2018 Latin American Business Environment Report

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LATIN AMERICAN STUDIES

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The Latin American Business Environment (LABE) specialization is for MALAS students with a keen interest in Latin America who seek to acquire the analytical skills for careers in business, non-government organizations, and government. The program also serves the general public and business community through speaking engagements and publications, including the annual Latin American Business Environment report.

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PREFACE

This is the 19th edition of the *Latin American Business Environment Report (LABER)*. With the addition last year of Haiti and Puerto Rico the Report includes a review of the business, investment and legal environments in all of the Latin American states. Although these and other changes have been made to the Report over the years, the goal has remained the same: to provide an accessible, balanced evaluation of the economic, social, political, policy and legal developments that affect the region's business and investment climate.

LABER is a publication of the Latin American Business Environment Program (LABEP) in the Center for Latin American Studies in collaboration with the Center for Governmental Responsibility (CGR) in the Levin College of Law at the University of Florida. Through graduate degree concentrations, courses and study abroad opportunities, LABEP (http://www.latam.ufl.edu/research-training/la-business-environment) draws on the diverse expertise and considerable resources of the University to prepare students for careers related to Latin American business. It also organizes conferences, supports the publication of scholarly research and provides professional consulting services.

CGR is a legal and public policy research institute at the Levin College of Law with research programs and grant projects in environmental law, social policy, international trade law, and democracy and governance. CGR provides academic and clinical instruction for law students, and public extension and information services through conferences and publications. CGR has a long history of collaborative work throughout Latin America, in Haiti, Europe and Africa. CGR (http://www.law.ufl.edu/academics/centers/cgr) hosts an annual "Legal & Policy Issues in the Americas Conference", now in its 19th year.

Andrea Calidonio helped with economic research, while Mackenzie Rocha assisted with background research for the legal environment section. We thank them for their valuable assistance, but we alone are responsible for the content and analysis.

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*Puerto Rico is a commonwealth of the United States and not an independent nation, though it has it own constitution and an elected governor and legislature. Culturally and linguistically it is part of Latin America.

ABBREVIATIONS AND DEFINITIONS

ALBA: *Alianza Bolivariana para los Pueblos de Nuestra América (Boliviarian Alliance for the Peoples of our Americas),* an organization founded by Cuba and Venezuela in 2004 to foster regional economic, political, social integration. Its member states, which are socialist or populist in orientation, are Antigua and Barbuda, Bolivia, Cuba, Dominica, Ecuador, Grenada, Nicaragua, Saint Kitts and Nevis, Saint Lucia, Saint Vincent, and Venezuela.

Latin America: The states in the Americas in which romance languages are spoken. This definition includes the Caribbean nations of Cuba, the Dominican Republic, and Haiti. For cultural reasons, we also include Puerto, which the United Nations recognizes as a self-governing territory.

LA7: The seven largest countries in Latin America by GDP, in 2015 PPP prices. These are, in order of size, Brazil, Mexico, Argentina, Colombia, Venezuela, Chile, and Peru.

Mercosur: (Mercosul in Portuguese.) A customs union and trading bloc of countries established in 1991 to promote free trade. Its full members are Argentina, Brazil, Paraguay, and Uruguay. Venezuela's membership was suspended on December 1, 2016.

Pacific Alliance: A trade bloc founded in 2011 with the goal of promoting economic integration and free trade with a "clear orientation toward Asia." Its members are Chile, Colombia, Mexico, and Peru. Costa Rica and Panama are in the process of becoming full members. Its governments tend to centrist and market-oriented.

Sources for the data, forecasts, and rankings used in this publication are listed in the footnotes to Tables 1 through 15.

2018 LATIN AMERICAN BUSINESS REPORT

Brian Gendreau and Timothy E. McLendon

EXECUTIVE SUMMARY

Improving world trade and higher commodity prices are boosting Latin America's economic performance. Yet the region remains vulnerable to to political volatility. In addition to uncertainties over elections, ongoing corruption scandals have weakened governments in several major economies, including Brazil, Colombia, Mexico and Peru.

We classify the region's 21 economies into three broad categories – attractive, problematic, and mixed – according the overall character of their business environments. The table below further indicates if the yearly performance has improved (▲), deteriorated (▼), or not changed substantially (=). In 2017, five environments improved and seven deteriorated, while the remaining were unchanged. None of the changes was of the magnitude to justify reclassifying an environment nor did any country abandon its basic orientation. However, continued developments in Argentina and a new, moderate regime in Ecuador may well change their environments in future years. The 2018 outlook remains only cautiously optimistic because of an uncertain political environment and the region's continuing fiscal and external imbalances.

Latin American Business Environments

	2016 Environment			2017 Environment			2018
	Attractive	Problematic	Mixed	Attractive	Problematic	Mixed	Outlook
NAFTA REGION							
Mexico	▼			▼			▼
ANDEAN SOUTH AMERICA							
Bolivia		▼			▼		▼
Colombia	▲			▲			▲
Ecuador		▼			▼		▲
Peru	▲			▲			▲
Venezuela		▼			▼		▼
BRAZIL & SOUTHERN CONE							
Argentina			▲			▲	▲
Brazil	▼			▼			▲
Chile	=			=			▲
Paraguay			▲			=	=
Uruguay	=			▲			=
CENTRAL AMERICA & CARIBBEAN							
Costa Rica	=			=			=
Cuba		▲			=		▼
Dominican Republic		▲			=		=
El Salvador			▼			▼	▼
Guatemala			=			=	=
Haiti		=			=		▲
Honduras			▲			▲	▼
Nicaragua		=			=		=
Panama	▲			=			▲
Puerto Rico						▼	▼
Total	8	7	5	8	7	6	


NAFTA
MEXICO
CUBA
DOMINICAN REPUBLIC
HAITI
Caribbean
PUERTO RICO
HONDURAS
GUATEMALA
EL SALVADOR
NICARAGUA
COSTA RICA
Central America
PANAMA
VENEZUELA
COLOMBIA
ECUADOR
BRAZIL
PERU
Andean South America
BOLIVIA
PARAGUAY
CHILE
Brazil and Southern Cone
ARGENTINA
URUGUAY
NAFTA Region
The Caribbean
Central America
Andean South America
Brazil and the Southern Cone

OVERVIEW

ECONOMIC AND POLITICAL OUTLOOK

The economic outlook for Latin America has improved since the region struggled to emerge from recession last year. Much of the improvement reflects a more favorable global economic environment. Growth is picking up in the developed world and emerging Asia. The consensus sees a stronger economy in the Unites States, continued modest growth in Europe, and above 6% growth in output in China. The growth has already meant an increase in trade volumes and in commodity prices. All of these developments should support an increase in economic activity in Latin America in 2018.

Most countries adjusted to the 2014-16 commodity shock by allowing their currencies to depreciate, making their non-commodity exports more competitive, and by cutting interest rates to soften the downturn in demand. The adjustment process is now largely over. The pass-through from currency weakness to inflation was mild in most countries. Mexico, where inflation rose substantially was an exception, yet even in that country expectations of future inflation are subdued. Exchange rates have stabilized at competitive levels, which should help export growth. The consensus among economists is that GDP in Latin America's seven largest economies will rise from 1.6% in 2017 to 2.5% this year and 2.8% in 2019. Current account deficits are expected to widen across the region as stronger economies result in an increased demand for imports. Latin America should encounter few problems financing these deficits: country risks have decreased for most countries in the region, easing access to international financial markets.

Politics and economics, however, are never independent of one another in Latin America, and the risks to the outlook for the region this year are decidedly political. Several countries, including Brazil, Mexico, and Colombia, will be electing new presidents this year. They will be doing so in the midst of considerable public anger over corruption with incumbent governments. Brazil is still grappling with a massive corruption scandal in which many executives, officials, and politicians have been implicated. The turmoil has made it difficult for President Michel Temer to address a fiscal deficit that has put the country's public debt on an unsustainable path. The two main issues in Colombia will be the still-controversial peace accord signed between the FARC rebels and outgoing President Miguel Santos, and corruption. Peru's president, Pedro Paul Kuczynski, narrowly avoided being removed from office in impeachment proceedings related to allegations of his ties to Odebrecht, a Brazilian firm which has admitted to paying bribes to government officials throughout Latin America. But Mr. Kuczynski remains isolated, raising questions about whether he will

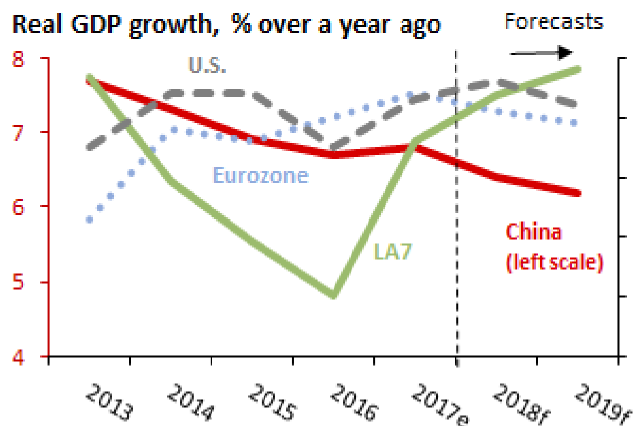
Figure 1. Latin America economic forecasts

Seven largest economies.

	2016	20173	2018f
Real GDP, %	-1.0	1.6	2.5
Inflation,%	60.0	153.3	422.9
ex. Venezuela	*9.9*	*6.5*	*6.0*
Current account, $ bil.	-115.0	-79.1	-102.0

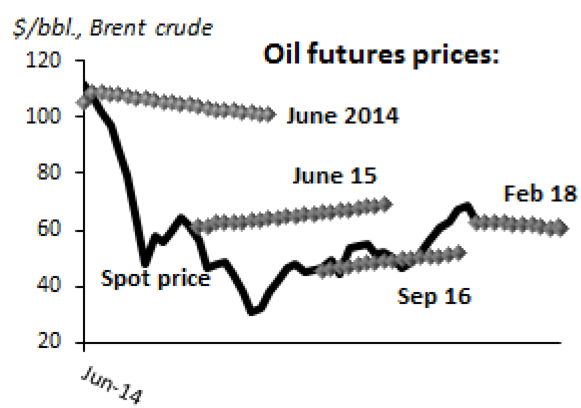
Source: Consensus Economics, inc. The inflation forecasts ex. Venezuela are for the six largest economies in the region.

Figure 2. Global growth is picking up



Source: Consensus Economics and Bloomberg.

Figure 3. The futures market expects oil prices to remain near $60 per barrel



Source: Intercontinental Exchange

be able to govern effectively. In Mexico, Andrés Manuel López Obrador of the leftist Morena party is ahead in the polls, and will attempt to capitalize on the unpopularity of President Enrique Peña Nieto, whose Partido Revolucionario Institucional (PRI) has been tainted with allegations of corruption. Technically, a presidential election is to be held in Venezuela in December 2018, but given the current government's history of electoral manipulation a postponement is possible and a fair election unlikely.

It might seem that the momentum away from populism in the region — apparent in election results in Argentina, Peru, and Venezuela in 2015-16 — has ended and that anti-establishment candidates are gaining the upper hand. But the results of November's presidential election in Chile suggest the opposite. Former president Sebastian Piñera of the center-right Chile Vamos party, hardly an outsider, was returned to office. In Brazil, where the campaigning for the October 2018 election does not begin formally until August, the field is wide open. Much will depend on whether former president Luiz Inácio Lula da Silva, the candidate currently leading in the polls, will be eligible to run despite his conviction for bribery. A victory by a candidate representing a coalition of centrist parties is still a possibility. In Mexico, José Antonio Meade, the PRI's candidate, is likely to gain ground as his party's formidable organization begins to campaign on his behalf in earnest. In addition, the pickup in economic activity in Brazil, Colombia, and Mexico should favor establishment parties. Economic performance in the more market-oriented Mercosur and Pacific Alliance countries has been stronger and more stable than in the more statist or populist ALBA countries in recent years, a fact unlikely to have been lost on voters.

Relations with the United States. For several countries in Latin America relations with the United States promise to be a major source of uncertainty in the year ahead. President Donald Trump has vowed to renegotiate the North American Free Trade Agreement to get better terms for the United States, to build a wall between the United States and Mexico (to be paid for by Mexico), and to tighten immigration standards. Negotiations with Canada and Mexico began in August 2017 and reached their sixth round in late January, but with little progress on substantive issues. Decisions on the wall and immigration are being debated in Congress.

