

Outlook for Latin America and the Caribbean

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Global growth remains modest and uneven, supported by a recovery in the United States...

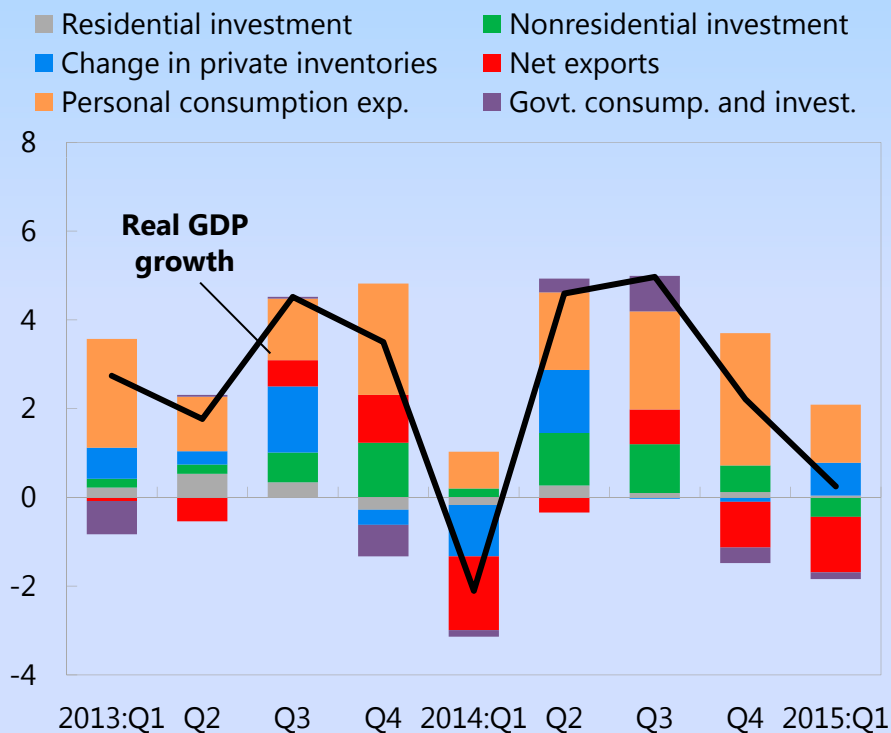
Selected Projections for Real GDP Growth (April 2015 WEO) (Percent)

	2013	2014	Projections	
			2015	2016
World	3.4	3.4	3.5	3.8
Advanced economies	1.4	1.8	2.4	2.4
United States	2.2	2.4	3.1	3.1
Euro area	-0.4	0.9	1.5	1.7
Japan	1.6	-0.1	1.0	1.2
Emerging market and developing economies	5.0	4.6	4.3	4.7
China	7.8	7.4	6.8	6.3
Russia	1.3	0.6	-3.8	-1.1

Source: IMF, *World Economic Outlook*.

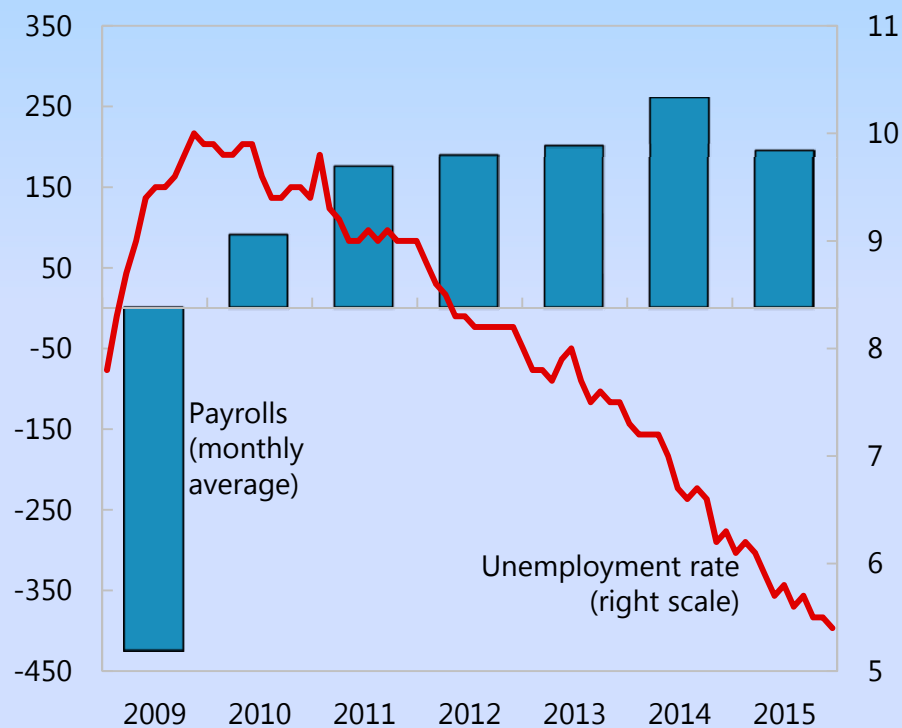
... which is underpinned by private consumption amid a strengthening labor market (despite the weakness in Q1)...

United States: Contribution to GDP Growth
(Percent change from previous quarter, Saar)



Source: U.S. Bureau of Economic Analysis.

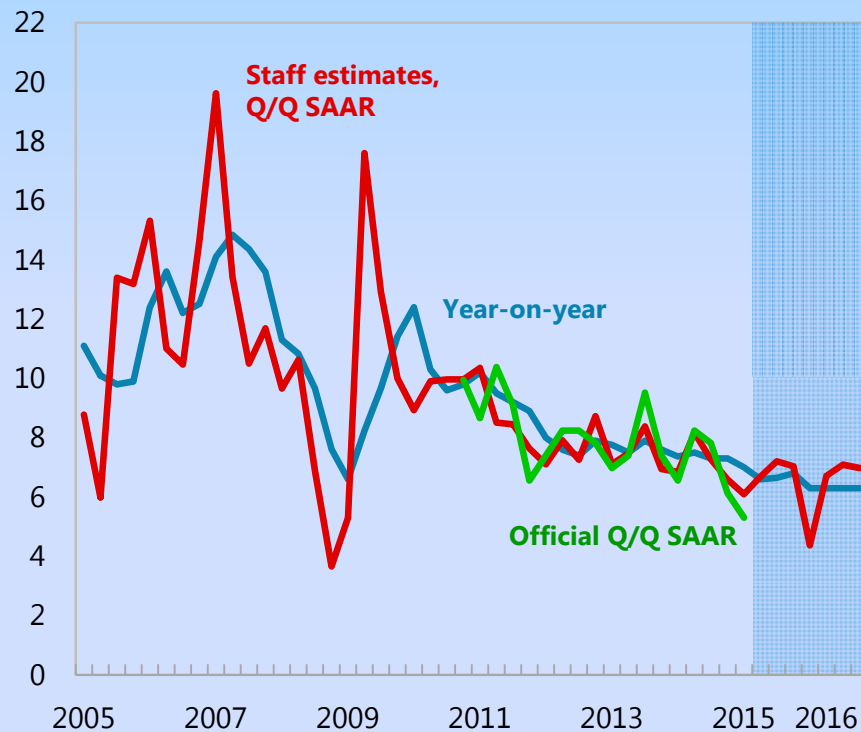
United States: Change in Nonfarm Payrolls and Unemployment Rate



Sources: Haver Analytics; and IMF staff calculations.

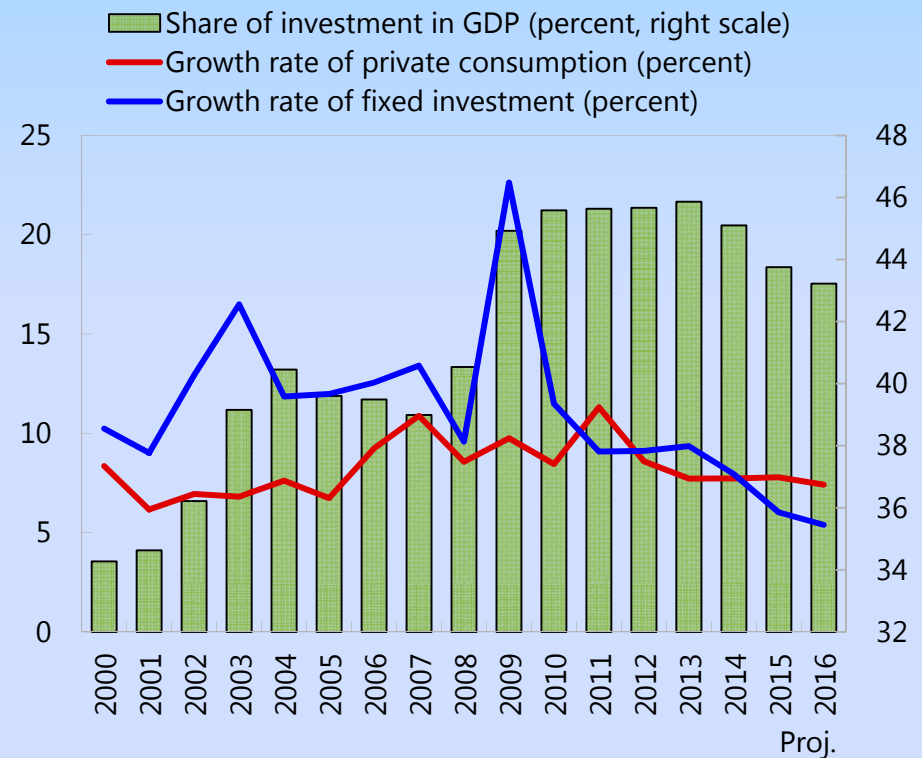
... while growth rates in China are projected to keep edging down, as the economy rebalances away from investment.

