REGIONAL ECONOMIC OUTLOOK

WESTERN HEMISPHERE

WESTERN HEMISPHERE DEPARTMENT

From Cyclical Management to Boosting Potential Growth

APRIL 11, 2024

Rodrigo Valdés
Director

Presentation Outline

I.   Recent Developments

II. Near-term Outlook

III. Medium-term Growth

IV. Policy Priorities
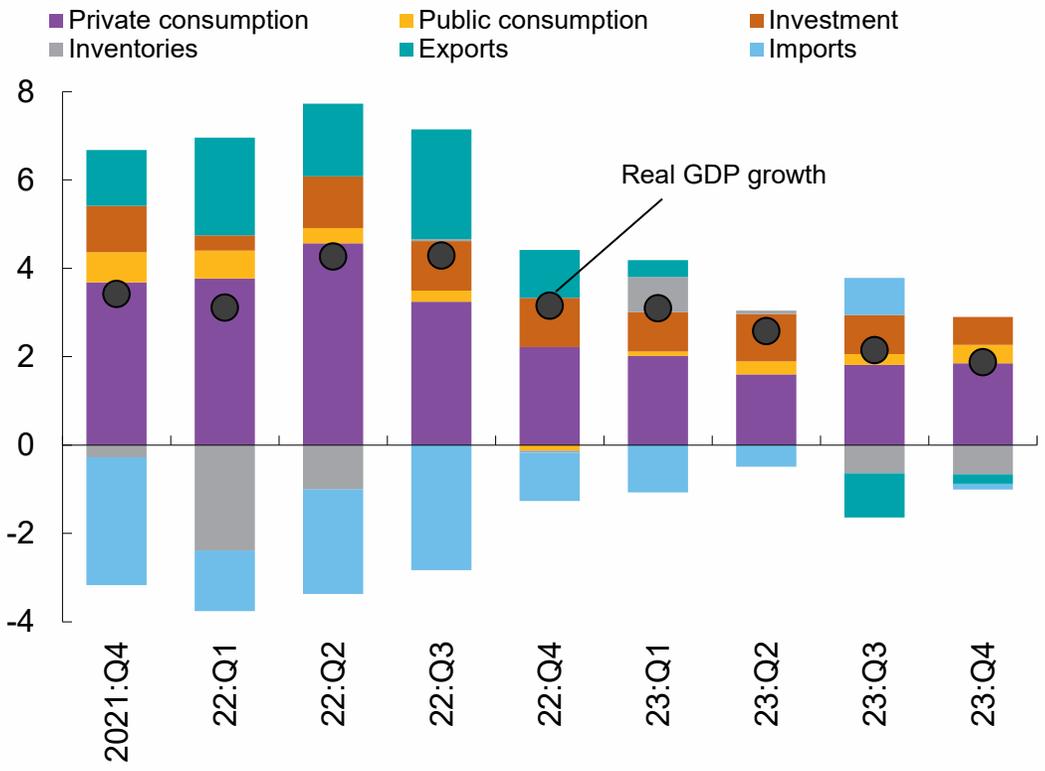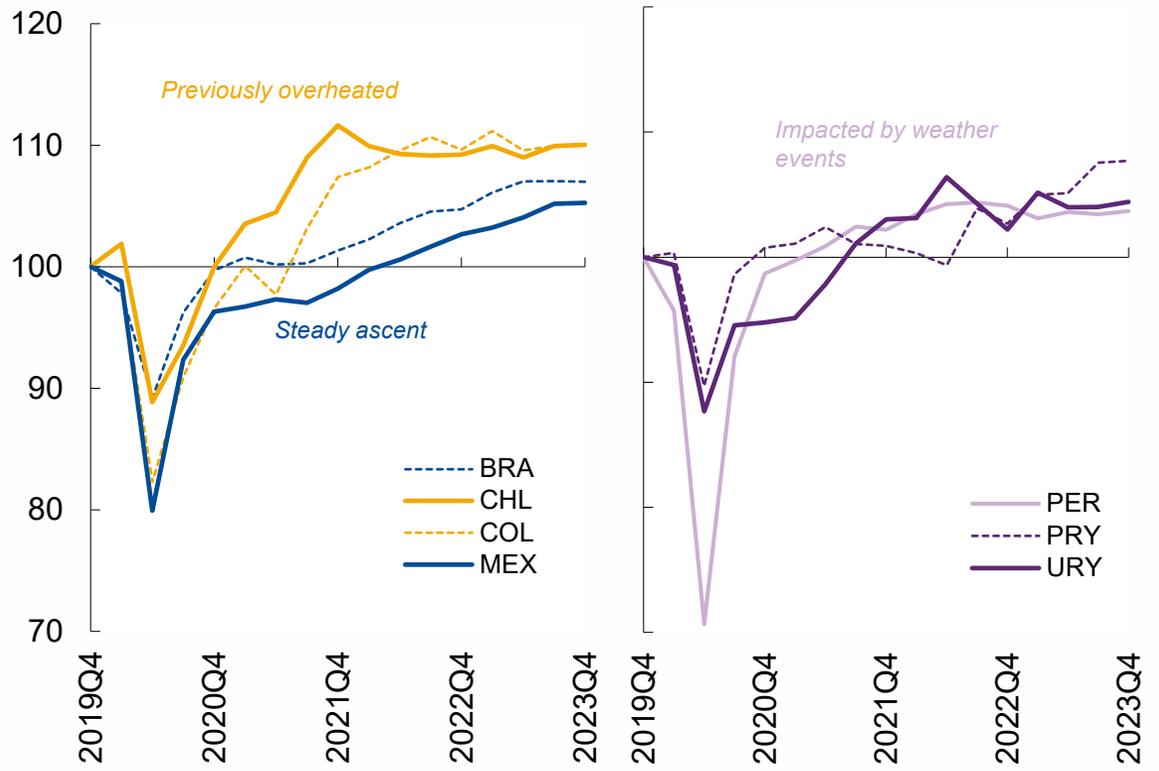
Recent Developments

Regional growth weakened in recent quarters, …

… as Brazil and Mexico slowed (after a steady ascent) while others stagnated (after overheating) or were affected by weather shocks

LA7: Contributions to Real GDP Growth
(Year-over-year percent change)

Real GDP
(Index: 2019Q4 = 100)

Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Seasonally adjusted. Purchasing-power-parity GDP-weighted average. Inventories include statistical discrepancies. LA7 = Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay.
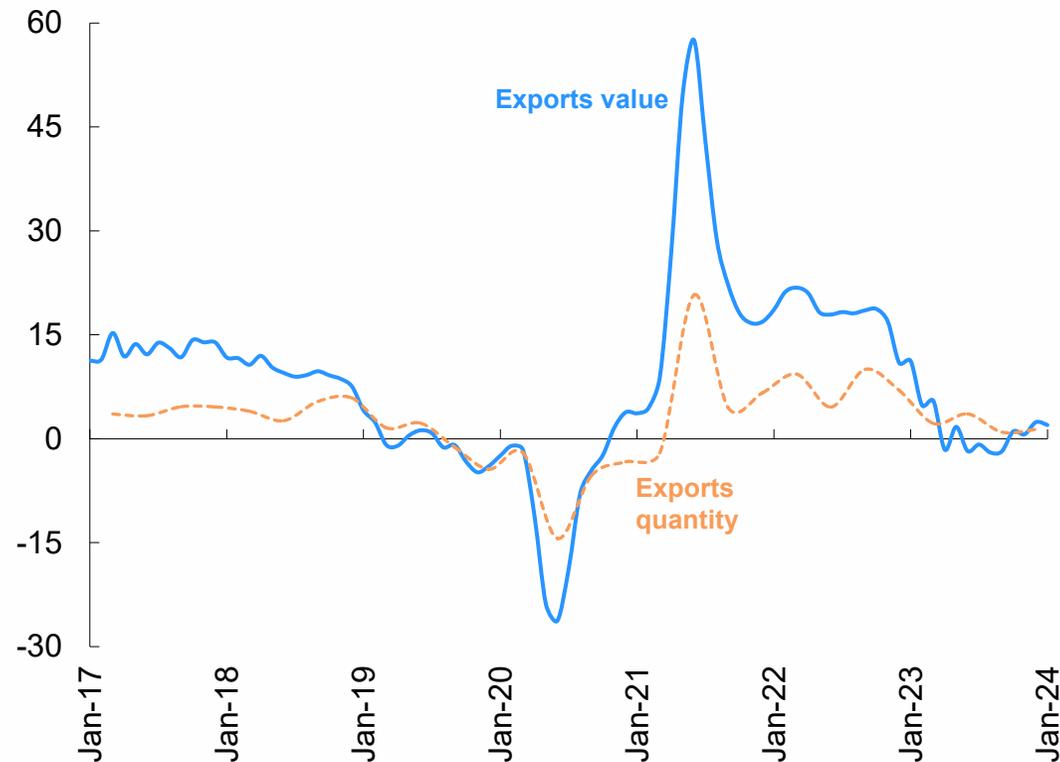
Sources: Haver Analytics; national authorities; and IMF staff calculations.

... amid a weaker external environment

*After solid growth in 2021–22, export growth has slowed markedly…*

… while financial conditions have remained tight

Exports Growth
(Year-over-year percent change)

Exports value

Exports quantity

Ten-year Sovereign Bond Yields
(Percent)

Local currency-denominated

Foreign currency-denominated

Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Merchandise exports growth is three-month moving sum. Real exports growth is purchasing-power-parity GDP-weighted average. Includes Brazil, Chile, Colombia, and Mexico.
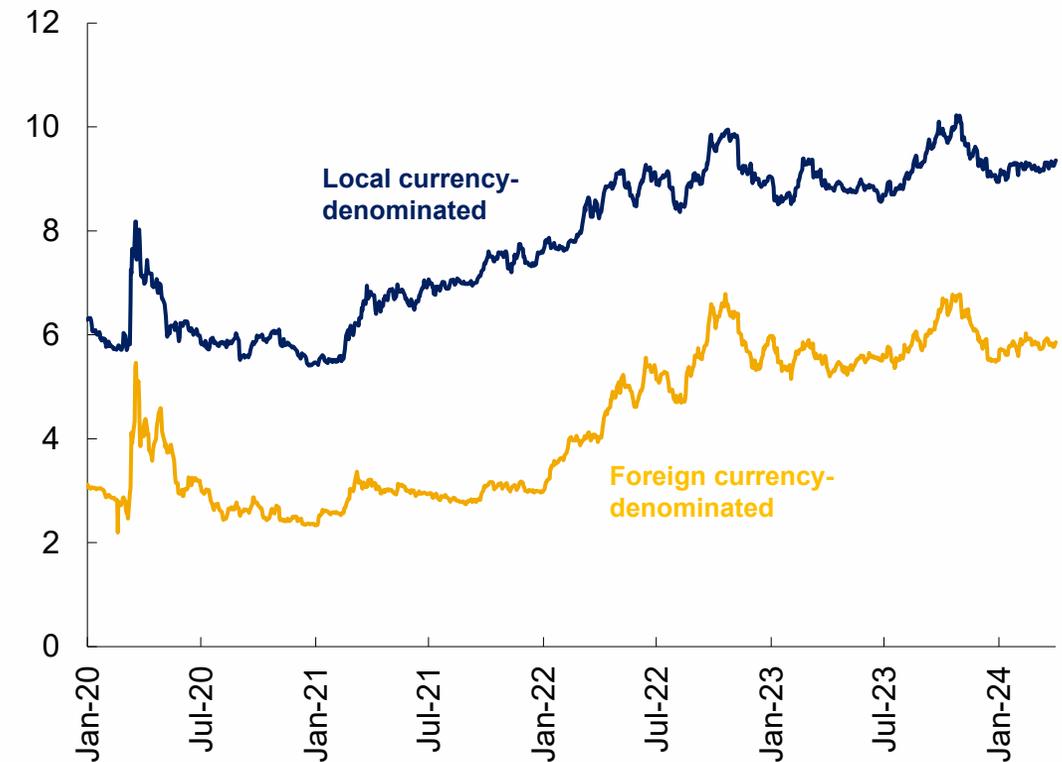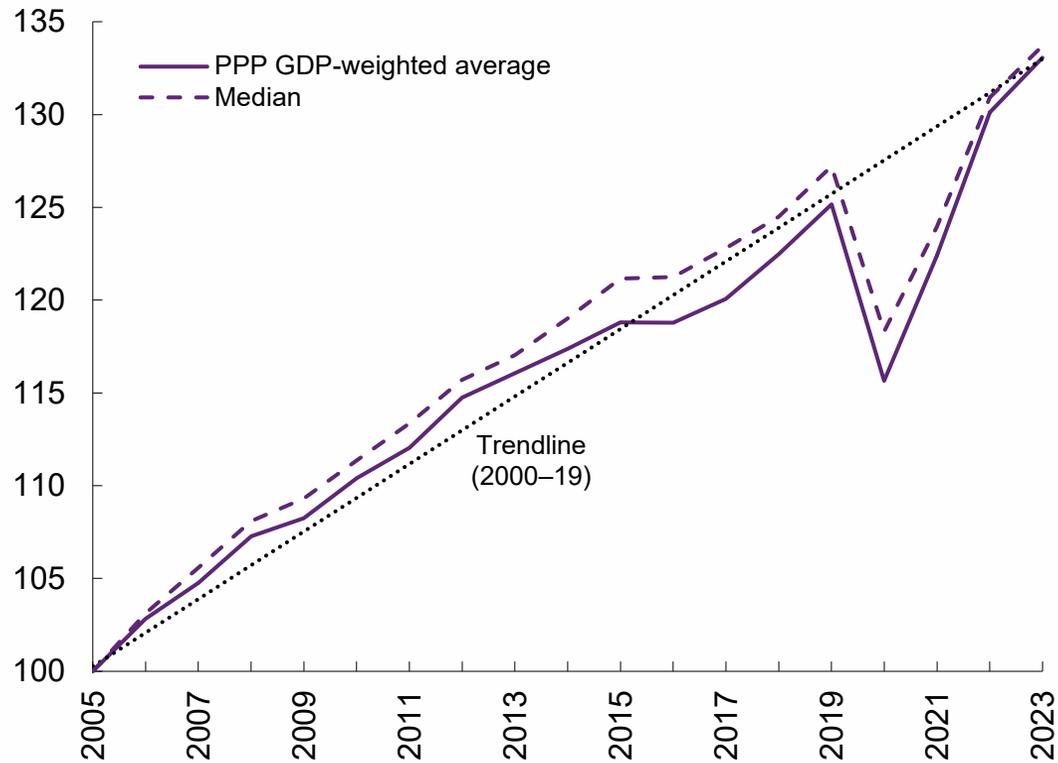
Sources: Bloomberg Finance L.P.; and IMF staff calculations.
Note: Median of LA7 countries or as data permits. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

... although labor markets continue showing resilience

Employment is back to the pre-pandemic trend…

… and unemployment back to historically low levels, especially in Brazil and Mexico

LA7: Employment
(Index: 2005 = 100)

- PPP GDP-weighted average
- Median
- Trendline (2000–19)

LA7: Unemployment Rate
(Percent)