If the United States were to withdraw from NAFTA, the result would be a decline in Mexico's exports, a deceleration in its growth, and a fall in the peso. The peso fell sharply in the weeks after the U.S. presidential election on concerns about a deterioration in relations between the United States and Mexico, and economists marked down their 2017 forecasts for Mexico's growth. Since then, markets and economists have become less pessimistic. The peso

Figure 4. Most of the region's currencies have stabilized

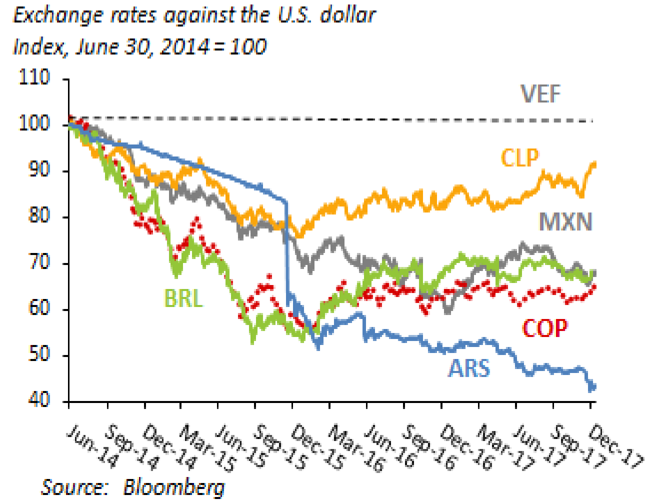


Figure 5. Real GDP growth by trade alliance
In percent

	2003-14	2015-16	2017-18f
ALBA	4.5	-1.2	0.2
Mercosur	4.0	-2.7	2.1
Pacific Alliance	3.5	2.5	2.3

Forecasts from Consensus Economics, Inc., weighted by 2015 real GDP in US dollars.

ALBA: BOL, ECU, NIC, and VEN.
Mercosur: ARG,BRZ, and VEN (2003-14 only).
Pacific Alliance: CHL, COL, MEX, PER.

Figure 6. Inflation by trade alliance
In percent

	2003-14	2015-16	2017-18f
ALBA	16.0	128.2	1428.2
Mercosur	7.8	14.8	8.3
Pacific Alliance	4.1	3.5	3.6

See notes to Figure 4.

has recovered, and GDP forecasts have become more optimistic. Still, uncertainties about NAFTA will persist until the end of March – the target date for the conclusion of the talks.

An outright United States withdrawal from NAFTA, however, is unlikely, because all parties to NAFTA have strong incentives to keep the main elements of the treaty intact. The value of trade between the United States and Mexico has grown more than six-fold since NAFTA was enacted in 1993, with much of that trade going though what are now well-integrated supply chains. U.S. agricultural exports, which have grown by almost 300% since 1993, have been among the major beneficiaries of the treaty.

Other countries in Latin America are also vulnerable to changes in U.S. trade and immigration policies, though to varying degrees. One measure of this vulnerability is the sum of a country's exports to the United States plus remittances from the United States as a percent of GDP. In sheer dollar terms Mexico is the most vulnerable to changes in U.S. policies because 80% of its exports go to the United States and the large Mexican and Mexican-American population sends a large amount of money back to Mexico — over $28 billion in 2016. Once remittances and the size of the recipient economy are taken into account, however, it is apparent that several smaller economies in Central America and the Caribbean are also vulnerable (Figure 5). Remittances — funds shipped by immigrants back to their home country — can be important economic resources to developing countries. They are a stable source of funds — less variable than private capital flows — and amount to three times the volume of official aid flows to developing countries. Immigration policies in the United States can have large effects on countries that are reliant on remittances. For example, As pointed out in a 2018 Pew Research Center report, President Trump recently announced that almost 200,000 people from El Salvador who were allowed to live in the United States under the Temporary Protected Status Program after two earthquakes hit that country in 2001 will have to leave by September 2019. That action would have a major impact on El Salvador's economy. In 2016 El Salvadorans living in the United States sent $4.2 billion or in remittances back to their home country,

Cuba has already been affected by changes in U.S. policies. Within six months of taking office President Trump announced a partial restoration of travel restrictions that had been relaxed by former President Barack Obama, and prohibited financial transactions with entities with ties to the Cuban military. Tourism is a major source of earnings for Cuba. In 2017 an estimated 4.7 million tourists visited Cuba, about 630,000 of which were U.S. citizens. Arrivals of U.S. citizens increased over 2016 even though hurricane Irma

Figure 7. United States Trade Policy Actions

Withdrawal from the Trans-Pacific Partnership (TPP)
Renegotiation of the North American Free Trade Agreement (NAFTA)
Suspension of the Transatlantic Trade and Investment Partnership (TTIP)
World Trade Organization called into question.

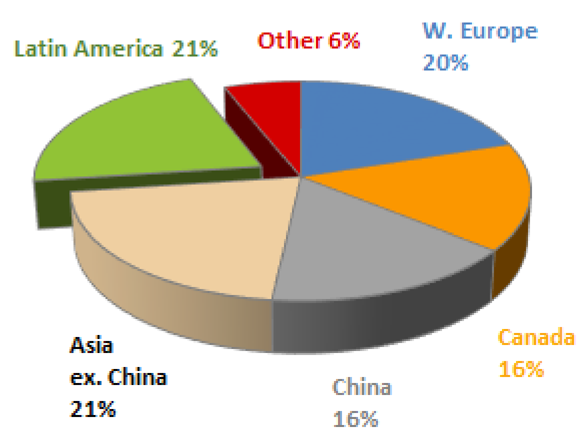
Source: ECLAC

Figure 8. Countries most exposed to changes in U.S. trade and immigration policies

	Exports to U.S., $ bil.	Remittances > U.S., $ mil.	Vulnerability*
Honduras	4.6	3.4	0.64
Haiti	0.9	1.4	0.31
Nicaragua	3.3	0.6	0.30
Mexico	294.2	28.1	0.30
El Salvador	2.5	4.2	0.25
Guatemala	3.9	6.8	0.16
Dominican Rep.	4.7	4.1	0.12

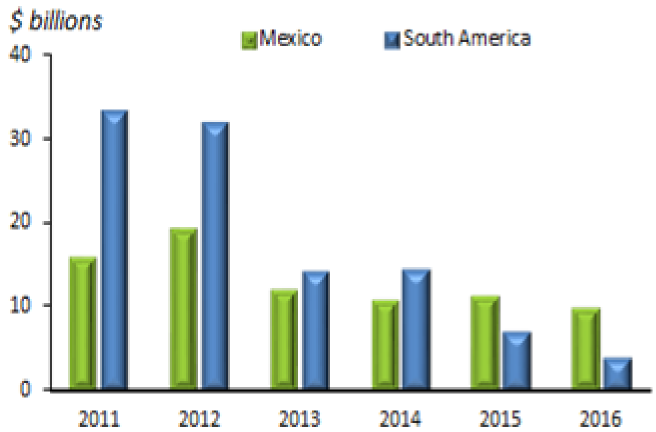
**(Exports, CIF, to United States + remittances from U.S.)/GDP*
Source: IMF, World

Figure 9. U.S. Trade by region
Jan 2016-Jan 2017



Source: IMF DoT Statistics ***$3,947 billion total***

Figure 10. U.S. direct investment into Latin America



and the new travel restrictions slowed arrivals after mid-year. Shortly after the Trump administration announced the policy changes Cuba began to tighten regulations on its small but growing private sector. The measures, Cubans say, come as businesses were already feeling the effects from the travel restrictions and warnings from the Trump administration.

Countries more distant from the United States, such as Argentina or Brazil, will be less affected by changes in U.S. policies. Relative to Mexico, South America does not trade as much with the United States, receives less in remittances relative to GDP, and in recent years has received less direct investment from the United States.

LEGAL ENVIRONMENT

Throughout 2017, governments in many Latin American countries were distracted, compromised and weakened by ongoing corruption scandals and investigations. As a result, though many governments had large reforms on the agenda, most made only incremental progress. In Ecuador, new President Lenín Moreno took advantage of the Odebrecht scandal to sideline his vice president and the confidant of former President Rafael Correa. Under the consultation process begun by President Moreno, Ecuador may be taking the first steps away from the populist group of countries, with profound implications for reasserting the rule of law in that country.

Elsewhere, Brazil's embattled President Temer successfully steered labor reforms through congress, liberalizing employment conditions in that country. Argentina's congress passed significant pension reforms. Colombia's peace agreement with the FARC guerrillas was upheld by courts, including the controversial special courts which will administer the transitional justice for guerrillas, military and others charged with abuses during Colombia's long conflict. In Chile, President Bachelet's term ended without the constitutional renewal she had promised and which began with such fanfare. If a new constitution takes shape, it will be under the very different direction of her more conservative successor.

Mexico and most of Central America continued to deal with drug and gang-related violence which remain at disturbingly high levels. Amidst this violence, Mexico continued to implement its ongoing shift to a North American-style oral and adversarial system of criminal justice. The shift poses challenges to all actors in the country's justice system, from judges who shift to a more neutral role of referee to the police who are called upon to manage investigations themselves while dealing with their own inadequate resources and training.

Prospective legal developments in the United States also pose a challenge to the LABER countries, especially Mexico and those countries in Central America and the Caribbean. NAFTA negotiations, discussed elsewhere, will greatly affect Mexico. Immigration was another theme of the Trump campaign. As noted above, administrative changes point to a more restrictive environment: 1) announcing the termination of the so-called DACA program which allowed immigrants brought to the U.S. as children to stay in the country; 2) announcing an end to temporary programs that allowed Haitian, Nicaraguan and Salvadoran immigrants to remain in the U.S.; and 3) terminating the eligibility of Haitian citizens to work in the U.S. using temporary visas.

Corruption scandals everywhere complicate governance. Nearly every LABER nation was confronted by significant corruption scandals throughout 2017. Many of the most significant, especially Brazil's Petrobras corruption investigation and its progeny, began in 2016 and earlier. But the corruption scandal of Brazil's Odebrecht construction company emerged as the most significant multi-country event. Once a high profile player throughout the hemisphere, and one promoted by Brazilian presidents as an arm of foreign economic policy, progressive revelations have revealed the deeply corrupt nature of Odebrecht's business model, one that targeted political leaders throughout the region for bribes in return for highly lucrative construction contracts. As details of its corrupt activities came to light during the investigation of Brazil's Petrobras, the U.S. Justice Department began a probe under the U.S. Foreign Corrupt Practices Act that resulted in the largest fines ever levied under that legislation. Odebrecht admitted to paying some U.S. $788 million in bribes, and in April 2017, a federal court in the U.S. ordered the company to pay fines of $ 2.6 billion to authorities in Brazil, Switzerland, and the U.S. The petrochemical company, Braskem, a joint subsidiary of Odebrecht and Petrobras, was ordered to pay another $900 million in fines.

Not all corruption stems from Odebrecht. Brazilian President Michel Temer, accused of receiving bribes from the country's largest meat packer, escaped only because congress declined to allow the case to proceed. In addition to scandals involving Petrobras and the meat and poultry export industry, Brazilian prosecutors are investigating corruption surrounding the construction of stadiums for the World Cup held in Brazil in 2014. This last investigation snared Sergio Cabral, former governor of Rio state. He was sentenced to 14 years in prison for accepting $64 million in bribes for construction contracts for World Cup stadiums. Former Argentine president Cristina Fernández de Kirchner's scandal involves another construction company, and now the possibility of government involvement in the murder of prosecutor Alberto Nisman, killed while investigating Iranian involvement in a 1994 bombing. Guatemalan president Jimmy Morales spent much of the year in a feud with the UN Commission investigating corruption after it accused him of corrupt activities in his presidential campaign. As in Brazil, the Guatemalan assembly declined to remove President Morales' immunity from prosecution.

There is good news amidst the bad in these corruption revelations. In many countries, substantial penalties have been exacted on powerful people who otherwise might have escaped with minor penalties. Independent prosecutors and judges have helped uncover wrongdoing, pursuing it to the highest levels. The other hopeful sign is the revulsion on the part of the public to the misdeeds of their leaders. While some 53% of respondents in a recent poll by Transparency International said governments are not doing enough to combat corruption, respondents were more optimistic about their own roles. Some 70% of respondents thought ordinary people could make a difference in fighting corruption, and 60% said it was socially acceptable to report corruption. An astonishing 66% of respondents said they would feel personally obliged to report corruption, and more than half would come to court for a day to give testimony in such a case.*

Presidents seek to rid themselves of term limits. Honduras followed a path used by Nicaragua's Daniel Ortega, whose compliant supreme court invalidated term limits. In 2015, the Honduran supreme court found the term limits provisions unconstitutional for violating right to free speech and the free choice of voters, paving the way for President Juan Orlando Hernández's controversial re-election in 2017. In 2017, Bolivia's constitutional court likewise overturned a 2016 referendum and allowed President Evo Morales to run for a fourth term. In Ecuador, former president Rafael Correa, following the steps of Venezuela's Hugo Chávez, changed his country's constitution in 2015 to allow for additional terms. However, his successor, President Lenín Moreno pushed through a referendum to re-instate term limits. Paraguay's President Horacio Cartes' attempt to change the constitution prompted violent demonstrations, forcing withdrawal of the amendment.

*Transparency Int'l, Global Corruption Barometer, People & Corruption: Latin America & the Caribbean (Oct. 2017).

Figure 11. Odebrecht Scandal across Latin America

Country	Amount paid illicitly	Period of Activity	Most prominent person charged
Argentina	$35 million	2007-2014	Links to former president Cristina Fernández de Kirchner still being investigated
Brazil	$349 million	2003-2014	Former president Luiz Inacio Lula da Silva (convicted)
Colombia	$11 million	2009-2014	Senators, former transport minister, Pres. Juan Manuel Santos' 2010 & 2014 campaigns
Dominican Republic	$92 million	2001-2014	Trade minister and former public works minister charged; advisor to Pres. Danilo Medina
Ecuador	$33.5 million	2007-2016	Vice president Jorge Glas
Peru	$29 million	2005-2014	3 former presidents arrested (Toledo, Garcia & Humala); President Kuczynski escaped impeachment
Guatemala	$18 million	2013-2015	Former presidential candidate Manuel Baldizon
Mexico	$110.5 million	2010-2014	Emilio Lozoya, former head of Pemex
Venezuela	$98 million	2006-2015	Allegations against government & PDVSA officials

Social liberalization continues. Chile will allow access to abortion when the mother's life is in danger, or in cases of rape. Colombia, Mexico, and Peru legalized medical marijuana. In January 2018, the Inter-American Court of Human Rights issued an advisory opinion holding that same sex couples must have all marriage rights and other family and property rights traditionally enjoyed by married couples. The Court held that transgender persons had the right under international human rights law to have their chosen gender reflected on state identity documents.

