to global financial conditions and growth differentials has increased in recent years, raising the likelihood of a sudden stop in capital flows if growth in the region continues to falter and global investors' sentiment deteriorates.

To sum up, subdued trading partner growth and low commodity prices will remain headwinds to growth in the region, with easier global financial conditions providing just a partial offset. In this context, the LAC economies will need to rely on domestic sources of growth (in particular, private consumption and investment) to accelerate the recovery.

Figure 3. Financial Conditions and Capital Flows



Sources: Bloomberg Finance L.P.; Emerging Portfolio Fund Research (EPFR) database; Haver Analytics; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. CBOE = Chicago Board Options Exchange; LA5 = Brazil, Chile, Colombia, Mexico, Peru; LA6 = Brazil, Chile, Colombia, Mexico, Peru, Uruguay.
[1]Sovereign spreads refer to the median of LA6 J.P. Morgan Emerging Market Bond Index Global spread; US-dollar-denominated sovereign bonds. Corporate spreads refer to the median of LA5 J.P. Morgan Corporate Emerging Market Bond Index spread; US-dollar-denominated corporate bonds. The shaded area refers to the minimum-maximum range of LA6 sovereign spreads.

Regional Outlook: The Elusive Recovery

Growth in LAC has been low since 2015, partly because of the end of the commodity price super cycle. Reflecting broad-based downward revisions, growth in LAC is projected at 0.2 percent in 2019 and 1.8 percent in 2020 (Table 1). Growth disappointed in the first half of 2019 partly due to supply shocks, policy uncertainty in some large economies, and a slowdown in exports (Figure 4). The deep economic and humanitarian crisis in Venezuela has also continued to weigh on regional growth and to drive large migration flows to other countries in the region (Box 1).

Given the challenging external environment, the pickup in 2020 is expected to be driven by private consumption and investment, anchored by a rebound in business and consumer confidence. Other factors, such as job creation, wage growth, and domestic financial conditions, are not expected to significantly boost private consumption and investment. The next sections elaborate on these issues.

Confidence and Prospects for Private Consumption and Investment

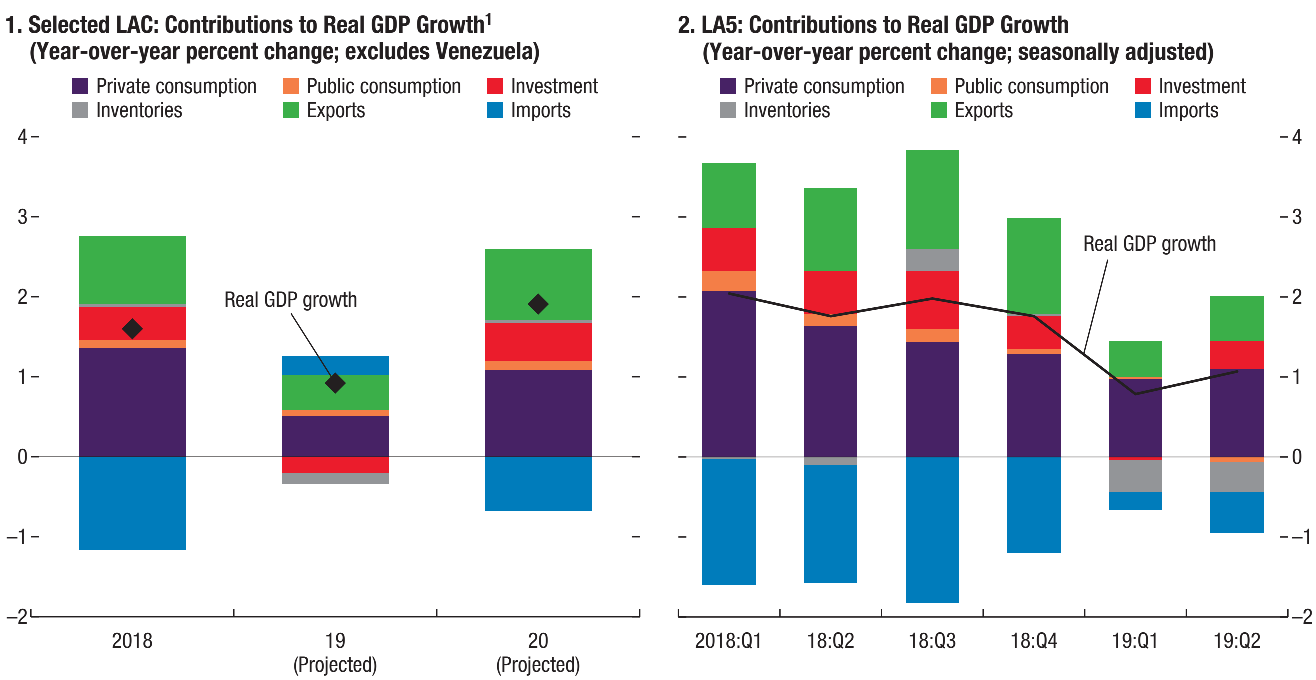
IMF staff projects a rebound in business and consumer confidence that would support growth.

Table 1. Real GDP Growth
(Year-over-year percent change)

			Projections	
	2017	2018	2019	2020
Latin America and the Caribbean	**1.2**	**1.0**	**0.2**	**1.8**
LAC excluding Venezuela	1.9	1.7	0.9	2.1
South America	0.6	0.4	−0.2	1.7
CAPDR	4.0	3.9	3.3	3.9
Caribbean				
Tourism dependent	0.8	1.8	1.4	1.1
Commodity exporters	−0.9	1.0	0.8	17.9
Memorandum items:				
LA6	1.5	1.9	1.2	2.1
Brazil	1.1	1.1	0.9	2.0
Mexico	2.1	2.0	0.4	1.3

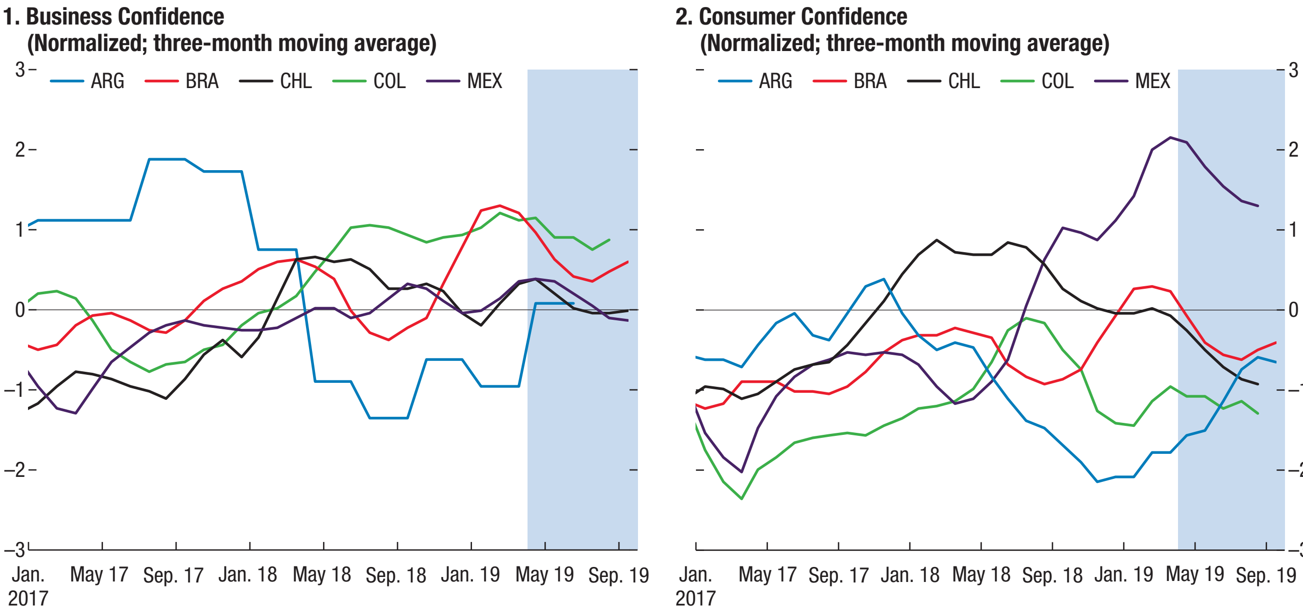
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. For country group information, see page 27. CAPDR = Central America, Panama, and the Dominican Republic; LAC = Latin America and the Caribbean; LA6 = Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

Figure 4. Economic Growth



Sources: Haver Analytics; national authorities; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. Inventories include statistical discrepancies. LAC = Latin America and the Caribbean; LA5 = Brazil, Chile, Colombia, Mexico, Peru.
[1]Also excludes Barbados, Dominica, Grenada, Guyana, Jamaica, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, and Trinidad and Tobago due to data limitations.

Figure 5. Confidence Indices



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Shaded area refers to the period after April 2019. Data labels use International Organization for Standardization (ISO) country codes.

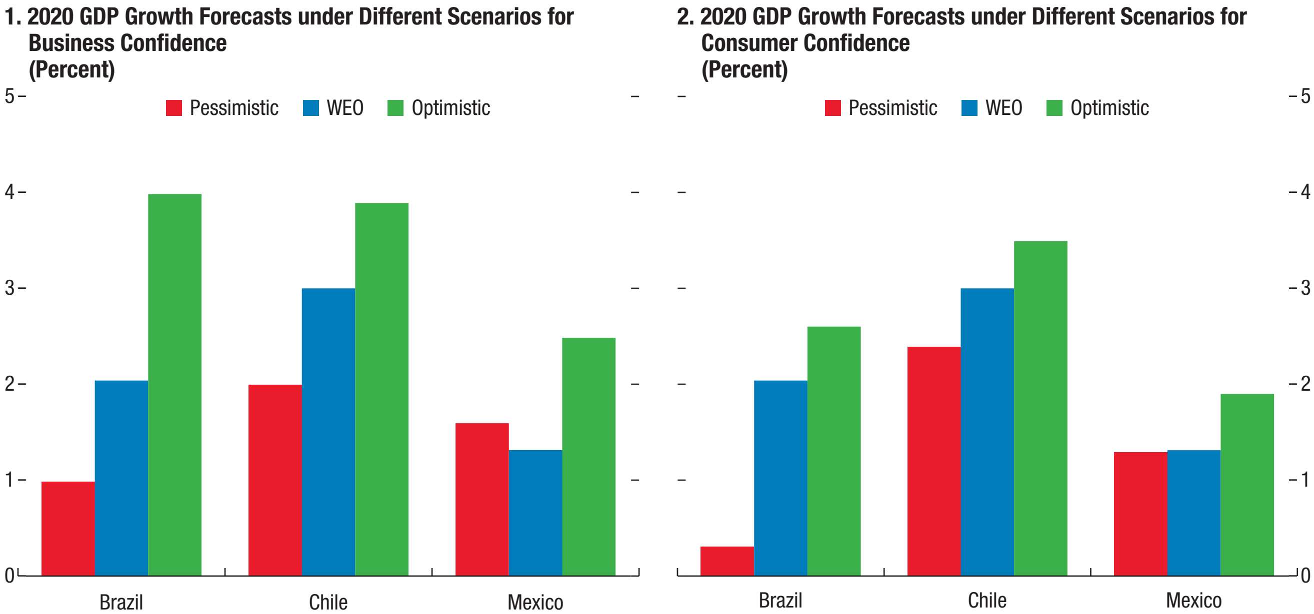
The weak momentum in 2019 reflects, in part, external and domestic policy uncertainty (see IMF 2019b*)*, which has weighed on confidence in the region. In fact, the incipient recovery in business and consumer confidence in several countries has reversed since April 2019 (Figure 5). Staff projections assume a rebound in confidence in the second half of 2019 as policy uncertainty abates in some large economies, which is projected to boost domestic demand in 2020. Policy uncertainty is expected to decline in Brazil as pension reform progresses in congress, and in Mexico as the government reassures markets of its commitment to fiscal discipline. However, based on recent trends, there are also large downside risks to business and consumer confidence, which could jeopardize the recovery in 2020.