- Min-max (2000–19)
- Average (2000–19)
- 2023

BRA CHL COL MEX PRY PER URY

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Excludes Paraguay due to data limitations. Trendline based on PPP-GDP-weighted average. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); PPP = purchasing-power-parity.
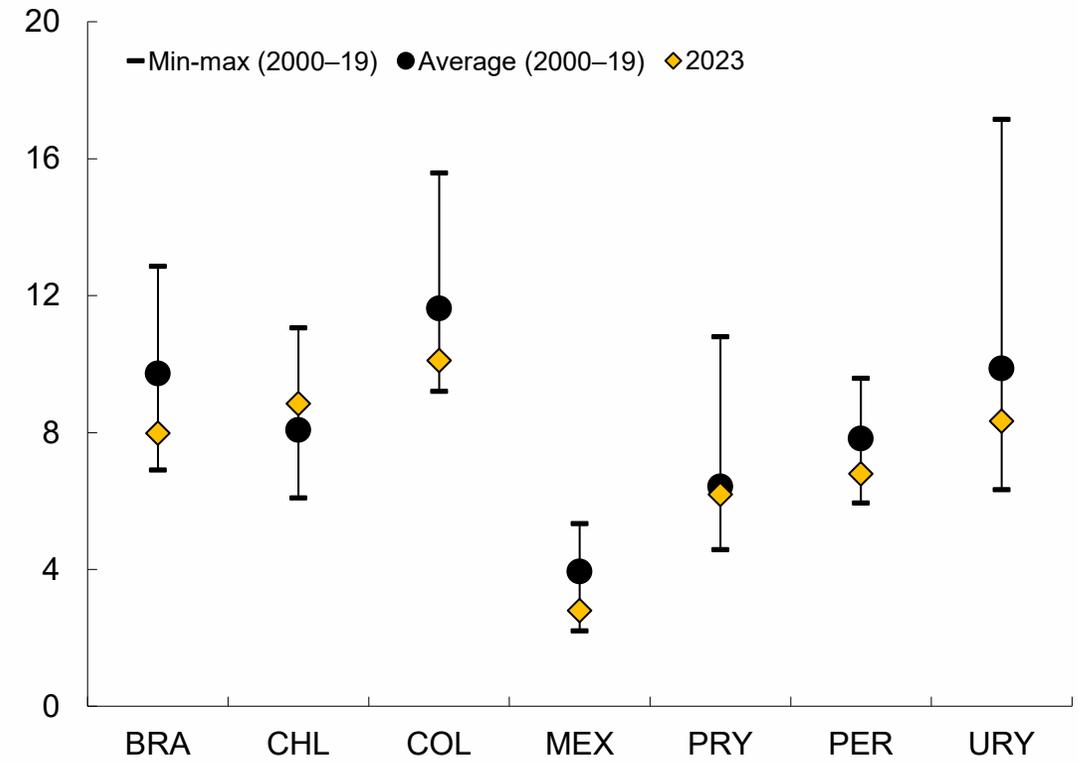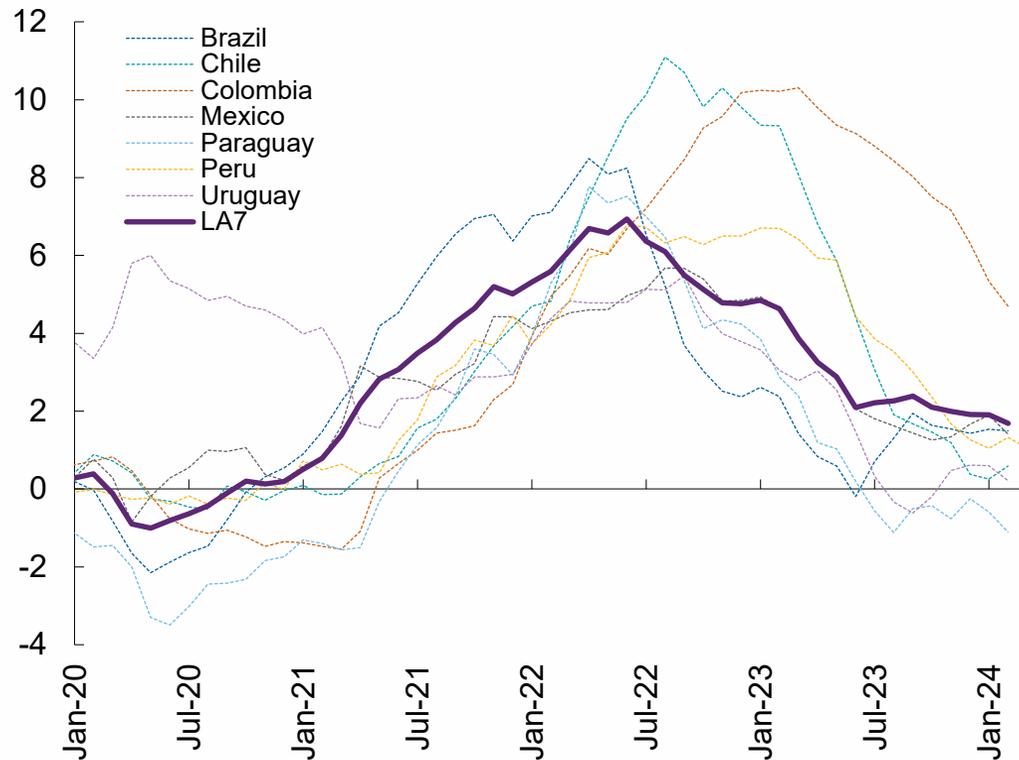
Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Inflation is receding everywhere...

Headline inflation has declined markedly…
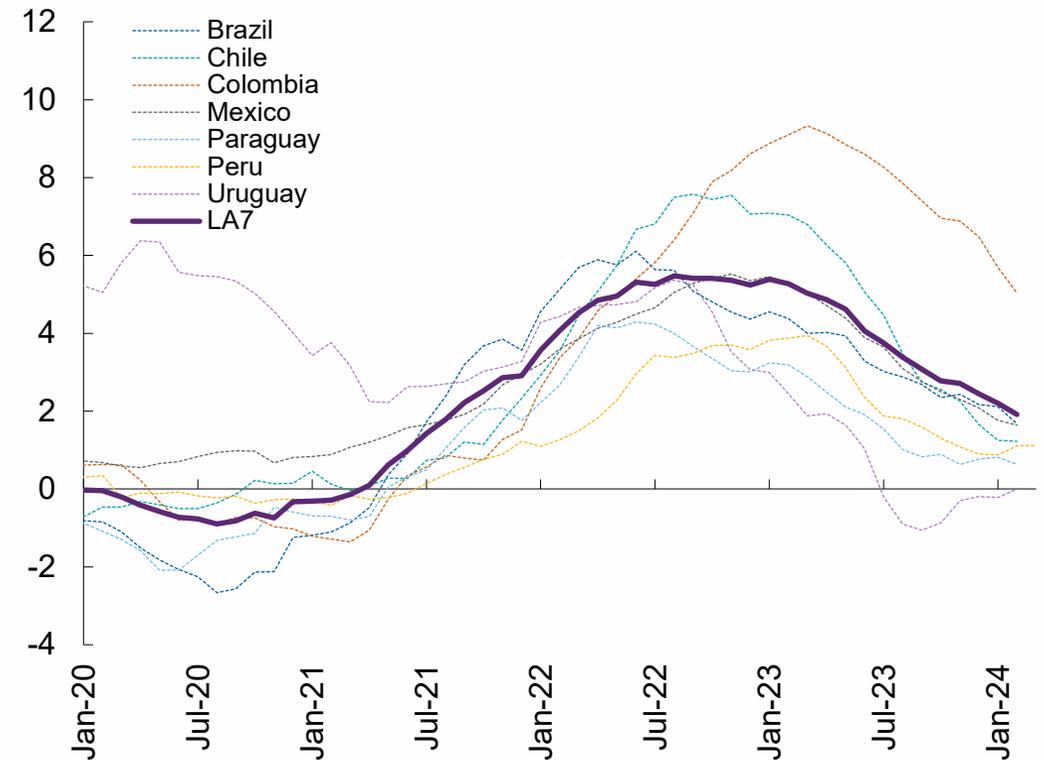
… followed by core inflation, although more gradually

Headline Consumer Price Inflation
(Deviation from inflation target; percentage points)

Legend: Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay, LA7

Core Consumer Price Inflation
(Deviation from inflation target; percentage points)

Legend: Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay, LA7

Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LA7 is purchasing-power-parity GDP-weighted average. Peru refers to Lima. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
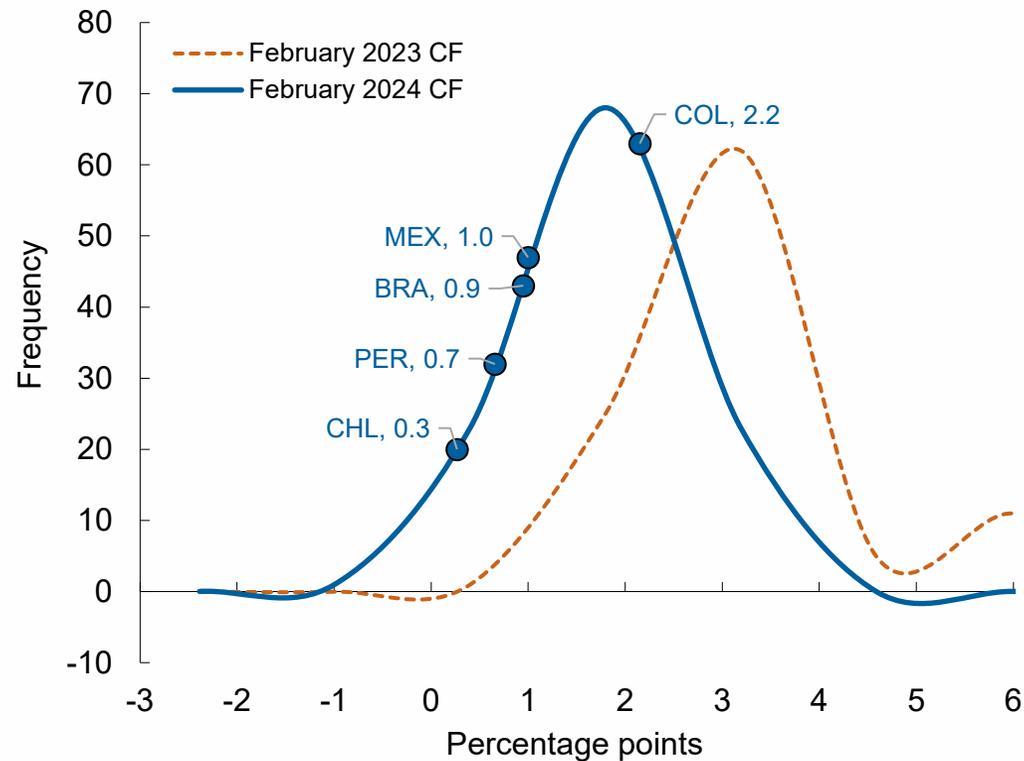
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LA7 is purchasing-power-parity GDP-weighted average. Peru refers to Lima. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Inflation expectations continue re-anchoring…

… and the relative price of goods is reverting its post-pandemic spike

LA5: Distribution of Inflation Expectations by Forecasters
(End of same-year expectations, deviation from inflation target)

Relative Price of Core Goods versus Core Services
(Ratio)

Sources: Consensus Economics; and IMF staff calculations.
Note: Country points are medians of CF forecasters. Data for Paraguay and Uruguay are not available. CF = consensus forecasts; LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).
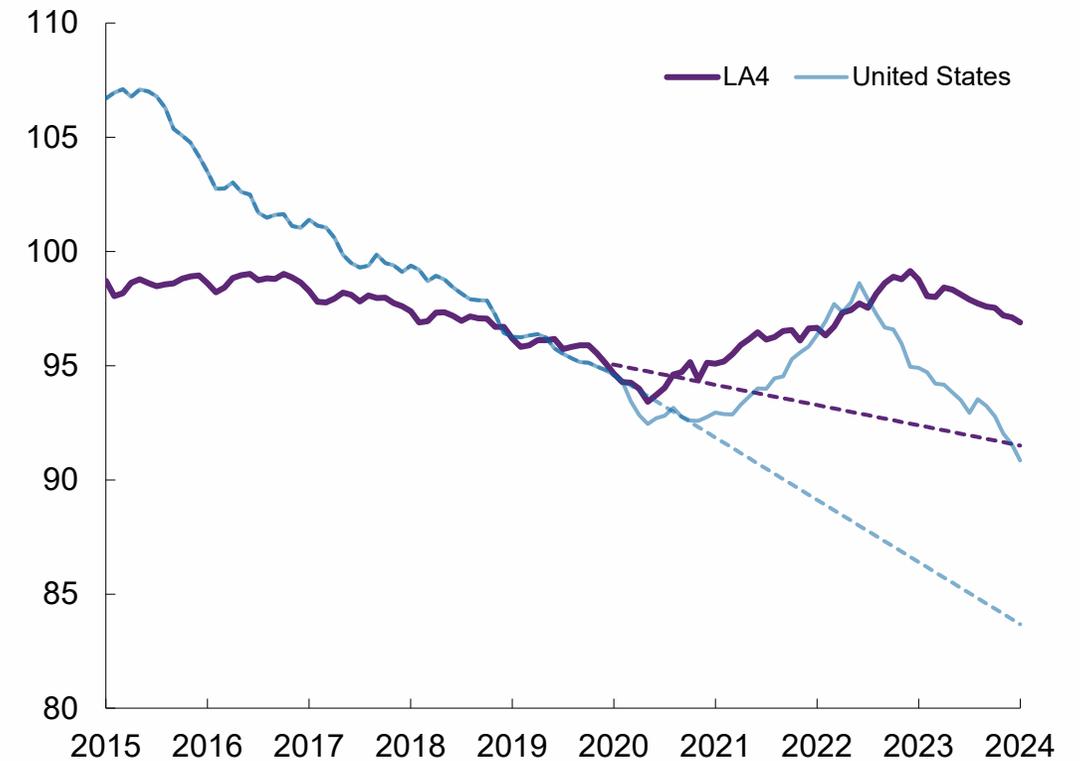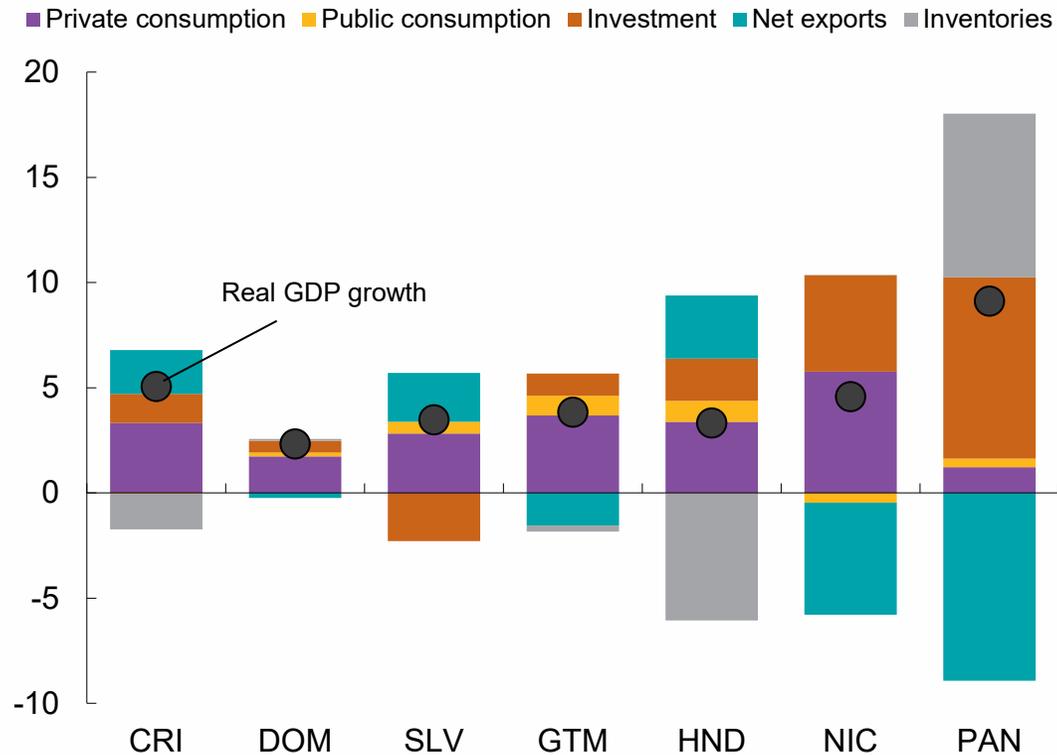
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LA4 is purchasing-power-parity GDP-weighted average. LA4 = Latin America 4 (Brazil, Chile, Colombia, Mexico).
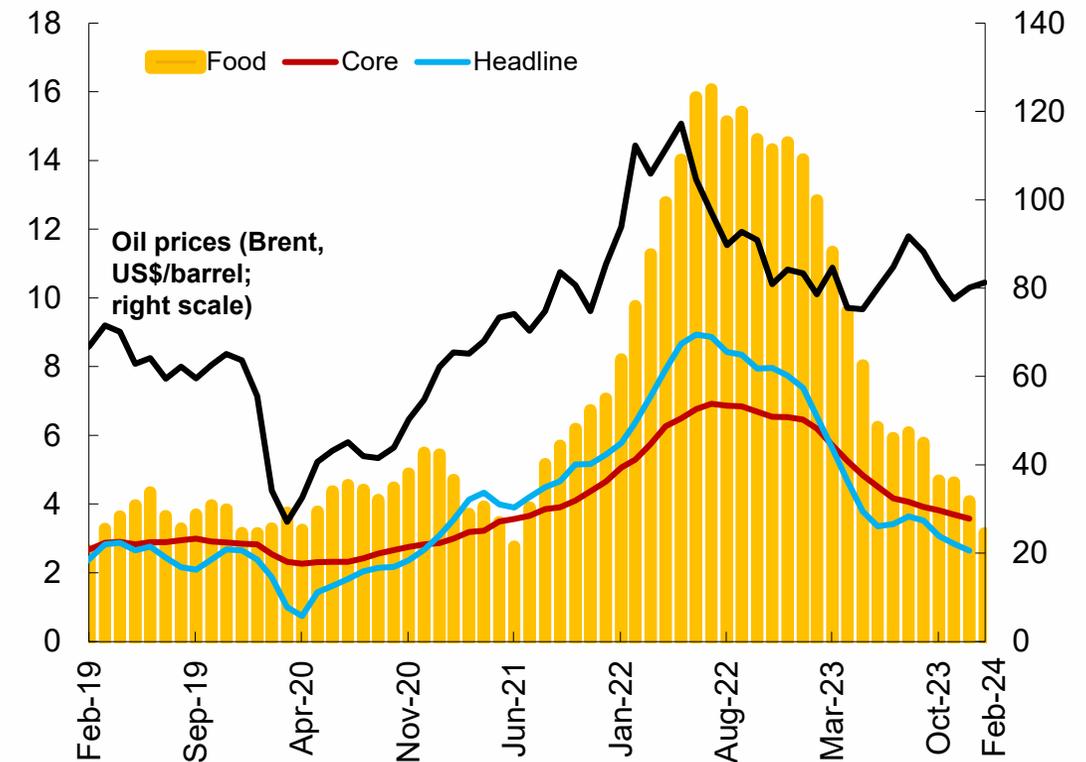
Robust private consumption is supporting growth…   … amid a continued fall in inflation