BUSINESS CLIMATE

Most economists agree that the ease of doing business and innovation are important to growth. Latin America compares unfavorably to other regions in measures of these components of growth, providing some insight into why growth in its income per capita has lagged. Each year the World Bank assesses the regulatory, legal, and practical challenges involved in setting up and operating a business around the world. It now surveys regulatory practices in 11 areas; some details of the survey by country are reported in Table 15 of this publication. This year 15 out of 20 Latin American states (including Puerto Rico) moved down in the global rankings, while only three moved up. Overall, the region's average ranking fell five points, to 105 from 101 out of the 190 countries in the World Bank's survey.

The Global Innovation Index (GII), published by INSEAD, Cornell University, and the World Intellectual Property Organization (an agency of the United Nations) tracks over 90 indicators of innovation in 127 economies each year. Latin America tends to lag other regions in innovation, according to this index. The average ranking of the Latin American countries in the index is 77 out of 127. In part this low ranking reflects the underrepresentation of the technology industry in the region. Only one of the 40 largest publicly traded companies in Latin America is a provider of information technology, accounting for less

Figure 12. World Bank ease of doing business rankings

	2018 Rank	2017 Rank	
Mexico	49	47	↓
Chile	*	57	
Peru	58	54	↓
Colombia	59	53	↓
Costa Rica	61	62	↑
El Salvador	73	95	↑
Panama	79	70	↓
Uruguay	94	90	↓
Guatemala	97	88	↓
Dominican Rep.	99	103	↑
Paraguay	108	106	↓
Honduras	115	105	↓
Argentina	117	116	↓
Ecuador	118	114	↓
Brazil	125	123	↓
Nicaragua	131	127	↓
Bolivia	152	149	↓
Haiti	181	181	-
Venezuela	188	187	↓
United States	6	8	↑
Puerto Rico	64	55	↓

Source: *World Bank, Doing Business 2017*. The rankings are based on quantitative measures of business regulation in 11 areas that affect the private sector. For 2018 the World Bank surveyed 190 countries; a rank of one is highest, 190 lowest. An upward-pointing arrow in the table indicates a rise in the rankings and improving business conditions. * Chile's 2018 methodology is under review by the World Bank.

Figure 13: Global Innovation Index rankings

	2017 Rank	2016 Rank	
Chile	46	44	↓
Costa Rica	53	45	↓
Mexico	58	61	↑
Panama	63	68	↑
Colombia	65	63	↓
Uruguay	67	62	↓
Brazil	69	69	-
Peru	70	71	↑
Argentina	76	81	↑
Dominican Rep.	79	76	↓
Paraguay	85	94	↑
Ecuador	92	100	↑
Guatemala	98	97	↓
El Salvador	103	104	↑
Honduras	104	101	↓
Bolivia	106	109	↑
United States	4	4	-
China	22	25	↑

Source: Cornell University, INSEAD, and the World Intellectual Property Organization, 2017

The correlation between the 2017 Ease of Doing Business and GII rankings is high — .70 — though part of that may reflect the inclusion of some of the same indicators in both indices. Nonetheless, it is hard to escape the conclusion that a favorable business climate fosters innovation.

than two percent of the market capitalization of those companies, though innovation can occur in other industries.

Finance and Investment in Latin America

With many Latin American countries as dependent on exports of primary products as they were 30 years ago, it is not surprising that their stock markets are closely correlated with commodity price movements. The region's markets marched upward with commodity prices in 2003-07, fell during the global recession of 2008-09, only to rise again with the global recovery. Stock prices collapsed along with commodity prices in 2014, and rose again when commodity prices came off their lows and local economies strengthened last year. The 20% increase in total return (capital gains plus dividends) on Latin American stocks index in 2017 was slightly below the 24% global average return, though Chile and Peru's markets outperformed global markets by wide margins.

Latin American governments and corporations found receptive international markets for their bonds in 2017. Portfolio debt flows into Latin America and the Caribbean reached $138 billion in the first 11 months of the year, setting a new annual record. Among the sovereign issues was a 100-year bond issued by Argentina. Both governments and corporations used bond buybacks to adjust debt profiles and to take advantage of low global interest rates. Sovereign spreads, which had spiked with the collapse of commodity prices in 2014 but came down quickly in 2016 and have continued to narrow in most countries. However, spreads on Venezuelan bonds, some of which are in default, have continued to widen.

Even though Latin America's current account deficits narrowed in 2017, and hence required less in the way of financing, capital inflows increased. For 2018, the consensus is that capital flows to Latin America in 2018 will nearly match those of last year. Stronger growth is expected to lead to greater import demand, wider current account deficits, and larger external financing requirements.

Most forecasters believe Latin America will encounter little difficulty in financing its current account deficits, but two risks cannot be overlooked. First, the region is vulnerable to an unexpected rise in global interest rates that would make Latin American assets relatively less attractive to investors. Researchers at the IMF and World Bank have identified episodes in which interest rates and economic activity in developed countries accounted for as much as 50% of the capital flows to Latin America. To be sure, higher interest rates in the United States are, to an extent, already priced into the markets. As of February 2017 the Fed funds futures market was pricing in almost four 25 basis point

Figure 14: Latin America's stock markets are closely correlated with commodity prices

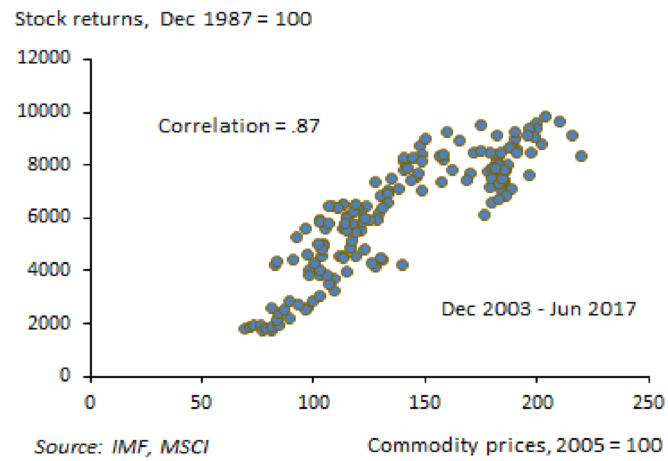
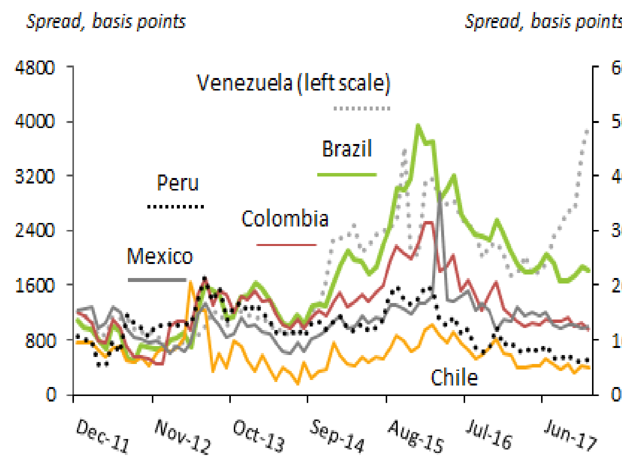


Figure 15: Sovereign spreads have narrowed



Spreads over U.S. Treasury yields on 10-year U.S. dollar-denominated government bonds

Figure 16: Capital flows to Latin America
LA7, $ billions

	2016	2017e	2018f
Argentina	28.0	47.4	39.7
Brazil	31.4	30.3	33.6
Chile	5.9	2.4	4.4
Colombia	12.6	13.7	11.9
Mexico	23.2	23.1	24.2
Peru	7.0	8.2	8.2
Venezuela	5.4	-0.2	-1.0
Total, LA7:	113.5	124.9	121.0

Source: 2016 figures are financial account balances from the IMF. The 2017-18 figures are UF estimates based on consensus forecasts of current account balances plus changes in forecasted international reserves.

rate hikes before the end of 2019, while the U.S. Treasury yield curve suggests the market expects a modest rise in long-term interest rates. Thus if interest rates in the United States and other developed countries rise as expected the effect on Latin America's capital flows should be minimal. The region, however, remains vulnerable to a sharp, unanticipated rise in interest rates as might occur if the developed economies become overheated.

A second vulnerability is a decline in credit quality in Latin America that would make the region's assets less attractive to investors. Market acceptance of Latin American external debt has risen on trend in the past three decades. International markets have been willing to absorb larger quantities of both Latin American sovereign and corporate bonds, especially in the last 10 years. Nonetheless, credit quality, as measured by credit ratings on sovereign bonds, has been slipping in recent years, with the number of downward rating and outlook changes on the part of the rating agencies exceeding the number of upgrades. In making these changes the rating agencies cited political tensions in Brazil, El Salvador, and Guatemala, and economic weakness and low copper prices in Chile. Several countries in the region faced large public sector deficits in 2017, including Argentina (6.9% of GDP), Brazil (8.3% of GDP), and Costa Rica (6.1% of GDP), though both Argentina and Brazil are expected to reduce their deficits in the year ahead. Fiscal deficits in the region have led to rising debt burdens over the past 10 years, though the region's aggregate debt-to-GDP ratio has stabilized as governments in the region have managed to reduce their primary deficits, from one percent of GDP in 2016 to 0.8 percent last year. (A primary balance is a government's non-interest balance; because interest payments reflect past decisions, it is a measure of the degree to which current decisions are increasing or decreasing public debt.) The rating agencies upgraded sovereign bond ratings for Argentina, the Dominican Republic, El Salvador, and Honduras in 2017, and six countries in the region maintain investment-grade ratings (see Table T11).

The cost of capital. The cost of equity rose in Latin America last year while the cost of debt continued to decline. Estimates of the cost of equity rose in part because betas — a measure of the systematic risk of stocks — rose in some countries, but mostly because estimates of the global market risk premium — the expected excess return on stocks risk-free bonds — increased substantially. According to a survey by Pablo Fernandez of the IESE Business School in Spain, the average market risk premium in the world's 10 largest countries rose from to 6.2% in 2017 from 5.4% the year before. However, credit spreads on Latin American corporate bonds, as measured by the Bank of America/

Figure 17: Private-sector borrows have enjoyed greater access to international markets.

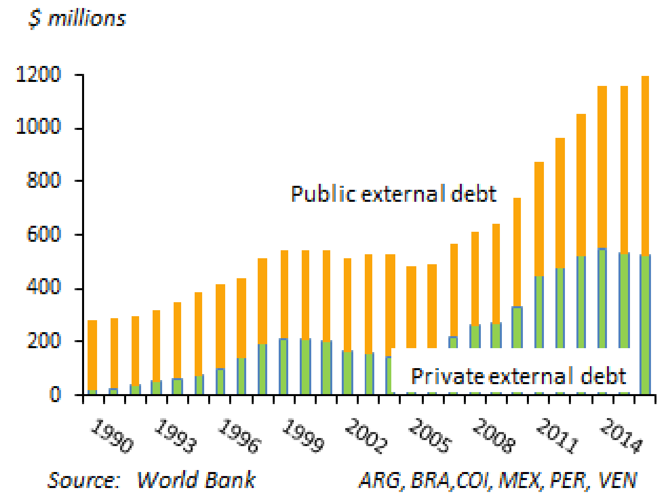
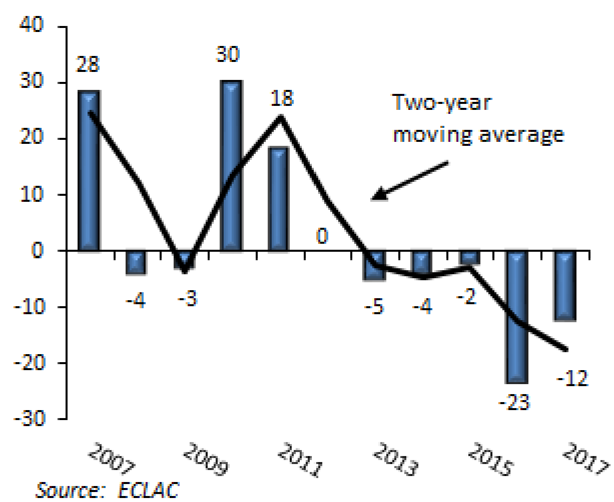


Figure 18: Net credit rating actions
Number of rating changes and outlook revisions, upward minus downward.



Merrill Lynch Corporate Plus Sub-Index Option-Adjusted Spread, fell by over 170 basis points during 2017, continuing a downward trend that began in early 2016. Yields on U.S. Treasuries also fell during 2017 before rising in the first two months of this year. Overall, yields on Latin American corporate debt — the Treasury yield plus the credit spread — declined.