To illustrate this point, Figure 6 presents conditional growth forecasts from Bayesian vector autoregression (VAR) models.[1] The optimistic (pessimistic) scenario assumes that business or consumer confidence increases (declines) by one standard deviation from current levels. The optimistic scenario leads to higher growth rates than projected in the October 2019 *World Economic Outlook*, and the pessimistic scenario leads to substantially lower growth rates.[2] Thus, a rebound in business and consumer confidence in line with the optimistic scenario could lead to a significant recovery in 2020, but growth prospects in the region could deteriorate further if confidence continues to decline. Strong and well-designed policies could help restore confidence, as discussed, for example, in the case of decisive fiscal adjustment measures (Annex 1 and IMF 2019c). The implementation of sound structural reforms that improve potential growth (including, for example, pension reform in Brazil) could also help boost private consumption and investment growth through confidence effects.

[1]The variables included in the Bayesian VAR models are growth, business, or consumer confidence; the CBOE VIX index; and the commodities terms of trade. The models are estimated at quarterly frequency, with data between the first quarter of 2005 and the second quarter of 2019.

[2]The projections in the October 2019 World Economic Outlook incorporate more information than the model-based forecast scenario presented here, including the stances of monetary and fiscal policy discussed later in this report.

Figure 6. Confidence and the Growth Outlook



Sources: Haver Analytics; IMF, World Economic Outlook (WEO) database; national authorities; and IMF staff calculations.

Labor Market Dynamics and Informality

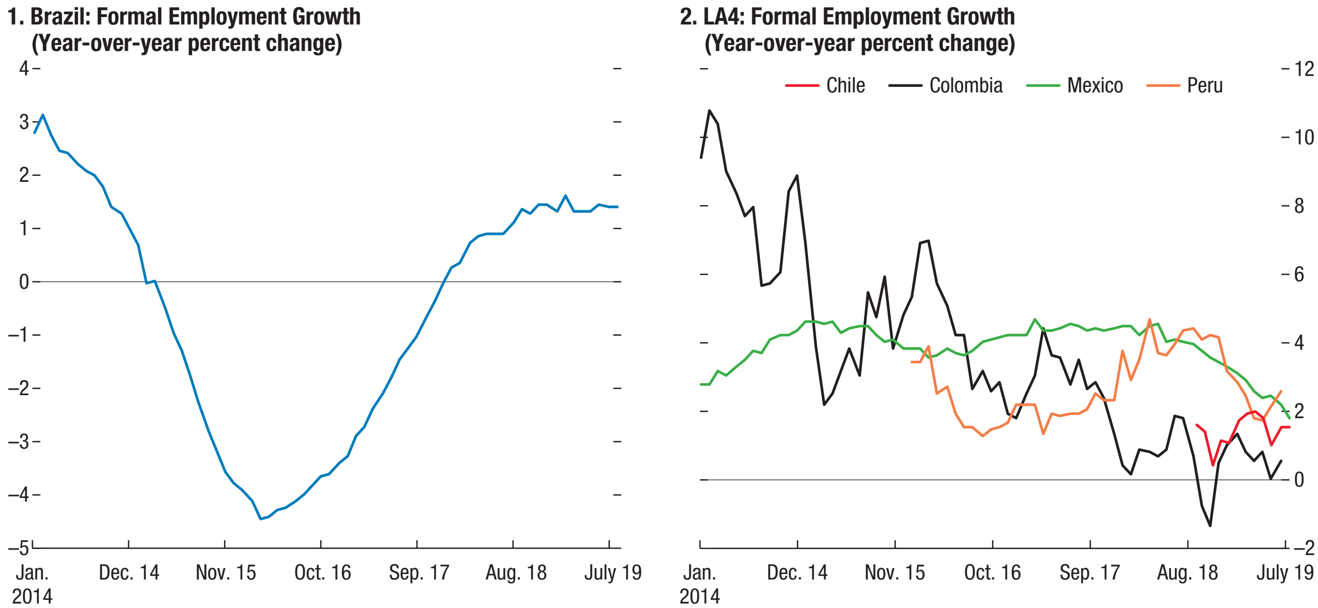
Lackluster labor markets are unlikely to support the recovery. Formal sector job creation has decelerated sharply in some countries this year (Figure 7), in line with the tepid recovery. Moreover, real wage growth has been modest. According to analysis in a background paper (Annex 1 and IMF 2019d), informality typically increases and acts as a buffer mitigating increases in unemployment during periods of low economic growth—but entailing lower-productivity jobs. Thus, it is unlikely that labor market developments will support a strong rebound of overall growth in the region in 2020.

Domestic Financial Conditions and Corporate Vulnerabilities

Near neutral domestic financial conditions are not expected to boost consumption and investment growth in the region. The recovery in credit growth in the largest economies in the region continues, following sharp decelerations in 2015–17. However, overall financial conditions are currently at near neutral levels (Figure 8, panel 1), and they could tighten suddenly if sentiment toward risk in global markets shifts, particularly given existing vulnerabilities in the corporate sector in some countries in the region. The materialization of such tightening would considerably weaken the region's prospects, as discussed in the October 2018 *Regional Economic Outlook: Western Hemisphere*.

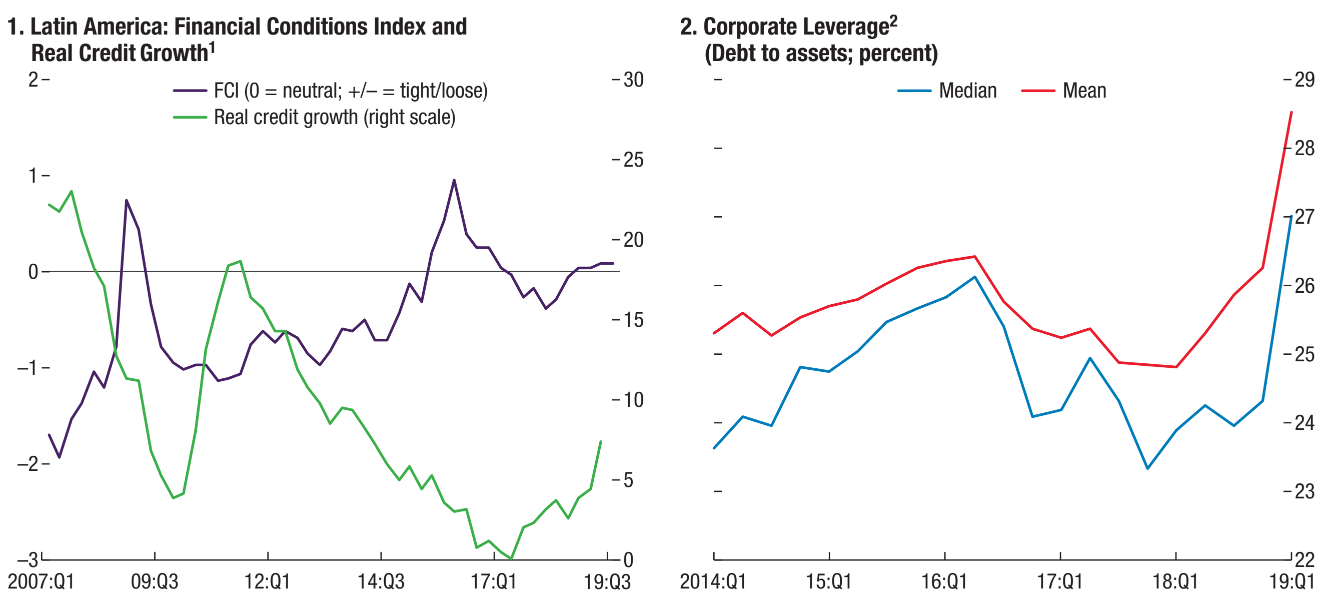
Corporate leverage has risen since 2018 in several economies in the region (Figure 8, panel 2), pointing to heightened financial vulnerabilities (especially where foreign-currency-denominated debts are large). In Mexico, this is partly due to the state-owned oil company Pemex. While other state-owned enterprises in the region have lowered their leverage since 2016, Pemex's leverage has continued to rise. Nevertheless, recent efforts to increase efficiency have led to welcome improvements in cash-generation indicators (see IMF 2019e and the October 2019 *Global Financial Stability Report* for a discussion of corporate vulnerabilities).

Figure 7. Labor Markets



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LA4 = Chile, Colombia, Mexico, Peru.

Figure 8. Financial Conditions and Corporate Leverage



Sources: Bloomberg Finance L.P.; IMF, International Financial Statistics database; national authorities; and IMF staff calculations.
[1]For methodology and variables included in the financial conditions index (FCI), refer to the online annex of the October 2018 *Global Financial Stability Report*. Real credit growth purchasing-power-parity GDP-weighted aggregate excludes Argentina.
[2]Includes the nonfinancial corporations of Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

Contained Inflationary Pressures and Broadly Balanced External Sector

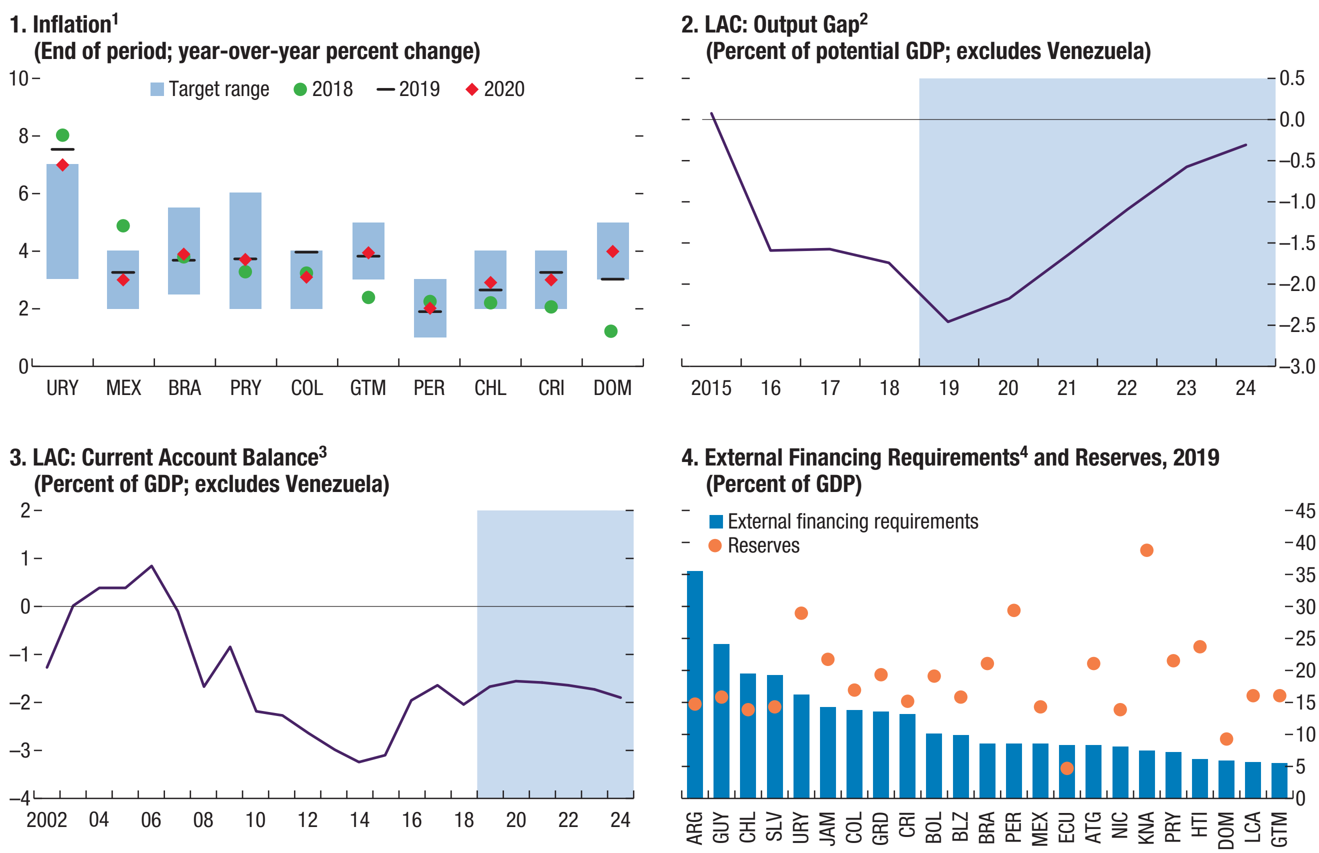
Inflation in LAC remains moderate and is expected to stay near the center of the target range in most countries in 2019–20 (Figure 9, panel 1). This reflects sound monetary policy frameworks, well-anchored expectations, and negative output gaps, which are projected to narrow gradually over the medium term (Figure 9, panel 2).