CAPDR: Contributions to Real GDP Growth, 2023
(Year-over-year percent change)

■ Private consumption ■ Public consumption ■ Investment ■ Net exports ■ Inventories

Real GDP growth

CRI DOM SLV GTM HND NIC PAN

CAPDR: Average Headline, Core, and Food Inflation and Oil Prices
(Percent, unless noted otherwise)

■ Food — Core — Headline

Oil prices (Brent, US$/barrel; right scale)

Feb-19 Sep-19 Apr-20 Nov-20 Jun-21 Jan-22 Aug-22 Mar-23 Oct-23 Feb-24

Sources: Haver Analytics; national authorities; and IMF calculations.
Note: Outturns for CRI, DOM, SLV, HND, and NIC; data up to 2023Q3 for GTM and PAN. Investment (fixed capital formation) for SLV includes inventories. Inventories include statistical discrepancies.
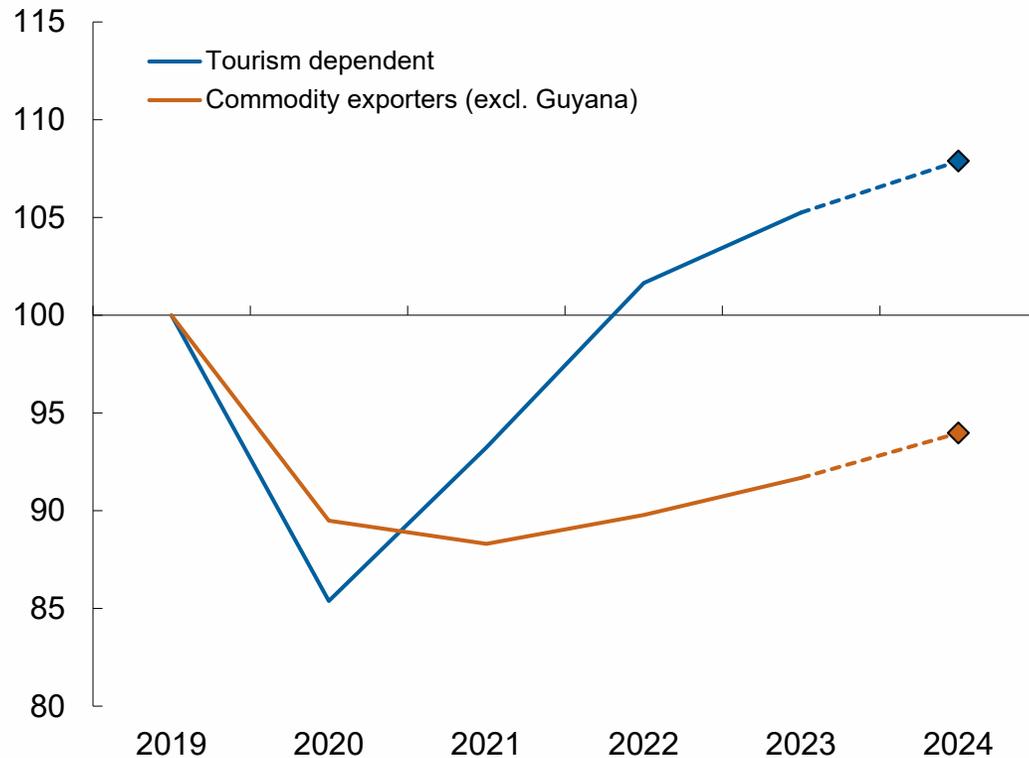
Sources: Haver Analytics; and IMF staff calculations.

Economic activity remains strong supported by tourism, but growth is decelerating as most countries have recovered to potential

Debt ratios declined with output recovery, but in many countries public debt is significantly above the 2019 level

The Caribbean: Real GDP Levels
(Index: 2019 = 100)

The Caribbean: Cumulative Change in General Government Gross Debt
(Percentage points of GDP)

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages.
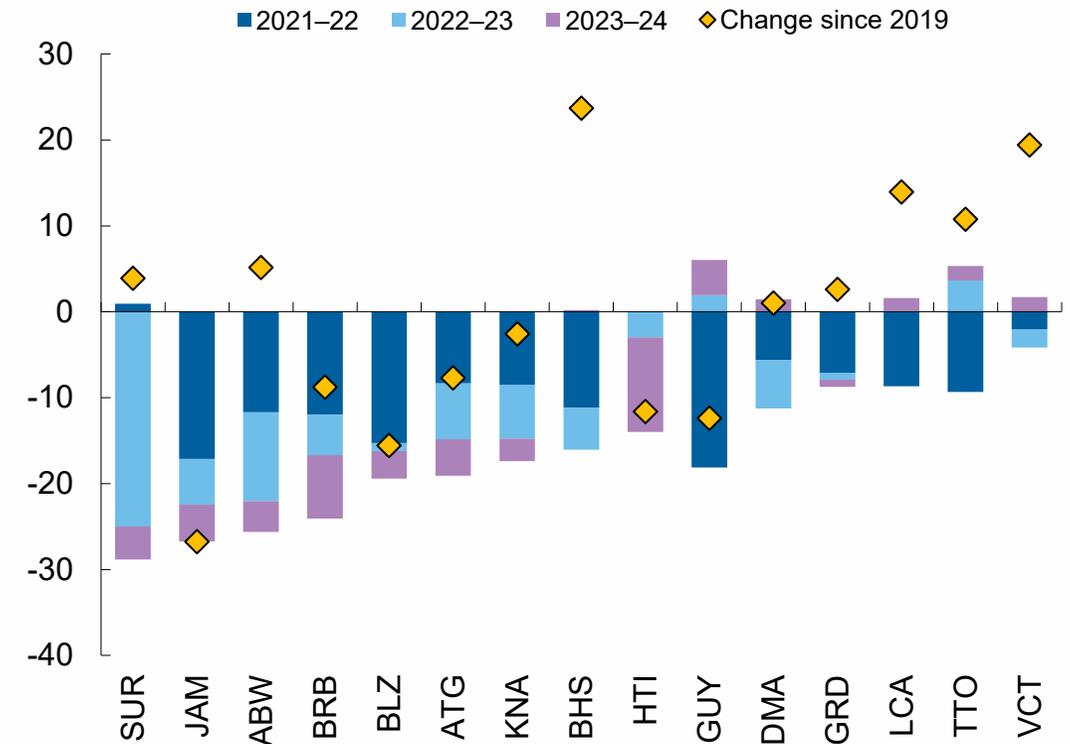
Sources: IMF, World Economic Outlook database; and IMF staff calculations.

Near-term Outlook

Growth will slow further in 2024, in most countries...

Latin America and the Caribbean: Real GDP Growth
(Year-over-year percent change)

	Latin America and the Caribbean	Latin America 7 (LA7)	BRA/MEX	CHL/COL/ PRY/PER/URY	Other South America	CAPDR	Caribbean: Tourism dependent	Caribbean: Non-tourism dependent
2023	**2.3**	**2.4**	**3.1**	**0.4**	**-0.1**	**4.2**	**3.5**	**11.2**
Difference from Oct. 2023	0.0	-0.2	0.0	-0.6	0.8	0.4	0.3	-2.4
2024	**2.0**	**2.2**	**2.2**	**1.9**	**-1.2**	**3.9**	**2.5**	**13.6**
Difference from Oct. 2023	-0.3	0.3	0.4	-0.3	-4.0	0.0	0.2	2.0
2025	**2.5**	**2.0**	**1.8**	**2.6**	**4.0**	**3.8**	**2.1**	**9.3**
Difference from Oct. 2023	0.1	0.0	0.1	-0.3	1.0	-0.1	0.1	0.0

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are PPP GDP-weighted averages. Difference based on rounded figures for the April 2024 and October 2023 WEO vintages. LA7 includes Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. Other South America includes Argentina, Bolivia, Ecuador, and Venezuela. CAPDR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-tourism dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

... while inflation will continue on its downward path

Latin America and the Caribbean: End-of-period Inflation
(Year-over-year percent change)

	Latin America and the Caribbean	Latin America 7 (LA7)	BRA/MEX	CHL/COL/ PRY/PER/URY	Other South America	CAPDR	Caribbean: Tourism dependent	Caribbean: Non-tourism dependent
2023	**16.6**	**4.9**	**4.5**	**6.1**	**161.7**	**2.6**	**4.5**	**11.4**
Difference from Oct. 2023	3.0	-0.2	-0.2	-0.2	56.4	-0.8	0.4	-1.6
2024	**12.7**	**3.8**	**3.7**	**4.0**	**113.7**	**3.3**	**3.6**	**8.1**
Difference from Oct. 2023	3.9	0.2	0.1	0.4	59.5	-0.2	0.1	0.7
2025	**6.5**	**3.0**	**3.0**	**3.0**	**34.9**	**3.3**	**3.3**	**6.7**
Difference from Oct. 2023	-0.1	0.0	0.0	0.1	-0.5	0.0	0.0	0.0

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are PPP GDP-weighted geometric averages. All inflation aggregates exclude Venezuela. Difference based on rounded figures for the April 2024 and October 2023 WEO vintages. LA7 includes Brazil, Chile, Colombia, Mexico, Paraguay, Peru, and Uruguay. Other South America includes Argentina, Bolivia, and Ecuador. CAPDR includes Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. Caribbean: Tourism dependent encompasses the rest of the Caribbean countries not included in the Caribbean: Non-tourism dependent group, which includes Commodity Exporters (Guyana, Suriname, Trinidad and Tobago) and Haiti.

Risks to near-term growth have become more balanced

Risks to inflation are generally becoming more balanced although remaining on the upside in many countries
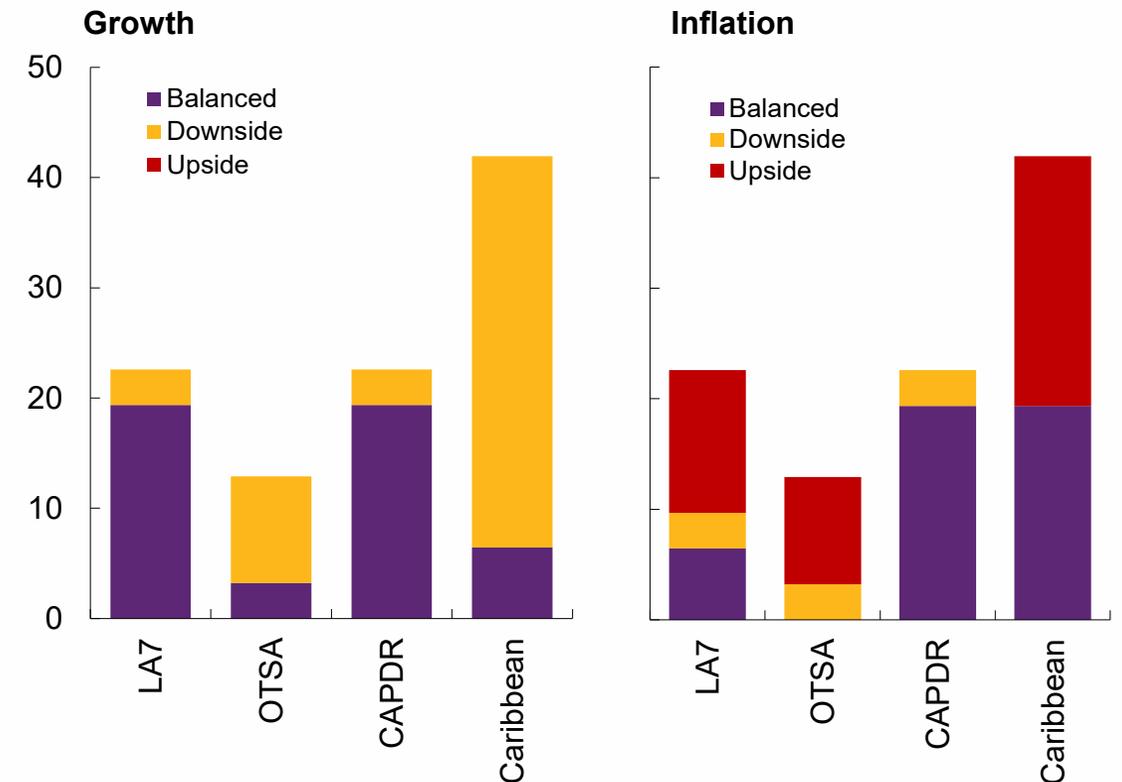
Main Risks to Growth

Downside
- ➤ Tighter US monetary policy stance
- ➤ Commodity price volatility
- ➤ Climate-related shocks
- ➤ Political uncertainty and social tensions

Upside
- ➤ Stronger trading partner growth
- ➤ Pick-up in infrastructure projects
- ➤ Green growth opportunities

Risks to Growth and Inflation
(Percent of the number of countries in the group)

Source: IMF staff.
Note: Assessment of the balance of risks by IMF country desks. CAPDR = Central America, Panama, and the Dominican Republic; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay); OTSA = Other South America (Argentina, Bolivia, Ecuador, Venezuela).
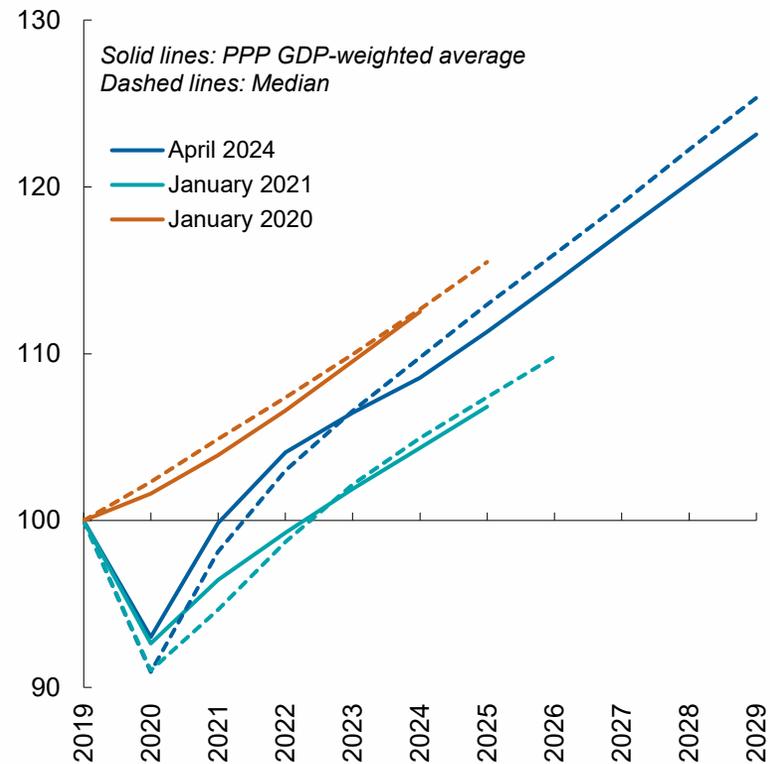
Medium-term Outlook

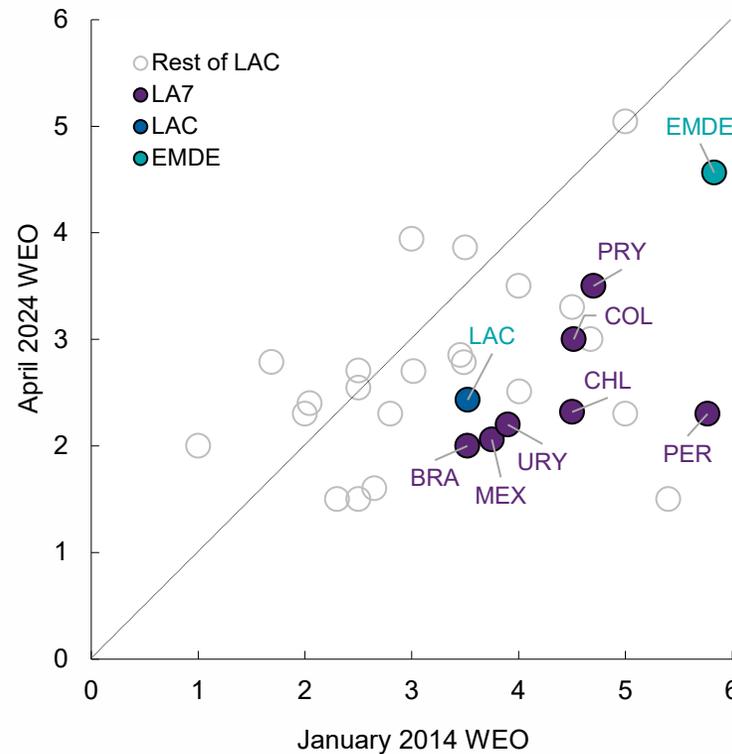*While pandemic scarring has been smaller than originally expected…*