The weighted cost of capital (WACC) for any firm depends on how much debt it has relative to equity, its equity and debt costs, and its corporate tax rate. In January 2018 a hypothetical Colombian firm financed 50% with debt and 50% with equity, with a marginal tax rate of 20%, a cost of equity of 11.6%, and a debt cost of 5.04% (see Figure 19 for these estimated costs) would have had a WACC of 7.76%. Last year it's WACC would have been an estimated

7.46%. Firms operating with greater leverage would have experienced a more modest rise in their WACC.

INVESTMENT OUTLOOK

As countries emerged from slow growth or recession in the past two years the region's stock markets rewarded investors with high returns: a 24.7% total return (including dividends) in 2016 followed by a 20% return in 2017 according to MSCI, a provider of international stock indices. Following such a two-year performance valuations in the region appear high. Forward price-earnings (P/E) ratios in the six largest stock markets in the region are above the average for the emerging markets and in three markets are on par with the forward P/E ratios for the MSCI EAFE index, an index of returns on developed market stocks ex. the United States and Canada. As of January 2018 valuations in Latin America were still substantially below those in the United States, but this did not prevent them from being caught in the correction in the U.S. market in early February. High expected earnings growth should provide support for stock prices: the consensus among equity analysts is that earnings at the region's companies will grow at a double-digit rate in every large country except Mexico in 2018. Still, Latin American stock markets are "high beta" markets, meaning their returns tend to rise and fall disproportionately with returns in global markets. Viewed as a volatile and risky asset class, Latin American equities are especially vulnerable to the "risk-off" trades that swept global markets in early February, which ignored fundamental improvements in the region's economies.

Figure 19: Valuations and earnings growth estimates
January 2018

	Forward P/E	Price-to-Book	Earnings growth, %: 2017	2018f
Argentina	15.0x	3.5	668	40
Brazil	14.2x	1.5	48	17
Chile	20.1x	1.6	7	15
Colombia	14.8x	1.3	-5	25
Mexico	16.8x	2.4	39	3
Peru	14.8x	2.0	77	78
Average:				
Emerging Markets	14x	1.8	23	14
EAFE	15x	1.7	13	10
United States	19x	2.8	11	18

Sources: P/E and P/B ratios and earnings growth forecasts are consensus figures reported in Heckman Global Advisors Emerging Markets Equity Allocator, February 7, 2018. The P/B ratios for EAFE and the Emerging Markets are for the iShares EAFE and Emerging Market exchange traded funds.

Figure 20: Estimated cost of equity, five major Latin American countries
January 2018

	Brazil	Chile	Colombia	Mexico	Peru
Sovereign yield, %:	4.70	3.07	3.55	3.65	3.21
Beta:	1.89	0.86	1.30	0.95	1.21
Estimated cost of equity, %:					
Damodoran model	18.7	7.8	11.9	7.2	10.2
Citigroup model	17.7	11.5	12.0	12.3	9.4

The sovereign yield is on 10-year government international bonds. Betas are calculated using the MSCI U.S. dollar return index for each country against the MSCI All-Country World index. The Damodoran model is described in Damodoran (2013); the Salomon Brothers model is described in Abuaf (1997). Both use information from sovereign bond markets to estimate the country risk premium in each country's cost of equity. An equity market risk premium of 6.2% was used in both models; it is the market capitalization-weighted average of the market risk premia reported for the world's 10 largest equity markets among the 41 reported by Fernandez (2017).

NAFTA REGION

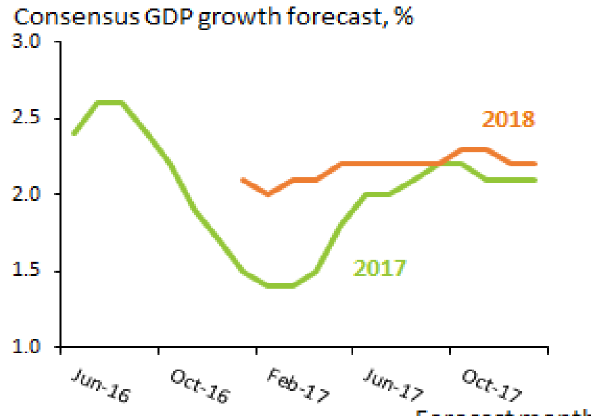
MEXICO ▼

- **Growth in Mexico will benefit from strength in the U.S. economy in the year ahead.**
- **The pass-through effect from peso weakness to inflation is fading, giving the central bank room to halt its tightening round.**
- **Uncertainty about U.S. policy and Mexico's July presidential elections will continue to dampen investment.**

In the months after the 2016 U.S. presidential election forecasters pared back their forecasts for Mexico's growth sharply, mainly on fears that a deterioration in trade relations with the United States would lead businesses to suspend or abandon plans to invest in Mexico. Fixed investment did hit a plateau in the first half of the year, but since then a pickup in growth in the United States, which is the destination for 80% of Mexico's exports, has made forecasters more optimistic about the outlook for Mexico's growth. The peso, which had fallen almost 16% against the dollar in the two months following the U.S. election recovered by mid-year. Meanwhile, the upward pressure on inflation from the pass-through of currency depreciation is coming to an end. The inflation rate had doubled in 2017 to 6.8%, with the pass-through effect getting an assist from higher food and administered fuel prices and a minimum wage increase of about 10% approved in November. But the central bank's numerous interest rate hikes since 2016 appear to have succeeded in lowering expectations about future inflation, which year-end surveys report that year-end are at 4.1%, which is only slightly above the top-end of the central bank's target range, Evidence that inflation is subsiding in the first half of 2018 should provide the central bank (Banxico) the leeway it needs to stop raising interestrates. Fiscal policy will remain tight to keep Mexico's public and external debt under control. Both have risen in the past three years as peso weakness increased the burden of Mexico's foreign-currency debt, though not to levels that would raise concerns about credit quality.

Mexico: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	2.8	2.3	2.1	2.2
Consumer prices, % Dec/Dec	3.1	3.4	6.8	4.0
Public sector balance, % of GDP	-2.8	-2.5	-1.9	-2.4
Merchandise trade ($ bil)				
Exports	376	374	406	430
Imports	380	387	417	442
Current account balance, % of GDP	-1.8	-2.1	-2.0	-2.0
International reserves ($ bil)	163	169	172	173
Total external debt ($ bil)	383	423	449	479
% of GDP	31	29	29	30
% of exports	94	104	102	103

Figure 1. Pessimism about Mexico's growth began to abate after mid-year 2017



Source: Consensus Economics

The major risks to Mexico's economic outlook stem from political uncertainty. Tensions resulting from President Trump's insistence on building a border wall, restricting immigration, and taking a hard line on the renegotiation of NAFTA are unlikely to abate. Little progress has been made on key issues in the NAFTA negotiations, and there is some risk that talks will collapse. As argued in the Outlook section above, a U.S. withdrawal from NAFTA is unlikely, but the uncertainty will continue at least through March, the scheduled end of the talks.

Mexico's July presidential election is also adding to the uncertainty. According to recent polls, Andrés Manuel López Obrador of the leftist Morena party is ahead in the polls, and stands to benefit from any increase in tensions with the United States. José Antonio Meade, the candidate for the incumbent Institutional Revolutionary Party (PRI) party, is disadvantaged by the unpopularity of outgoing President Enrique Peña Nieto, much of it stemming from perceptions that corruption has increased during his term in office. Mr. Meade, however, is not a member of the PRI and has served in the cabinets of both President Felipe Calderon of the opposition National Action Party (PAN) and Mr. Peña Nieto. This may allow him to attract voters from PAN who want Mr. Peña Nieto's reforms to continue. The PRI is united behind Mr. Meade, while the entry of many independent candidates has diluted the opposition vote.

LEGAL ENVIRONMENT

New security law regularizes role of armed forces in domestic security. In December, congress enacted an internal security law purporting to establish guidelines on the use of the regular armed forces in internal security matters, including the president's ability to deploy the armed forces for police actions. The controversial legislation would provide an intelligence role for the armed forces in internal security as well. Although the constitution limits the use of the armed forces in peacetime, since 2007 Mexican presidents have used them to supplement the police forces on a temporary basis. Currently, the armed forces are operating in this capacity in 23 of Mexico's 32 states.

New anti-corruption law targets public officials. A new general law of administrative responsibility took effect in July 2017 intended to reinforce the 2016 anti-corruption legislation. The new law provides for administrative penalties for bribes to public officials, undue influence and other corrupt activities. The law expands the scope of anti-corruption prohibitions to state and local officials, and prohibits collusive conduct by participants in government procurement.

Congress adopts new law targeting torture. In April, congress adopted a law to prevent torture and other cruel treatment. The new law provides for the exclusion of any evidence obtained through torture, and provides for heightened penalties for police or other officials found to have committed acts of torture, and special protection for children, women, migrants, indigenous persons and the disabled. The challenge will come in implementing this ambitious law. Since 2006, Amnesty International reports that the attorney general's office has received some 4,000 complaints of torture, but has only secured 15 convictions.

WTO rules for and against Mexico in tuna dispute with U.S. In April, a WTO panel found U.S. labelling requirements for tuna discriminated against Mexican products that were not deemed "dolphin safe". The panel authorized Mexico to impose up to $163 million in annual trade sanctions against the U.S. However, an October decision by another WTO panel found revised U.S. labelling rules, adopted last year, to be in compliance with WTO standards.

New law assists those seeking the disappeared. An October law will strengthen the government's ability to investigate disappearances of citizens. Thousands of Mexicans disappear each year, and few cases are ever resolved. According to the official database, some 33,000 people have disappeared since 2007. The new law provides for standardized definitions and a national search system for the disappeared, together with the creation of a national search commission to aid family members in searching for disappeared loved ones. The commission will have an important coordinating role between federal, state and local authorities in disappearance cases.

Mexico adopts new personal data protection law. In January 2017, congress adopted a law for the protection of personal data when it is in the possession of entities benefiting from public funds, including political parties and the federal, state and local government. The law provides a framework for accessing personal data held by these entities, and allows for a process to correct or remove data in certain circumstances. The law provides for administrative, civil and criminal penalties for the misuse of personal data.

October decree establishes economic enterprise zones. President Enrique Peña Nieto signed a decree establishing special economic zones in several municipalities in the country's poorest region. President said these economic zones would attract private sector investment of US$5.3bn and create more than 12,000 new jobs over the course of the next three years. The decree established three large zones, firs tin the port city of Coatzacoalcos in the state of Veracruz; another in Puerto Chiapas in the south of Mexico's poorest state of Chiapas; and a third in Lázaro Cárdenas-La Unión, on the border of the western state of Michoacán and the state of Guerrero.

BUSINESS ENVIRONMENT

For the second year in a row Mexico again fell two spots in the World Bank's ease of doing business rankings, this time to number 47. Mexico is still the highest ranked Latin American country in that survey, though it has now slipped out of the top quartile of the rankings. Mexico compares favorably in a majority of categories to most countries in Latin America and the Caribbean; only in getting electricity, with a regional score of 19, does it fail to be among the top half of the 32 countries in that broad region.

THE CARIBBEAN

CUBA ▼

- **The normalization of relations between the United States and Cuba is on hold.**
- **A new generation of leaders to take over as Raúl Castro steps down.**

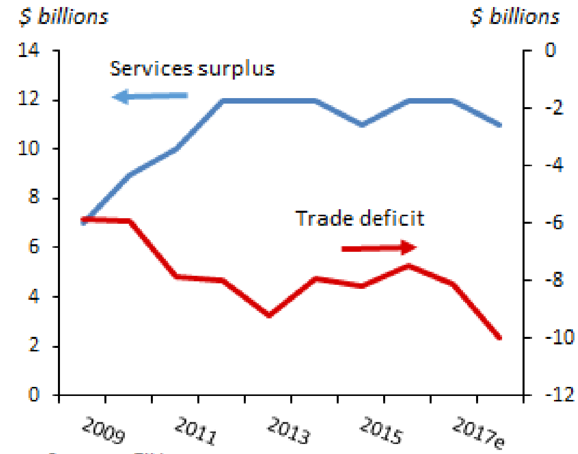
Within months after taking office, President Donald Trump announced a partial rollback of the actions taken by the Obama administration to normalize relations with Cuba. The Trump administration restored some restrictions on travel to the island and prohibited transactions with entities owned by the Cuban military or security services (see Box below). The administration did not, however, sever diplomatic relations with Cuba, restrict airline flights and cruises to Cuba, or prohibit visits to the island in groups.

U.S.-Cuban relations, however, cooled further after employees at the U.S. embassy in Havana developed health problems thought to be related to sonic attacks. The United States withdrew most employees from Havana and expelled 15 Cuban diplomats from Washington. The U.S. State Department also issued a travel warning to U.S. citizens. The Cuban government has denied being behind the attacks, and the origin and nature of the attacks remains a mystery.

The Cuban government, meanwhile, has been moving to place new restrictions on Cuba's nascent private sector. In August it announced it was suspending new licenses for cooperatives and private businesses such as bed-and-breakfasts and restaurants until it had devised new measures to curb alleged tax evasion. The government announced that private cooperatives and businesses would henceforth be limited to the province in which they were located, and that the incomes of the cooperatives' leaders would be capped at a level no higher than three times the average wages of the members. Business licenses would also be limited to single lines of activities.