The current account balance remains manageable in most countries in the region, while reserve buffers remain broadly adequate (Figure 9, panels 3 and 4). The region's current account deficit is projected at 1.7 percent of GDP in 2019–24 amid lower commodity prices and subdued export and import growth. International reserves are sufficient to cover external financing requirements in most countries in 2019.

Risks to the Outlook

Risks to the outlook are skewed to the downside, and stem from both external and domestic sources. External sources of risks include further disruptions in trade and supply chains stemming from escalating trade, investment, and technology sector tensions; a further slowdown in global

Figure 9. Internal and External Balances



Sources: IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. LAC = Latin America and the Caribbean.
[1]Includes countries with an inflation targeting framework. Target range (2.5–5.5) shown for Brazil is for 2020.
[2]Output gap is purchasing-power-parity GDP-weighted average.
[3]Current account balance is US dollar nominal GDP-weighted average.
[4]External financing requirement (public and private) is the sum of short-term debt on a remaining maturity basis and the current account deficit.

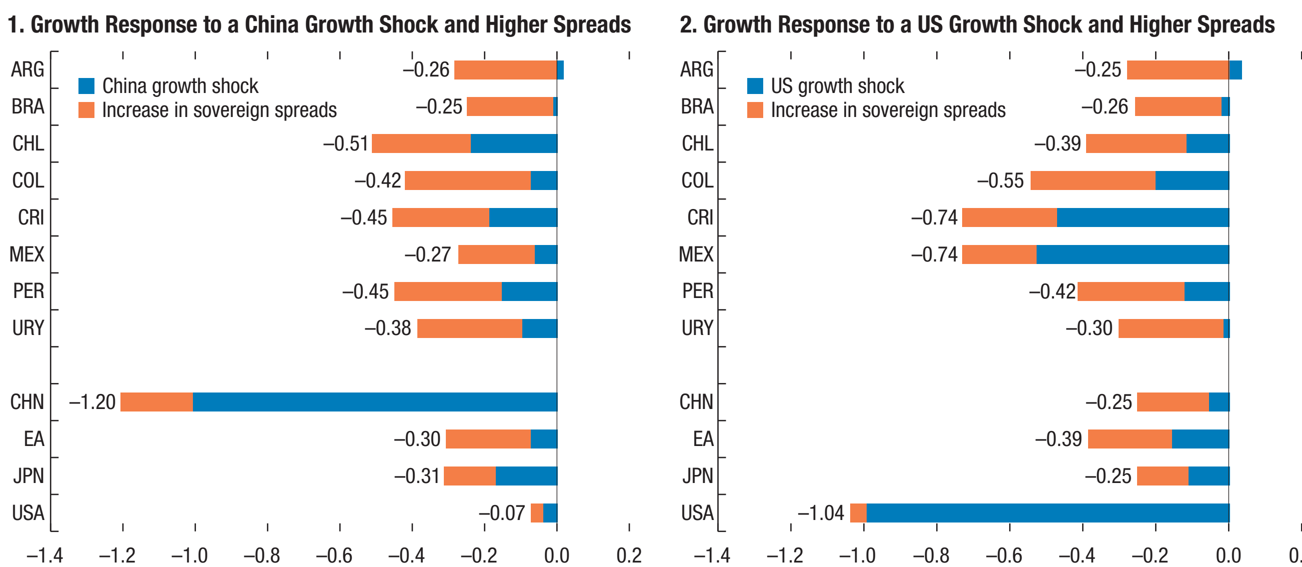
growth; volatility in commodity prices possibly linked to the intensification of geopolitical tensions and security risks; as well as a sharp increase in risk premiums associated with shifts in global risk aversion and a continued buildup of financial vulnerabilities (see the October 2019 *World Economic Outlook Report* for a detailed description of these risks). Regional and domestic sources of risks include heightened policy uncertainty; contagion from the financial turmoil in Argentina; a sharp rise in migration from Venezuela that strains the provision of public services and labor markets in host countries; and natural disasters.

External Risks

Spillovers to LAC from growth slowdowns in China and the United States could be large, especially if they also lead to higher sovereign spreads in emerging market economies. The size of spillovers depends on exposures to China and the United States through trade, commodity prices, and financial flows, as well as second-round effects through the impact on other countries. IMF staff analysis (see IMF 2019f) shows that a one-off 1 percentage point fall in China's growth, together with a rise of 100 basis points in sovereign spreads in emerging market economies, would lower growth in Chile and Peru—the two countries most exposed to China—by 0.5 percentage point (Figure 10, panel 1). A similar shock in the United States with the same increase in sovereign spreads would lower growth in Costa Rica and Mexico—the two countries most exposed to the United States—by 0.7 percentage point (Figure 10, panel 2).

An escalation of trade tensions between the United States and China would likely affect growth in both countries simultaneously (see October 2019 *World Economic Outlook*). As an illustration, a joint shock that lowers growth temporarily in *both* countries by 1 percentage point, together with a tightening of financial conditions, would lower growth by 0.5 to 1 percentage point in the largest economies of the region.

Figure 10. Spillovers from China and the United States
(Percent; one-year impact)



Source: IMF staff calculations.
Note: One-year growth response in each country associated with a 1 percentage point decline in China–US growth plus an increase in sovereign spreads by 100 basis points. Data labels use International Organization for Standardization (ISO) country codes. EA = euro area.

Regional and Domestic Risks

Policy uncertainty remains an important source of risk to the outlook. Several countries in the region need to implement difficult fiscal consolidation programs and structural reforms (see the next section), while political consensus on appropriate measures is not fully established following important changes in policy orientation. Contagion from the recent financial turmoil in Argentina could also lead to tighter financial conditions. An acceleration of emigration from Venezuela could further strain labor markets, fiscal positions, and the provision of public goods in recipient countries. Natural disasters and extreme weather events are also significant sources of risk in the region. This includes the risk of hurricanes in the Caribbean and Central America, earthquakes in the Ring of Fire countries, fires in the Amazon region, and the potential impact of El Niño weather conditions, particularly on agriculture.

Regional Policy Focus

Given weaker global growth, downside risks, still negative output gaps, and high public debt, policies will have to strike a balance between supporting growth and rebuilding policy space. The extent of support and the appropriate policy mix will depend on each country's cyclical position, policy space, and policy frameworks. At the same time, all countries should continue implementing structural reforms to boost potential growth and inclusiveness.

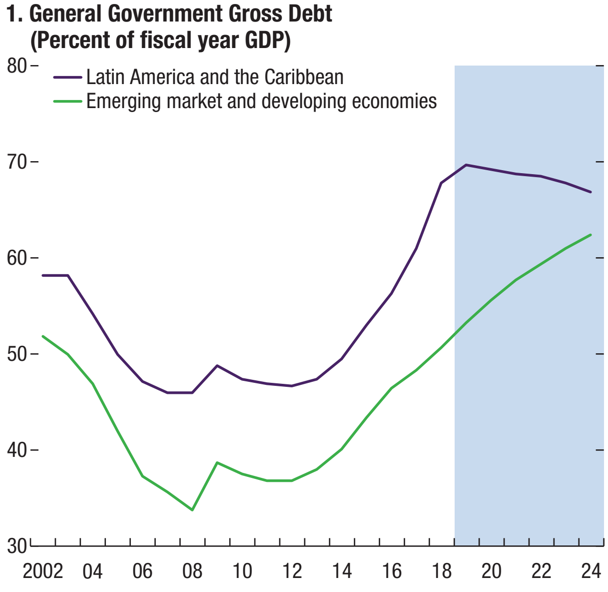
Fiscal consolidation remains a priority in many countries, limiting the fiscal space to support growth. Public debt levels in LAC are projected to exceed 69 percent of GDP in 2019, above the average for emerging market and developing economies (Figure 11). Moreover, the exposure of public debt to exchange rate shocks is high given the large shares denominated in foreign currency. Consequently, most countries in LAC are expected to tighten fiscal policy in 2019–20 (Figure 12, panel 1), although not enough to significantly lower the debt-to-GDP ratio. In addition to higher primary balances, the more favorable debt dynamics in the region over the medium-term reflects the recovery in growth, low interest rates, and more stable exchange rates.

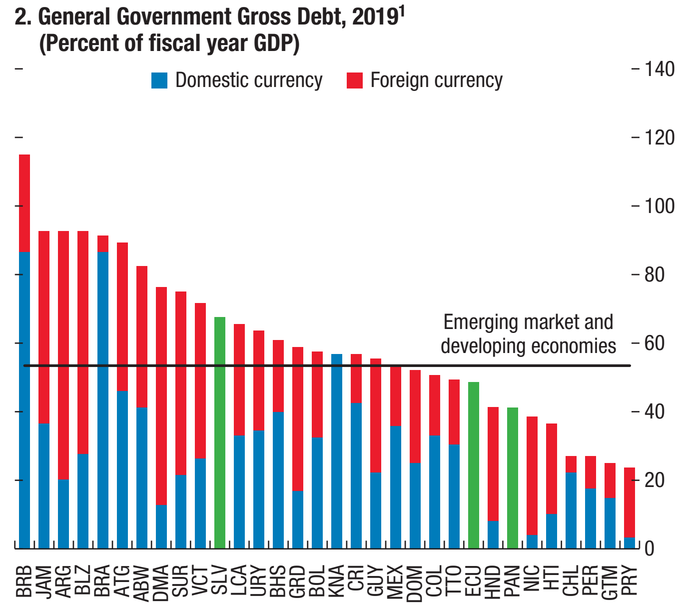
Fiscal consolidation will likely pose a drag on economic activity, but these effects can be mitigated by the design of adjustment packages. As shown by IMF staff analysis (Annex 1, IMF 2019c), credible fiscal consolidation announcements lead to reductions in sovereign spreads that attenuate the drag of the adjustment on domestic demand, particularly during periods in which spreads are high and under IMF-supported programs. The size of fiscal adjustment packages also matters with larger consolidation measures being associated with greater reductions in spreads, and ultimately, less impact on activity.

Following recent cuts in policy rates in several countries in the region, the monetary policy stance remains neutral or marginally accommodative in most countries, except in Mexico (Figure 12, panel 2). Going forward, monetary policy can continue to support growth in most countries given the stable inflation outlook, well anchored inflation expectations, and a more dovish US monetary policy stance. Clear communication by central banks will continue to be key in guiding expectations and underpinning credibility (see April 2018 *Regional Economic Outlook: Western Hemisphere*). Also, the authorities should strengthen the monitoring of corporate vulnerabilities, including by collecting more data, especially on foreign currency-denominated liabilities (see October 2019 *Global Financial Stability Report*).

A sudden shift in global investor sentiment might require an adjustment in policies, while exchange rate flexibility should continue to play a pivotal role. IMF staff analysis (Annex 1 and IMF 2019a) shows that countries with floating exchange rate regimes tend to experience shorter and less costly sudden stops in capital flows. Monetary policy tightening is also associated with shorter sudden stops. Nevertheless, tighter capital controls do not seem to affect the duration of sudden stops

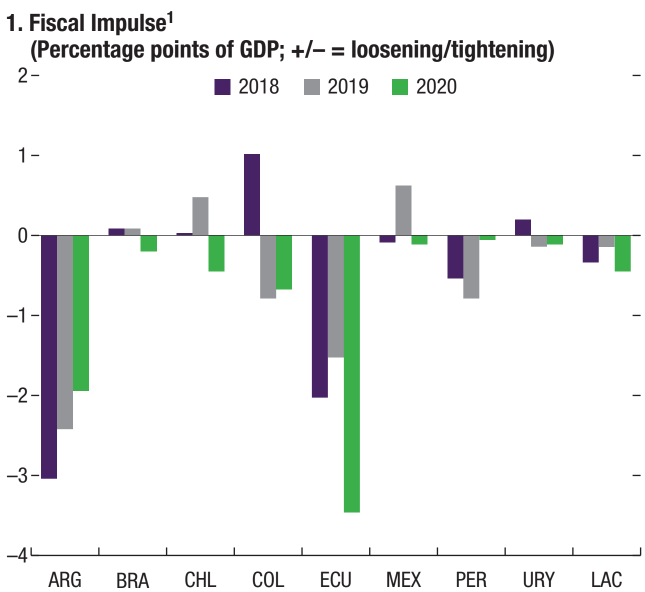
Figure 11. Public Debt

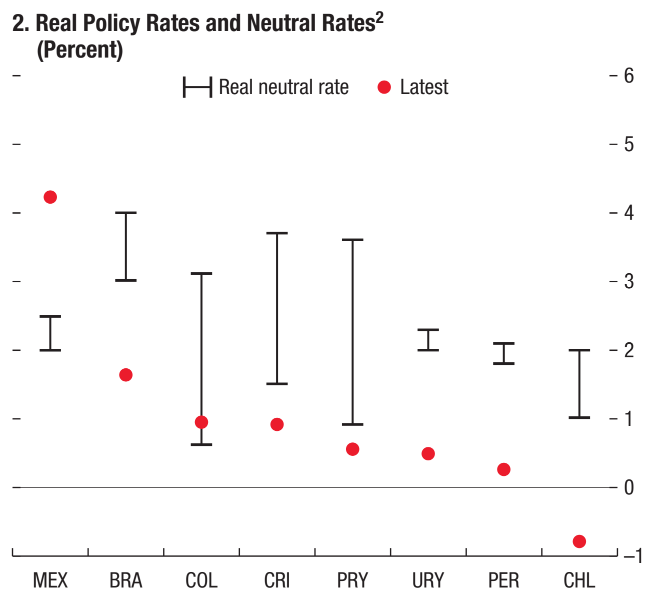




Source: IMF, World Economic Outlook database.
Note: Fiscal year US dollar nominal GDP-weighted average. For definitions of government coverage, see Annex Table 2. Data labels use International Organization for Standardization (ISO) country codes.
[1]Green bars refer to dollarized economies (Ecuador, El Salvador, Panama). Breakdown by denomination for St. Kitts and Nevis is not available; bar denotes total public debt. For Uruguay, see Annex 2.