China: Real GDP Growth
(Percent)



Sources: CEIC; and IMF staff calculations.

China: Real Private Consumption and Fixed Investment



Source: IMF, *World Economic Outlook*.

Meanwhile, growth in LAC is expected to slow for the fifth consecutive year, though prospects differ across sub-regions...

LAC: Real GDP Growth¹
(Percent)

	2013	2014	Projections	
			2015	2016
Latin America and the Caribbean	2.9	1.3	0.9	2.0
Financially integrated economies ²	2.8	1.4	1.2	2.4
Other commodity exporters ³	3.1	-0.2	-1.6	-0.3
Central America	4.2	4.0	4.2	4.3
Caribbean				
Tourism-dependent	0.5	0.8	1.8	2.3
Commodity exporters	2.4	1.7	1.7	2.2
Memorandum items:				
Brazil	2.7	0.1	-1.0	1.0
Mexico	1.4	2.1	3.0	3.3

LAC: Growth Momentum, 2014-15



Source: IMF, World Economic Outlook.

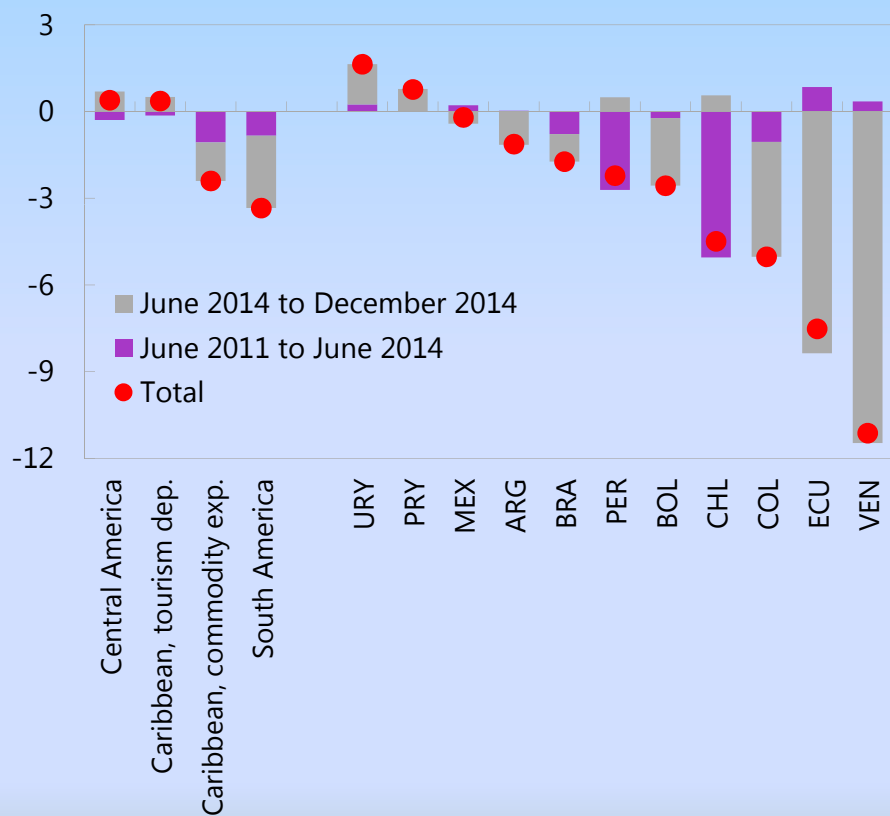
¹ PPP-weighted averages.

² Includes Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

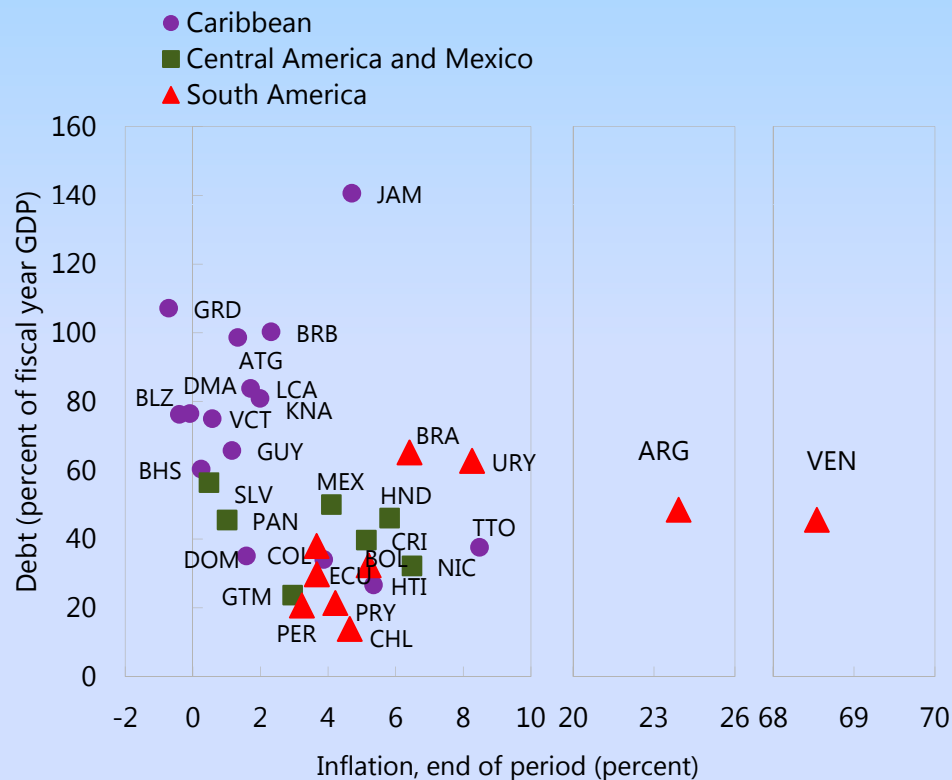
³ Includes Argentina, Bolivia, Ecuador, Paraguay, and Venezuela.

... partly explained by country-specific exposures to commodity markets, but also reflecting distinct macroeconomic challenges.

Change in Commodity Terms of Trade, 2011–14¹
(Cumulative log change, percent)



LAC: Inflation and General Government Debt, 2014



Sources: Gruss (2014); and IMF staff calculations.

¹ Simple average for regional aggregates.

Source: IMF, *World Economic Outlook*.