Market forces have been allowed to play a larger role in the Cuban economy since Raúl Castro took over as president from his ailing brother Fidel in 2008. Cuban citizens have been allowed to operate small businesses such as restaurants, barber shops, and room rentals, and to buy and sell homes. These reforms have occurred in the context of a broader opening of Cuba to the global economy, which has included relaxed restrictions on travel by Cubans abroad, and greater access to the internet and cell phones. The reform process in Cuba, however, has always been subject to fits and starts, and the government's efforts to slow the expansion of the private sector do not signal an end to the reforms. The measures come amidst complaints that income inequality is growing, tax evasion is becoming more common, and spending by tourists and Cuba's new business owners is raising prices. In an address to the National Assembly in July Raúl Castro said the "We are not renouncing the development of the self-employed sector. However, it is necessary to ...resolutely confront the illegalities and other deviations from the established policy." It also does not appear the measures are a response to the Trump administration's disengagement with Cuba. They have come, however, as Cuban businesses report concerns they will suffer from the new U.S. travel limitations, raising the question of whether that the Trump administration's disengagement with Cuba is at odds with its goal of encouraging growth in Cuba's private sector.

Figure 1: Cuba's large services surplus helps offset its large merchandise trade deficit



Source: EIU

The debate within Cuba about the size and role of the private sector is occurring as Raúl Castro is preparing to

Cuba: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	1.7	-0.9	1.0	1.4
Consumer prices, % avg	6.2	4.7	7.3	5.3
Central gov. balance, % of GDP	-3.0	-6.9	-11.0	-10.0
Merchandise trade ($ bil)				
Exports	5.3	2.5	2.9	2.0
Imports	13.5	10.0	11.0	12.0
Current account balance, % of GDP	2.8	2.0	2.1	1.5
International reserves ($ bil)	n/a	12.0	11.4	11.6
Total external debt ($ bil)	30.0	30.0	29.0	29.0
% of GDP	38	33	30	28
% of exports	168	222	209	242

Recent Changes in U.S. Sanctions on Cuba

In November 2017 the U.S. Treasury's Office of Foreign Assets Control (OFAC) and the Department of Commerce's Bureau of Industry and Security (BIS) announced changes toward the Cuba sanctions program, implementing the policy announced by the White House in June. The intent of these changes, according to the OFAC and BIS, is "to channel economic activities away from the Cuban military intelligence, and security services, while maintaining opportunities for Americans to engage in authorized travel to Cuba and support the private, small business sector in Cuba."

Visitors to Cuba are not permitted to engage in direct financial transactions with entities that are controlled by or acting on the behalf of the Cuban military or security services. These entities, which are listed on the U.S. State Department's Cuba Restricted List, include several well-known Havana hotels (some of them joint ventures with foreign companies) and organizations involved in tourism such as Gaviota and Compania Turistica Habaguanex S.A.

Travel to Cuba is still permitted under one of 12 general licenses for purposes that include, among others, family visits, journalistic activities, professional research, professional meetings, and religious activities, The new restrictions, however, require visitors to Cuba under three of the 12 licenses — for educational purposes, for people-to-people visits, and for support-for-the-Cuban-people — to do so in groups organized by an organization subject to U.S. jurisdiction and accompanied by a representative of that organization. Travelers to Cuba are expected to maintain a full-time schedule of activities consistent with the terms of the general licenses under which they are traveling. Visitors are allowed to travel by air and cruise ship, and to bring back merchandise acquired in Cuba (including tobacco and alcohol) for personal use. Travel for tourism, however, is still not permitted.

step down as president in April 2018. He intends to stay on as head of the Communist Party until the next party congress in 2021, and is likely to remain as head of the military as well. The most likely candidate to succeed him is the First Vice President, Miguel Díaz-Canel Bermúdez, 52, though this is not assured. Little is known about Mr. Díaz-Canel's views. In a video leaked last summer he takes familiar hard lines on Cuban dissidents, the media,

Figure 2: Tourism and investment have risen since Cuba's reforms – especially in recent years

Source: World Bank and EIU. Total visitor arrivals from all nations.

and the need for U.S. concessions in return for a further normalization of relations, and it would be unrealistic to expect him to depart from the existing line at this juncture. Regardless of who becomes the next president, however, a new generation of leaders will take over. All were too young to have participated in the Cuban Revolution, and all have experienced Cuba before and after the 2008 reforms. Some struggles about future policy seem likely, but the party and the military will seek to prevent any struggles from spilling over into civil unrest.

The succession will occur as Cuba's economy continues to be weak. The economy had received a boost from a rise in tourist arrivals after the United States relaxed its travel restrictions in 2012 (though the bulk of visitors to Cuba continue to come from Canada and Europe). Tourist arrivals are holding up despite the damage caused by hurricane Irma. Prices of nickel and sugar, however, two of the island's main exports, remain low. Cuba is also still feeling the effects of reduced oil shipments at below-market prices from Venezuela. Real GDP, which declined modestly in 2016, managed to grow slightly in 2017, and is expected to grow again in 2018, in part because of hurricane-related reconstruction spending.

Cuba will attempt to boost its economy in the years ahead by diversifying its trade relations and the investment it receives from abroad. In November 2017 Cuba's ties with the European Union were formally reinstated, which should open the door for closer economic ties. The agreement comes after $11.1 billion in overdue bilateral debt owed to the Paris Club (a group of official lenders) was renegotiated in 2015. The renegotiation of unpaid debt is often necessary before normal commercial financial relations can resume.

DOMINICAN REPUBLIC [=]

With an economy dominated by a large services sector (especially tourism), the Dominican Republic has escaped the damage wrought on many countries in the region by the decline in commodity prices since summer 2014. While a decline in investment will reduce real GDP growth from the torrid 6.6% rate of two years ago, the Dominican Republic is on track to grow by more than 4% in 2018, making it one of the strongest economies in the region. President Danilo Medina is expected to focus on gaining support for reforms in education, electricity distribution, and labor relations and continuing initiatives to combat poverty and aid small businesses and farmers.

Dominican Republic: economic indicators

	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	5.3	6.6	4.5	4.3
Consumer prices, % Dec/Dec	4.7	1.7	3.2	3.7
Current account balance, % of GDP	-5.8	-1.4	-1.7	-1.6
Total external debt ($ bil)	20.2	28.0	29.3	31.7
% of exports	127	150	143	148

New anti-money laundering act adopted. In June, a new law took effect increasing penalties for money laundering and terrorism financing to 10 years. The act also set limits on cash transactions for real estate, motor vehicles, jewelry and transfers of stock. Under the law, attorneys, notaries, real estate brokers, accountants and casinos will all be subject to reporting requirements on certain transactions that once were imposed only on banks.

Updated bankruptcy law takes effect. The Dominican Republic adopted a new bankruptcy law in February 2017. The law is intended to modernize insolvencies by establishing a clear priority for creditors, including a priority for funding day-to-day operations. When possible, the law promotes restructuring of insolvent companies.

Business environment ranking shows some improvement. After falling ten places in last year's survey, the Dominican Republic rose four places in the World Banks's 2018 ease of doing business rankings, from 103 to 99. The Dominican Republic ranks relatively low in getting electricity, getting credit, paying taxes, and enforcing contracts. Overall, it has considerable room for improvement. The ease with which it is possible to start and conduct business is especially important for a small open economy such as the Dominican Republic whose prosperity depends on its connectivity with the rest of the world.

HAITI ▲

The installation of Jovenel Moïse as Haiti's new president in 2017 has brought some stability to the country after the previous president, Michel Martelly, left office with no elected successor a year earlier. While continuing to repair the damage caused by Hurricane Matthew, which struck in October 2016, the government has launched an ambitious development plan which includes upgrading agriculture, introducing a national health care system, and improving infrastructure and public services. Haiti remains dependent on foreign aid, however, and needs to improve its project implementation.

Haiti: economic indicators

	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	3.3	1.4	1.0	3.0
Consumer prices, % Dec/Dec	6.7	14.3	13.3	11.0
Current account balance, % of GDP	-5.0	-5.0	-7.3	-6.3
Total external debt ($ bil)	1.5	2.2	2.7	3.0
% of exports	93	131	161	175

UN ends Haiti peacekeeping operation. In April, the Security Council voted to end the stabilization mission in Haiti original begun in 2004, and expanded after the earthquake in 2010. The UN also voted to establish a Mission for Justice Support that will aid the Haitian government in building legal institutions.

U.S. announces end of temporary protected status for Haitians. In November, the U.S. Department of Homeland Security announced the program giving 59,000 Haitians special permission to stay in the U.S. after the 2010 earthquake would end in June 2019. The Department also decided that, due to high levels of fraud and overstays by Haitian temporary workers, they would no longer be eligible to apply for certain temporary worker visas.

Tax on Haitian diaspora causes anger. In July, Haiti announced a universal tax of 10,000 gourdes ($159) on all Haitians, including those living abroad. The move angered overseas Haitians who already contribute around $2 billion in remittances to the country.

Doing business in Haiti is exceptionally difficult. With the exception making it easier to pay taxes, Haiti failed to show improvement on any of the categories in which World Bank scores the ease of doing business. It continued to be ranked at 181 —close to the bottom of the World Bank's rankings of 190 countries.

PUERTO RICO ▼

- **Reconstruction and relief after Hurricane Maria will dominate the policy agenda.**

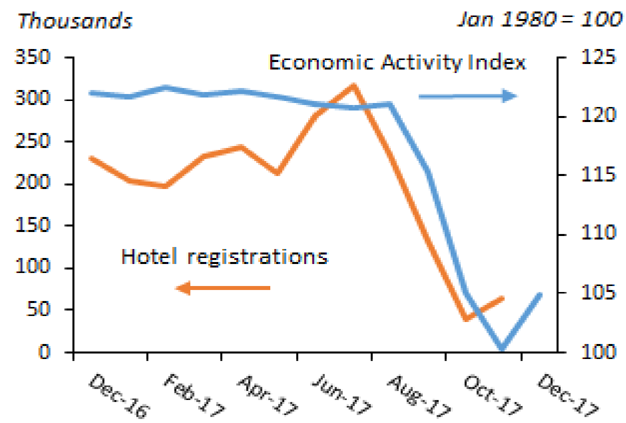
- **The government's 2018 fiscal plan envisages an eventual surplus, but requires federal assistance.**

After a 10-year long recession and a default on its $73 billion in debt the last thing Puerto Rico needed was to be hit by Hurricanes Irma and Maria. Hurricane Maria was the deadliest of the 2017 season and the worst natural disaster ever for Puerto Rico. It took out cell phone service, electrical transmission lines, and gasoline stations. Five months later 18% of the island still lacks electricity. The United States declared Puerto Rico to be a disaster zone immediately after the hurricanes, opening the door to federal assistance through FEMA. In November Puerto Rico's government submitted a request for $94.4 billion in disaster assistance to the federal government.

Economic and political decisions will be centered on efforts to recover from the destruction for months to come. Puerto Rico, however, still needs to address its debt crisis. In 2016, following Puerto Rico's default, Congress appointed a Financial Oversight and Management Board (FOMB) to oversee the island's finances. If voluntary agreements on restructuring the debt are not reached, the FOMB has the authority to seek a court-ordered resolution. The FOMB proposed a fiscal adjustment plan that called for $4.5 billion in cost cutting, equivalent to 6% of Puerto Rico's GNP, in areas including health care, education, and pensions, with a goal of achieving a balanced budget by fiscal year 2018/19. The government of Governor Ricardo Rosselló rejected the FOMB's plan and drafted its own in an effort to avoid deep spending cuts and layoffs. Meanwhile, negotiations got underway between the FOMB and creditors about a restructuring. At least two bondholder groups and three bond insurers, meanwhile, have filed lawsuits seeking to recover losses.

In February of this year the Puerto Rico government submitted a new fiscal plan to the FOMB that projects a budget surplus within six years. A surplus would be the first step for Puerto Rico in regaining eventual access to the capital markets. The plan envisages that 60% of revenues will come from local taxes and projects large savings from improvements in government services, procurement reform, and better tax enforcement. But it also requires an additional $18 billion in funds from the federal government.

Figure 1. Economic activity has fallen sharply since Hurricane Maria



Source: Government Development Bank for Puerto Rico

Since the hurricanes hit in September monthly figures have revealed a steep decline in economic activity. Based on the monthly numbers available so far the decline in real GNP could be as much as 8% in 2018. Reconstruction activity, however, should allow for a partial rebound in economic activity that will be evident in the GNP figures by 2019. The island, which has been losing population to the mainland for years, has seen the exodus accelerate since the hurricane's struck, making economic recovery all the harder.

An improving climate for business. Puerto Rico is ranked among the higher-scoring Latin American countries in the World Bank's *Doing Business* report, though far below the United States. Puerto Rico climbed nine places in the global rankings in 2018. Its best rankings are in the starting a business and getting credit. But it does poorly in dealing with construction permits and registering property, which does not bode well for reconstruction efforts.