… medium-term growth prospects have weakened over time…
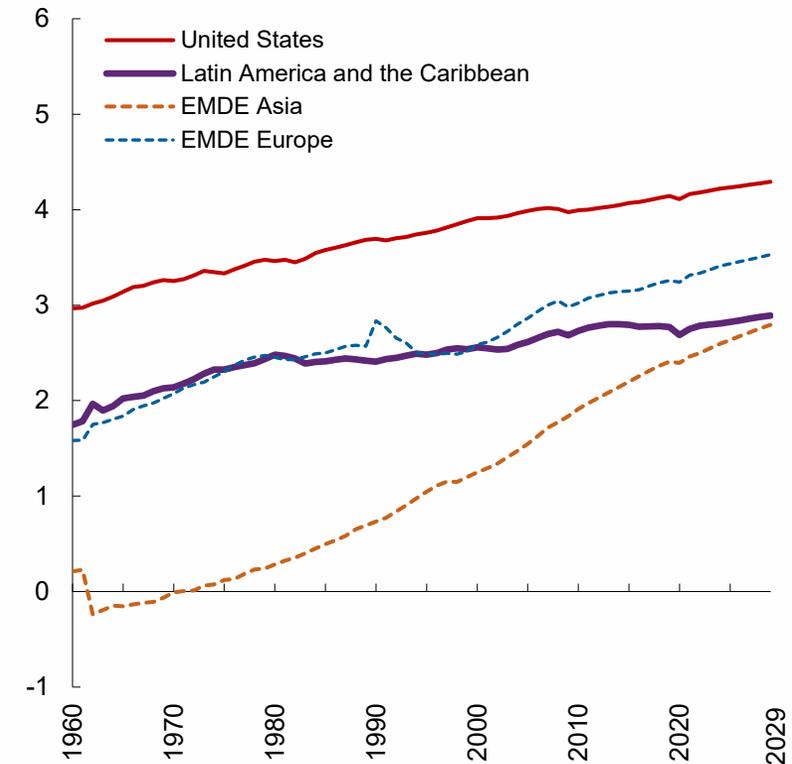
… still pointing to lack of income convergence

LAC: Real GDP by WEO Vintage
(Index: 2019 = 100)

Solid lines: PPP GDP-weighted average
Dashed lines: Median

— April 2024
— January 2021
— January 2020

LAC: Medium-term Growth
(Year-over-year percent change)

○ Rest of LAC
● LA7
● LAC
● EMDE

April 2024 WEO / January 2014 WEO

Real GDP per Capita
(Logs; thousands of PPP 2017 international dollars)

— United States
— Latin America and the Caribbean
-- EMDE Asia
-- EMDE Europe

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LAC = Latin America and the Caribbean; PPP = purchasing-power-parity.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: April 2024 vintage refers to 2029; January 2014 vintage refers to 2019. Excludes Guyana (outlier); and Venezuela (data limitations). EMDE = emerging and developing economies (excludes LAC and China); LA7 = Latin America 7; LAC = Latin America and the Caribbean.

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. EMDE = emerging market and developing economies; PPP = purchasing power parity.
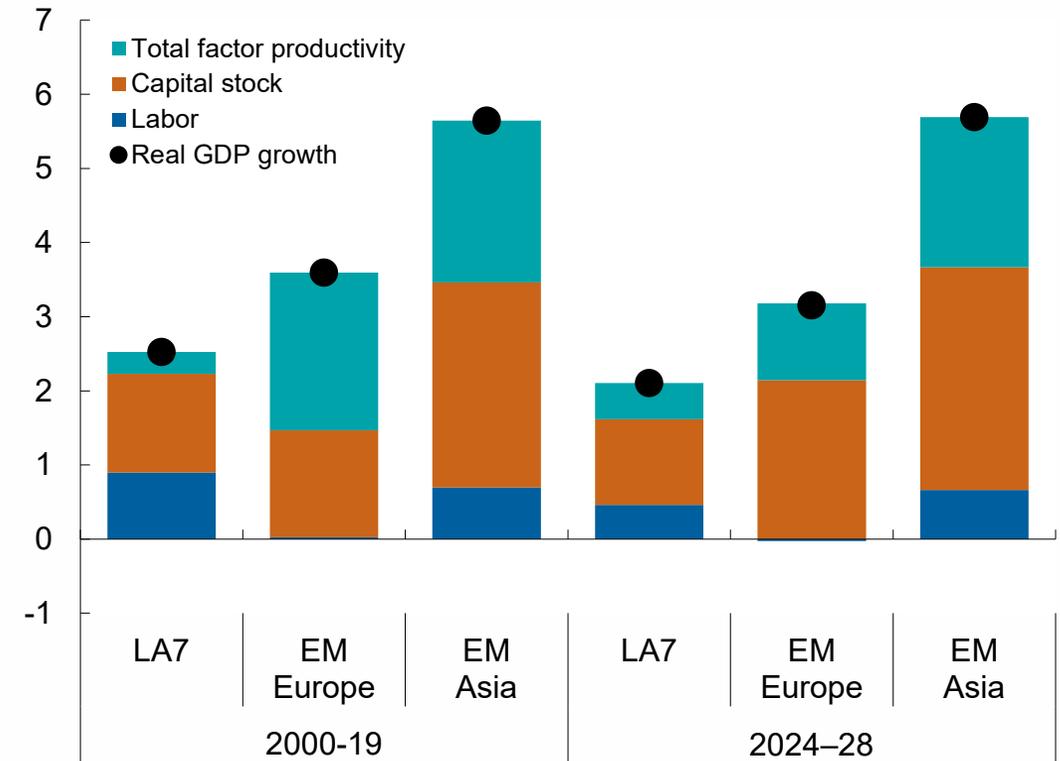
Growth is projected to average 2 percent in the next 5 years, in line with levels seen in the 1990s, …

… and considerably lower than in peer economies

LA7: Contributions to Real GDP Growth
(Year-over-year percent change)
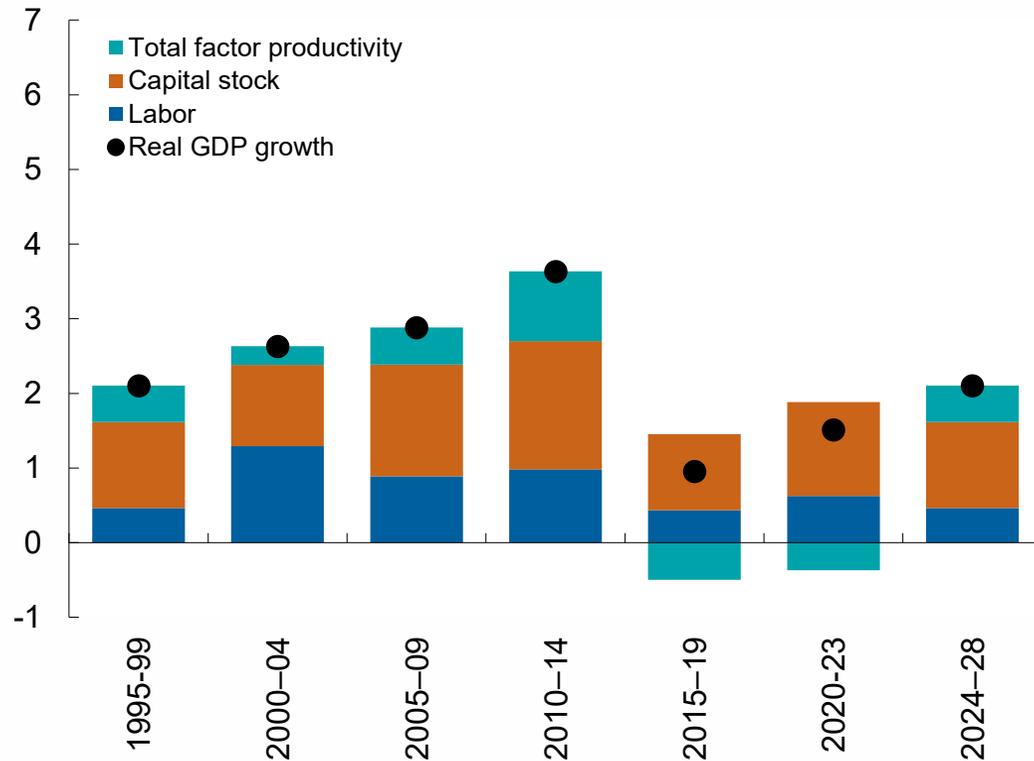
LA7 and other EMs: Contributions to Real GDP Growth
(Year-over-year percent change)

Sources: IMF, World Economic Outlook database; Penn World Table 10.0 database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted average. LA7 excludes Paraguay due data limitations. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Peru, Paraguay, Uruguay).

Sources: IMF, World Economic Outlook database; Penn World Table 10.0 database; and IMF staff calculations.
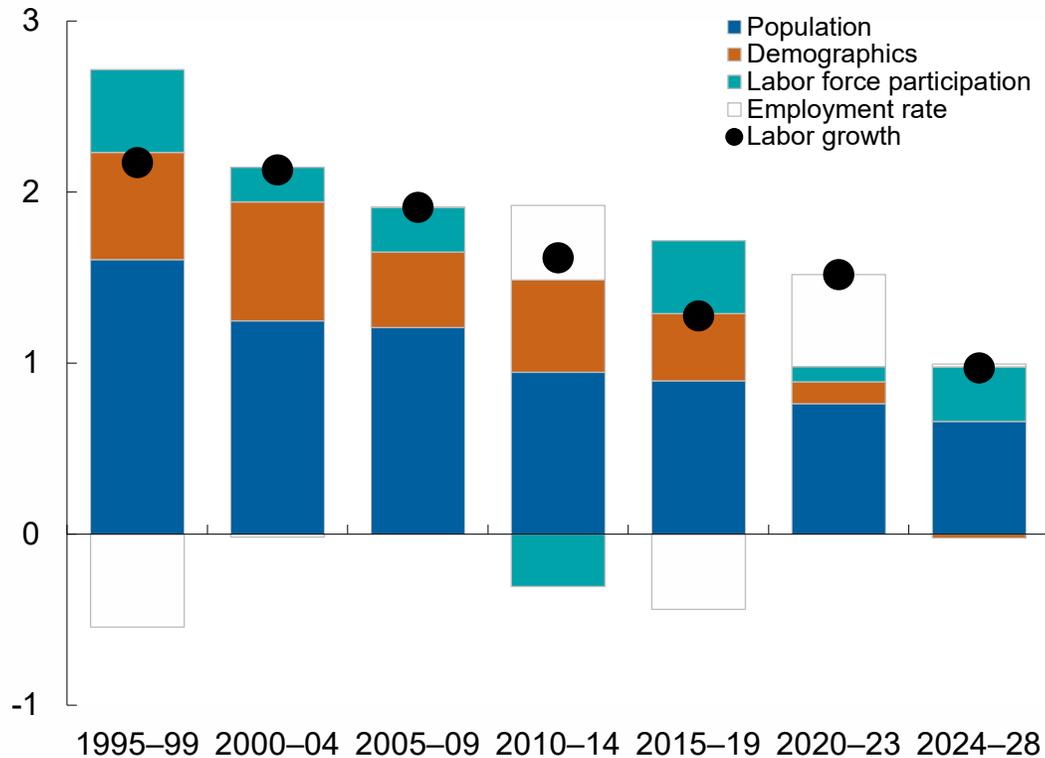Note: Aggregates are purchasing-power-parity GDP- weighted averages. LA7 excludes Paraguay due data limitations. Emerging Asia = India, Indonesia, Malaysia, Philippines, Thailand; Emerging Europe = Bosnia and Herzegovina, Bulgaria, Estonia, Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
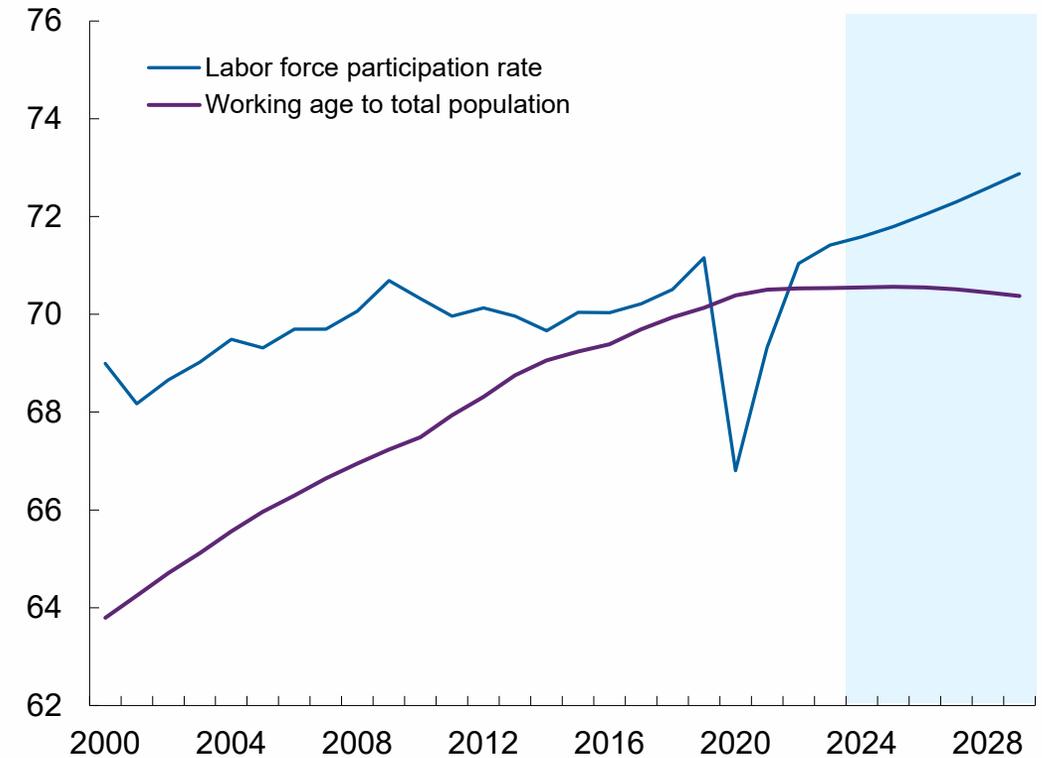
The labor contribution is projected to be half of what it was two decades ago, reflecting slower population growth and aging…

… while increasing labor participation is projected to be a key offsetting force

LA7: Contributions to Labor Growth
(Year-over-year percent change)

- Population
- Demographics
- Labor force participation
- Employment rate
- Labor growth

LA7: Working Age Population to Total Population and Participation Rate
(Percent)

- Labor force participation rate
- Working age to total population

Sources: IMF, World Economic Outlook database; World Bank, Population Estimates and Projections database; and IMF staff calculations.
Note: Purchasing-power-parity GDP- weighted average. LA7 excludes Paraguay due data limitations. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Sources: IMF, World Economic Outlook database; World Bank, Population Estimates and Projections database; and IMF staff calculations.
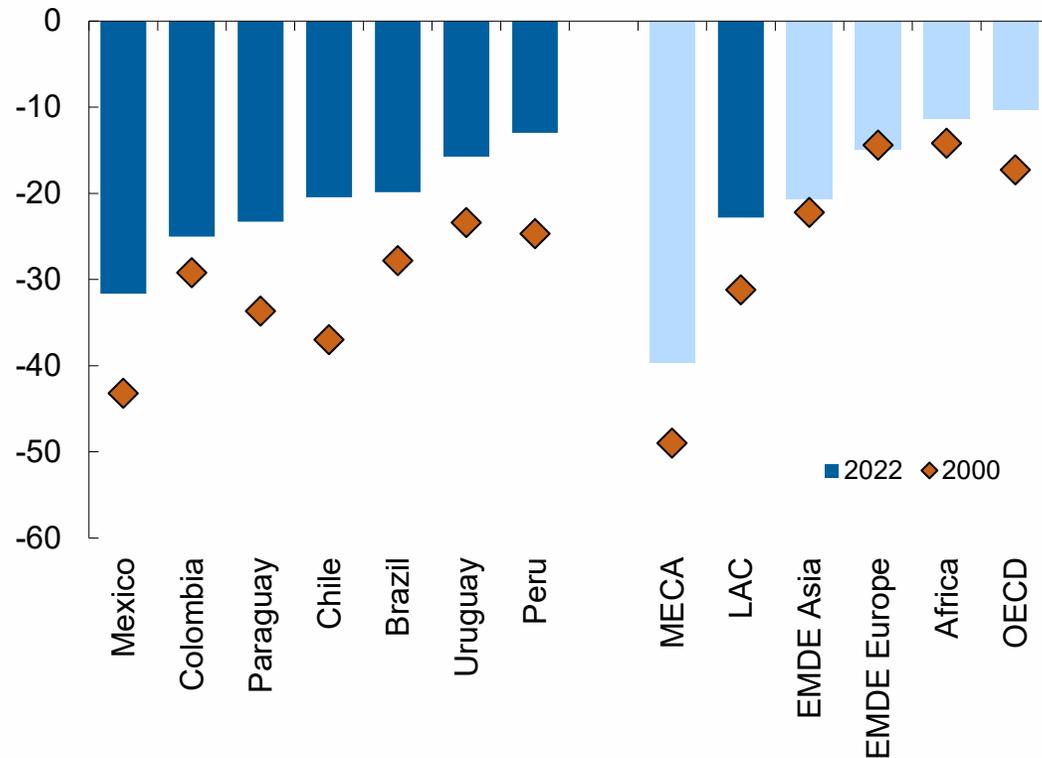Note: Aggregates are PPP GDP- weighted averages. LA7 excludes Paraguay due data limitations. LA7 = Latin America 7 (BRA, CHL, COL, MEX, PRY, PER, URY).