Figure 12. Fiscal Impulse, Real Policy Rate, and Real Neutral Rate





Sources: Consensus Economics; Haver Analytics; IMF, World Economic Outlook database; national authorities; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. LAC = Latin America and the Caribbean.
[1]Defined as the change in structural primary balance. Regional aggregate is fiscal year US dollar nominal GDP-weighted average of the countries shown in the chart. Argentina refers to the general government; adjusted by the GDP gap and soy prices. Chile refers to the change in structural nonmining primary balance. Ecuador refers to the change in structural non-oil primary balance. For Uruguay, see Annex 2.
[2]Real (ex ante) policy rates calculated as the difference between the policy rate and the one-year-ahead inflation expectations. The high-low lines represent the range of IMF staff's neutral rate estimates. Uruguay does not have a policy rate. Interest rate shown is based on the one-month nominal yield (letras).

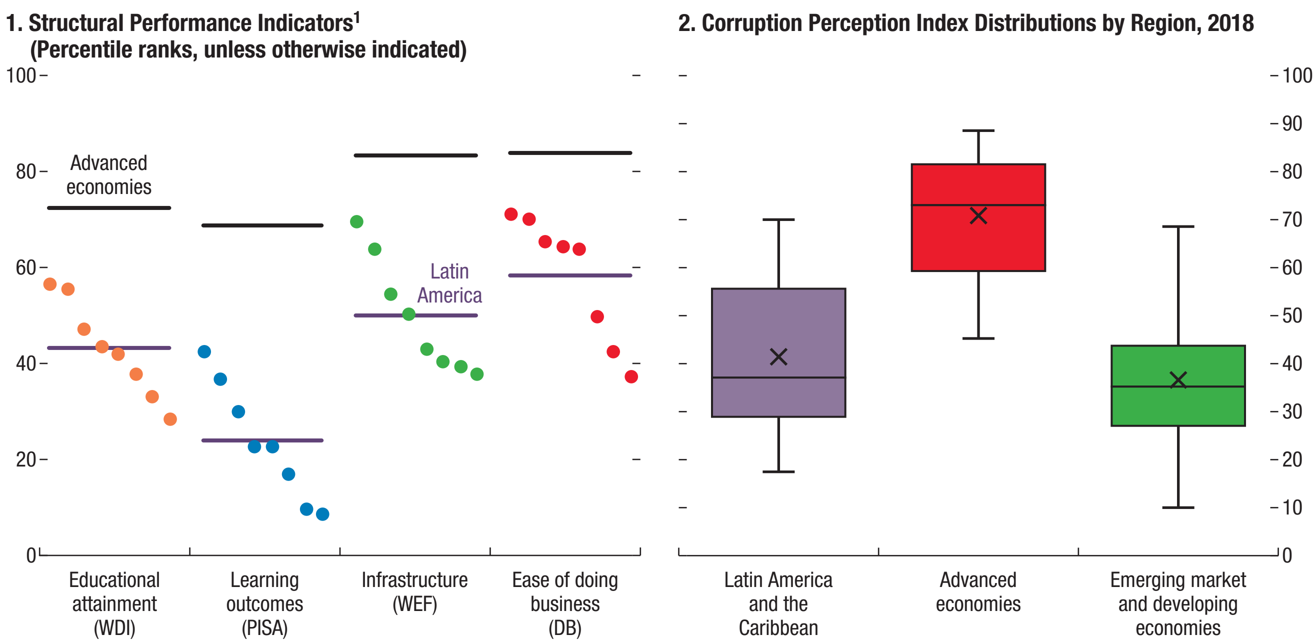
and thus cautions against overstating the power of capital account restrictions in insulating countries against external shocks.

The LAC region lags other regions in terms of human capital, physical infrastructure, and investment climate indicators (Figure 13, panel 1). Gaps in these areas should be addressed by structural reforms that aim to boost productivity and improve social outcomes. These include further opening to trade and foreign direct investment, bringing regulations in product and labor markets more in line with Organisation for Economic Co-operation and Development standards, and fostering competition. As noted in Chapter 3 of the October 2019 *World Economic Outlook*, several of these reforms might contribute to lower informality, a key issue to foster inclusiveness in the region. Given limited fiscal space, countries should prioritize reforms with lower fiscal costs.

Excessively stringent labor market regulations reduce flexibility and undermine potential growth (Annex 1 and IMF 2019d). LAC countries typically adjust more slowly to economic shocks than other countries due, in part, to rigid employment protection legislation and high minimum wages (in line with the conclusion of Chapter 2 of the October 2019 *World Economic Outlook*). Moreover, these strict regulations hamper growth, particularly in labor-intensive sectors. In this context, labor market reform efforts need to balance delicate trade-offs between promoting efficiency while protecting workers and helping to assure minimum living standards for the population.

Countries in LAC have also made progress in enhancing governance and the fight against corruption in recent years, but much remains to be done (Figure 13, panel 2). Recent notable initiatives in a number of countries are likely to contribute to improving the outlook in this area.

Figure 13. Structural Indicators



Sources: Transparency International; Organisation for Economic Co-operation and Development, 2015 Programme for International Student Assessment (PISA); World Bank, 2019 Doing Business (DB) database; World Bank, World Development Indicators (WDI) database; World Economic Forum (WEF), 2018 Global Competitiveness Report; and IMF staff calculations.

[1]Aggregates for advanced economies and Latin America are simple averages. For WDI, educational attainment refers to the percentage of population ages 25 and over that attained or completed upper secondary education. For PISA, WEF, and DB, the scale reflects the percentile distribution in all countries for each respective survey.

Country Focus

South America

The near-term outlook for South America has been downgraded, reflecting largely lower than expected growth in Argentina and Brazil.

In *Argentina*, a new bout of financial turmoil after the primary elections in August risks undermining the emerging recovery. The sharp depreciation of the peso (more than 20 percent in the week after the primary elections) is expected to halt the gradual decline of inflation observed through July—IMF staff now expects inflation to reach 57 percent at the end of 2019, up from the 31 percent expected in April. Real GDP growth in 2019 is now projected at –3.1 percent, down from –1.2 percent expected in April.

In *Brazil*, growth is projected at 0.9 percent in 2019, constrained by weak aggregate demand and low productivity. Continued slack and low inflation led the central bank to cut the policy rate to a historic low of 5.5 percent in July and signal a dovish path ahead. Gross public debt has risen to near 90 percent of GDP and remains on an upward trend. Encouragingly, a key pension reform is progressing in Congress, having been approved in the lower house in early August. The ongoing structural reform agenda is expected to lift business confidence and, together with supportive financial conditions, is projected to raise growth to 2.0 percent in 2020. Fiscal consolidation should continue, guided by the constitutional ceiling on federal expenditure. Brazil needs continued decisive structural reforms to raise potential growth, including tax reforms, privatization, trade liberalization, and measures to enhance the efficiency of financial intermediation.

In *Bolivia,* real GDP is projected to grow at 3.9 percent in 2019, supported by an expansionary fiscal policy, as well as strong wage and credit growth. However, hydrocarbon exports have declined recently and there is a risk of further contraction going forward. Uncertainties related to the October presidential elections are another important risk factor.

In *Chile*, growth is expected to recover in the second half of 2019, led by an expansionary monetary policy stance and a package of fiscal measures. Real GDP is projected to grow at 2.5 percent in 2019 and 3.0 percent in 2020. The balance of risks remains tilted to the downside, reflecting both the uncertain external environment and recent signs of weaknesses in the nonmining segment of the economy. Inflation is expected to gradually converge to the central bank's target range from below, helped by the accommodative monetary policy. The authorities' structural balance targets are expected to keep guiding the medium-term fiscal consolidation. Reforms related to tax, pension, healthcare, and the labor market remain on top of the policy agenda.

In *Colombia*, the economy gained momentum in the second quarter of 2019 on the back of continued strength in private consumption and a rebound in public expenditure. As a result, growth is projected at 3½ percent in 2019–20, supported by an accommodative monetary policy; higher fiscal spending by subnationals and a lower corporate tax burden; continued implementation of infrastructure projects; and migration from Venezuela. Inflation is expected to converge to the central bank's target in 2020. Fiscal policy remains guided by the structural deficit rule, with the government's deficit target expected to be met in 2019, but lower corporate taxes from 2020 onward are expected to dampen revenues.

In *Ecuador,* growth is projected at –0.5 percent in 2019 and 0.5 percent in 2020 as the economy adjusts to lower oil prices, credit growth gradually slows, and the authorities implement fiscal consolidation. Inflation is expected to remain moderate in 2019 and beyond. The government is planning to tackle an extensive structural reform agenda, including fiscal reform, labor market reform, reforms of the central bank law and the public finance law, public-private partnerships, public enterprise, capital market laws, and new anti-corruption legislation. However, the recent measures announced by the government and associated protests present downside risks to growth and upside risks to inflation.

Paraguay's economy is suffering from a series of simultaneous shocks, including a drought in the past planting season, flooding, a deeper recession in Argentina, and a slower-than-expected recovery in Brazil. Real GDP growth for 2019 has been revised down to 1.0 percent from 3.5 percent since April. The central bank has lowered its policy rate five times to 4.0 percent, and the Ministry of Finance is accelerating the execution of public investment to support construction and employment.

In *Peru*, growth disappointed in the first half of 2019 due to weakness in primary sectors (fishing and mining) and under-execution of public investment. As a result, growth is now projected at 2.6 percent in 2019 and 3.6 percent in 2020, when the impact of these shocks is expected to dissipate. Downside risks dominate, including from weaker external demand and domestic political uncertainty. With inflation comfortably within the central bank's target range and robust fiscal and external buffers, the authorities have renewed their countercyclical monetary policy stance to support the recovery.

In *Uruguay,* economic activity has slowed significantly, partly reflecting a deeper recession in Argentina, and a slower-than-expected recovery in Brazil. The large new infrastructure and investment projects will provide a significant buffer for the next two years, with growth expected to recover from 0.4 percent in 2019 to 2.3 percent in 2020 and 3 percent in 2021. Inflation and inflation expectations continue to remain above the upper limit of the central bank's 3- to 7-percent target range. The boost from large investment projects provides a window of opportunity to adjust the macro policy stance—by introducing fiscal measures to put debt on a firm downward trajectory and by reducing inflation to the middle of the target range—and to focus on eliminating structural bottlenecks to higher potential growth.

In *Venezuela*, dire economic and humanitarian conditions continue. Real GDP is projected to drop by 35 percent this year (a cumulative contraction of about 65 percent since 2013), driven by plummeting oil production, worsening conditions in the non-oil sector, and pervasive electricity shortages. Hyperinflation continues, although annual projections have been revised downward to 200 thousand percent owing to a sharp tightening of monetary conditions by the central bank since early 2019. Nonetheless, inflation is expected to reaccelerate in the second half of the year, as foreign revenue declines further, forcing an increase in monetary financing. Migration to neighboring countries is expected to continue and potentially intensify as social and economic conditions in Venezuela worsen.