Puerto Rico: economic indicators

	Avg. 2011-15	2016	2017e	2018f
Real GNP, % change	-0.8	-1.1	-2.8	-8.0
Consumer prices, % Dec/Dec	1.1	0.0	0.0	-5.4
Government balance, % of GNP[1]	-6.4	-7.9	-5.1	-4.0
Merchandise trade ($ bil)				
Exports	63.6	71.9	71.8	54.9
Imports	44.4	43.3	43.4	40.8
Current account balance, % of GNP	7.5	12.3	11.7	-2.1
Public debt ($ bil)	64.4	70.9	73.2	74.2
% of GNP	94	95	101	105

[1]Fiscal years

CENTRAL AMERICA

Figure 1: Real exchange rate movements have varied markedly across Central America

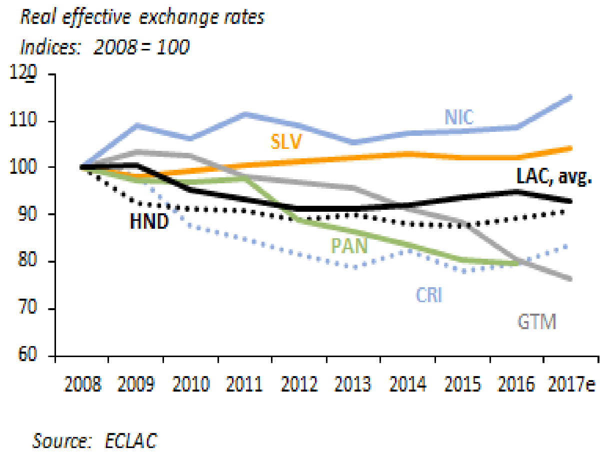


Figure 2: Remittances to Central America tend to fluctuate with U.S. GDP

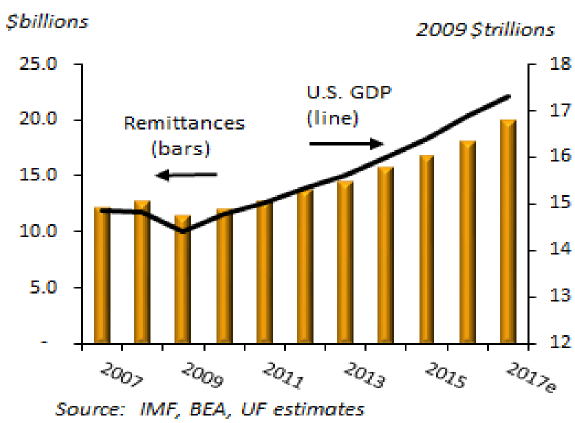
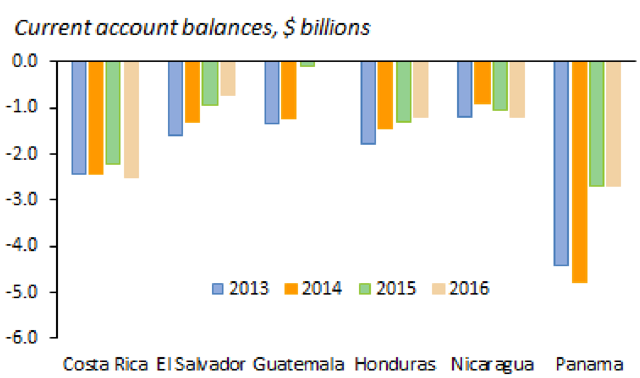


Figure 3: Central America tends to run chronic current account deficits.



COSTA RICA [=]

The efforts of the administration of outgoing President Luis Guillermo Solís at fiscal reform have been hampered by a deadlock with the opposition-controlled legislature. Elections are slated for February, with a runoff in April possible. It will be up to the new government to tackle Costa Rica's large public sector deficit, which is on track to reach 6.2% of GDP this year. The fiscal tightening is needed to keep Costa Rica's central government debt, which is likely to exceed 72% of GDP this year, from growing at an unsustainable rate. That tightening is likely to take the form of some combination of a broadening of the tax base — accompanied by a shift from a sales tax to a VAT tax and austerity. The economy is forecast to grow at a trend-like 3.6% in 2018. With output near potential the central bank has shifter toward a tighter policy stance to keep inflation within its 2-4% target range.

Strong export growth and low oil prices have led to a substantial decline in Costa Rica's current account deficit, which has been financed in large part with long-term capital flows. Cost Rica is in the process of becoming a member of the OECD. Talks to join the Pacific Alliance are likely to resume after a new government takes office, and Cost Rica intends to sign a free trade agreement with Japan.

New corporation tax approved. In 2015, the constitutional court invalidated Costa Rica's corporate tax. The new law restores that tax effective in September 2017.

Special incentives promote electric vehicles. A December law is intended to encourage use of 100% electric vehicles and clean technology. Electric vehicles will be exempt from most sales tax, customs and consumption taxes. A 2016 law provided similar incentives for hybrid vehicles.

A favorable business climate. Costa Rica has long had one of the more business-friendly climates in Latin America. It rose one place, to 61, in the World Bank's 2018 rankings, which places it in the second quartile among ranked countries. Cost Rica ranks fairly highly in getting credit and electricity, but relatively poorly in starting a business and enforcing contracts. An improvement in both categories would help Costa Rica achieve its goal of becoming a more technology-oriented economy.

Costa Rica: economic indicators

	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	3.7	4.5	3.6	3.6
Consumer prices, % Dec/Dec	3.3	0.8	2.1	3.1
Current account balance, % of GDP	-5.0	-4.4	-3.4	-3.1
Total external debt ($ bil)	17.0	25.6	26.0	26.9
% of exports	105	137	128	126

EL SALVADOR ▼

In the second half of his term El Salvador's president, Salvador Sánchez Cerén of the Leftist FMLN party faces challenges in the form of poverty, inequality, and crime. The FMLN party does not have a strong presence in the Legislative Assembly, holding only 31 of the 84 legislative seats, which will make it difficult for President Sánchez Cerén to pass legislation addressing these challenges. Between January and July 2017, the trade deficit grew by 2.8% to $ 2.6 billion, compared to the same period in the prior year. This deficit was driven by higher prices for fuel, manufactured goods, and agricultural imports.

El Salvador: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	2.0	2.2	2.3	2.2
Consumer prices, % Dec/Dec	0.9	-0.9	1.3	2.0
Current account balance, % of GDP	-5.1	-0.8	-0.9	-0.8
Total external debt ($ bil)	13.6	15.4	15.7	15.5
% of exports	213	227	217	192

U.S. terminates temporary special immigration status. In January 2018, the Department of Homeland Security announced the termination of temporary special status for Salvadorans as of September 2019. The U.S. first granted this status following a devastating earthquake in El Salvador in 2001.

Pension reform adopted. In September, the assembly adopted pension reform legislation raising the percentage of income paid towards pensions from 13 to 15%. Significantly, more than ½ the funds collected will go into an individual savings account, with the remaining portion designated towards a collective fund.

Assembly weakens asset forfeiture law. A July law weakened the country's 2014 law targeting assets of persons convicted of drug trafficking or corruption. Under the new law, politicians and officials are exempt from forfeiture pending the final resolution of their cases, unlike other suspects. The window for bringing for brining forfeiture actions against politicians was reduced to 10 years, as opposed to 30 years for other suspects.

El Salvador's business climate improved on a global scale. It jumped to a ranking of 78 from last year's 95 in the World Bank's 2018 *Doing Business* survey.

GUATEMALA [=]

Guatemala's president, Jimmy Morales of the FCN-Nación party, has been under investigation for campaign finance irregularities. He is expected to remain in office until the end of his term in January 2020. In November 2017, Congress failed to come to an agreement on the 2018 budget, resulting in a rollover of the 2017 budget. Political gridlock in the legislature will cause delays in fiscal reforms and tax increases. In the same month, the central bank cut its benchmark interest rate by 25 basis points to 2.75% for the first time since 2015. This move is expected to stimulate the economy. But the economy is at risk if U.S. interest rates rise by more than expected.

Guatemala: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	3.8	3.5	3.1	3.4
Consumer prices, % Dec/Dec	3.0	4.2	4.5	4.3
Current account balance, % of GDP	-2.1	1.3	0.9	0.0
Total external debt ($ bil)	17.6	20.2	21.2	22.6
% of exports	130	145	145	151

Amidst corruption scandal, President Morales targets UN Commission director. Through most of 2017, President Morales was embroiled in a dispute with the UN Commission Against Impunity (CICIG) over violations of campaign finance during the president's 2015 election. In August, the president ordered the expulsion of CICIG's director, Iván Velásquez, only to have he expulsion invalidated by the constitutional court. Another attempt to revoke Mr. Velásquez's visa in October failed as well. CICIG enjoys considerable support inside Guatemala.

Congress votes against lifting president's immunity. In September, congress voted not to lift President Morales' immunity from prosecution for campaign finance violations. The supreme court had referred the prosecution to congress, but rejected other possible obstruction of justice charges..

Constitutional court suspends law protecting corrupt politicians. In September, congress adopted a law weakening penalties for campaign finance law violations and allowing politicians convicted of crimes to pay fines in lieu of prison time. The hastily adopted law was provisionally suspended by the constitutional court.

Guatemala's business climate deteriorated. It fell to a ranking of 97 from last year's 88 in the World Bank's 2018 *Doing Business* survey.

HONDURAS ▼

President Juan Orlando Hernández took office for a second term in January amid protests over alleged irregularities in the November 2017 election. The electorate has become polarized, and protests are likely to continue. The uncertainty is likely to dampen investment and growth. Honduras's economy has benefitted from low oil prices and trade with the United States in recent years, and an IMF mission gave Honduras a positive review in June, recognizing the country's progress in reducing its fiscal deficit and maintaining stability. President Hernández is likely to focus on fiscal consolidation in keeping with a fiscal responsibility law passed in 2016 which established a ceiling for the non-financial public deficit, which is to be lowered gradually to 1% of GDP by 2019. In pursuing fiscal discipline Honduras is likely to seek a renewal of its three-year standby program with the IMF, which expired at the end of 2017. The government will continue to combat crime. Although the murder rate fell in 2017 to 42.8 per 100,000 inhabitants — down from 59 the year before, Honduras continues to have one of the highest crime rates in the world.

Honduras: economic indicators

	Avg. 2009-15	2016	2017e	2018f
Real GDP, % change	3.5	3.6	4.2	3.7
Consumer prices, % Dec/Dec	4.7	3.3	4.1	4.0
Current account balance, % of GDP	-8.1	-3.7	-2.7	-2.9
Total external debt ($ bil)	6.2	7.6	8.6	9.0
% of exports	83	84	90	86

Broad new anti-terrorism law adopted. A February law expanding definitions and penalties for terrorist activities drew criticism from opposition and others who fear that legitimate protestors or journalists could be targeted. The law is aimed at violent gangs, and imposes penalties of up to 50 years in prison for terrorist activities. Dangerously, the law also targets those using the media or trying to influence the public in defense of terrorist acts. The law defines terrorist acts as any designed to intimidate or force the state to take some specific action.

Customs union with Guatemala launched. In July, following ratification by their respective legislatures, Honduras and Guatemala announced the formation of Central America's first bilateral customs union.

Honduras and Nicaragua fall in Business Environment Rankings. Honduras fell ten places to 115th, while Nicaragua slipped four places to 131st position.

NICARAGUA [=]

In recent years Nicaragua has been one of the fastest growing countries in Latin America. With that growth, however, has come large current account deficits. To date, the deficits have been financed with a steady inflow of foreign direct investment. But with its currency linked to the U.S. dollar through a crawling peg arrangement and inflation that has been higher than that of its major trading partners its real effective exchange rate has been rising, which will eventually hurt competitiveness. (The modest improvement in the current account deficit in 2017 mostly reflects better tracking of exports in the *maquila* (for export) sector.) Nicaragua is also adjusting to a decline in development assistance from Venezuela. In the medium-term, the main challenge to Nicaragua's growth, however, is the government's failure to improve the country's weak institutions and its poor business climate. Nicaragua has made an effort to expand access to electricity and the internet, but the beneficiaries so far have chiefly been state-owned enterprises.

Nicaragua: economic indicators

	Avg. 2011-15	2016	2017	2018f
Real GDP, % change	5.2	4.6	4.7	4.3
Consumer prices, % Dec/Dec	5.6	3.1	4.7	5.2
Current account balance, % of GD	-9.9	-9.1	-6.5	-6.9
Total external debt ($ bil)	9.4	10.7	11.2	11.9
% of exports	195	206	189	196

U.S. terminates temporary special immigration status. In November, the Department of Homeland Security announced the termination of temporary special status for Nicaraguans as of January 2019. Nicaraguan nationals had been first granted this status in the aftermath of devastation caused by Hurricane Mitch in 1999.

Nicaragua repeals punitive tax on Colombian imports. In March, the national assembly repealed a "patriotic" 35% tax on goods and services imported from Colombia imposed in 1999. The tax was imposed due to the border dispute in the Caribbean that was resolved by the International Court of Justice in 2012.

Criminal code reforms adopted. June amendments to the criminal code expanded penalties for crimes against women and children, as well as other violent crimes. The law includes provisions for aggravated manslaughter charges when those under the influence of drugs or alcohol cause accidents. A procedural reform allows for new special courts to operate without juries in criminal cases.

PANAMA ▲

- **Panama's growth is decelerating but remains the strongest in Latin America.**

- **Investment remains a key driver of growth, but at a more sustainable pace.**

Panama's growth in recent years has been based on investment in support of its role as a global transportation and logistics hub. Between 2007 and 2016 it spent $5.3 billion in upgrading the Panama canal, providing a direct boost to growth. The investment was designed to allow the canal to accommodate newer, larger ships that could not use the existing canal. As expected, Panama's growth rate decelerated after the canal construction ended, but new investment projects are taking up some of the slack. These include an expansion of the Panama City metro system, a trans-shipment terminal in Corozal, and an urban renewal project in the city of Colón. Investment will continue to grow faster than GDP for several more years.