Fiscal check-up

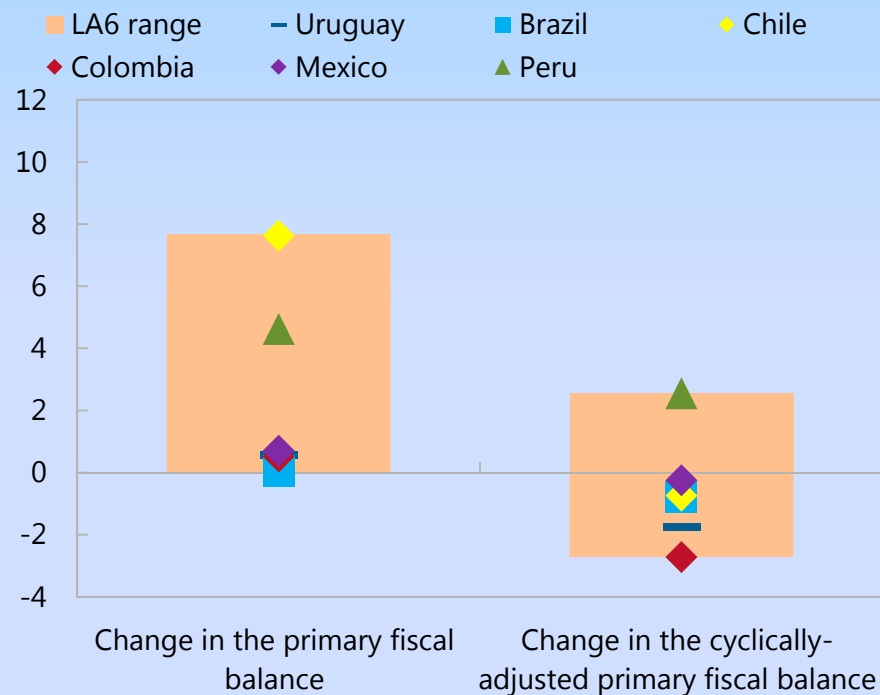
Latent risk:
Nonfinancial corporates

Long-term growth



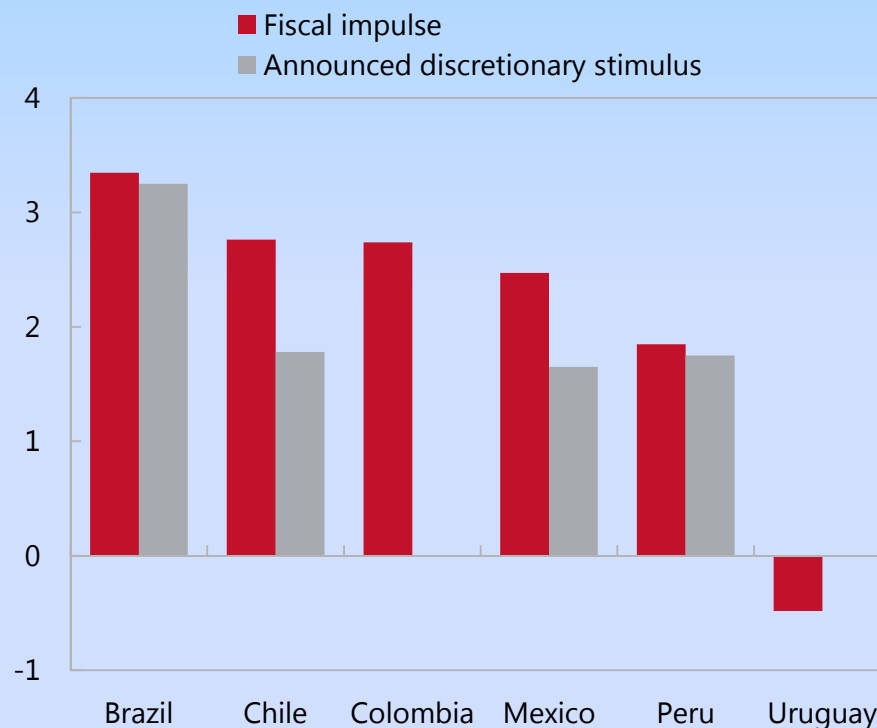
LAC improved primary fiscal balances during 2003-07, which allowed for a sizeable fiscal stimulus in 2009.

LA6: Change in Fiscal Balances in 2003–07
(Percentage points of GDP)



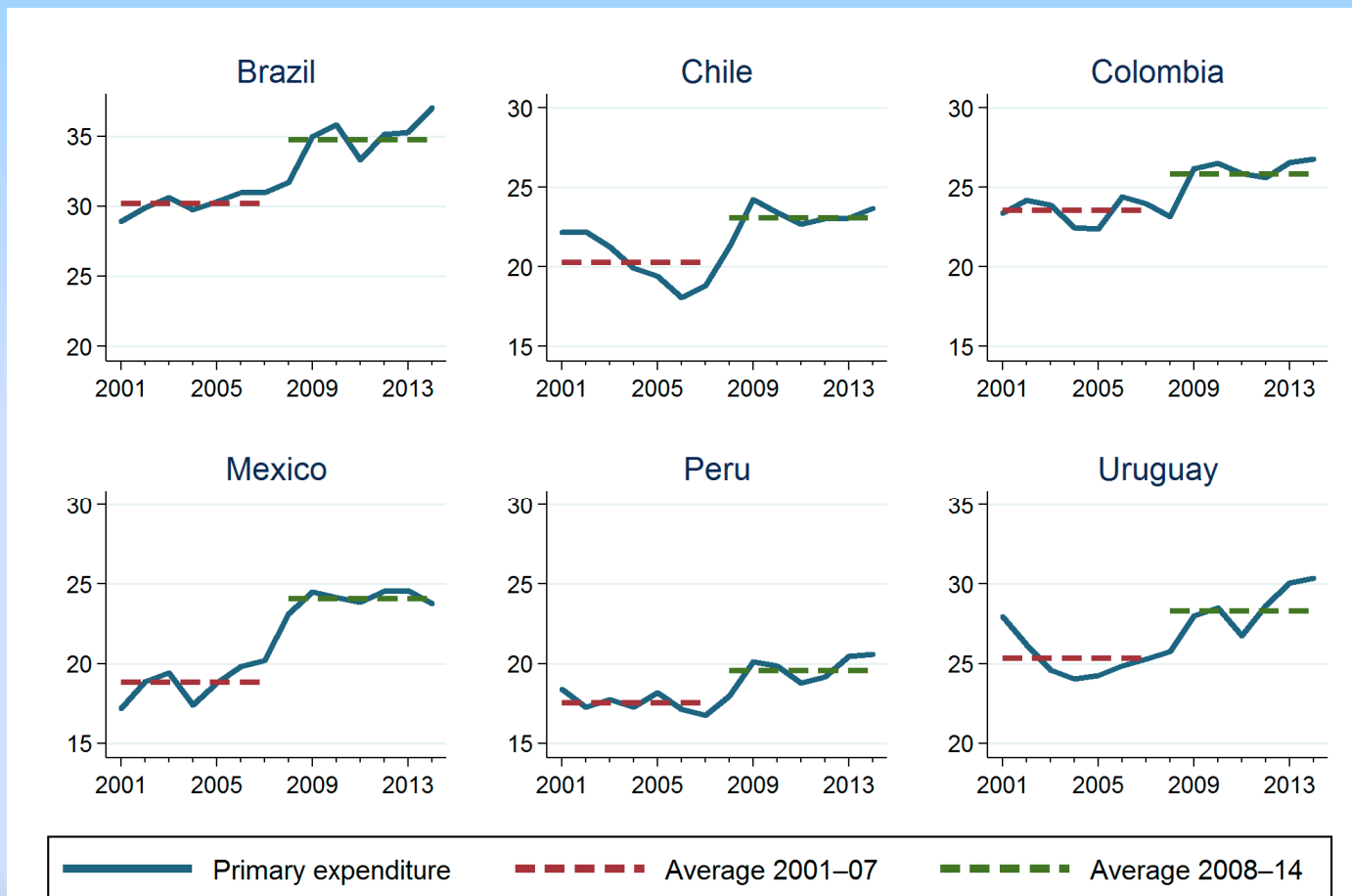
Sources: National authorities; and IMF staff calculations.
Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

LA6: 2009 Fiscal Impulse and Announced Discretionary Stimulus
(Percentage points of GDP)



Sources: National authorities; OECD; IMF, *World Economic Outlook*; and IMF staff calculations.
Note: Fiscal impulse calculated as a change in the cyclically-adjusted primary deficit.

Fiscal stimulus was implemented through increases in primary expenditure that have proven to be permanent...

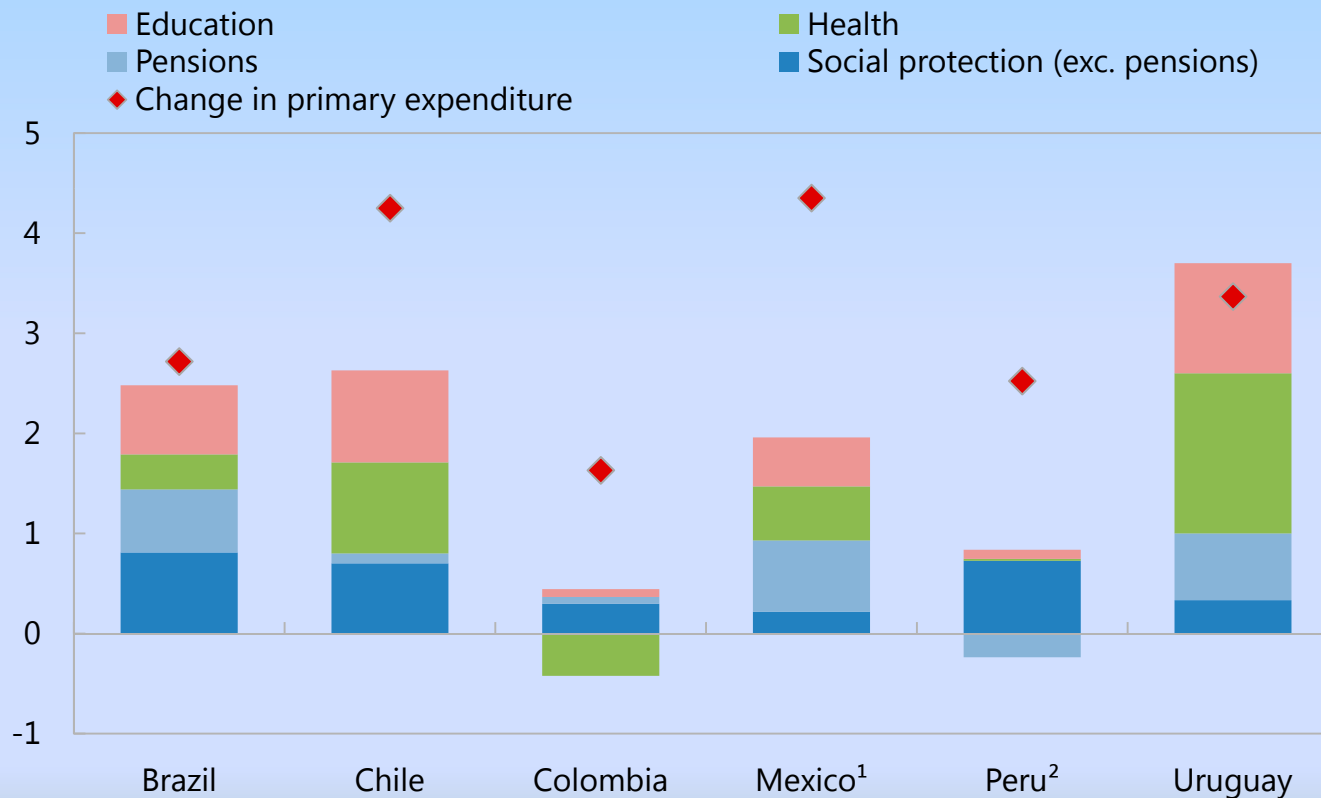


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
 Note: For Brazil, includes policy lending by the central government to state development banks.