Mexico and Central America, Panama, and the Dominican Republic

The outlook for Mexico and Central America, Panama, and the Dominican Republic (CAPDR) is marked by sluggish growth and increased uncertainty.

In *Mexico*, growth has slowed and is projected at 0.4 percent in 2019. Investment has remained weak and private consumption has been slowing, reflecting policy uncertainty, weakening global and US manufacturing, budget under-execution, and rising borrowing costs. Growth is projected to accelerate to 1.3 percent in 2020, on the back of a modest recovery in domestic demand as uncertainty is expected to begin subsiding. Inflation has been on a declining path and is expected to converge toward the central bank target by year-end. The authorities have started to ease monetary policy amid weakening demand and US policy easing and should continue to do so as inflation converges to target. Fiscal policy should be geared toward putting the public debt-to-GDP ratio on a downward trajectory.

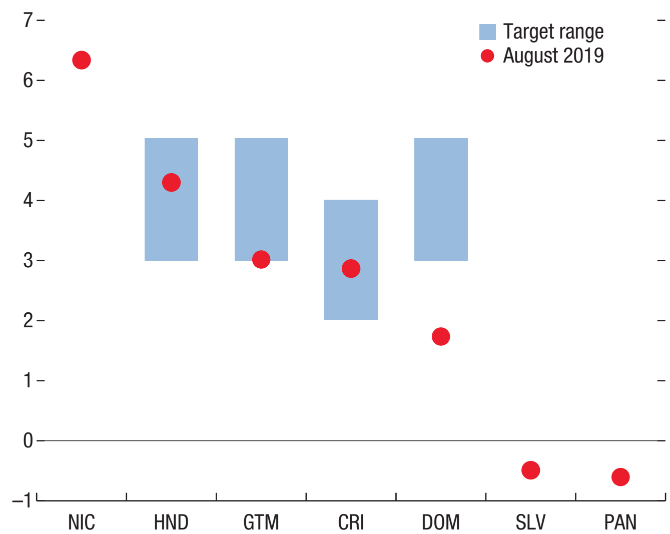
The growth momentum faded in the economies of CAPDR in the first half of 2019. *Panama* began the year with its lowest quarterly growth rate in a decade, but growth prospects have improved with the start of operations at Cobre Panama's mine in July. Economic activity in *Costa Rica* has also faltered given a weaker-than-expected pickup in consumer and investor confidence following the fiscal reform of December 2018, deteriorating terms of trade, and the impact of the drought on agriculture. *Nicaragua*'s political crisis continues, with data suggesting markedly negative growth. Weaker activity, moderate oil prices, and roughly stable food prices have contained inflationary pressures in the region (Figure 14).

Regional growth was downgraded to 3.3 percent in 2019 (from 3.8 percent in April 2019), mainly due to revisions in *Panama* (–1.7 percent) and *Costa Rica* (–0.9 percent). A tightening of external financial conditions and a further escalation in global trade tensions are key downside external risks for CAPDR. Furthermore, since the region is highly integrated to the United States on trade and financial flows, CAPDR remains vulnerable to US economic and political developments.

Monetary policy can support economic activity if growth prospects weaken further. Indeed, the central banks of *Costa Rica* and the *Dominican Republic* have already cut policy rates in 2019. Current inflation levels compared to targets suggest that these countries have more monetary policy space than *Guatemala* and *Honduras*.

Fiscal consolidation remains a priority in several CAPDR economies. In *Costa Rica*, with a fiscal deficit of 6 percent of GDP in 2018 and public debt approaching 60 percent of GDP, the fiscal reform constituted a critical step to restore fiscal sustainability, but full and timely implementation is key. In the *Dominican Republic*, with a deficit of 3.1 percent of GDP, a frontloaded adjustment anchored on widening the tax base is recommended to reverse the upward debt dynamics, while a medium-term fiscal framework with a clear anchor and fiscal responsibility elements should be put in place to enhance credibility. In *El Salvador*, with a deficit of 3.4 percent of GDP and public debt higher than 70 percent of GDP, frontloaded fiscal consolidation measures of about 2 percent of GDP over 2019–20 would help anchor fiscal sustainability. *Guatemala*'s main fiscal challenge is its low tax revenue, which impedes the expansion of public services and infrastructure. Supported by a 24-month IMF Stand-By Arrangement/

Figure 14. CAPDR: Inflation
(12-month percentage change)



Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Data labels use International Organization for Standardization (ISO) country codes. CAPDR = Central America, Panama, and the Dominican Republic.

Standby Credit Facility, *Honduras* is implementing structural reforms—notably in its electricity sector—and strengthening governance and the business climate.

The Caribbean

Economic prospects are generally improving in the Caribbean, but there is substantial variation across countries. The tragic loss of life and devastation caused by Hurricane Dorian in the Northern Bahamas is a reminder that the region remains highly vulnerable to natural disasters. Growth in tourism-dependent economies is expected to remain robust in 2019–20, supported by still strong growth in the United States, the main tourist market for the Caribbean. For instance, tourist arrivals in the *Eastern Caribbean Currency Union* countries[3] rose by 6.5 percent in 2018 and have remained robust in 2019, keeping the region's average growth at around 4 percent in both years, well above the historical average. In *The Bahamas*, the economic impact of Hurricane Dorian will

[3]For country group information, see page 27.

be buffered by the fact that 80 percent of hotel capacity remains open for business, with tourism projected to support the economy during the reconstruction effort. *Jamaica* successfully reached staff-level agreement for the sixth and final review under the IMF-supported Stand-By Arrangement, which ends 6½ years of financial support from the IMF. Steadfast reform implementation by the Jamaican authorities resulted in many milestones, including reducing public debt by 50 percentage points of GDP since 2013 to below 95 percent of GDP and hitting an all-time low unemployment rate of 7.8 percent. Growth is estimated at 1.6 percent for 2018, double the average of the last 25 years, driven by robust tourist arrivals, an increase in public capital expenditure, and stronger mining activities, but the recent drought is expected to offset a further pickup in mining activity, reducing growth in 2019. With improved energy production and higher commodity prices, the commodity exporting countries in the region are expected to see some modest recovery in growth, except in *Guyana* where large discoveries of oil and the commencement of production in 2020 will provide a substantial boost to growth.

Risks to the outlook are tilted to the downside. The main risks to the region include weaker-than-expected global growth, large swings in energy prices, and natural disasters. The region's long-term growth prospects continue to be impeded by structural problems, including high public debt, limited access to finance and reliable energy, elevated unemployment, brain-drain, crime, and vulnerability to commodity and climate-related shocks. Several countries in the region have also come under heightened scrutiny from international bodies for weaknesses in their anti-money laundering and combating the financing of terrorism (AML/CFT) frameworks and alleged harmful tax practices, with potential adverse impact on investor sentiment. To address these issues, policy priorities should include a deepening of financial systems, credit, limiting brain drain, tackling violent crime, and improving the business climate and institutions. Shifting the focus from post-disaster response toward better preparation is crucial to building resilience to natural disasters and climate-related shocks. This can be done by investing in resilient infrastructure to enhance structural resilience, calibrating disaster risk-financing strategies, as well as through contingency plans for better post-disaster intervention. A comprehensive and credible disaster resilience strategy (DRS) that is imbedded in a consistent macroeconomic framework would provide a roadmap for policy design and sequencing, facilitate donor coordination, and catalyze additional financial support.

High public debt remains a major vulnerability for the region, making countries susceptible to tighter financial conditions. Some countries have taken steps to strengthen their fiscal positions (for example, *Barbados, Grenada, and Jamaica*), and continued fiscal prudence will help safeguard recent fiscal gains. Further fiscal tightening is needed to ensure debt sustainability in *Antigua and Barbuda, Belize, Suriname and Trinidad and Tobago*. In this context, well-designed fiscal rules anchored in effective medium-term fiscal frameworks can help guide the consolidation efforts, while allowing for escape clauses to deal with large natural disasters (*The Bahamas*).

Despite progress on financial sector reform, high levels of nonperforming loans continue to constrain credit availability and increase banks' vulnerability to shocks. Further efforts to improve supervision and regulation are needed to clean up bank balance sheets and limit potential adverse effects of market risks and the tightening of financial conditions on financial stability. Available data indicate that the Caribbean countries continue to lose correspondent banking relationships (CBRs) despite some recovery in cross-border transactions in 2018. The situation remains fragile, as concentration risks have also risen. The local banks are expected to play a bigger role in securing CBRs if there are further exits of foreign banks from the region. Meanwhile, more effective AML/CFT and supervision frameworks, improved risk management systems, better information exchange between correspondent and respondent banks, and regional bank consolidation are needed to strengthen financial sector resilience.

In *Haiti*, economic conditions have deteriorated sharply over the past year amidst a protracted political crisis. Real GDP growth is projected to stall in 2019. Inflation has surged, exceeding 19 percent in July and the local currency has depreciated sharply, despite an increase in the central bank's interest rates and an agreement to limit monetary financing of the fiscal deficit. With domestic fuel prices fixed in local currency and customs and tax revenues down, the fiscal deficit and budget arrears are rising. Moreover, political instability has negatively affected external financial support. Absent some political stability and policy continuity, the medium-term growth outlook remains weak at around 1.5 percent.

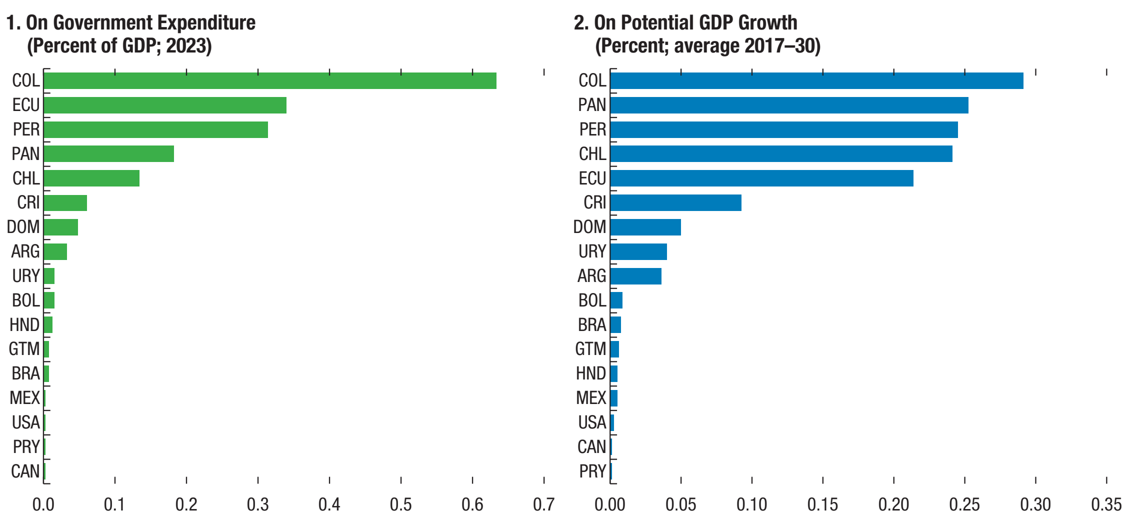
Box 1. The Venezuelan Crisis and Associated Migration

The economic and humanitarian crisis in Venezuela has deepened further, with collapsing economic activity, hyperinflation, and electricity shortages. As a result, Venezuelans have continued to emigrate. As of October 2019, the United Nations estimated that 4.5 million Venezuelans had left the country, with 3.7 million settling in other countries in Latin America and the Caribbean. Colombia had the largest number (1.4 million), followed by Peru (860,900), Chile (371,200), and Ecuador (330,400).

Large migration flows from Venezuela are expected to have mixed effects in recipient countries. In the short-run, they are expected to put pressures on the provision of public services and labor markets, where migration could increase informality in a context of weak economic activity. Over the medium term, they would raise potential growth as the size and skills of the labor force expands and investment increases. However, the effects on growth in the near term are expected to be modest. There are also downside risks to the gains in growth if migrants are not integrated in an orderly way or if migration leads to social dislocation.