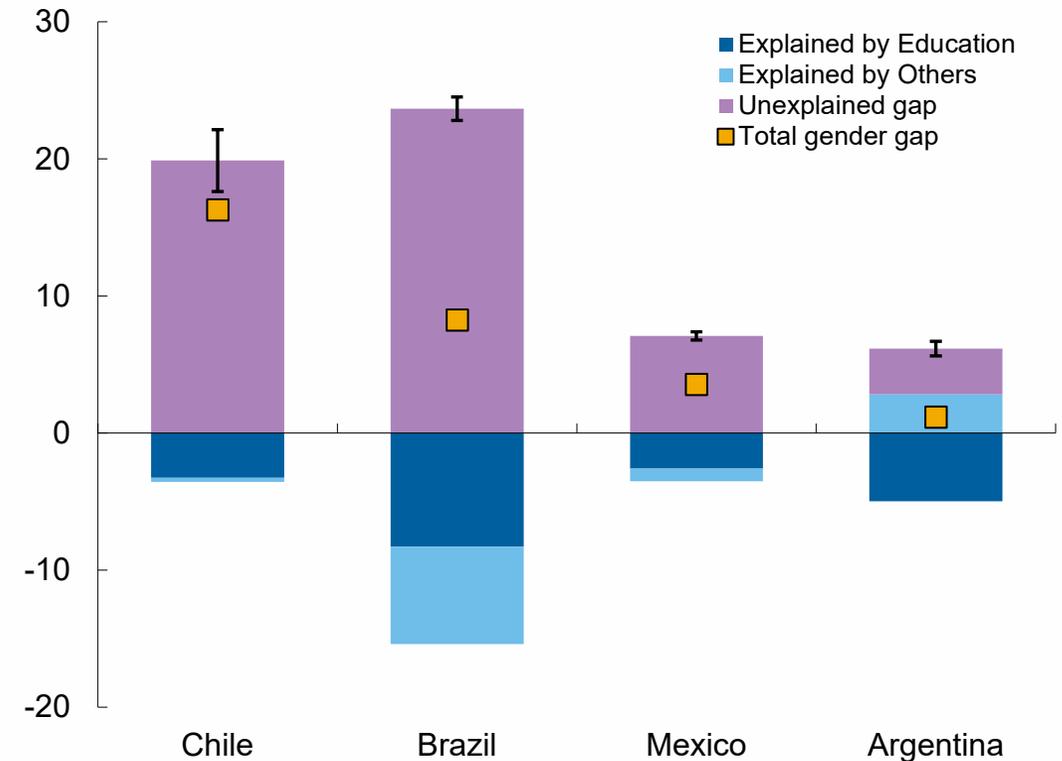*Despite progress, the gender gap in labor force participation remains high in the region…*

… and so does the earnings gender gap, in some countries.

Labor Force Participation Rate Gap
(Percentage points; gap = female minus male)

Legend: ■ 2022 ◆ 2000

Categories (left to right): Mexico, Colombia, Paraguay, Chile, Brazil, Uruguay, Peru, MECA, LAC, EMDE Asia, EMDE Europe, Africa, OECD

Gender Gap in Hourly Wages
(Percent)

Legend:
- ■ Explained by Education
- ■ Explained by Others
- ■ Unexplained gap
- ◻ Total gender gap

Categories (left to right): Chile, Brazil, Mexico, Argentina

Sources: IMF, Gender Data Hub; International Labour Organization; and IMF staff calculations.
Note: Aggregates are medians. Data are based on 15+ years age group modeled ILO estimates. Africa = Sub-Saharan Africa; EMDE = emerging market and developing economies; LAC = Latin America and the Caribbean; MECA = Middle East and Central Asia; OECD = Organisation for Economic Co-operation and Development.

Sources: EPH (2022-2023); PNADC (2022); ESI (2022); ENOE (2022-2023); ENAHO panel (2022); and IMF staff calculations.
Note: Sample is age 15-64 who are employed. Results from Blinder-Oaxaca decomposition of a Mincer regression. The blue segment is the part of the gender gap that is explained by differences in potential experience, education, occupation, industry, whether the worker lives in a rural area, whether the job is informal, and whether the worker works for the government. The light purple segment is the part of the gender gap that is unexplained. The errors bars denote the 95 percent confidence interval for the unexplained gap.

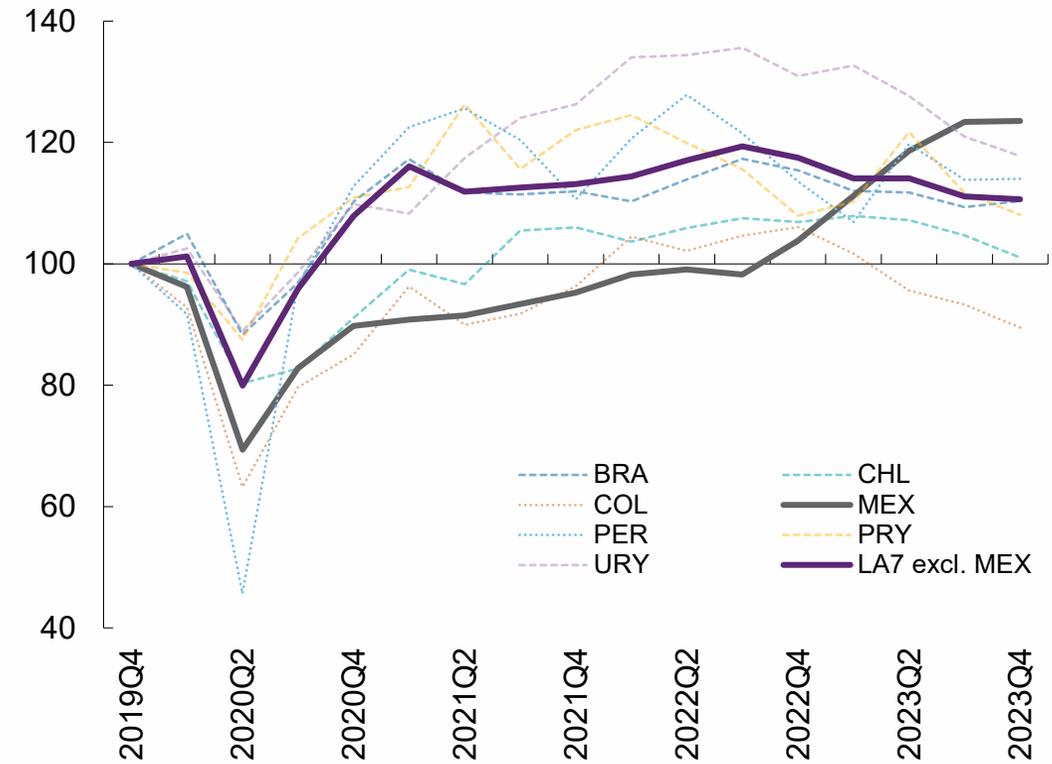# Tepid prospects for capital accumulation...

Latin America's investment rates have been low historically, …

… and recent trends point to weakening investment (except in Mexico), after a quick rebound from the pandemic

Real Capital Stock Growth
(Percent)

LA7
Emerging Europe
Emerging Asia
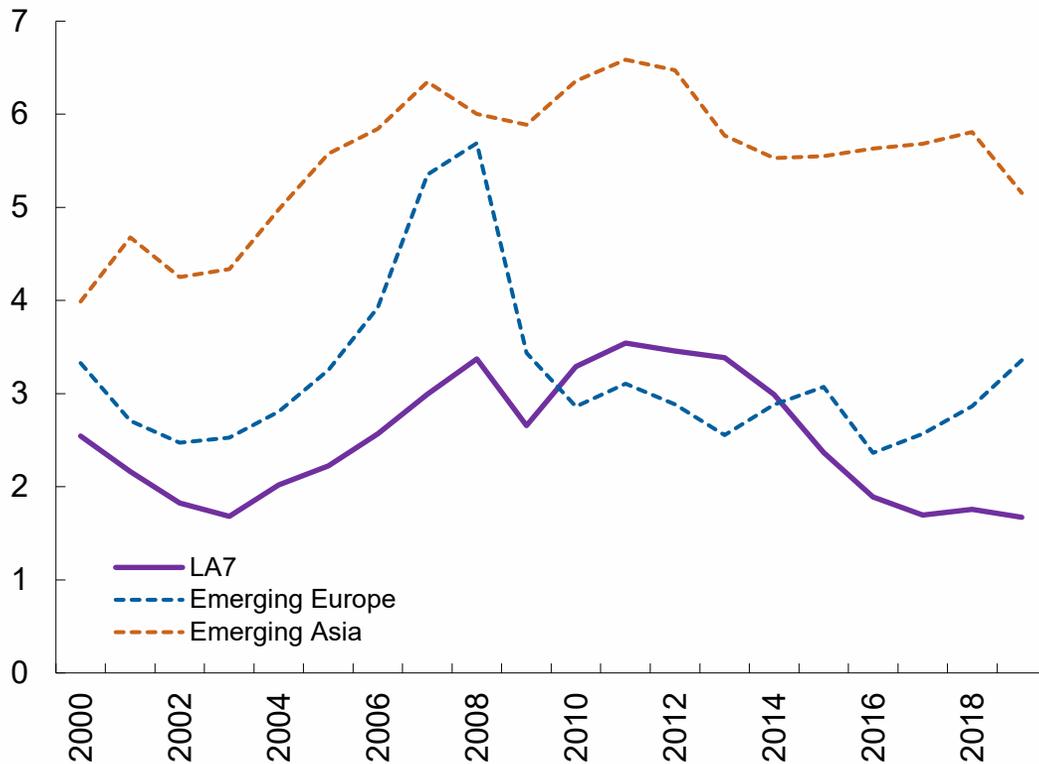
Real Gross Fixed Capital Formation
(Index: 2019Q4 = 100)

BRA
COL
PER
URY
CHL
MEX
PRY
LA7 excl. MEX

Sources: IMF, World Economic Outlook database; Penn World Table 10.0 database; and IMF staff calculations.
Note: Purchasing-power-parity GDP- weighted averages. LA7 excludes Paraguay due to data limitations. Emerging Asia = India, Indonesia, Malaysia, Philippines, Thailand; Emerging Europe = Bulgaria, Estonia, Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
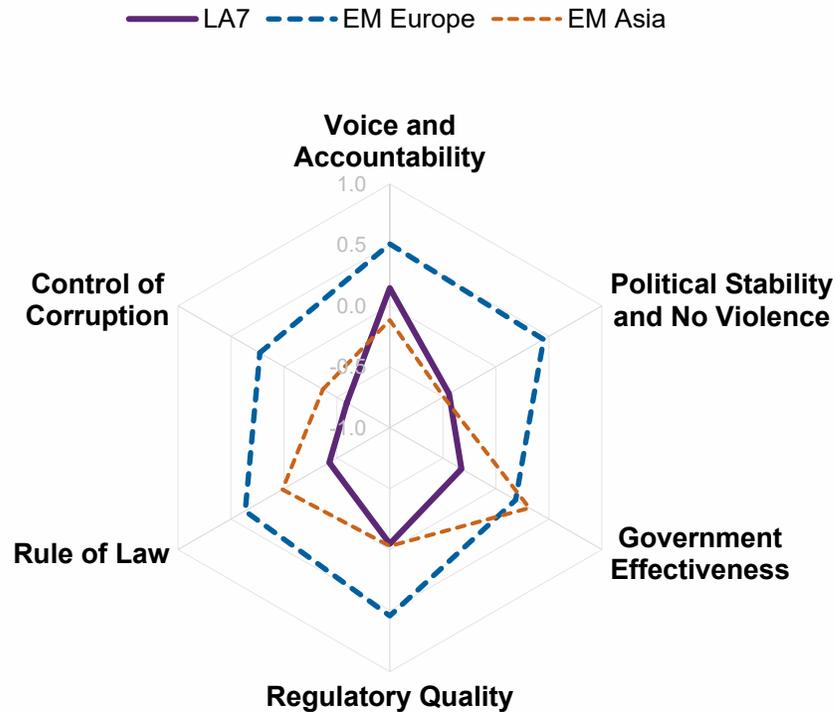
Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: LA7 excl. MEX aggregate is purchasing-power-parity GDP-weighted average. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
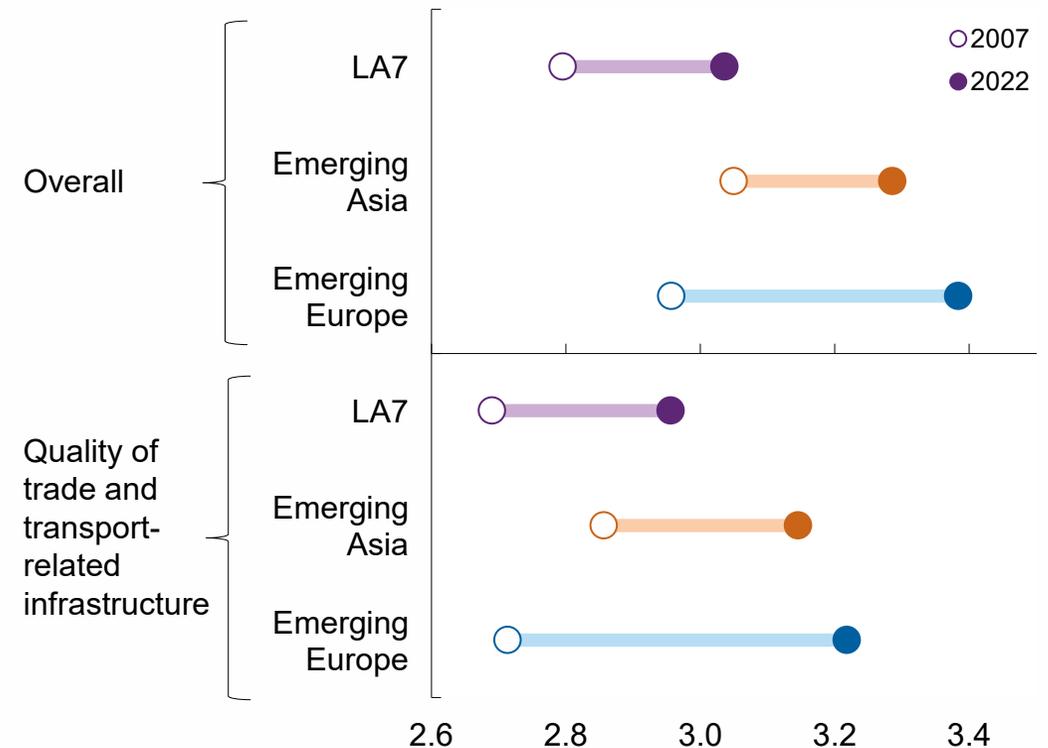
The region compares poorly in perceptions of effectiveness and quality of public services/policies and rule of law…

… as well as in the quality of trade infrastructure

Governance Indicators, 2022
(Index: -2.5 [weak] to 2.5 [strong] governance performance)

Logistics Performance Index
(1 = low to 5 = high)