... as the additional public spending was concentrated in categories that are hard to reverse.

LA6: Selected Drivers of the Change in the Public Expenditure-to-GDP Ratio in 2007–12

(Percentage points of GDP)



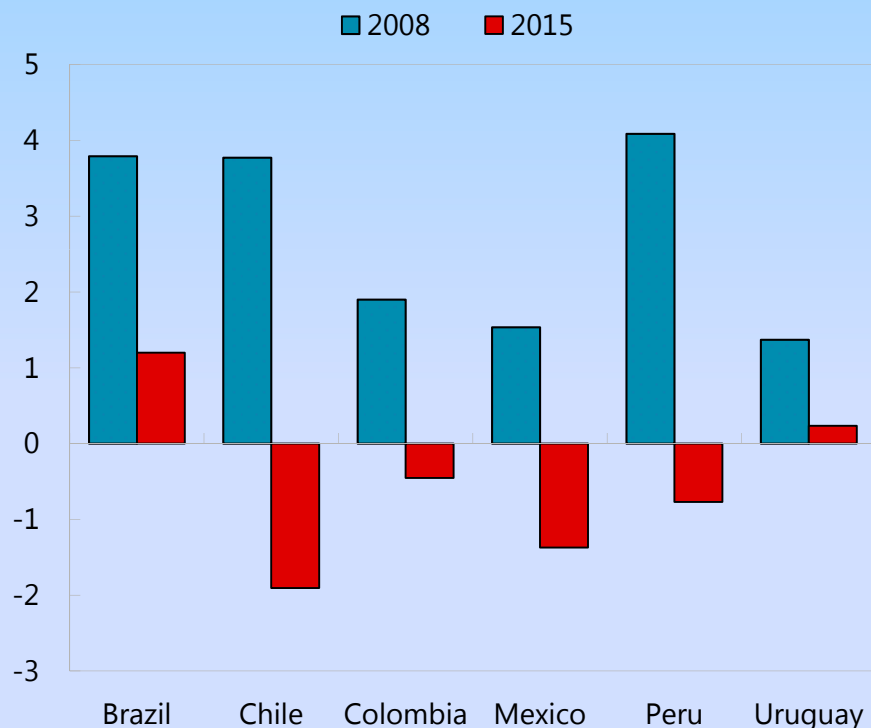
Sources: National authorities; World Bank, *World Development Indicators*; BADEINSO (Social Indicators and Statistics Database).

¹ Changes between 2007 and 2011.

² Changes between 2007 and 2011 for education and between 2007 and 2010 for social protection and pensions.

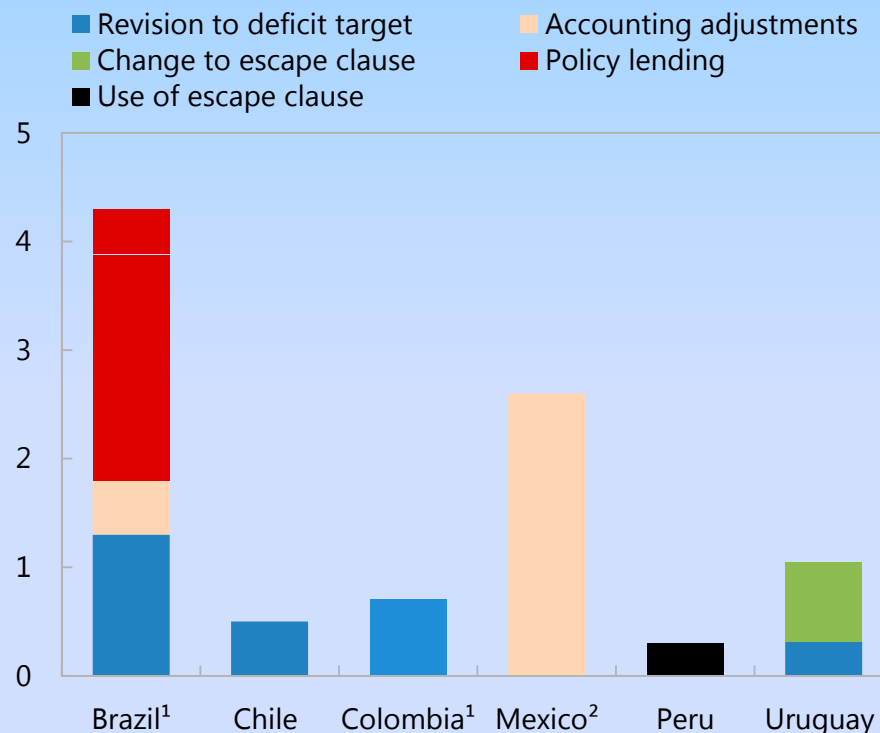
As a result, fiscal space has shrunk significantly in most countries...

LA6: Primary Balance
(Percent of GDP)



Source: IMF, *World Economic Outlook*.

LA6: Policy Relaxations Relative to Fiscal Rules, 2009
(Percent of GDP)



Sources: IMF country reports; and national authorities.

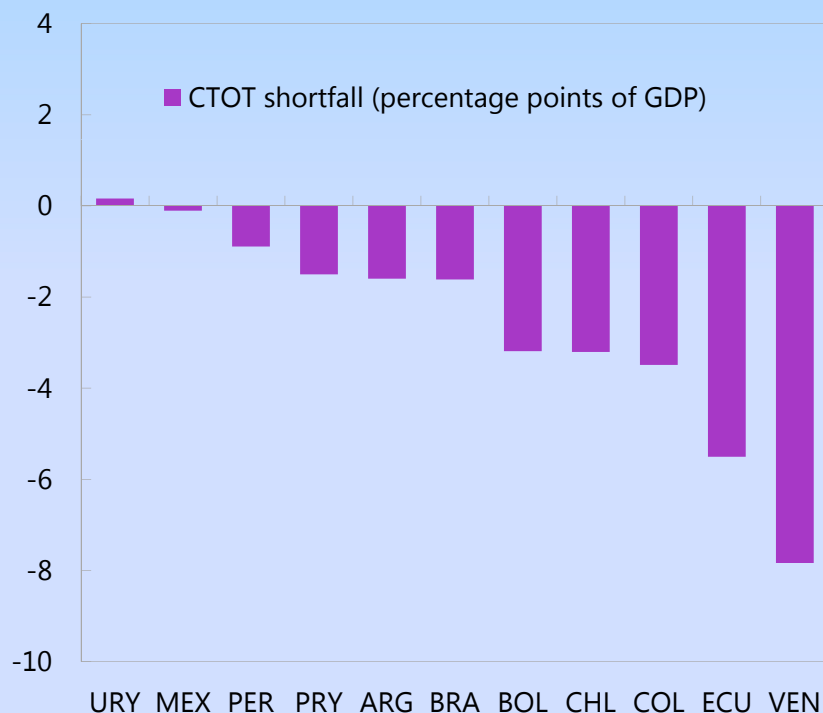
¹ Since Brazil and Colombia did not have a fully-fledged numerical fiscal rule in 2009, their performance is assessed against the respective fiscal targets on the primary balance. For Brazil, increase in policy lending is considered a relaxation, although it is not subject to the framework governing its primary balance target.

² Accounting adjustment includes non-recurrent revenues, which generally represent financing items under the GFSM 2001.

... and with commodity prices likely to stay well below peak levels, fiscal revenue will remain under pressure in commodity exporters.