IMF staff analyzed the impact of migration from Venezuela on recipient countries assuming that migration continues in the coming years and reaches 10 million by 2023. Relative to a baseline with no migration, public spending increases by 0.6 percent of GDP in Colombia and 0.3 percent in Ecuador and Peru by 2023 (Box Figure 1.1, panel 1). Migration also raises potential growth as the labor force expands, especially when migrants are of working age and are well educated. Relative to a baseline with no migration, average potential growth in 2017–30 would rise in the range of 0.2 to 0.3 percentage point in Colombia, Panama, Peru, Chile, and Ecuador (Box Figure 1.1, panel 2). These gains would be larger and more frontloaded if labor markets are flexible and migrants can find jobs in line with their human capital.

Box Figure 1.1. Impact of Venezuela's Migration Crisis



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

This box was prepared by Jaime Guajardo and Emilio Fernandez Corugedo.

Annex 1. Summary of Background Papers

Capital Flows to Latin America in the Aftermath of the Commodities Super-Cycle[1]

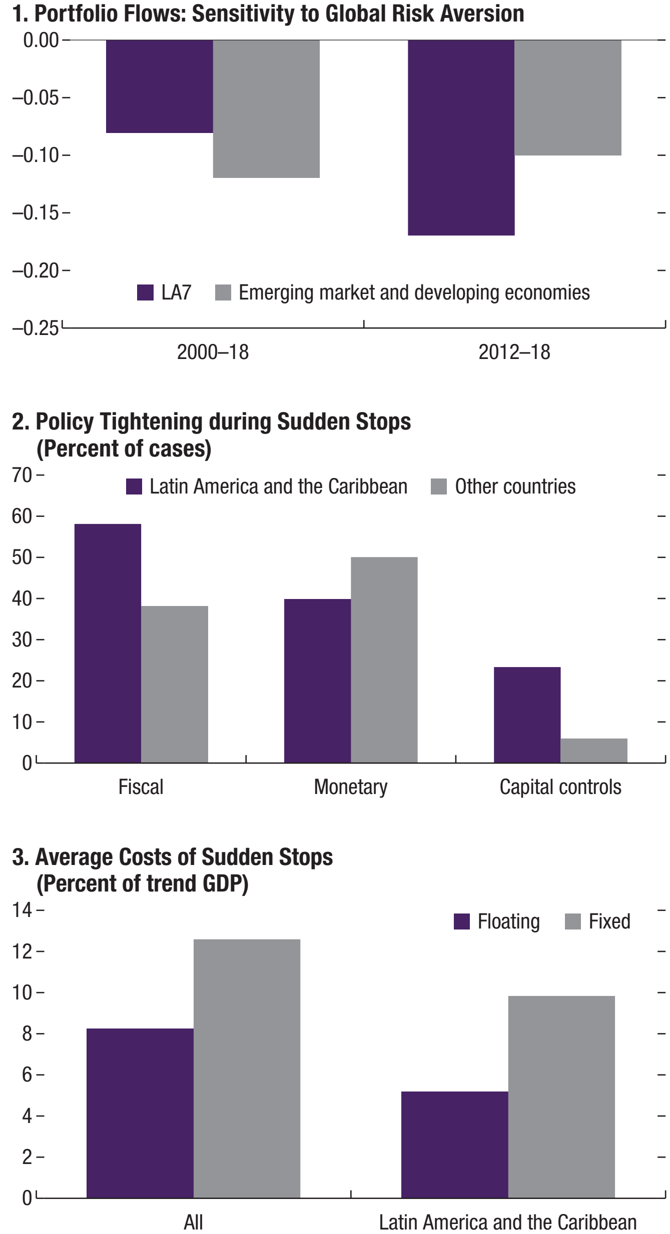
Volatile capital flows pose important challenges to countries in Latin America and the Caribbean (LAC), given their dependence on external savings to finance investment. Since 2012, portfolio inflows have driven most of the variability of capital flows to the region. Furthermore, the importance of global risk aversion and growth differentials relative to advanced economies in driving capital flows has increased in recent years. This, in turn, increases the likelihood of a sudden reversal of capital inflows if growth in the region continues to falter and global investors' sentiment shifts in light of significant policy uncertainty.

Emerging markets are prone to experience boom–bust patterns in capital flows, entailing substantial economic costs and forcing painful adjustment. High fiscal deficits, large current account deficits, and high levels of liability dollarization increase the vulnerability of countries to the adverse effects of sudden stops, whereas low inflation and adequate reserve buffers reduce susceptibility to the adverse effects of disruptions in capital flows.

The background paper discusses a number of policy options to deal with sudden stops. The empirical analysis shows that countries with floating exchange rate regimes tend to experience shorter sudden stops in capital flows. Flexible exchange rate regimes are also associated with substantially lower output losses from sudden stops. In addition, a tighter monetary policy stance following a sudden stop episode is linked to a reduction in its duration and the ensuing deceleration in growth. Finally, increasing capital controls does not affect the duration of sudden stops in a significant way.

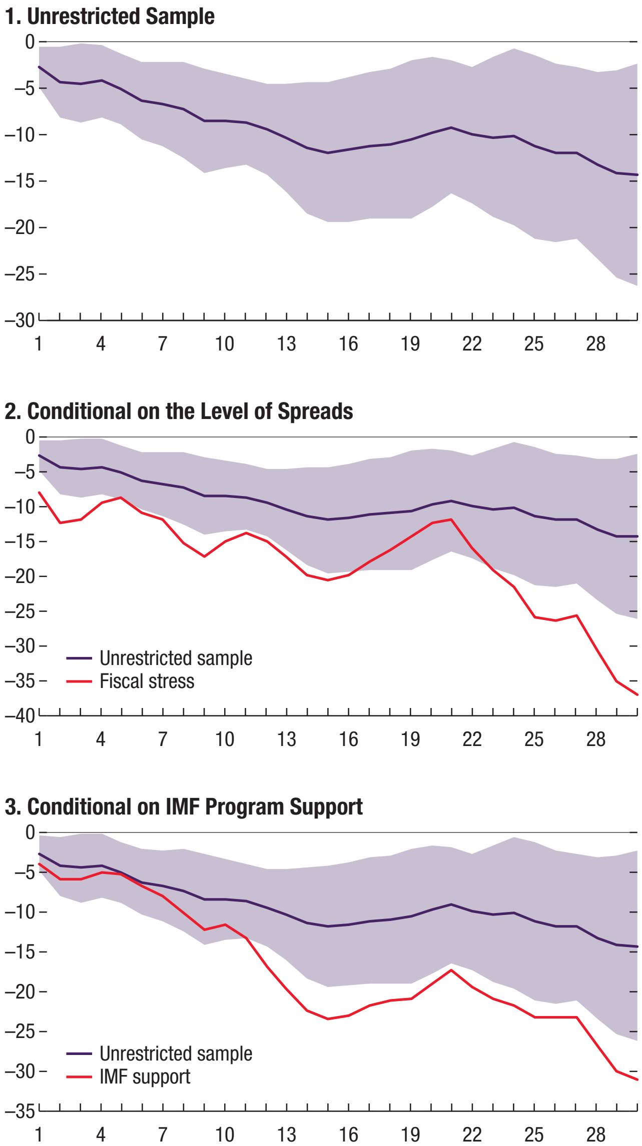
[1]Based on the background paper "Capital Flows to Latin America in the Aftermath of the Commodities Super-Cycle" (IMF 2019a) prepared by Carlos Goncalves, Antonio David, and Samuel Pienknagura.

Annex Figure 1.1. Capital Flows and Sudden Stops



Source: IMF staff calculations.
Note: LA7 = Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay.

Annex Figure 1.2. Effects of Consolidation Announcements on EMBIG Spreads
(Basis points)



Source: IMF staff calculations.
Note: Estimates based on local projection methods. Shaded area indicates 90 percent confidence intervals using HAC standard errors. EMBIG = J.P. Morgan Emerging Market Bond Index Global.

Sovereign Spreads and Fiscal Consolidations[2]

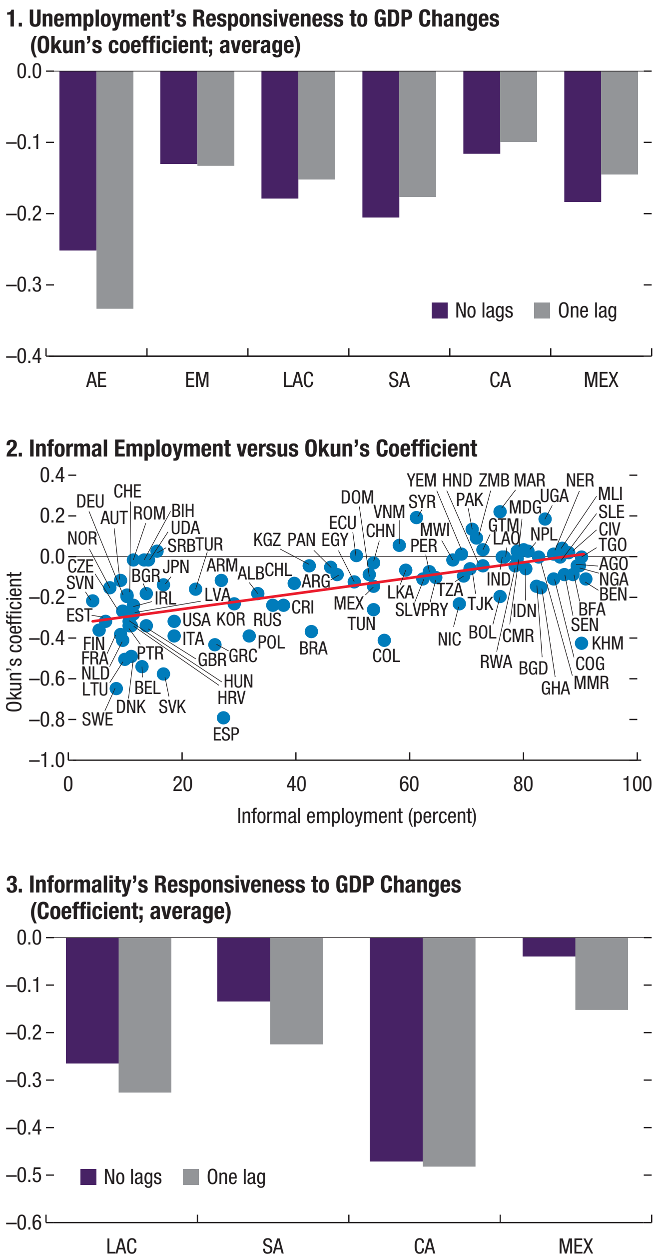
Lower commodity prices, mediocre growth, and a prolonged period of low global interest rates have contributed to rising public debt in many countries in LAC. Against this backdrop, and amid a more challenging external environment, financial markets' perception of credit risk in LAC has deteriorated somewhat. This has led policymakers in many of these economies to announce fiscal consolidation measures aimed at reducing public debt and improving confidence in the sovereign, as measured by sovereign bond spreads. Nevertheless, empirical evidence quantifying the effects of fiscal policy on sovereign spreads has been elusive.

Using a new database on fiscal policy news, the background paper investigates the effects of fiscal consolidation announcements on sovereign spreads in LAC during 2000–18. The results show that sovereign spreads decline significantly following news that consolidation measures have been approved by Congress, particularly in periods of high sovereign spreads or in countries under an IMF program.

In addition, packages are more successful—leading to smaller output losses and larger reductions in the public debt-to-GDP ratio—when sovereign spreads significantly decline following a fiscal consolidation announcement. These results constitute direct evidence that if confronted with a situation of fiscal stress, credible consolidation efforts get rewarded. These confidence effects are crucial in mitigating the drag on economic activity in the aftermath of fiscal consolidation.

[2]Based on the background paper "Sovereign Spreads and Fiscal Consolidations" (IMF 2019c) prepared by Juan Yépez, Antonio David, and Jaime Guajardo.

Annex Figure 1.3. Informality



Sources: Haver Analytics; International Labour Organization; and IMF staff calculations.
Note: AE = advanced economies; CA = Central America; EM = emerging markets; LAC = Latin America and the Caribbean; MEX = Mexico; SA = South America.

Labor Market Dynamics and Informality over the Business Cycle in LAC[3]

Labor markets in LAC are characterized by high levels of informality, low female participation rates, and relatively rigid employment protection legislation. The results presented in the background paper show that informality plays an important role in the dynamics of labor markets in the region.

Informality is countercyclical, and the formal-informal adjustment margin reduces the importance of the employment–unemployment margin, that is, informality dampens the usual Okun's coefficient relating unemployment to cyclical changes in GDP. Moreover, changes in aggregate participation rates are positively related to changes in GDP, but there is some evidence that the female participation rate is countercyclical during recessions in LAC.