Sources: IMF, World Economic Outlook database; The Worldwide Governance Indicators database; and IMF staff calculations.
Note: Aggregates are purchasing-parity GDP- weighted averages. Emerging Asia = Bangladesh, India, Indonesia, Malaysia, Thailand, Vietnam; Emerging Europe = Bosnia and Herzegovina, Bulgaria, Estonia, Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
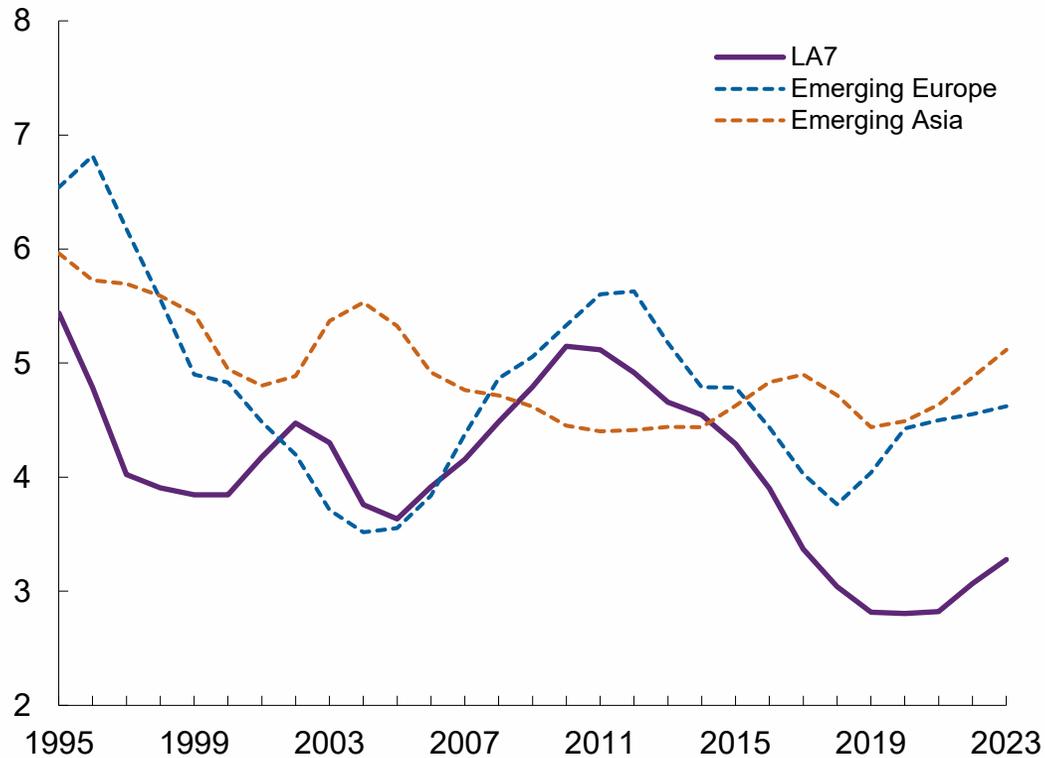
Sources: World Bank, World Development Indicators database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted averages. Emerging Asia = Bangladesh, India, Indonesia, Malaysia, Philippines, Thailand, Vietnam; Emerging Europe = Bosnia and Herzegovina, Bulgaria, Estonia, Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Public investment is low in Latin America…

… partly reflecting weak institutional design and enforcement frameworks

Public Gross Fixed Capital Formation
(Percent of GDP; three-year moving average)

Public Investment Management Assessment (PIMA): Effectiveness

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted averages. LA7 excludes Uruguay due to data limitations. EM Asia = Bangladesh, India, Indonesia, Malaysia, Philippines, Thailand, Vietnam; EM Europe = Bosnia and Herzegovina, Bulgaria, Estonia, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
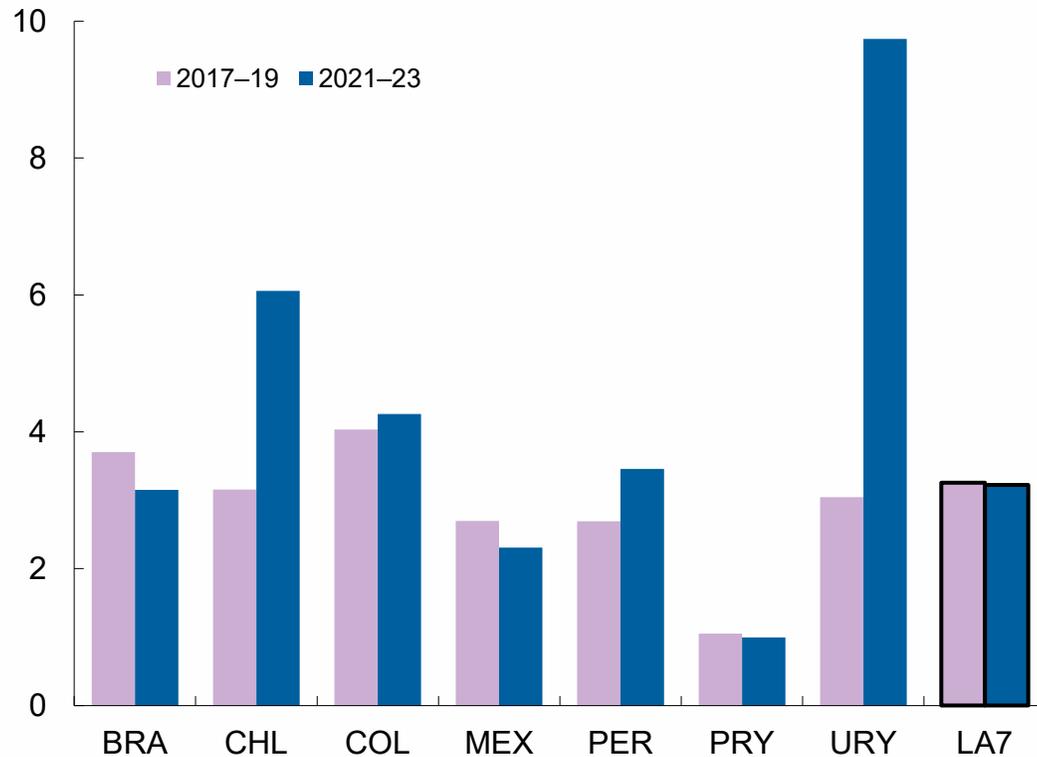
Sources: IMF, Public Investment Management Assessment (PIMA) database; and IMF staff calculations.
Note: Effectiveness measures how well legal and regulatory framework is enforced.
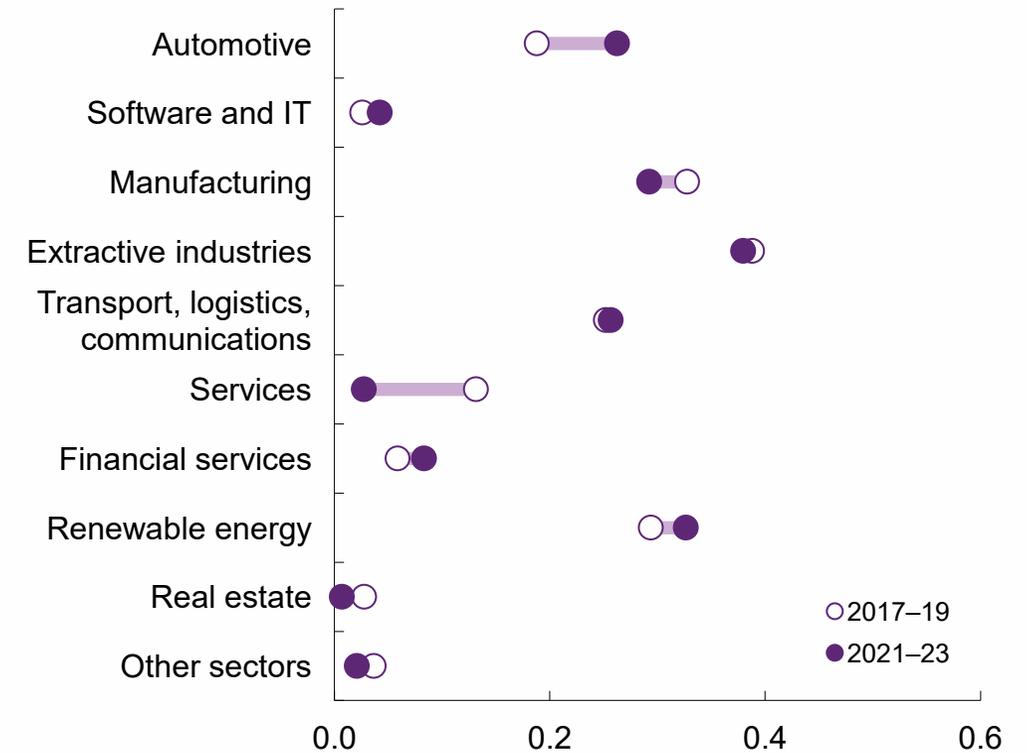
FDI has mostly held up well...

… with greater interest on automotive sectors (likely reflecting geoeconomic fragmentation) but less on service sectors

LA7: Foreign Direct Investments
(FDI inflows based on BOP statistics, percent of GDP)

Legend: 2017–19, 2021–23

Categories: BRA, CHL, COL, MEX, PER, PRY, URY, LA7

LA7: Foreign Direct Investment
(Percent of GDP)

Categories: Automotive, Software and IT, Manufacturing, Extractive industries, Transport, logistics, communications, Services, Financial services, Renewable energy, Real estate, Other sectors

Legend: 2017–19, 2021–23

Sources: IMF, Balance of Payments Statistics database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).
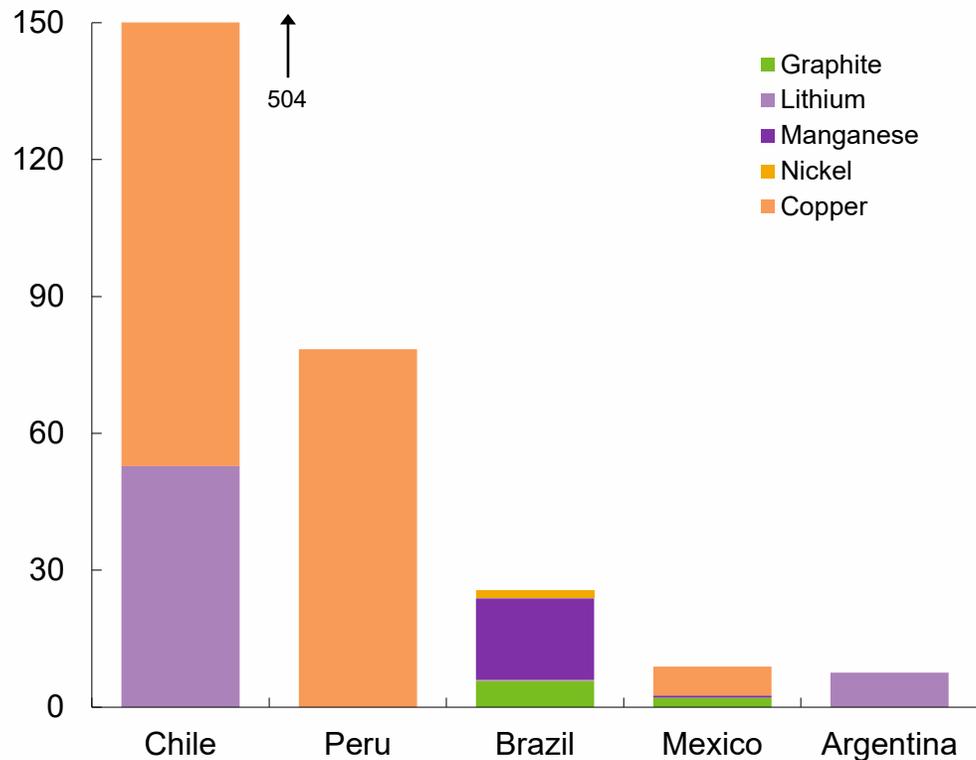
Sources: fDi Markets database; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Aggregates are purchasing-power-parity GDP-weighted averages. Other sectors include airspace and defense, pharmaceuticals, and research and development. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Investment will be needed for countries to meet the greater demand for green minerals…

… and make their economies more resilient to climate shocks

Reserves of Selected Critical Minerals
(Percent of GDP)

Legend:
- Graphite
- Lithium
- Manganese
- Nickel
- Copper

Potential Output Impact from Greater Infrastructure Resilience
(Percent of GDP)

— Min-Max range   ○ Average

Sources: UN Comtrade; United States Geological Survey 2023; and IMF staff calculations.
Note: Metal reserves to GDP ratios are calculated using metal prices inferred from country-level exports data. For Mexico, manganese export prices of Brazil are used due to lack of data.
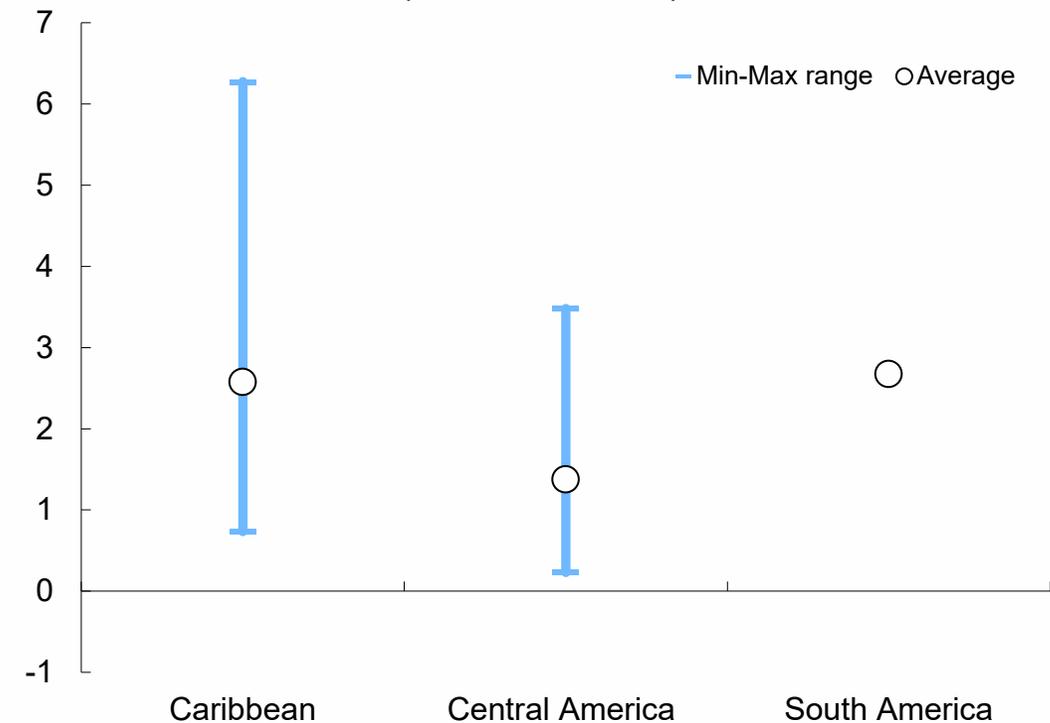
Source: IMF staff calculations.
Note: Average increase in output level in the long term for a subsample of countries in each subregion. Based on general equilibrium modeling incorporating the expected loss and damage from natural disasters, with investment to increase infrastructure resiliency to 80 percent. The range indicates the estimated subregional minimum and maximum sample values. For South America, the results (available for only one country so far) incorporate the impact of El Niño.
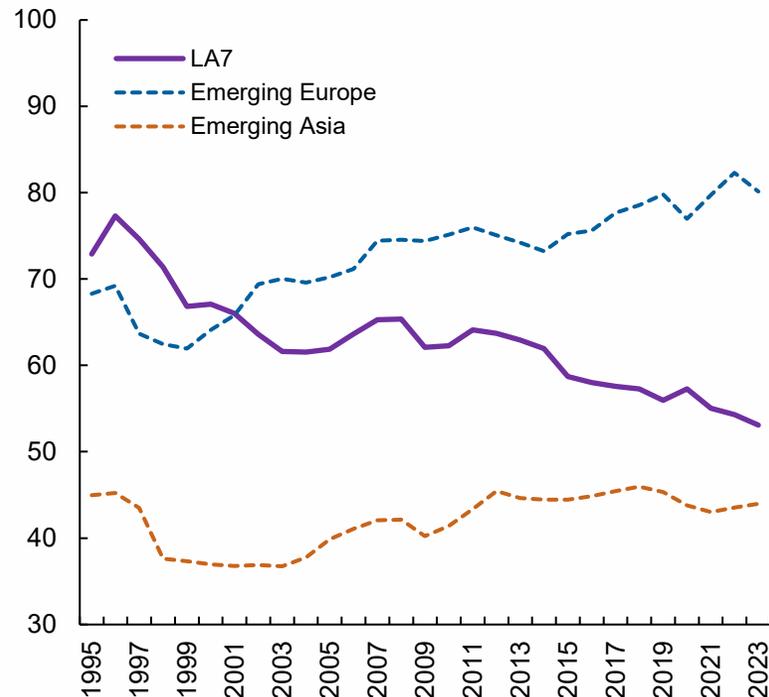
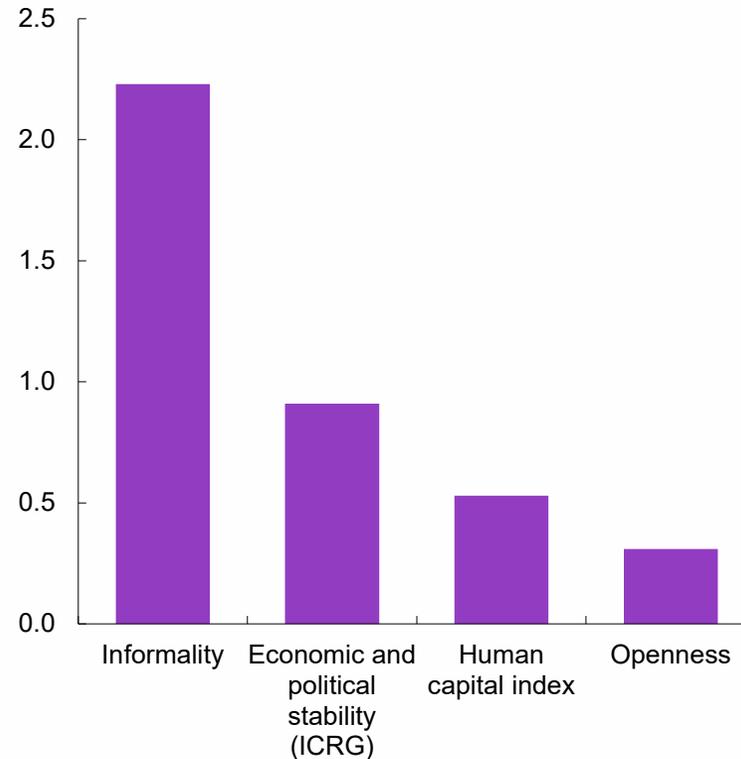*Productivity growth has been dismal...*   *… partly reflecting high informality…*   *… and limited economies of scale*