Projected Commodity Terms of Trade, end-2016¹

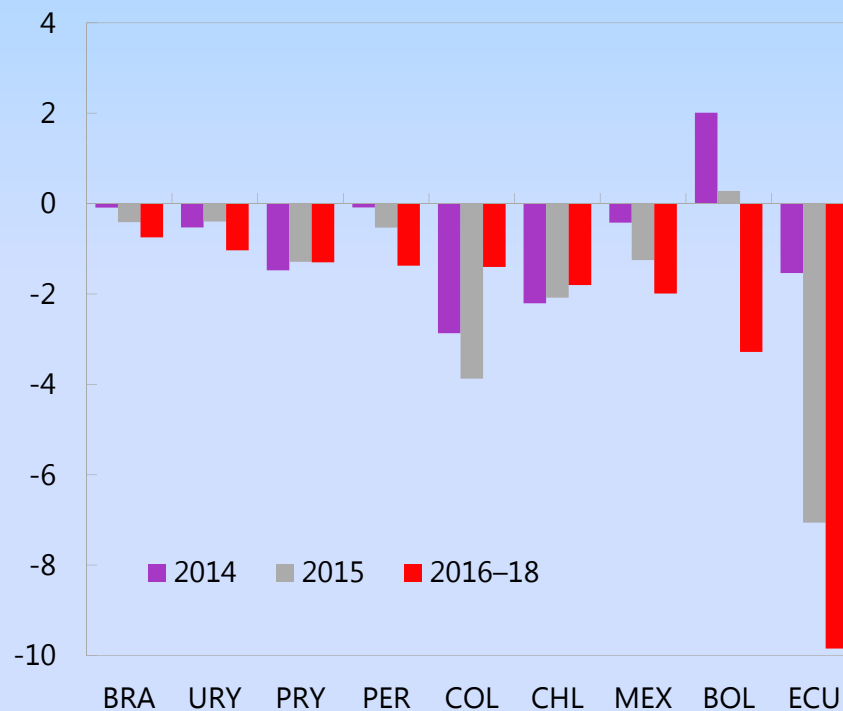
(Comparison with average index levels observed during 2011-14)



Sources: UN Comtrade; IMF, World Economic Outlook; and IMF staff calculations.
¹ The bars denote the difference between the projected CTOT by end-2016, based on the prices of commodity futures prevailing at end-February 2015, and the average levels observed between mid-2011 and mid-2014). CTOT indices exclude precious metals.

Projected Change in Fiscal Revenue¹

(In percentage points of GDP; relative to maximum revenue-to-GDP ratio attained between mid-2011 and mid-2014)



Source: IMF staff calculations.
¹ Values for 2014 are based on actual data up to 2014Q2 or 2014Q3. Out-of-sample forecast for the rest of the year and beyond is obtained from a VAR that estimates the impact of commodity prices on fiscal accounts. Conditional on futures-based commodity price forecasts.

Fiscal check-up

Latent risk:
Nonfinancial corporates

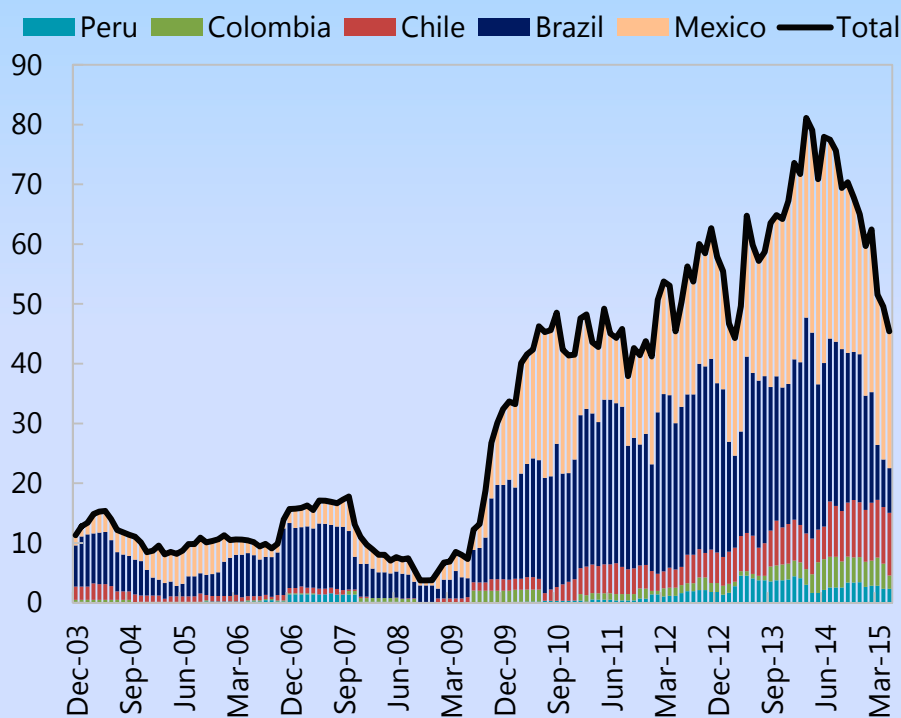
Long-term growth



Buoyant bond markets have allowed firms to raise long-term funds at low yields, though issuance has recently eased from peak rates.

LA6: Foreign Bond Issuance: Nonfinancial Corporates¹

(Billions of U.S. dollars, 12-month moving average)

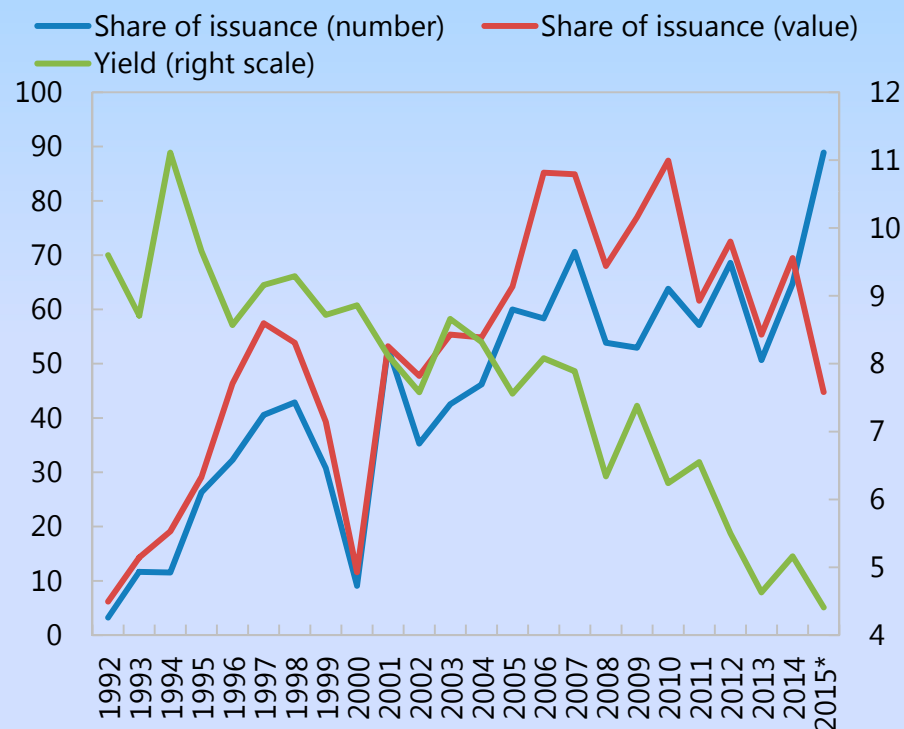


Sources: Dealogic; and IMF staff calculations.

¹ Residency-based issuance criterion for all countries except Brazil, which is based on nationality criterion.

LA5: Nonfinancial Corporate Bond Issuance: Maturity and Yield

(Maturity 10 years and above, Percent)



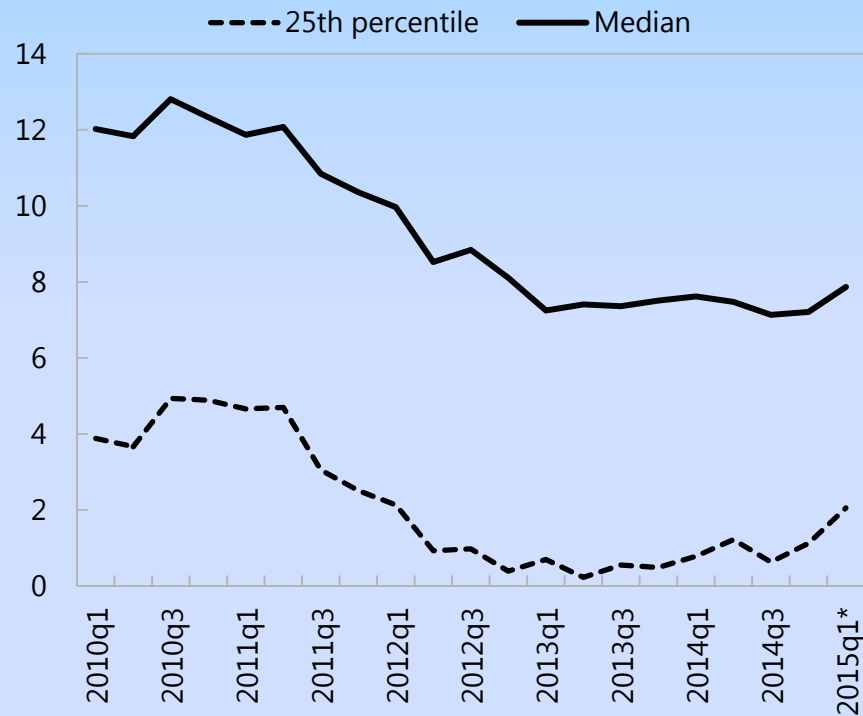
Sources: Dealogic; and IMF staff calculations.