Rigid employment protection legislation, such as higher redundancy costs, cumbersome dismissal regulations, and relatively high minimum wages are associated with increased informality. Moreover, evidence also suggests that informality makes the adjustment to shocks slower, with a negative impact on productivity and growth. In particular, LAC countries typically adjust more slowly to economic shocks compared to other countries in part because of rigid employment protection legislation.

[3]Based on the background paper "Labor Market Dynamics and Informality over the Business Cycle in LAC" (IMF 2019d) prepared by Jorge Roldos, Antonio David, Camila Pérez, and Samuel Pienknagura.

Annex 2. Disclaimer

The consumer price data for *Argentina* before December 2013 reflect the consumer price index (CPI) for the Greater Buenos Aires Area (CPI-GBA), while from December 2013 to October 2015 the data reflect the national CPI (IPCNu). The government that took office in December 2015 discontinued the IPCNu, stating that it was flawed, and released a new CPI for the Greater Buenos Aires Area on June 15, 2016 (a new national CPI has been disseminated starting in June 2017). At its November 9, 2016, meeting, the IMF Executive Board considered the new CPI series to be in line with international standards and lifted the declaration of censure issued in 2013. Given the differences in geographical coverage, weights, sampling, and methodology of these series, the average CPI inflation for 2014, 2015, and 2016 and end-of-period inflation for 2015 and 2016 are not reported in the October 2019 *World Economic Outlook* (WEO).

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

Trinidad and Tobago's growth estimates for 2018 are based on full-year energy sector data from the Ministry of Energy and Ministry of Finance, preliminary national accounts data for the first three quarters of the year from the Central Statistical Office, and staff projections for the fourth quarter nonenergy output based on available information. Growth projections from 2019 are unchanged from April 2019 WEO in the absence of updates to published national accounts data.

Starting from October 2018, *Uruguay's* public pension system has been receiving transfers in the context of a new law that compensates persons affected by the creation of the mixed pension system. These funds are recorded as revenues, consistent with IMF's methodology. Therefore, data and projections for 2018–22 are affected by these transfers, which amounted to 1.3 percent of GDP in 2018 and are projected to be 1.2 percent of GDP in 2019, 0.9 percent of GDP in 2020, 0.4 percent of GDP in 2021, 0.2 percent of GDP in 2022, and zero percent of GDP thereafter. Please see IMF Country Report No. 19/64 for further details. The disclaimer about the public pension system applies only to the revenues and net lending/borrowing series.

The coverage of the fiscal data for *Uruguay* was changed from consolidated public sector to nonfinancial public sector (NFPS) with the October 2019 WEO. In *Uruguay*, NFPS coverage includes the central government, local government, social security funds, nonfinancial public corporations, and Banco de Seguros del Estado. Historical data were revised accordingly. Under this narrower fiscal perimeter—which excludes the central bank—assets and liabilities held by the NFPS where the counterpart is the central bank are not netted out in debt figures. In this context, capitalization bonds issued in the past by the government to the central bank are now part of the NFPS debt. Gross and net debt estimates for the period 2008–11 are preliminary.

Projecting the economic outlook in *Venezuela,* including assessing past and current economic developments as the basis for the projections, is complicated by the lack of discussions with the authorities (the last Article IV consultation took place in 2004), incomplete understanding of the reported data, and difficulties in interpreting certain reported economic indicators given economic developments. The fiscal accounts include the budgetary central government, social security, FOGADE (insurance deposit institution), and a sample of public enterprises including Petróleos de Venezuela, S.A. (PDVSA), and data for 2018 are IMF staff estimates. The effects of hyperinflation and the paucity of reported data mean that the IMF staff's estimated macroeconomic indicators need to be interpreted with caution. For example, nominal GDP is estimated assuming the GDP deflator rises in line with the IMF staff's estimated average inflation. Public external debt in relation to GDP is estimated using the IMF staff's estimate of the average exchange rate for the year. Wide uncertainty surrounds these projections.

Venezuela's consumer prices (CPI) are excluded from all WEO group composites.

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

	Output Growth (Percent)					Inflation[2] (End of period, percent)					External Current Account Balance (Percent of GDP)				
				Projections					Projections					Projections	
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
North America															
Canada	1.1	3.0	1.9	1.5	1.8	1.4	1.8	2.1	2.2	1.9	−3.2	−2.8	−2.6	−1.9	−1.7
Mexico	2.9	2.1	2.0	0.4	1.3	3.4	6.8	4.8	3.2	3.0	−2.2	−1.7	−1.8	−1.2	−1.6
United States	1.6	2.4	2.9	2.4	2.1	2.2	2.2	1.9	2.2	2.4	−2.3	−2.3	−2.4	−2.5	−2.5
Puerto Rico[3]	−1.3	−2.7	−4.9	−1.1	−0.7	0.5	1.2	0.6	−0.1	1.0	...	...	...	...	...
South America															
Argentina[4]	−2.1	2.7	−2.5	−3.1	−1.3	...	24.8	47.6	57.3	39.2	−2.7	−4.9	−5.3	−1.2	0.3
Bolivia	4.3	4.2	4.2	3.9	3.8	4.0	2.7	1.5	2.3	4.0	−5.6	−5.0	−4.9	−5.0	−4.1
Brazil	−3.3	1.1	1.1	0.9	2.0	6.3	2.9	3.7	3.6	3.9	−1.3	−0.4	−0.8	−1.2	−1.0
Chile	1.7	1.3	4.0	2.5	3.0	2.7	2.3	2.1	2.6	2.9	−1.6	−2.1	−3.1	−3.5	−2.9
Colombia	2.1	1.4	2.6	3.4	3.6	5.8	4.1	3.2	3.9	3.1	−4.3	−3.3	−4.0	−4.2	−4.0
Ecuador	−1.2	2.4	1.4	−0.5	0.5	1.1	−0.2	0.3	0.5	1.1	1.3	−0.5	−1.4	0.1	0.7
Guyana	3.4	2.1	4.1	4.4	85.6	1.5	1.5	1.6	2.7	3.5	0.4	−6.8	−17.5	−22.7	−18.4
Paraguay	4.3	5.0	3.7	1.0	4.0	3.9	4.5	3.2	3.7	3.7	3.5	3.1	0.5	−0.1	1.3
Peru	4.0	2.5	4.0	2.6	3.6	3.2	1.4	2.2	1.9	2.0	−2.6	−1.2	−1.6	−1.9	−2.0
Suriname	−5.6	1.7	2.0	2.2	2.5	52.4	9.3	5.4	7.1	4.8	−5.4	−0.1	−5.5	−5.7	−5.8
Uruguay	1.7	2.6	1.6	0.4	2.3	8.1	6.6	8.0	7.5	7.0	0.6	0.8	−0.6	−1.7	−3.0
Venezuela[4]	−17.0	−15.7	−18.0	−35.0	−10.0	274	863	130,060	200,000	500,000	−1.4	6.1	6.4	7.0	1.5
Central America															
Belize	−0.6	1.4	3.0	2.7	2.1	1.1	1.0	−0.1	2.4	0.8	−9.0	−7.0	−8.1	−7.0	−6.4
Costa Rica	4.2	3.4	2.6	2.0	2.5	0.8	2.6	2.0	3.2	3.0	−2.2	−2.9	−3.1	−2.4	−2.5
El Salvador	2.5	2.3	2.5	2.5	2.3	−0.9	2.0	0.4	1.4	1.2	−2.3	−1.9	−4.8	−4.9	−5.0
Guatemala	3.1	2.8	3.1	3.4	3.5	4.2	5.7	2.3	3.8	3.9	1.5	1.6	0.8	0.6	0.3
Honduras	3.8	4.9	3.7	3.4	3.5	3.3	4.7	4.2	4.4	4.2	−2.6	−1.8	−4.2	−4.2	−4.3
Nicaragua	4.6	4.7	−3.8	−5.0	−0.8	3.1	5.7	3.9	7.0	4.2	−6.6	−4.9	0.6	2.3	1.8
Panama[5]	5.0	5.3	3.7	4.3	5.5	1.5	0.5	0.2	0.8	1.8	−8.0	−7.9	−7.8	−6.1	−5.3
Caribbean															
Antigua and Barbuda	5.5	3.1	7.4	4.0	3.3	−1.1	2.4	1.7	2.0	2.0	−2.4	−8.8	−7.0	−6.1	−5.5
Aruba	0.5	2.3	1.2	0.7	1.0	−0.3	−0.3	4.6	1.8	2.7	5.0	1.0	0.2	−1.8	−1.1
The Bahamas	0.4	0.1	1.6	0.9	−0.6	0.8	1.8	2.0	2.8	2.4	−6.0	−12.4	−12.1	−7.4	−12.8
Barbados	2.5	0.5	−0.6	−0.1	0.6	3.8	6.6	0.6	1.4	2.3	−4.3	−3.8	−3.7	−3.9	−3.5
Dominica	2.5	−9.5	0.5	9.4	4.9	−0.2	1.4	1.4	1.8	1.8	−8.9	−12.7	−43.4	−33.6	−25.8
Dominican Republic	6.7	4.7	7.0	5.0	5.2	1.7	4.2	1.2	3.0	4.0	−1.1	−0.2	−1.4	−1.3	−1.1
Grenada	3.7	4.4	4.2	3.1	2.7	0.9	0.5	1.4	1.0	1.9	−11.0	−12.0	−11.2	−11.3	−9.9
Haiti[6]	1.5	1.2	1.5	0.1	1.2	12.5	15.4	13.3	19.7	15.0	−0.9	−1.0	−3.7	−3.3	−3.2
Jamaica	1.5	0.7	1.6	1.1	1.0	1.7	5.2	2.4	4.7	4.5	−1.4	−2.6	−2.4	−2.5	−2.2
St. Kitts and Nevis	1.8	0.9	4.6	3.5	3.5	0.0	0.8	−0.7	2.0	2.0	−13.8	−11.7	−7.4	−6.3	−15.8
St. Lucia	3.2	2.6	0.9	1.5	3.2	−2.8	2.0	2.2	2.1	2.2	−4.6	1.5	3.0	2.5	1.7
St. Vincent and the Grenadines	0.8	0.7	2.0	2.3	2.3	1.0	3.0	1.4	2.0	2.0	−13.0	−12.0	−12.2	−11.6	−10.7
Trinidad and Tobago[4]	−6.5	−1.9	0.3	0.0	1.5	3.1	1.3	1.0	0.9	1.5	−4.0	5.0	7.1	2.4	1.7
Memorandum															
Latin America and the Caribbean (LAC)	**−0.6**	**1.2**	**1.0**	**0.2**	**1.8**	**4.6**	**5.9**	**7.1**	**7.3**	**6.0**	**−1.9**	**−1.4**	**−1.9**	**−1.6**	**−1.5**
LAC excluding Venezuela	0.2	1.9	1.7	0.9	2.1	4.6	5.9	7.1	7.3	6.0	−2.0	−1.6	−2.0	−1.7	−1.6
South America[7]	−2.4	0.6	0.4	−0.2	1.7	5.4	5.9	8.7	9.5	7.6	−1.8	−1.3	−1.8	−1.6	−1.3
Simple average	*−0.6*	*0.7*	*0.2*	*−2.4*	*1.2*	*4.4*	*3.0*	*8.0*	*9.3*	*7.4*	*−1.4*	*−0.7*	*−1.5*	*−1.2*	*−1.3*
CAPDR[8]	4.6	4.0	3.9	3.3	3.9	2.1	3.6	1.7	3.0	3.3	−2.4	−2.1	−2.7	−2.3	−2.2
Simple average	*4.3*	*4.0*	*2.7*	*2.2*	*3.1*	*2.0*	*3.6*	*2.0*	*3.4*	*3.2*	*−3.0*	*−2.6*	*−2.8*	*−2.3*	*−2.3*
Caribbean															
Tourism dependent[9]	1.5	0.8	1.8	1.4	1.1	1.2	3.6	1.8	3.3	3.1	−3.9	−6.2	−6.3	−5.0	−6.3
Simple average	*2.0*	*0.7*	*2.4*	*2.7*	*2.2*	*0.4*	*2.2*	*1.5*	*2.2*	*2.2*	*−6.3*	*−7.3*	*−9.5*	*−8.1*	*−8.4*
Commodity exporters[10]	−5.3	−0.9	1.0	0.8	17.9	8.9	2.5	1.7	2.1	2.3	−3.6	3.0	2.5	−2.0	−3.7
Simple average	*−2.9*	*0.7*	*2.2*	*2.2*	*29.9*	*19.0*	*4.0*	*2.7*	*3.6*	*3.3*	*−3.0*	*−0.6*	*−5.3*	*−8.7*	*−7.5*
Eastern Caribbean Currency Union[11]	3.0	1.1	4.0	3.6	3.4	−0.6	1.7	1.3	1.8	2.0	−7.6	−7.4	−8.4	−7.9	−7.7

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

[1]Regional output growth aggregates are purchasing-power-parity GDP-weighted averages unless noted otherwise. Consumer price index (CPI) inflation aggregates exclude Venezuela, but include Argentina starting from 2017, and are geometric averages unless noted otherwise. Current account aggregates are US dollar nominal GDP-weighted averages unless noted otherwise. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is September 30, 2019.