Total Factor Productivity Relative to the US
(Percent)

- LA7
- Emerging Europe
- Emerging Asia

Potential Impact on LAC's TFP Growth from Improvements in Key Correlates
(From LAC mean to 75th percentile of EMDE distribution)

Informality | Economic and political stability (ICRG) | Human capital index | Openness

Labor Productivity versus Firm Size
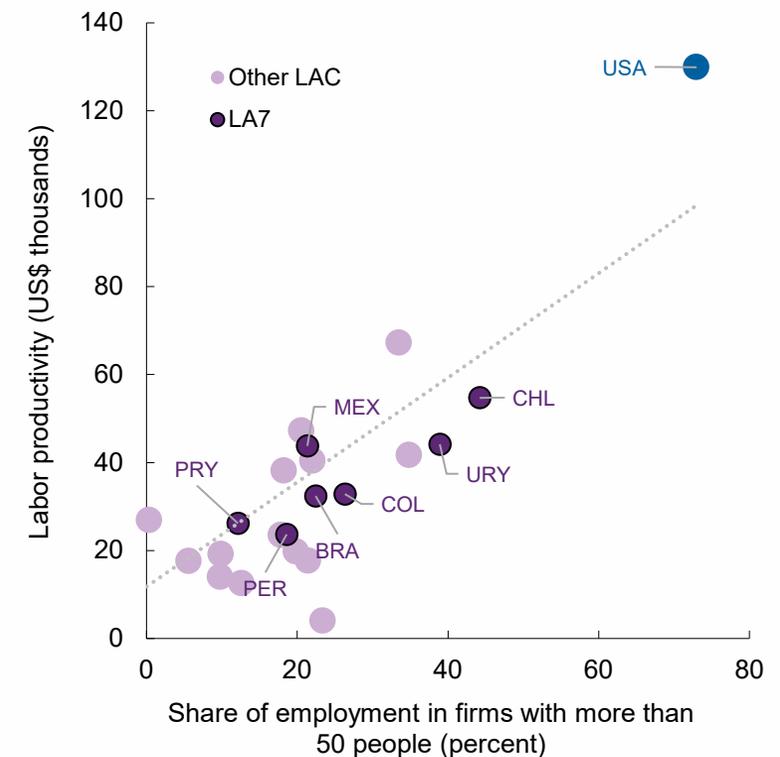
- Other LAC
- LA7

Labor productivity (US$ thousands)

Share of employment in firms with more than 50 people (percent)

Sources: IMF, World Economic Outlook database; Penn World Table 10.0 database; and IMF staff calculations.
Note: Purchasing-power-parity GDP-weighted averages. LA7 excludes Paraguay due to data limitations. EM Asia = IND, IDN, MYS, PHL, THA; EM Europe = BGR, EST, HUN, POL, ROU, SRB; LA7 = Latin America 7 (BRA, CHL, COL, MEX, PRY, PER, URY).

Source: "Productivity in Latin America and the Caribbean: Recent Trends and the COVID-19 Shock," Background Paper 3, *October 2022* Regional Economic Outlook: Western Hemisphere.
Note: LAC = Latin America and the Caribbean ; TFP = total factor productivity.

Sources: International Labour Organization; Penn World Tables 10.0; US Bureau of Labor Statistics; and IMF staff calculations.
Note: Labor productivity is calculated by dividing real GDP at constant 2017 national prices and employment from Penn World Tables; latest data is 2019. Firm size refers to latest available. LAC = Latin America and the Caribbean.
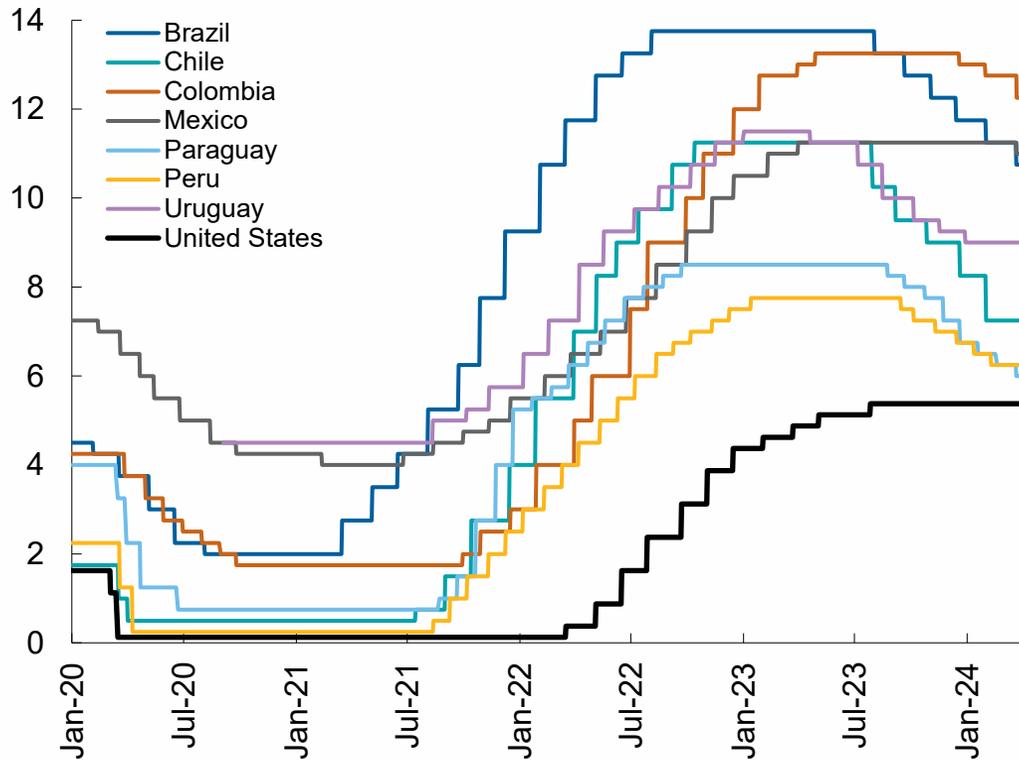
Policy Priorities

Despite recent policy rate cuts and narrowing differentials vis-à-vis the US…

… monetary policy remains contractionary

Monetary Policy Rates
(Nominal; percent)

Ex-Ante Real Monetary Policy Rates
(Percent)

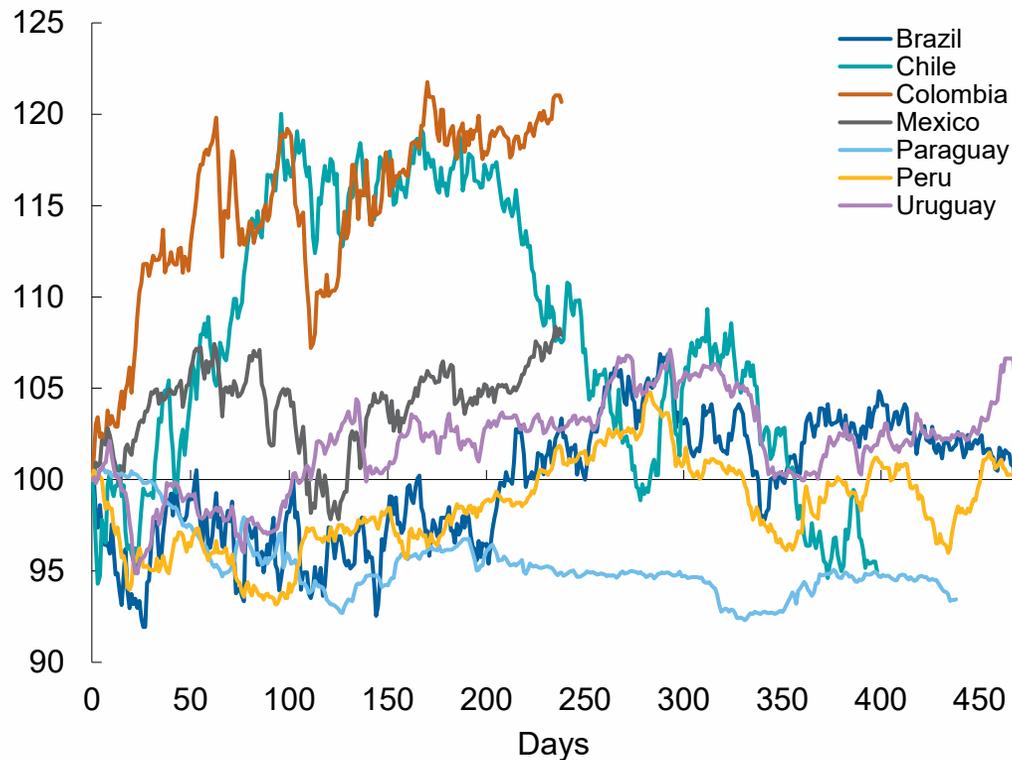Sources: Haver Analytics; and national authorities.
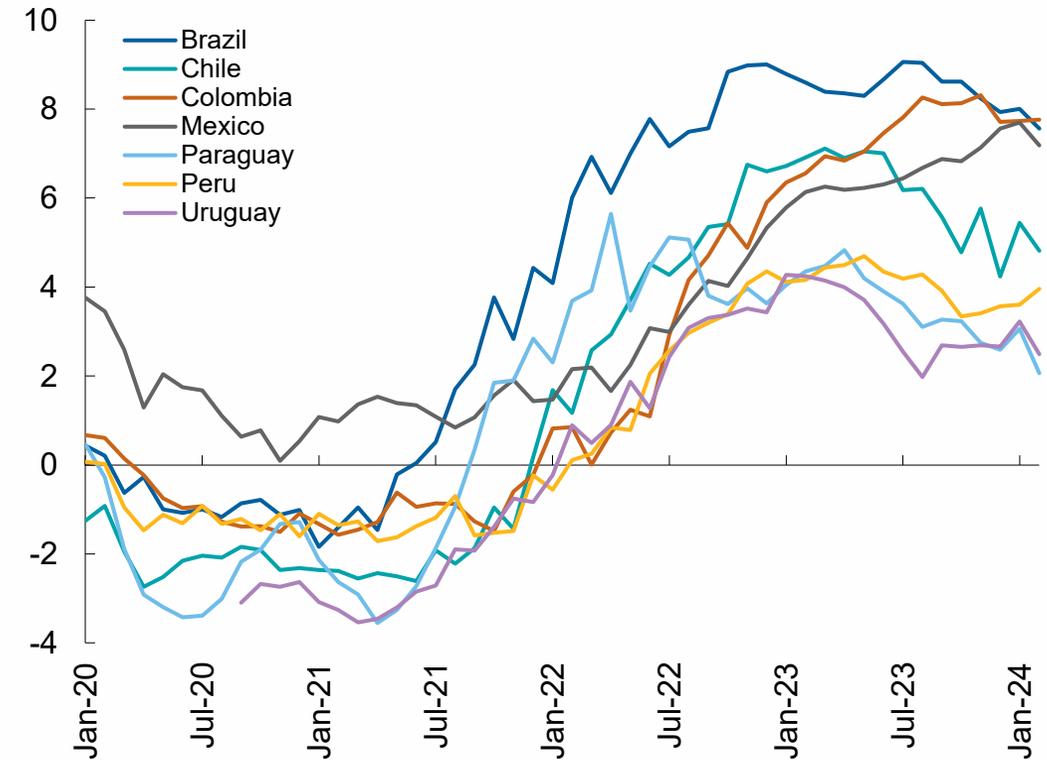
Sources: Consensus Economics; Haver Analytics; national authorities; and IMF staff calculations.
Note: Ex ante real policy rate (the difference between nominal policy rate and one-year ahead inflation expectations) are reported.

Exchange rates appear to be converging to the levels at the start of the ongoing easing cycle

Historically, near-zero policy rate differentials have been associated with increased volatility but no directional currency pressures

Exchange Rate during Current Easing Cycle
(Index vis-à-vis USD: day 0 = 100; increases = appreciation)

LA5: Exchange Rate Developments around the Narrowing of Policy Rate Differentials with the US
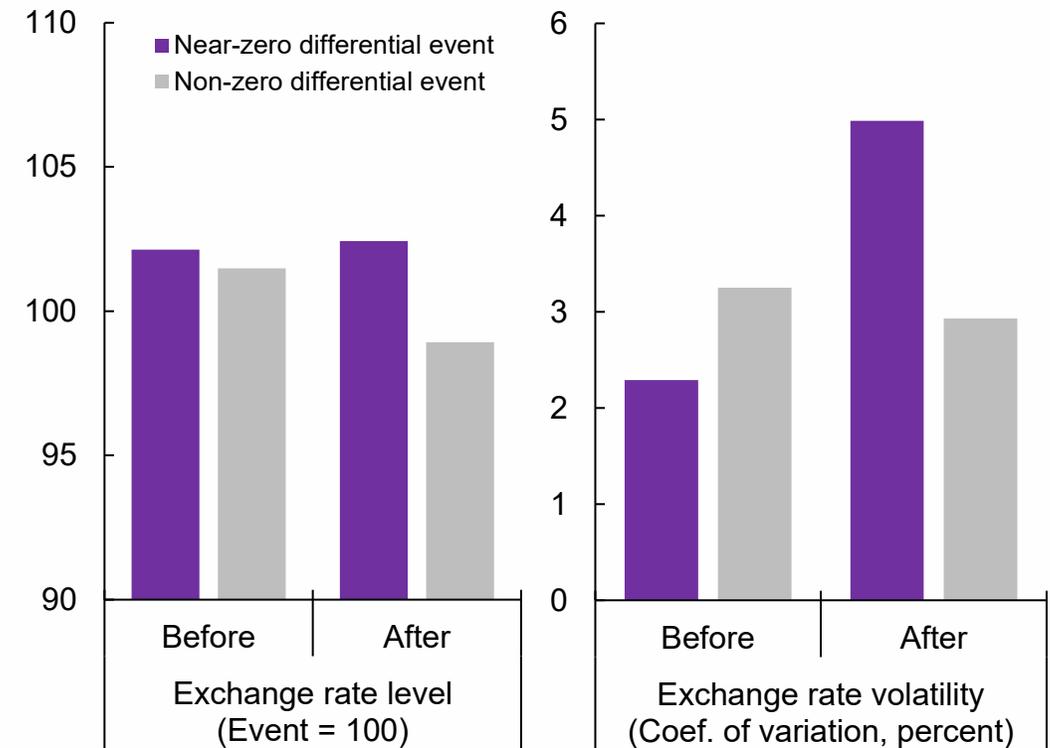

Sources: Haver Analytics; national authorities; and IMF staff calculations.
Note: Day 0 is the last date when the monetary policy rate differential with the US was the maximum since mid-2022. An increase (decrease) denotes an appreciation (depreciation).

Sources: Haver Analytics; and IMF staff calculations.
Note: An increase (decrease) in exchange rate level indicates an appreciation (depreciation) of local currency. "Event" is defined as narrowing of the policy rate differential with the US with the minimum differential reaching 50 basis points or below ("near-zero differential event") or not reaching 50 basis points ("non-zero differential event"). "Before" event reflects median performance during 12 months prior to the minimum differential; "after" event reflects median performance during 12 months after the minimum differential. The analysis covers the period from 2000M1–2024M2 (unbalanced panel) and includes 10 near-zero and 30 non-zero events. LA5 = Latin America 5 (Brazil, Chile, Colombia, Mexico, Peru).