Note: Debt issued by nonfinancial companies in U.S. dollars. Sample: Brazil, Chile, Colombia, Mexico and Peru. Residency-based criterion adopted for entire sample, except in Brazil, where issuance data is based on nationality of issuer.

*Smaller sample.

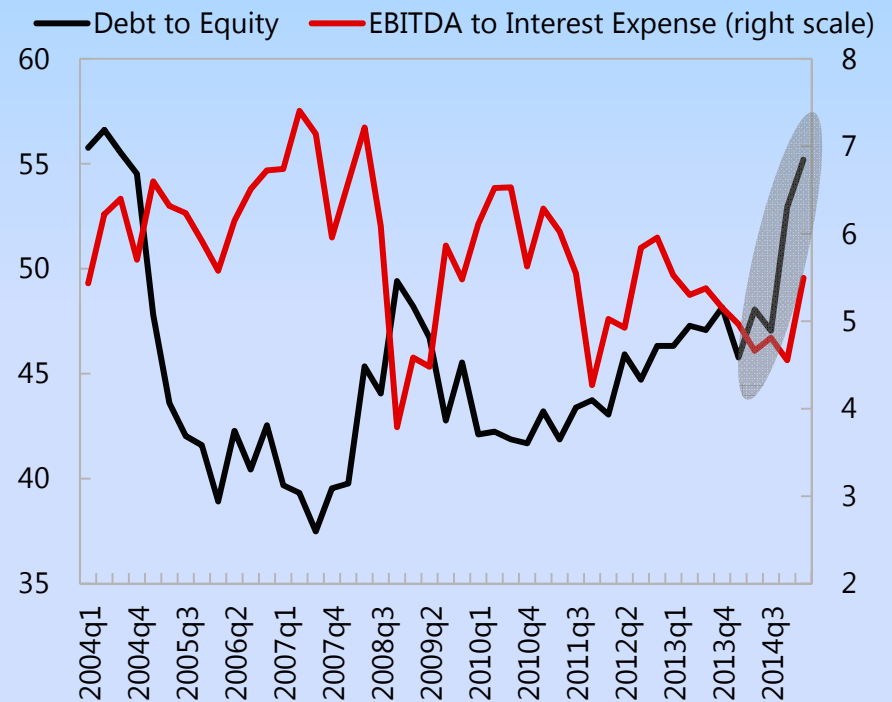
Corporate earnings have been weakening, while the trend rise in leverage has accelerated most recently, possibly reflecting FX effects.

LA5: Nonfinancial Companies' Profitability (Return on Equity)



Sources: Bloomberg, L.P.; and IMF staff calculations.
 Note: Sample includes approximately 400 nonfinancial firms in Brazil, Chile, Colombia, Mexico, and Peru.
 *Smaller sample.

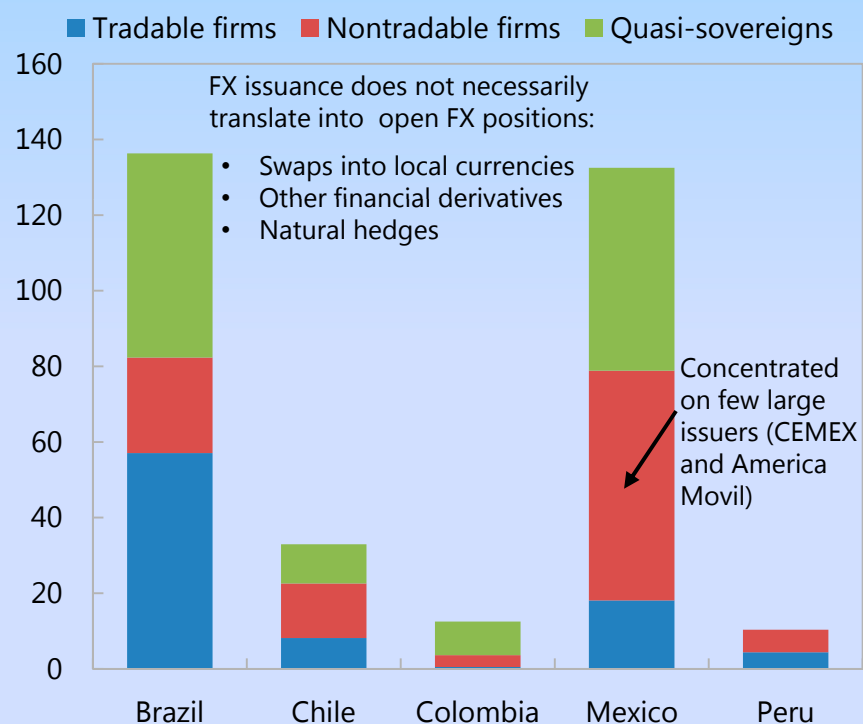
LA5: Corporate Leverage (Median)
 (Percent: left scale; Ratio: right scale)



Sources: Bloomberg, L.P.; and IMF staff calculations.
 Note: Sample includes approximately 400 nonfinancial firms in Brazil, Chile, Colombia, Mexico and Peru. Based on unbalanced panel; smaller sample size in the early periods.

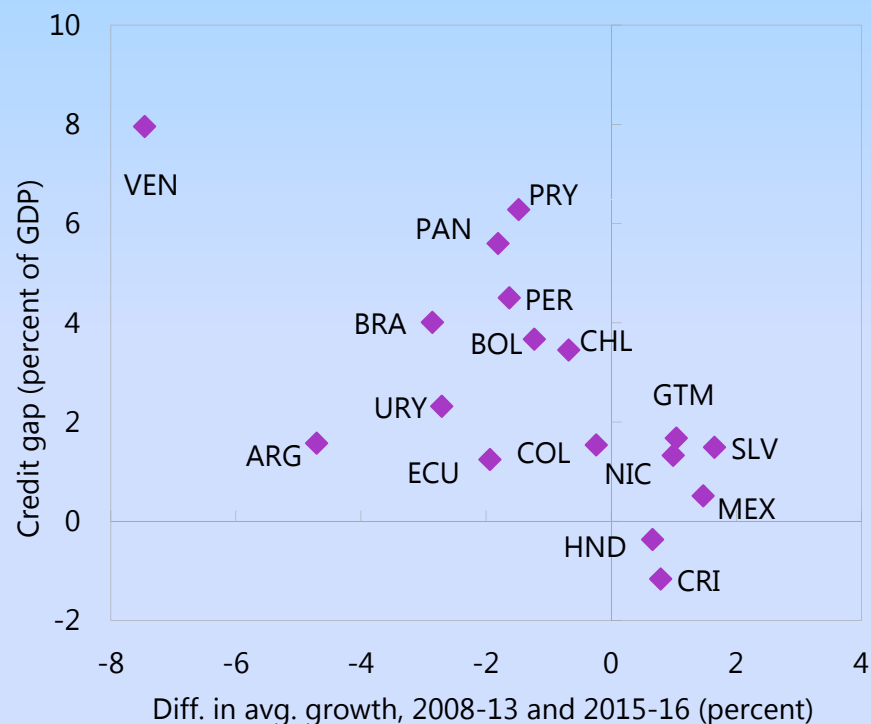
Persistently slow growth and further exchange rate depreciation would increase the financial pressure on firms and their lenders.

LA5: Cumulative Issuance of Foreign Bonds by Nonfinancial Firms between 2009 and May 2015 (US\$ billion)



Sources: Dealogic; and IMF staff calculations.
 Note: Residency-based issuance criterion for all countries except Brazil, which is based on nationality criterion.
 Nontradable firms include: construction, telecommunications, utilities, telecommunications, amongst other services.

Estimated Credit Gap vs. Real Growth Slowdown



Sources: IMF, *International Financial Statistics*; IMF, *World Economic Outlook*; and IMF staff calculations.
 Note: Credit gap denotes estimated deviation of the credit-to-GDP ratio from its long-run trend.