[2]These figures will generally differ from period average inflation reported in the IMF *World Economic Outlook*, although both are based on the same underlying series.

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

[4]See Annex 2 for details on the data.

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

[6]Fiscal year data.

[7]Includes Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela.

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

[9]Includes Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

[10]Includes Guyana, Suriname, and Trinidad and Tobago.

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

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

	Public Sector Primary Expenditure (Percent of GDP)					Public Sector Primary Balance (Percent of GDP)					Public Sector Gross Debt (Percent of GDP)				
				Projections					Projections					Projections	
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
North America															
Canada	37.6	37.4	37.7	37.9	38.0	0.2	0.0	−0.1	−0.5	−0.5	91.8	90.1	89.9	87.5	85.0
Mexico[2]	24.0	21.7	21.6	21.7	21.1	0.4	2.6	1.6	0.9	0.9	56.8	54.1	53.6	53.8	54.6
United States[3]	33.0	32.7	32.5	33.7	34.0	−2.3	−2.5	−3.5	−3.6	−3.6	106.8	106.0	104.3	106.2	108.0
Puerto Rico[4]	18.8	19.5	22.1	22.8	22.2	0.4	0.2	−0.5	−1.2	−1.2	49.9	51.6	55.5	58.9	61.5
South America															
Argentina[5]	39.6	38.7	35.9	34.2	33.1	−4.8	−4.2	−2.2	−0.6	1.1	53.1	57.1	86.1	93.3	80.8
Bolivia[6]	38.9	37.5	35.9	35.3	34.4	−6.3	−6.7	−7.0	−6.6	−6.1	46.5	51.3	53.8	57.7	59.7
Brazil[7]	30.9	30.8	31.1	31.2	30.8	−2.5	−1.8	−1.7	−1.9	−1.4	78.3	84.1	87.9	91.6	93.9
Chile	24.5	24.6	24.5	24.5	24.3	−2.4	−2.3	−1.1	−1.8	−1.6	21.0	23.5	25.6	27.5	29.2
Colombia[8]	24.1	24.7	24.8	25.3	24.3	0.8	0.4	0.1	1.0	1.8	49.8	49.5	52.2	51.0	49.0
Ecuador[9]	37.0	34.4	34.6	32.3	31.6	−6.7	−2.3	1.3	2.6	5.5	43.2	44.6	45.8	49.1	48.3
Guyana[10]	31.5	33.8	33.3	36.0	20.6	−3.3	−3.2	−2.5	−3.7	0.0	50.7	51.4	52.9	55.5	24.6
Paraguay	18.6	18.5	18.0	17.5	17.5	0.5	0.1	−0.3	0.3	0.4	19.4	19.8	21.5	23.7	22.6
Peru	20.0	20.1	20.2	20.1	20.2	−1.3	−1.9	−0.8	−0.3	−0.1	24.5	25.4	26.1	26.9	27.2
Suriname[11]	25.1	27.8	27.3	31.8	30.9	−6.4	−5.5	−3.6	−6.0	−5.5	75.2	78.0	72.8	75.6	78.1
Uruguay[12]	29.9	29.8	30.6	30.9	30.7	-0.5	−0.1	0.6	−0.1	−0.2	61.4	60.7	63.5	64.1	64.1
Venezuela[13]	25.2	36.6	34.7	. . .	. . .	−10.8	−16.6	−30.6	. . .	. . .	5.1	23.1	182.4	. . .	. . .
Central America															
Belize[10,14]	31.4	31.8	28.2	28.3	28.3	−2.7	−2.5	2.1	1.9	1.9	93.2	94.5	95.2	93.0	90.4
Costa Rica[10]	16.5	16.8	16.1	16.4	16.1	−2.4	−3.0	−2.4	−2.2	−1.6	44.9	48.6	53.5	57.1	59.9
El Salvador[15]	20.9	20.8	20.7	20.6	20.7	0.0	0.7	0.9	0.8	0.6	65.5	67.3	67.1	68.3	69.1
Guatemala[10]	10.6	10.7	10.9	10.9	11.3	0.4	0.1	−0.3	−0.6	−0.9	24.0	23.8	24.7	25.2	25.9
Honduras	24.9	24.7	24.0	24.1	24.8	0.2	0.2	0.8	0.9	0.8	38.4	39.2	40.2	41.5	40.8
Nicaragua[15]	25.9	25.9	26.2	26.4	26.4	−1.1	−0.7	−2.0	−2.0	−2.4	30.9	33.9	37.2	39.0	40.2
Panama[16]	20.2	20.1	20.0	19.2	18.3	−0.2	−0.2	−0.3	−1.2	−0.5	37.3	37.5	39.5	41.3	41.8
Caribbean															
Antigua and Barbuda[17]	22.1	20.5	21.6	21.0	20.2	2.4	1.2	−0.9	−0.7	−0.8	87.6	90.6	89.5	90.0	90.1
Aruba	23.6	23.7	23.8	23.1	23.1	2.9	1.7	1.9	3.8	3.8	84.4	86.7	84.5	82.9	81.8
The Bahamas[10]	16.6	20.4	17.4	19.0	22.4	−0.3	−3.3	−0.8	0.9	−3.0	50.4	54.4	63.3	61.5	68.2
Barbados[18]	26.1	25.3	25.8	25.2	25.0	2.2	3.3	3.5	6.0	6.0	149.5	158.3	125.7	115.4	109.3
Dominica[17]	43.2	52.9	56.9	47.9	42.0	16.4	2.4	−12.0	−6.5	−3.1	75.0	75.5	74.1	76.8	79.6
Dominican Republic[15]	14.4	14.7	13.9	14.6	14.6	−0.6	−0.7	0.3	−0.3	−0.2	46.6	48.9	50.5	52.4	52.7
Grenada[17]	21.0	19.9	20.0	19.7	19.4	5.2	5.7	6.5	6.0	6.2	81.6	70.1	63.5	59.1	54.4
Haiti[10]	18.4	17.2	19.0	16.7	17.5	0.3	0.5	−1.7	−2.1	−2.3	33.7	31.0	33.3	36.5	36.5
Jamaica[17]	20.3	21.6	23.1	23.0	22.6	7.6	7.5	7.5	6.5	6.5	113.6	101.1	94.4	93.5	88.3
St. Kitts and Nevis[17]	28.4	28.8	32.0	30.2	30.8	6.0	2.1	6.4	8.5	−2.8	65.8	64.3	60.5	57.4	58.2
St. Lucia[17]	21.5	21.9	21.8	22.6	22.9	1.9	1.1	1.8	1.1	0.7	66.2	65.5	64.3	65.9	68.8
St. Vincent and Grenadines[17]	26.4	27.9	27.6	27.8	27.7	2.4	1.5	0.1	0.1	0.4	82.4	73.5	74.5	72.0	70.5
Trinidad and Tobago[10]	33.2	30.2	28.8	31.0	30.8	−10.2	−8.3	−3.0	−2.4	−2.5	37.8	42.9	45.1	49.7	52.5
Memorandum															
Latin America and the Caribbean	**28.1**	**28.1**	**27.2**	**26.8**	**26.2**	**−2.3**	**−1.4**	**−1.2**	**−1.0**	**−0.5**	**56.3**	**61.0**	**67.8**	**69.6**	**69.2**
South America[19]	28.9	29.6	29.0	28.4	28.0	−3.4	−3.5	−4.2	−3.6	−3.0	40.2	43.9	64.5	71.8	72.6
CAPDR[20]	19.0	19.1	18.8	18.9	18.9	−0.5	−0.5	−0.4	−0.7	−0.6	41.1	42.8	44.7	46.4	47.2
Caribbean															
Tourism dependent[21]	25.5	26.8	27.1	26.2	25.9	4.0	1.9	1.5	2.5	1.4	86.3	85.0	80.9	78.9	78.1
Commodity exporters[22]	29.9	30.6	29.8	32.9	27.4	−6.6	−5.7	−3.0	−4.1	−2.6	54.6	57.4	56.9	60.3	51.7
Eastern Caribbean Currency Union[17,23]	25.3	25.9	26.7	26.1	25.4	4.3	2.2	1.4	1.6	0.3	74.7	72.4	70.1	69.0	68.9

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

[1]Definitions of public sector accounts vary by country, depending on country-specific institutional differences, including on what constitutes the appropriate coverage from a fiscal policy perspective, as defined by IMF staff. All indicators are reported on a fiscal year basis. Regional aggregates are fiscal year US dollar nominal GDP-weighted averages unless noted otherwise. Consistent with the IMF *World Economic Outlook*, the cutoff date for the data and projections in this table is September 30, 2019.

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

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

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

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

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

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

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

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

[10]Central government only.

[11]Primary expenditures for Suriname exclude net lending.

[12]See Annex 2 for details on Uruguay's data. The coverage of the fiscal data was changed from consolidated public sector to nonfinancial public sector (NFPS) with the October 2019 *World Economic Outlook*. Historical data were revised accordingly.

[13]See Annex 2 for details on Venezuela's data.

[14]For 2017, the public sector primary balance includes a one-off capital transfer of 2.5 percent of GDP. Excluding this one-off capital transfer, a primary surplus of 1.3 percent of GDP is estimated.

[15]Central government for primary expenditure and primary balance; gross debt is now presented on a consolidated basis. Revisions to nominal GDP explain changes in historical numbers compared to the 2019 Article IV staff report.

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

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

[18]Overall and primary balances cover budgetary central government. Gross debt covers central government debt, central government guaranteed debt, and arrears.

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

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

[21]Simple average of Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, Dominica, Grenada, Jamaica, St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines.

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

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

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Country Groups and Country Abbreviations

Country Groups

Caribbean: Commodity Exporters	Caribbean: Tourism-Dependent	Central America, Panama, and the Dominican Republic (CAPDR)	Eastern Caribbean Currency Union (ECCU)	LA5	LA6	South America
Guyana	Antigua and Barbuda	Costa Rica	Anguilla	Brazil	Brazil	Argentina
Suriname	Aruba	Dominican Republic	Antigua and Barbuda	Chile	Chile	Bolivia
Trinidad and Tobago	The Bahamas	El Salvador	Dominica	Colombia	Colombia	Brazil
	Barbados	Guatemala	Grenada	Mexico	Mexico	Chile
	Belize	Honduras	Montserrat	Peru	Peru	Colombia
	Dominica	Nicaragua	St. Kitts and Nevis		Uruguay	Ecuador
	Grenada	Panama	St. Lucia			Paraguay
	Jamaica		St. Vincent and the Grenadines			Peru
	St. Kitts and Nevis					Uruguay
	St. Lucia					Venezuela
	St. Vincent and the Grenadines					

List of Country Abbreviations

Antigua and Barbuda	ATG	Guyana	GUY
Argentina	ARG	Haiti	HTI
Aruba	ABW	Honduras	HND
The Bahamas	BHS	Jamaica	JAM
Barbados	BRB	Mexico	MEX
Belize	BLZ	Nicaragua	NIC
Bolivia	BOL	Panama	PAN
Brazil	BRA	Paraguay	PRY
Canada	CAN	Peru	PER
Chile	CHL	Puerto Rico	PRI
Colombia	COL	St. Kitts and Nevis	KNA
Costa Rica	CRI	St. Lucia	LCA
Dominica	DMA	St. Vincent and the Grenadines	VCT
Dominican Republic	DOM	Suriname	SUR
Ecuador	ECU	Trinidad and Tobago	TTO
El Salvador	SLV	United States	USA
Grenada	GRD	Uruguay	URY
Guatemala	GTM	Venezuela	VEN