Panama's two other major industries, tourism and finance, should continue to be sources of growth. In 2016 more than two million tourists visited Panama, down slightly from the year before, but more than twice as many as in 2006. Tourists spent $3.7 billion in 2016, and the World Travel and tourism Council estimates spending grew by more than 9% in 2017. It further estimates that investment in the tourism sector, which accounted for 5.4% of total investment in 2016, will increase by more than 5% per year though 2027. The leak of the Panama Papers in April 2016 raised concerns of a broad financial fallout. Those papers detailed the extent to which foreigners were establishing offshore companies which may have been used for tax evasion. Banking assets, however, continued to grow, deposits remained stable, and foreign investment increased, suggesting no loss of confidence. Meanwhile, the government has taken steps to improve tax transparency, agreeing to the automatic exchange of tax information. In June the OECD declared Panama to be "provisionally compliant" on tax transparency standards.

U.S. judges rule in extradition request for former President Ricardo Martinelli. In August and again in January 2018, U.S. judges ruled that former President Martinelli could bee extradited to face charges of embezzlement and spying on opponents. The former president has been under arrest in Miami since June.

Law on public contracting signed. A September law reforms public procurement, introducing new standards

Figure 1: Multinational companies registered in Panama

Source: IMF based on Panamanian sources

and transparency requirements. Controversially, the reform does not include prohibitions on companies with convictions for corruption or other abuses taking part in future procurement.

New insolvency law takes effect. In February, a new bankruptcy law took effect. The law is intended to promote re-organization of insolvent companies. It also grants foreign creditors equal status alongside Panamanian creditors in any insolvency proceedings. The law also allows for greater co-ordination in the case of foreign court proceedings.

Little change in Panama's business climate. Panama's ranking fell nine points to 79 out of 190 countries in the World Bank's latest *Doing Business* report. The decline is surprising in light of Panama's sustained efforts in recent years to improve its business climate. The World Economic Forum's 2016-17 Global Competitiveness report, however, tells a different story: Panama increased its global ranking by 8 positions, moving to a global ranking of 42, higher than any other country in Latin America except Chile.

Panama: economic indicators

	Avg. 2010-15	2016	2017e	2018f
Real GDP, % change	39.5	4.9	5.3	5.6
Consumer prices, % Dec/Dec	15.2	1.5	1.2	1.9
Government balance, % of GDP	-13.3	-0.9	-0.1	-0.4
Merchandise trade ($ mil)				
Exports	92.5	14.7	15.8	16.9
Imports	128.7	20.5	21.6	23.1
Current account balance, % of GDP	-49.8	-5.6	-4.9	-4.6
International reserves ($ bil)	13.7	3.6	3.6	3.6
Total external debt ($ bil)	353.5	89.5	91.4	96.4
% of GDP	801	162	155	152
% of exports	1232	332	316	311

ANDEAN SOUTH AMERICA

BOLIVIA ▼

Even though it is heavily dependent on exports of petroleum products and metals, Bolivia weathered the end of the commodity supercycle fairly well. Although GDP growth has slowed since 2014, Bolivia's output has expanded faster than all other commodity export-dependent countries in the region. Now low prices of natural gas and minerals are starting to catch up with Bolivia. The government had attempted to counteract of the effect of the lower prices on the economy with expansionary fiscal and monetary policies. As a result, the public sector deficit expanded from an average of 1.8% of GDP in 2011-15 to an estimated 6.5% of GDP last year, with a further expansion to 7% of GDP forecasted for this year. Public debt, which amounted to 35.6% of GDP in 2014, is on track to reach 57% of GDP this year. The current account turned from a small surplus in 2014 to a large deficit, which the central bank has had to finance in part by drawing down its international reserves. Following its consultation with Bolivia, concluded in December, the IMF recommended a tightening of fiscal policy, with most of it to come on the spending side, and a withdrawal of monetary stimulus to keep inflation in check. With a presidential election coming in 2019, however, the government is likely to continue to stimulate the economy.

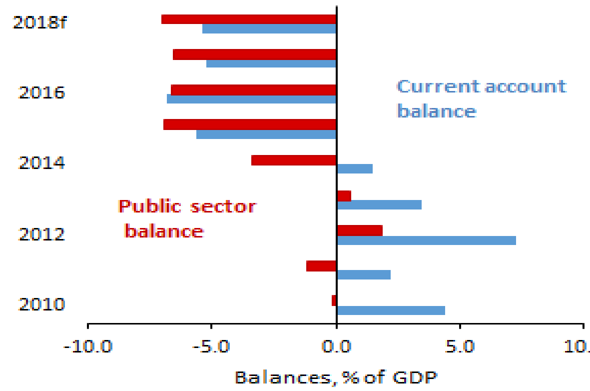
Bolivia's foreign policy will focus on building relationships with non-Western partners, especially China. Relations with the United States remain tense as a result of President Morales's anti-U.S. pronouncements and support for international recognition of coca leaves for domestic consumption. The United States has not had an ambassador in Bolivia since 2008. Mr. Morales' continued support of his ALBA partner, Nicolás Maduro of Venezuela, has strained relations with countries in the region such as Argentina, Brazil, and Peru that have been critical of Venezuela.

LEGAL ENVIRONMENT

Constitutional court invalidates term limit provision opening door for re-election of President Morales. Notwithstanding a 2016 referendum where a majority of voters rejected a fourth term for President Morales, the constitutional court in November found the provision of the constitution limiting presidents to two terms unconstitutional. The court found the constitutional limits violated the president's political rights.

New law increases amount of coca grown in Bolivia. In March, President Morales promulgated a law expanding the area in which coca may be legally grown in Bolivia from 10,000 hectares to 22,000 hectares.

Figure 1: Bolivia's budget and current account surpluses have turned into deficits



Source: ECLAC, IMF, Consensus Economics

President Morales allows controversial road project through nature reserve. In September, President Morales announced the repeal of legislation restricting development in the Tipnis Reserve and prohibiting activities that would affect indigenous communities in that area.The repeal follows another law enabling construction of a highway through the reserve and indigenous areas.

Truth commission to examine abuses under former military dictatorships. In September, President Morales appointed members of a new commission charged with examining abuses under Bolivian military and authoritarian regimes between 1964 and 1982. The commission will have two years to identify and collect information and issue a report on its findings.

An inclement business climate. Bolivia ranked 152nd in the World Bank's latest ease of doing business rankings, falling three places since the last report. Only Haiti and Venezuela have lower rankings in Latin America.

Bolivia: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	5.5	3.6	4.0	3.9
Consumer prices, % Dec/Dec	5.4	4.0	3.2	4.0
Public sector balance, % of GDP	-1.8	-6.6	-6.5	-7.0
Merchandise trade ($ bil)				
Exports	10.6	7.0	8.4	9.1
Imports	8.9	7.8	9.1	10.0
Current account balance, % of GDP	1.8	-6.8	-5.2	-5.4
International reserves ($ bil)	11.6	8.3	6.8	5.8
Total external debt ($ bil)	7.9	10.6	13.3	17.4
% of GDP	27	31	37	45
% of exports	68	127	133	161

COLOMBIA ▲

- **President Juan Manuel Santos will be focused on implementing the peace accord with the rebels.**

- **With inflation contained and the peso stable the central bank has been able to ease monetary policy.**

President Juan Manuel Santos' main goal for the remainder of his term in office, which ends in August, will be to implement the peace accord signed with the Fuerzas Armadas Revolucionarias (FARC) rebels in November 2016. Much of the implementation of the peace agreement has already taken place. The FARC has put down its arms and formed a political party, the Fuerza Alternativa Revolucionaria del Común (retaining the FARC acronym). The FARC is fielding candidates in the upcoming March 2018 legislative and May 2018 predidential elections, though they are running far behind in the polls.

The end of the armed conflict with the FARC promises a better climate for investment, employment, and growth. However, several provisions of the peace accord, which remains highly controversial, have yet to be implemented and the peace process could be slowed if a right wing candidate becomes president. The other rebel group, the Ejército de Liberación Nacional (ELN) is still active in fighting the government. Perceptions on the part of a large portion of the population that the peace accord was too lenient toward the FARC, and fallout from a scandal involving campaign contributions from Odebrecht, a Brazilian construction firm, have damaged Mr. Santos's popularity and disadvantaged his party's candidates.

Sergio Fajarado, a center-left mayor of Medellín, is currently ahead in the polls for the president, followed by Gustavo Petro, a left-leaning former mayor of Bogotá and German Vargas Lleras, a former vice president. None of the main candidates is likely to depart from Colombia's orthodox macroeconomic policies.

Colombia has weathered the low-oil prices since 2014 better than other oil-producing neighbors in Latin America. It allowed its exchange rate to depreciate while raising interest rates to keep the depreciation from passing through to higher inflation. That adjustment is now over and inflation, which spiked in 2016 in part because of El Niño-related food supply shocks, is now on its way down. This has given the central bank room to reduce interest rates. The monetary stimulus, along with the pickup in growth in the developed nations and modestly higher oil prices should result in an increase in Colombia's GDP growth rate this year.

Figure 1. A stable peso has allowed the central bank to cut interest rates

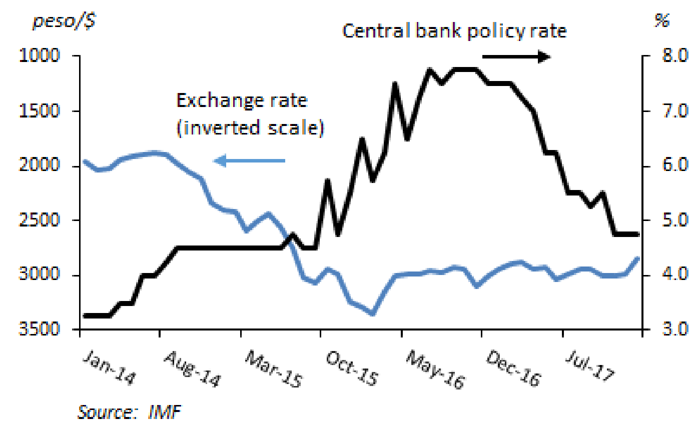


Figure 2. Colombia's trade is picking up

Colombia: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	4.6	4.3	1.7	3.0
Consumer prices, % Dec/Dec	3.6	5.7	4.1	3.3
Public sector balance, % of GDP	0.5	-2.3	-3.3	-2.8
Merchandise trade ($ bil)				
Exports	55.1	33.4	36.7	39.2
Imports	55.9	43.2	44.4	46.5
Current account balance, % of GDP	-4.2	-4.4	-3.7	-3.4
International reserves ($ bil)	39.1	45.0	47.1	47.8
Total external debt ($ bil)	91	120	125	130
% of GDP	26	43	40	39
% of exports	141	253	242	236

The public sector deficit should narrow in 2018 as a result of recent tax reforms that raised the VAT, levied new taxes on services, and introduced measures to combat tax evasion. The government, however, also plans to increase spending on infrastructure, so decline in the deficit will be gradual.

The current account deficit, which had widened to 6.4% of GDP in 2015 following the oil shock, has since narrowed and is projected to narrow to 3.3% of GDP this year despite the growth in imports expected as economic activity picks up. Responding to Colombia's falling real effective exchange rate, non-traditional exports have been rising at a rapid rate. Colombia's current account deficit has been financed in large part by foreign direct investment, though with its investment-grade sovereign bond rating access to international capital markets is not an issue.

LEGAL ENVIRONMENT

Constitutional Court affirms ceasefire with FARC. In October, the constitutional court ruled that the transitional law implementing the ceasefire the FARC guerrilla group was constitutional. The court also upheld provisions of the law that forbid modifications of the 2016 deal for at least 12 years holding that the agreement was binding on the Colombian state.

President Santos issues amnesty decree for FARC members. A July decree expands an earlier amnesty to members of the guerrilla army for political and related crimes. Under this and earlier amnesties, some 7,000 guerrillas have benefitted. An additional group of 1400 will face a new transitional justice program prior to amnesty.

Special justice tribunals to implement peace agreement found constitutional. In November, the constitutional court upheld a system of special courts established under the 2016 peace agreement. The special tribunals provide an alternative justice process to try crimes against humanity and other human rights violations committed by FARC members, as well as military, police and some civilians. The system allows for alternative sentences for those convicted of war crimes. The court did modify the agreement to allow for possible extradition of former guerrillas for crimes committed after the peace process ends and required that guerrillas elected to public office could lose their positions for failure to comply with the peace process. Congress must still enact legislation to fully implement the special curt system.

Tax reform law moves Colombia toward lower corporate taxes. Congress adopted the tax reform law in December 2016, and it took effect in January. Under the law, corporate income tax rates will fall from 40% to 33%, but under a 2-year phase-in process, the rate is reduced initially to 34% with a temporary surtax of 6% in 2017 and 4% in 2018. The tax reform will also increase tax rates for firms located in free trade zones from 15% to 20%, other than those firms in certain new trade zones.