Fiscal check-up

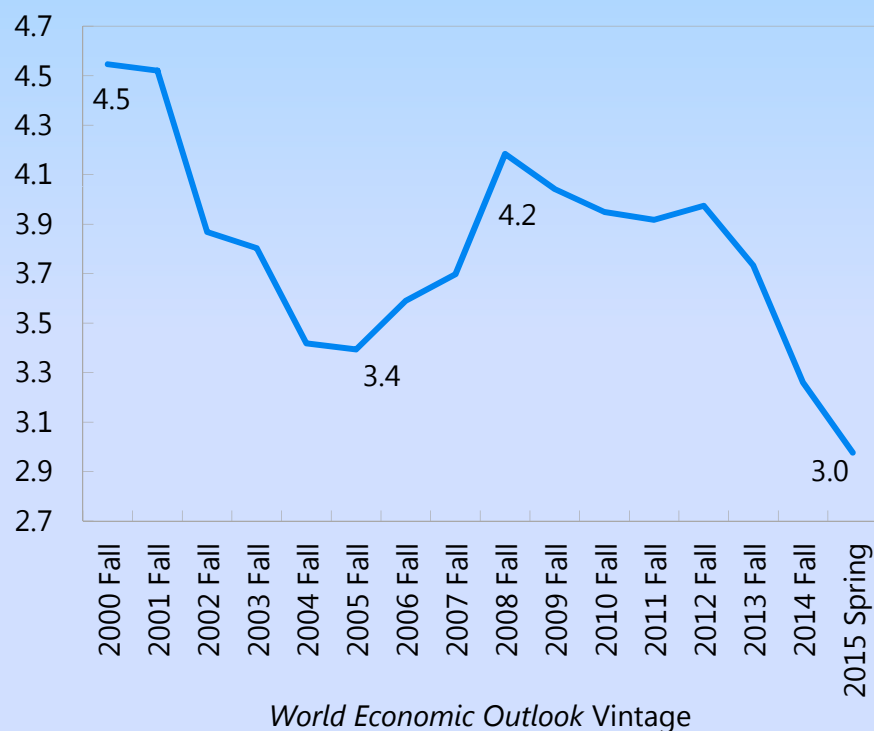
Latent risk:
Nonfinancial corporates

Long-term growth



Medium-term growth expectations have declined further, reviving fears that economic catch-up will stall once again...

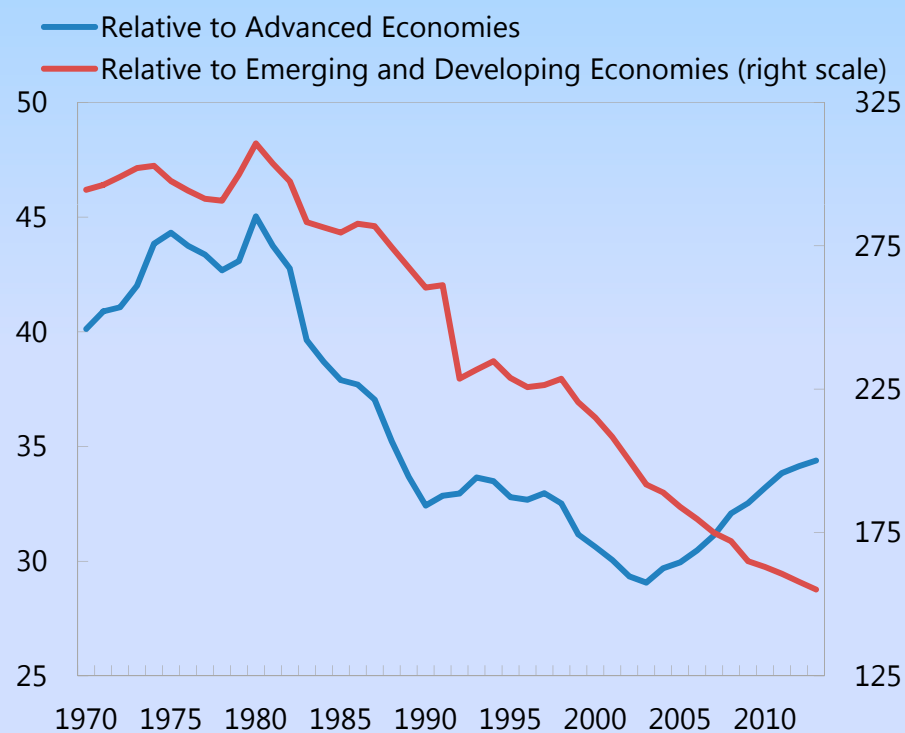
LAC: Estimates of Medium-Term Potential Growth by Forecast Vintage, 2000–15¹
(Percent)



Source: IMF, *World Economic Outlook*.

¹ Reflects projected real GDP growth for the last year (t+5) of the forecast horizon.

LAC: Relative GDP per Capita¹
(Percent)

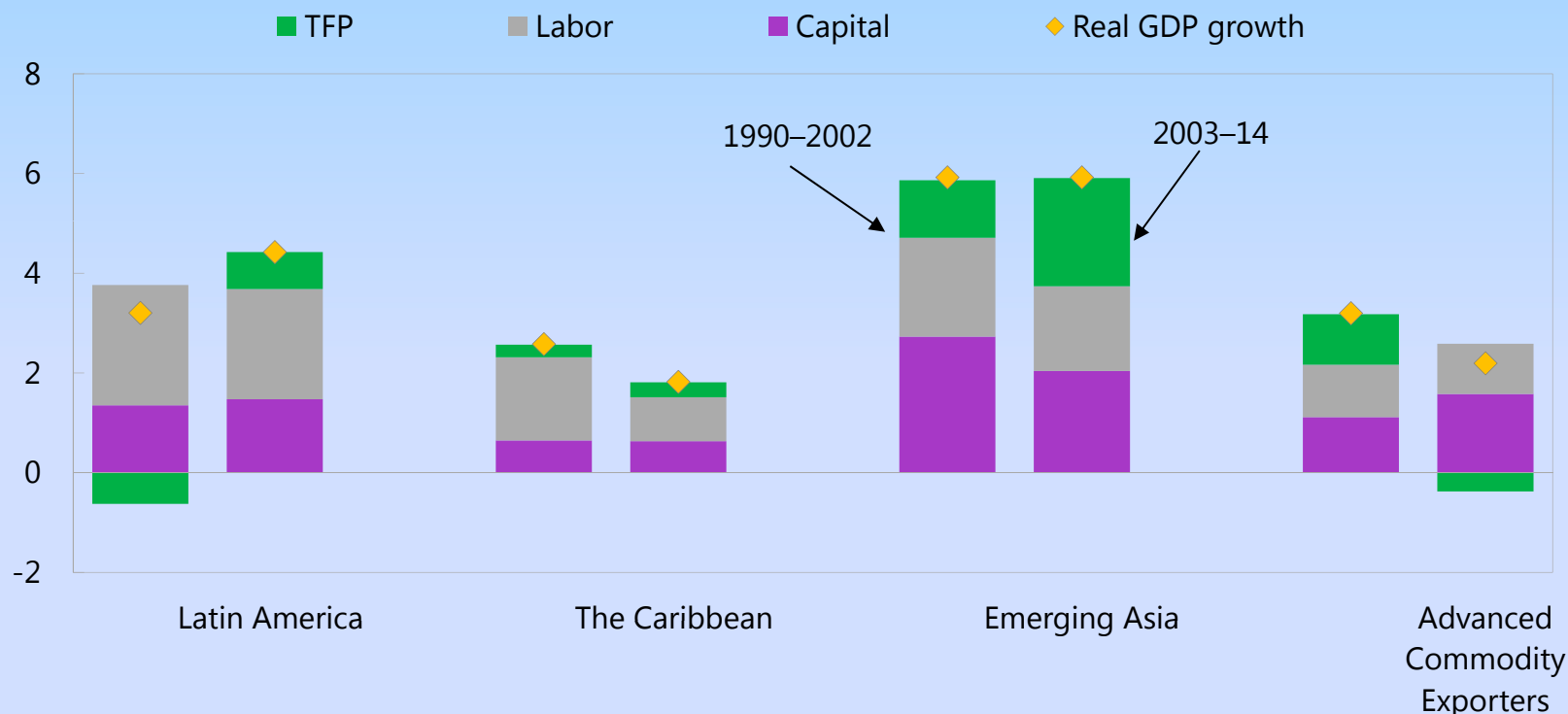


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

¹ Ratio of nominal GDP (PPP dollars) per capita for Latin America and the Caribbean versus Advanced Economies and Emerging and Developing Economies.

... reflecting the region's legacy of lackluster productivity growth...

Contribution to Real GDP Growth^{1,2}
(Annual average, percent)



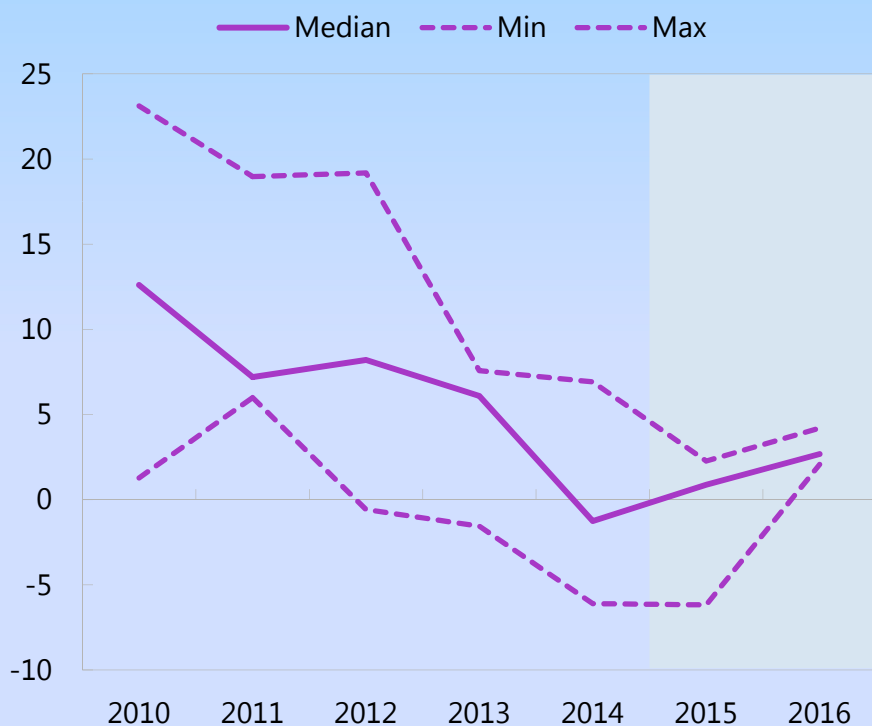
Sources: Penn World Table 7.1; IMF, *World Economic Outlook*; and authors' calculations.