In Brazil and Mexico, disinflation has taken place in the context of strong growth and output gaps remain positive, while in other countries disinflation has been accompanied by weaker growth, and output gaps are now negative
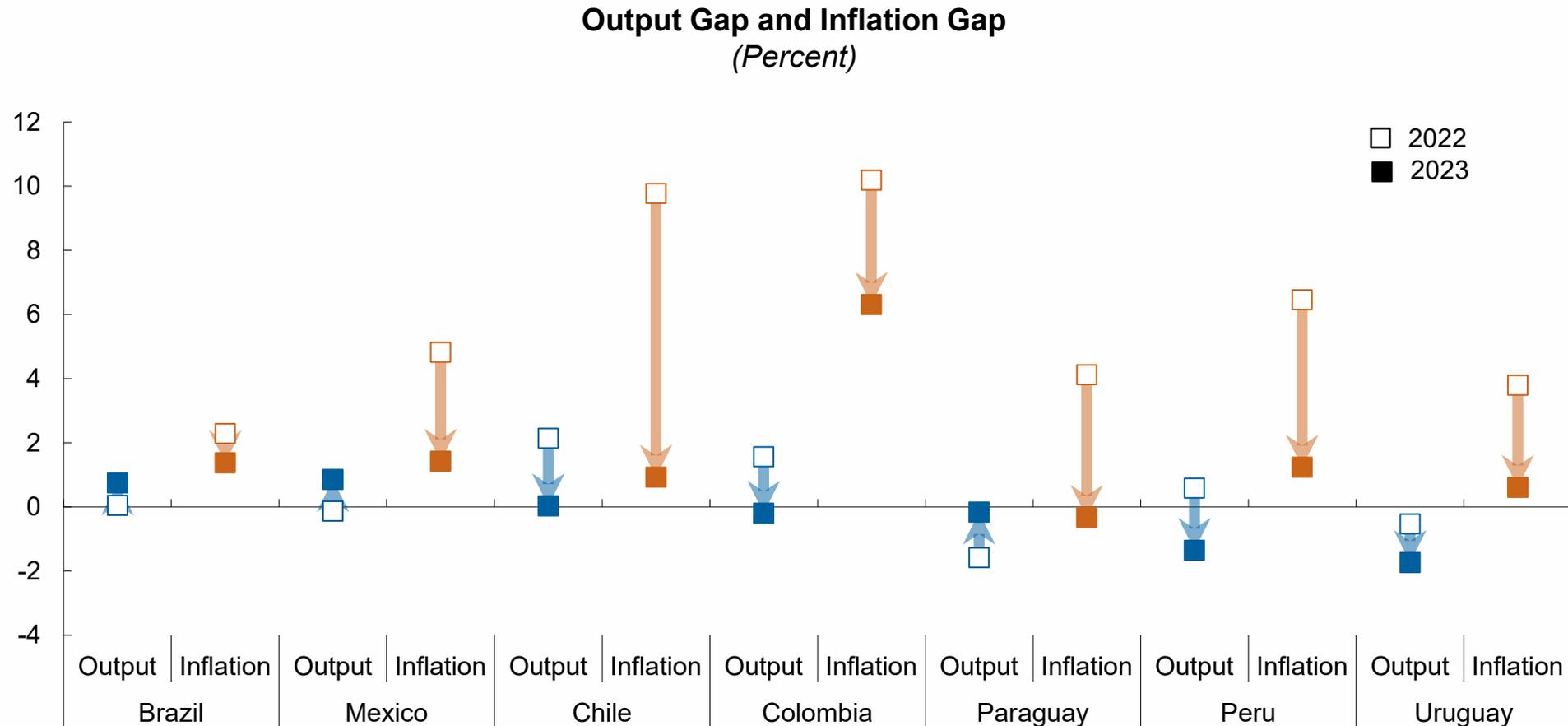
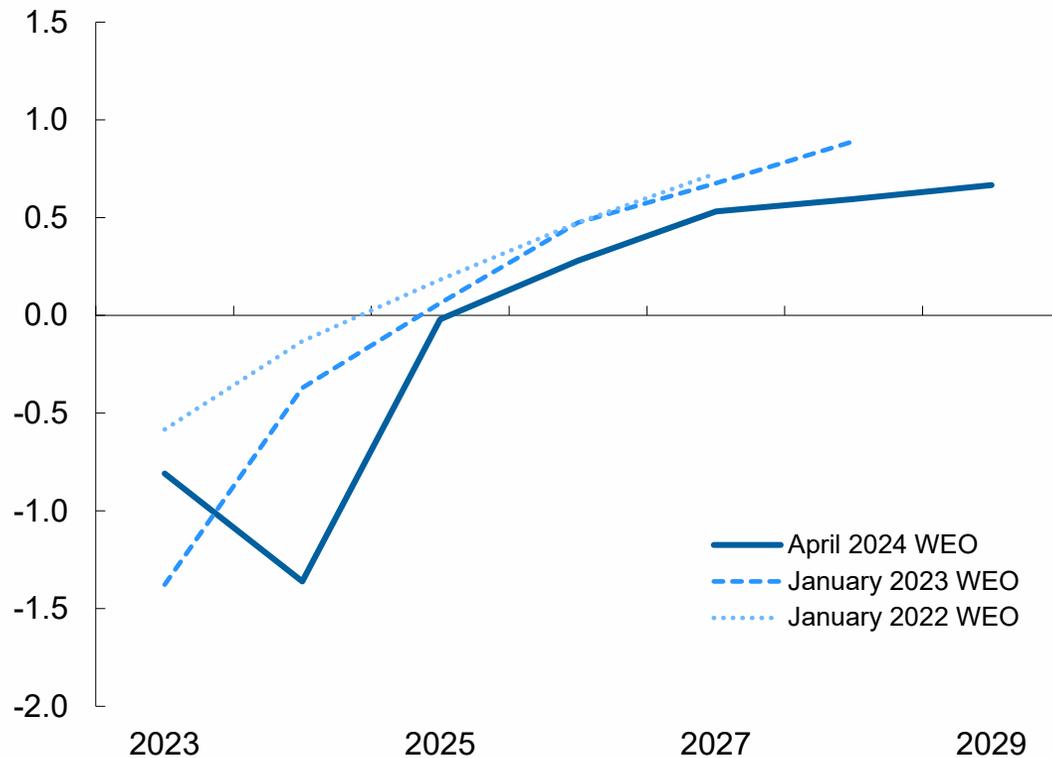**Output Gap and Inflation Gap**
(Percent)

Sources: Haver Analytics; IMF, World Economic Outlook database; and IMF staff calculations.
Note: Inflation gap is the deviation of end-of-period inflation from the inflation target.

Delayed fiscal consolidation is a concern

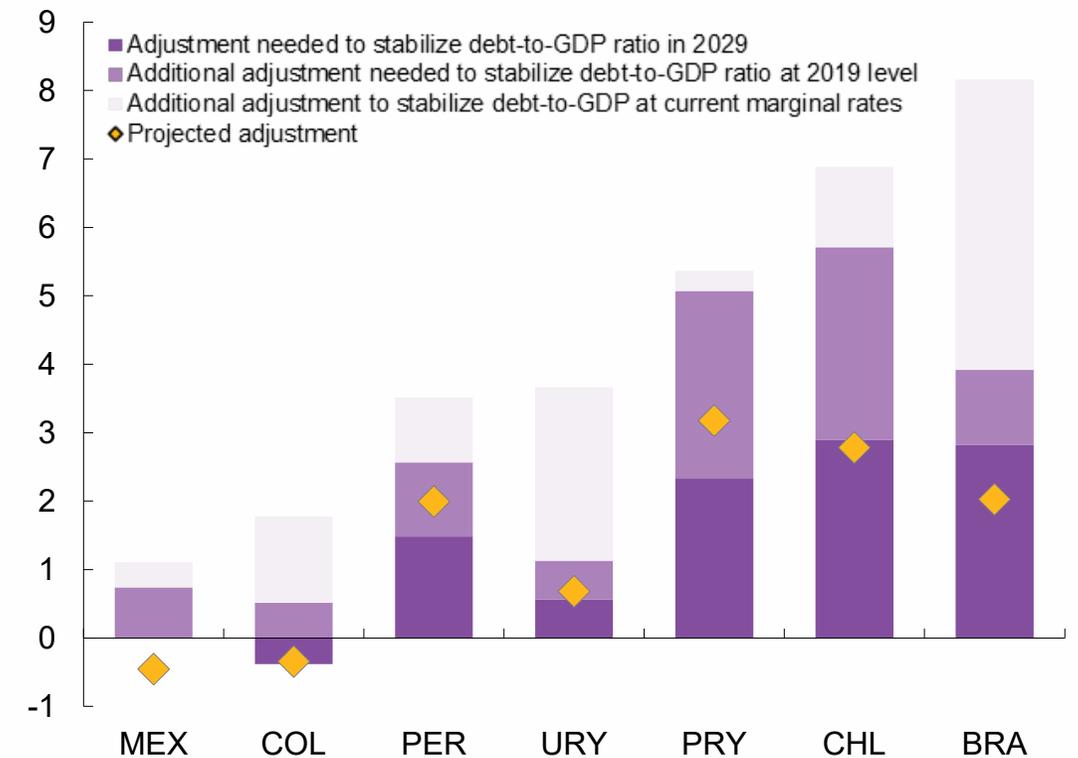*Fiscal consolidation is being postponed…*

... despite the fact that significant adjustment is needed in some countries

LA7: General Government Structural Primary Balance
(Percent of potential GDP)

- April 2024 WEO
- January 2023 WEO
- January 2022 WEO

Medium-term Fiscal Adjustment
(Cumulative rise in primary fiscal balance-to-GDP ratio between 2023 and 2029; percentage points)

- ■ Adjustment needed to stabilize debt-to-GDP ratio in 2029
- ■ Additional adjustment needed to stabilize debt-to-GDP ratio at 2019 level
- ■ Additional adjustment to stabilize debt-to-GDP at current marginal rates
- ◆ Projected adjustment

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: LA7 is fiscal year US dollar nominal GDP-weighted average. Chile refers to the central government's structural non-mining primary balance. Colombia refers to the consolidated public sector's structural non-oil primary balance. Peru refers to the nonfinancial public sector's structural primary balance. LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Sources: IMF, World Economic Outlook database; and IMF staff calculations.
Note: Projected adjustment is the difference in PB between 2029 and 2023. The adjustment needed to stabilize debt-to-GDP in 2029 is the debt-stabilizing PB in 2029 minus the PB in 2023. Additional adjustment required to stabilize debt-to-GDP in 2029 at the level of 2019 is the additional increase in the PB so that debt-to-GDP reaches the level of 2019 (starting in year 2029, 5-year horizon). Additional adjustment at current marginal rates is the further increase in PB in the case in which all debt in 2029 is subject to current marginal rates (i.e., interest rates on domestic and foreign currency-denominated debt as of April 2, 2024, applied to the corresponding debt instruments).
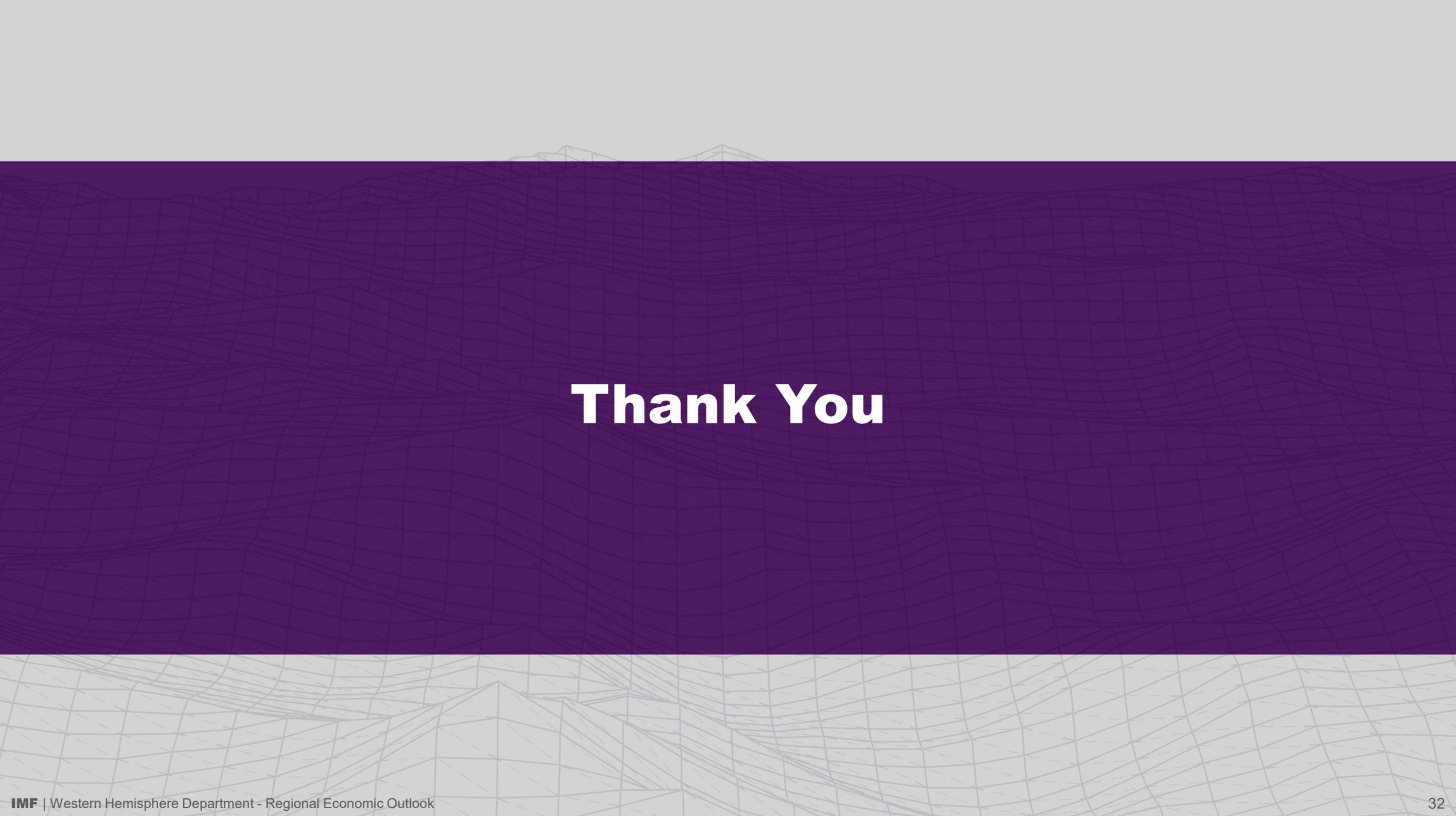
Structural reforms are needed to boost potential growth

In most structural reform areas, LA7 countries show the largest gaps, compared to peer economies

Gaps in Macrostructural Reforms, 2021
(Relative to emerging market economies frontier; percent; larger gap indicates greater distance to frontier)
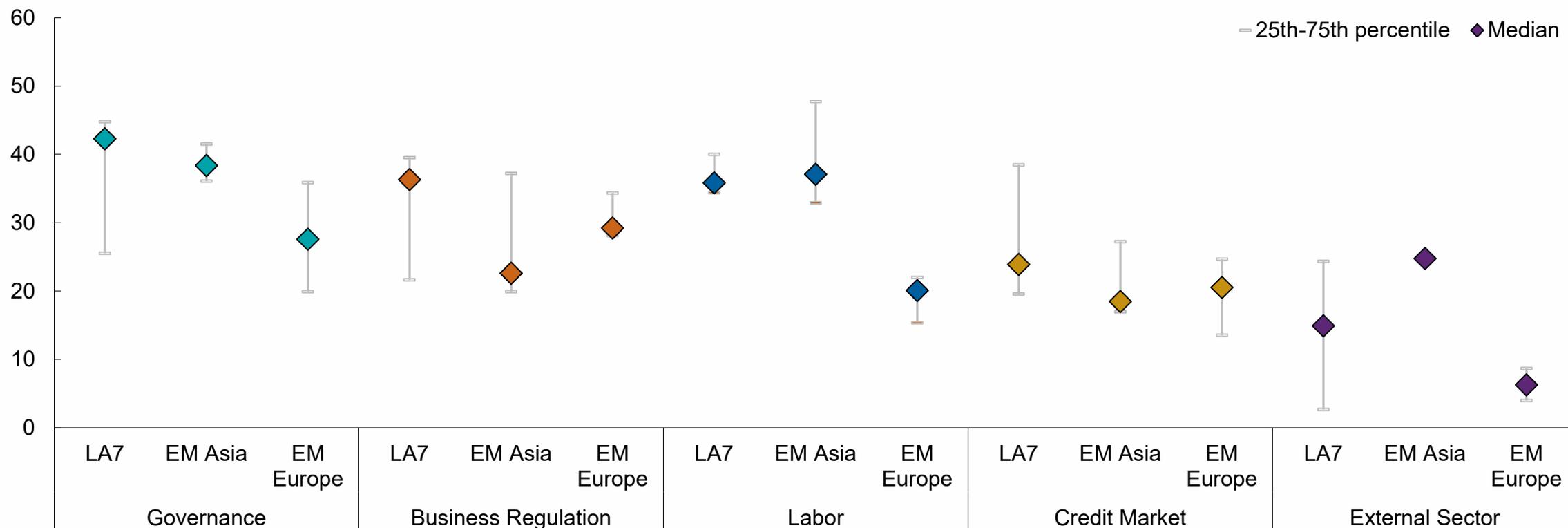
Sources: Fraser Institute; World Bank; "Structural Reforms to Accelerate Growth, Ease Policy Trade-offs, and Support the Green Transition in Emerging Market and Developing Economies," Budina and others (2023); and IMF staff calculations.
Note: Structural gaps are calculated as the deviation of each reform area from its frontier (best performer in the same year). Each reform indicator is normalized between 0 and 1 based on the sample. EM Asia = India, Indonesia, Malaysia, Philippines, Thailand; EM Europe = Bosnia and Herzegovina, Bulgaria, Hungary, Poland, Romania, Serbia; LA7 = Latin America 7 (Brazil, Chile, Colombia, Mexico, Paraguay, Peru, Uruguay).

Thank You