¹ Simple average of countries within each group. Emerging Asia includes Indonesia, Malaysia, Philippines, Thailand, and China. Advanced commodity exporters includes Australia, Canada, New Zealand, and Norway. The Caribbean includes Barbados, Jamaica, and Trinidad and Tobago.

² Data through 2010 are from PWT 7.1, and from the IMF World Economic Outlook database for more recent years.

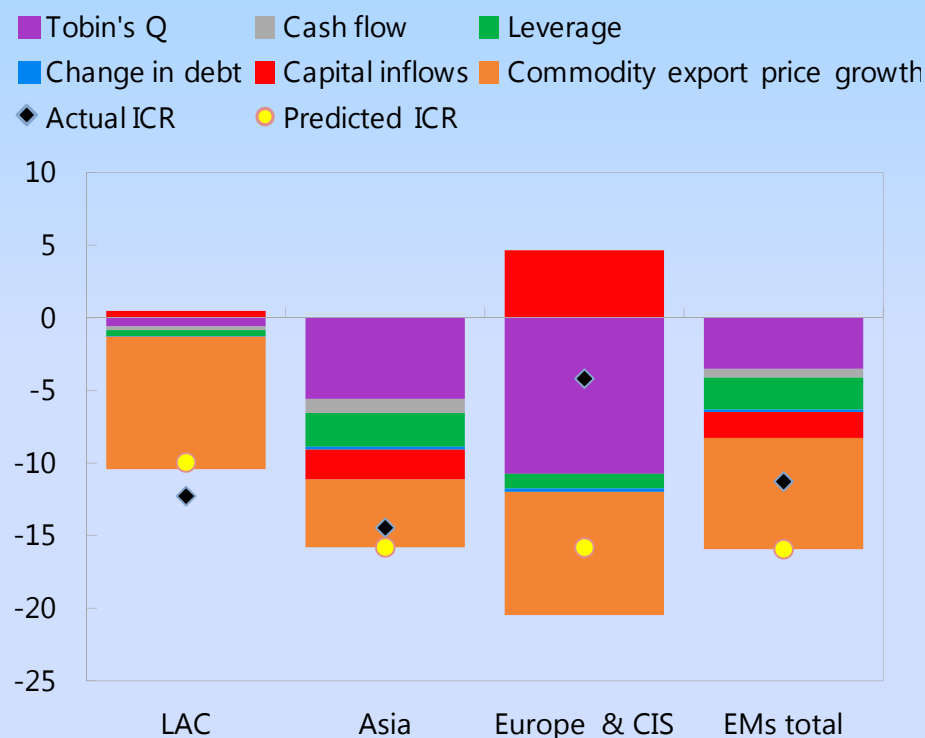
... slowing investment, in the context of weaker terms of trade...

LA6: Real Fixed Investment Growth
(Percent)



Contributions to the Recent Investment Slowdown¹

(Main effects, percent)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: LA6 = Brazil, Chile, Colombia, Mexico, Peru, and Uruguay.

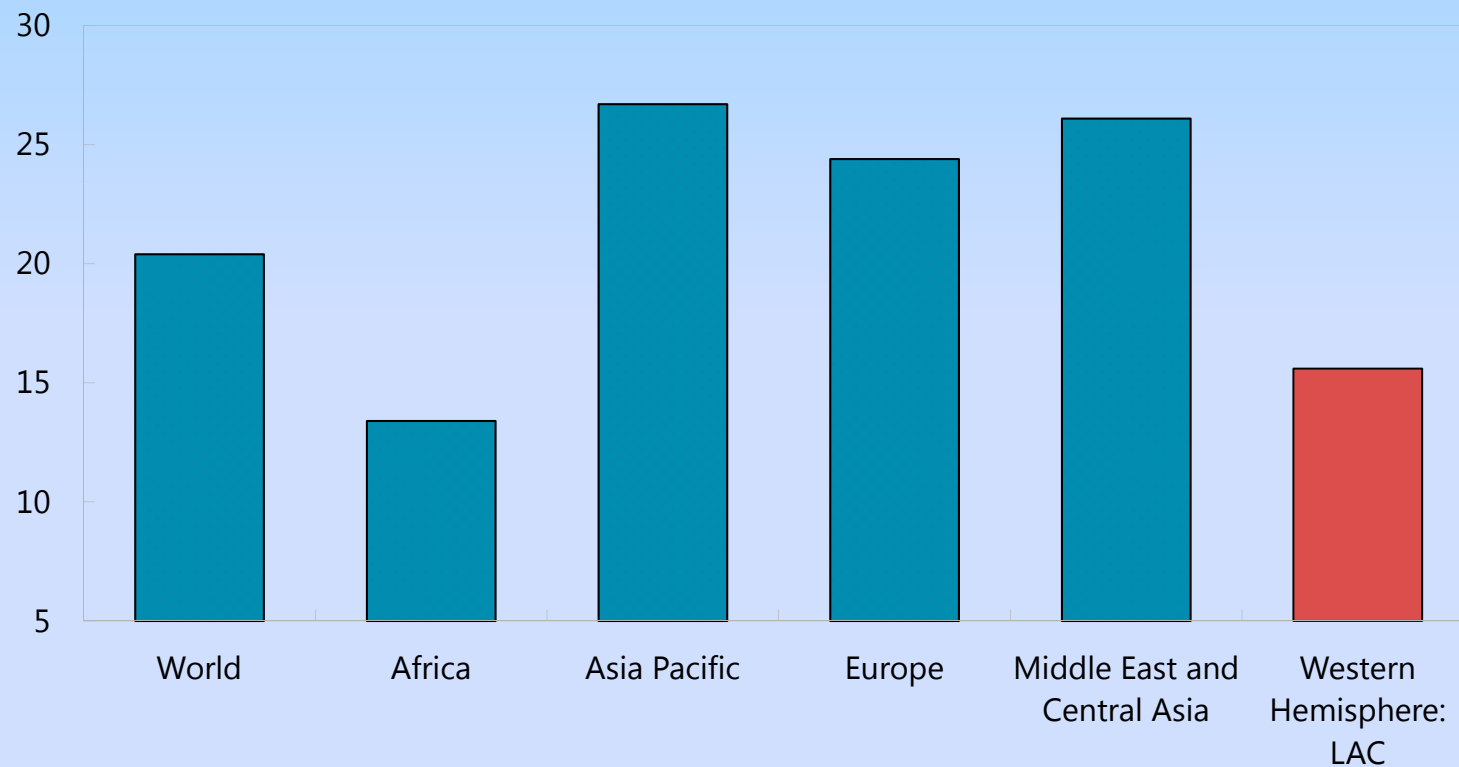
Source: IMF staff calculations.

Note: ICR=investment-to-capital ratio.

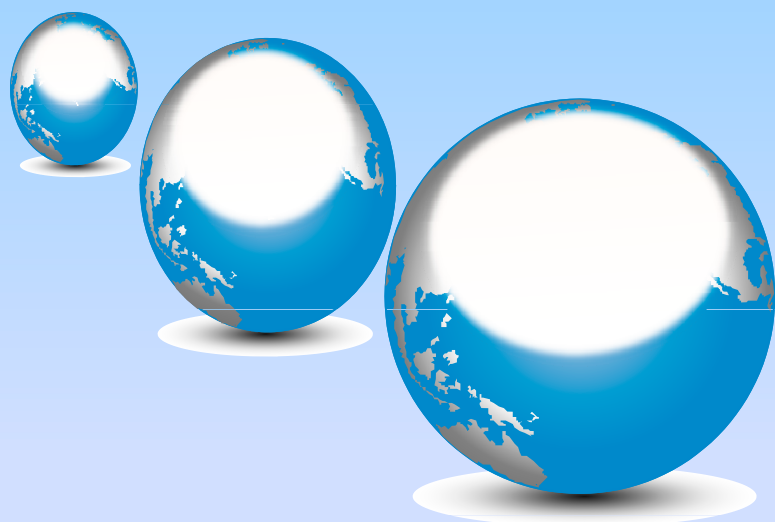
¹ Relative contribution of each factor to the 2011-13 investment slowdown (averaged across firms in each region). Contributions computed based on region-specific regression results.

... and perennially low saving rates across the region.

Average Private Saving Rate
(Percent of gross disposable income)



Source: Grigoli et al (2014), *World Saving*, IMF Working Paper 14/204.



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