Court requires Google to take down false and defamatory website. A Colombian furniture store owner sued Google alleging an anonymous blogger, operating through Google-owned Blogger, published false and defamatory statements about him over a two-year period. Blogger had disclaimed any control over the content of the websites created through it. The constitutional court ordered Google to take down the false website, and ordered the ministry of technology to create a law to protect internet users from similar defamatory posts.

Both mining and hydrocarbons hit by negative local referenda. Mining interests and oil and gas production were impacted by municipal referenda seeking to ban mining or oil exploration in their jurisdictions. Fears of impact on water quality have played a role in these referenda. The Colombian government has announced it will seek to harmonize national and local laws relating to mining to give greater clarity and predictability in this area. The hydrocarbons agency has also promulgated regulations to facilitate oil exploration off-shore where the local protests are not a factor.

BUSINESS ENVIRONMENT

Colombia fell three places the World Bank's most recent ease-of-doing business rankings, slipping behind Chile and Peru (though not by much). Colombia ranked 59th out of 190 countries in 2018. Colombia's slide in the rankings did not reflect a material deterioration in any of the 11 categories scored in the survey. In fact, Colombia scored slightly better in the getting electricity category. Instead, Colombia's move down in the rankings stems from an improving performance in other countries. In the process of applying to join the OECD Colombia has sought to improve its business climate. It has made an effort to promote competition and protect property rights. Plans to increase investment in infrastructure should also help make it easier to do business in the future.

ECUADOR ▲

- **Voters turn away from Correa-era policies.**
- **Government seeking to boost investment.**

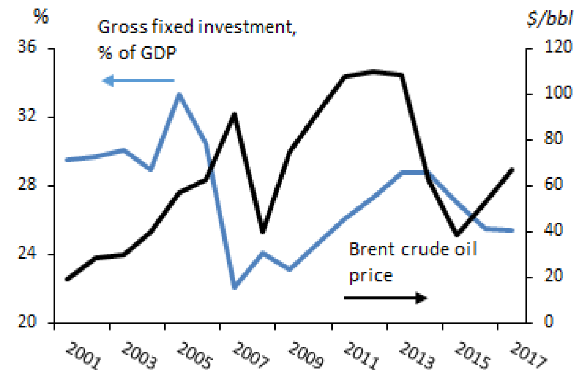
By large majorities, on February 4 voters in Ecuador approved all seven-parts of a referendum and popular consultation. It was a victory for President Lenín Moreno, elected last year, in a power struggle with populist former president Rafael Correa (see below). The vote is another setback for leftist populist politicians in Latin America following electoral reversals in Argentina and Chile. It does not, however, necessarily represent a fundamental shift away from the statist policies of former president Correa. It may be more accurately viewed as a reflection of voter dissatisfaction with the authoritarian and polarizing style of former president Correa, who dominated Ecuadorian politics while in office during 2007-17. Among the constitutional changes approved in the referendum is a provision that will keep Rafael Correa from becoming president again.

Ecuador's economy has performed better than expected in 2017. Although a pickup in global growth and modestly higher oil prices helped pull Ecuador out of recession, the expansion was also supported by credit-based consumption. Business investment has been low, in part because low oil prices have discouraged investment in the energy sector, but also because of perceptions that Ecuador is a less-than-friendly place to do business. Foreign direct investment in Ecuador as a percent of GDP, for example, is only a third of Peru's. A series of privatizations and pro-business reforms are planned to increase investment in 2018 and beyond.

President Moreno seeks popular consultation on changes to constitution. President Moreno launched a nationwide consultation process on constitutional reform, inviting the public to suggest changes. Among the 450 public proposals are many involving greater protection of the country's natural resources and environment, and others that dealt with ending corruption in political life.

Referendum rolls back Correa-era constitutional changes. On February 4 voters in Ecuador approved a seven-part referendum and popular consultation. Among the most significant changes are an amendment instituting term limits, one prohibiting public officials found guilty of corruption from serving again, expanding the Yasuni reserve in the Amazon, and reducing areas available for oil exploration and mining activities to protect the environment. The referendum also approved a

Figure 1. Business investment in Ecuador tends to lag behind changes in oil prices



Source: ECLAC, Federal Reserve

restructuring of the Council of Citizen Participation and Social Control, a state entity that has power over judicial appoint-ments which has been dominated by Correa loyalists.

President signs open skies decree deregulating airline industry. In December, President Moreno issued a decree to allow bilateral civil air transport agreements and liberalize the market for air travel in Ecuador. The goal is to promote greater competition and lower prices.

Ecuador's business climate has much room for improvement. The World Bank ranked Ecuador 118th out of 190 countries in its 2018 *Doing Business* report, down three places from the year before. Ecuador also fell to 97st place in the World Economic Forum's 2016-17 global competitiveness rankings, down from a ranking of 81 in the last report.

Ecuador: economic indicators

	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	1.3	-1.6	2.1	1.6
Consumer prices, % Dec/Dec	3.5	1.1	0.8	1.4
Public sector balance, % of GDP	-3.2	-7.4	-5.8	-5.1
Merchandise trade ($ bil)				
Exports	23.8	17.4	18.0	19.0
Imports	24.3	16.0	19.0	21.0
International reserves ($ bil)	2.3	3.7	3.6	4.2
Current account balance, % of GDF	-0.9	-2.1	1.4	0.0
Total external debt ($ bil)	21.0	34.1	41.0	43.0
% of GDP	23	34	40	42
% of exports of G&S	76	174	194	185

PERU ▲

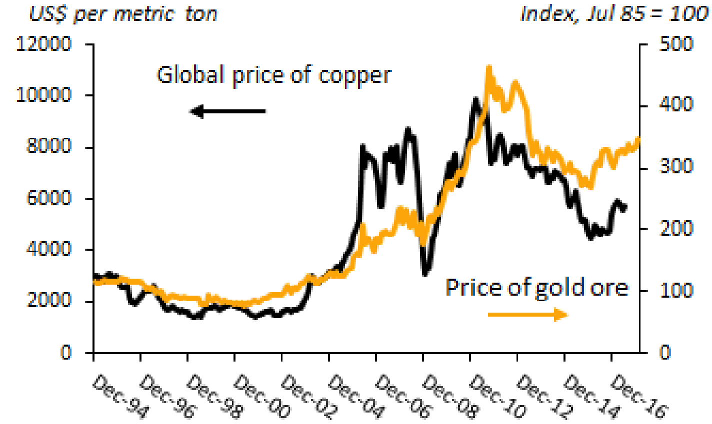
- **The adjustment to the 2014-15 commodity price shock is almost complete.**
- **Central bank rate hikes have restrained inflation.**
- **The Odebrecht scandal has shaken confidence.**

Since 1991, the year it tamed hyperinflation, Peru has been one of Latin America's best performing economies. Real GDP grew at an average rate of 4.7% between 1991 and 2017 — a rate higher than that of the five largest economies in the region and matched only by Chile. Peru has followed prudent fiscal policies, promoted private and public investment, and sought integration into the global economy. Helped by the commodity boom, poverty in Peru fell from 58.7% of the population in 2004 to 21.8% by 2015. With the end of the commodity super-cycle in 2014 Peru's terms of trade deteriorated sharply and its growth decelerated. Peru allowed its currency to depreciate, which helped soften the blow from lower commodity prices, but at the cost of inflation in excess of the central bank's 1% to 3% inflation target. The central bank raised interest rates, which brought inflation back down to within its target band. GDP growth slowed, but Peru avoided recession.

President Pablo Kuczynski narrowly avoided being turned out of office in an impeachment vote in December. Mr. Kuczynski was charged with failing to disclose advisory fees paid years earlier by Odebrecht, the Brazilian construction firm that has been implicated in bribery scandals in several Latin American countries. Mr. Kuczynski has denied any wrongdoing. The impeachment vote failed when 10 members of the opposition Fuerza Popular (FP) led by Kenji Fujimori, son of former president Alberto Fujimori, abstained. Shortly afterwards President Kuczynski pardoned Alberto Fujimori, who had been in prison for corruption and human right violations during his presidency (1990-2000). This led to widespread speculation that Mr. Kuczynski had traded the pardon for votes. Street protests followed, and Mr. Kuczynski's attempts to form a "reconciliation cabinet" failed. A second impeachment attempt cannot be ruled out, but the opposition in the legislature is fractured. President Kuczynski may finish his term in office, but in a weakened position.

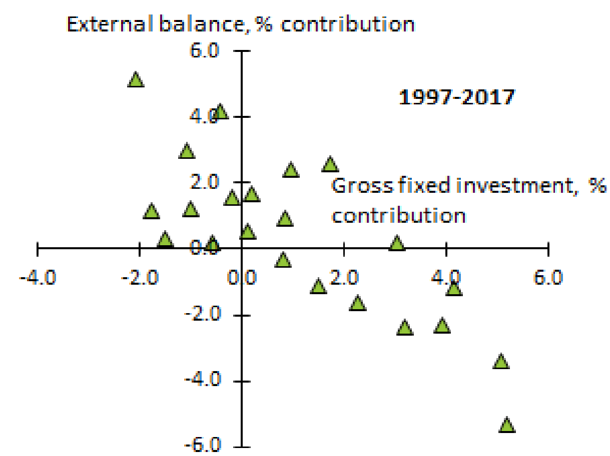
The dysfunctional political climate in Peru will hamper economic policymaking and progress in

Figure 1. The prices of Peru's two largest exports are off their lows



Source: ICE and IMF

Figure 2. Fixed investment and the external sector typically trade places as sources of GDP growth



Source: Banco Central Reserva del Perú

Peru: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	4.8	3.9	2.6	3.7
Consumer prices, % Dec/Dec	3.4	3.2	1.4	2.3
Public sector balance, % of GDP	0.6	-2.6	-3.0	-3.1
Merchandise trade ($ bil)				
Exports	42.1	37.0	42.5	45.0
Imports	39.8	35.1	38.2	41.0
Current account balance, % of GDP	-3.4	-4.8	-2.7	0.0
International reserves ($ bil)	58.0	59.8	64.3	68.0
Total external debt ($ bil)	56.6	70.0	71.0	73.0
% of GDP	32	36	36	41
% of exports	122	149	133	128

addressing structural reform. President Kuczynski' s government, however, will not abandon Peru's orthodox macroeconomic policies. The fiscal deficit will widen in 2018 as reconstruction spending picks up to repair the damage from flooding and landslides caused by El Niño last year, though that spending will increase real GDP growth in the short-term. Growth will also get support from rising export prices and volumes.

The central bank is likely to continue providing stimulus to the economy until growth accelerates and starts to put pressure on resources and prices. The central bank cut interest rates in January and is likely to do so again at its March meeting. Private forecasters do not envisage that the central bank will shift to a tightening mode until late this year or early 2019.

LEGAL ENVIRONMENT

Peru enacts anti-corruption legislation as corruption scandals swell. In October 2016, Peru had adopted legislation prohibiting public officials convicted of corruption from continuing public employment. The so-called "civil death" law took effect in January 2017. A January 2017 decree expanded the corporate liability for transnational bribery introduced in 2016 and imposed it on active bribery of officials within Peru. The administrative liability of corporations for corrupt activities became effective in January 2018.

New administration adopts tax reform package. The tax reform reflects a desire to stimulate investment, while also maintain revenues. The new reform increased corporate income tax from 28% to 29.5% (and eliminate a planned reduction). It also reduced taxes on dividends to 5% and cut the rate of value-added-tax from 18% to 17%. Special tax benefits incentivize the repatriation of funds from overseas. The reform package also included information exchange provisions intended to bring Peru into compliance with OECD standards.

New immigration legislation adopted. The new immigration legislation is intended to simplify immigration law. The law makes foreign nationals working in Peru eligible for the same health, education and labor benefits as Peruvian nationals. Foreign nationals will be permitted to work in many positions in the private and public sector. The law provides for new temporary visas for work and business, and a special short-term work visa. A special visa was created to encourage retirees with funds to support themselves to settle in Peru. The immigration agency is given authority to fine and expel immigrants for offenses against the law.

Environmentalists win with community consultations, but new road projects target Amazon region. In April, a Peruvian court suspended operations by French and Canadian oil companies in leased areas of the Amazon until they comply with obligations to consult with indigenous communities about oil drilling on their lands. However, in January 2018, the government announced that road construction in the Amazon is a priority and national interest of the country, enacting a law to facilitate the country's development in this region. The area targeted includes four national parks and several indigenous reserves.

German court allows Peruvian farmer's claim against energy company. A Peruvian farmer brought suit against the German energy company RWE alleging that its carbon dioxide emissions contributed to climate change, and that flooding from melting glaciers threatened his hometown in the Andes. Although a lower court dismissed the suit, an appeals court said the farmer should be allowed to make his case, and that experts might be able to quantify RWE's role in climate change.

BUSINESS ENVIRONMENT

Peru fell four places in the World Bank's 2018 ease-of-doing-business rankings, to 58 out of 190 countries. That ranking, however, is the second highest in Latin America. President Kuczynski' s government will seek to foster a business-friendly climate. One priority is to bring more businesses and workers into the formal economy. To achieve this objective the government has created new tax brackets for small businesses an made it easier to obtain business licenses and register companies. (Peru ranks poorly — 114th globally — in starting a business.) Another priority is to streamline the procedures needed for investment. The goal is to attract investment for infrastructure projects through public-private partnerships.

VENEZUELA ▼

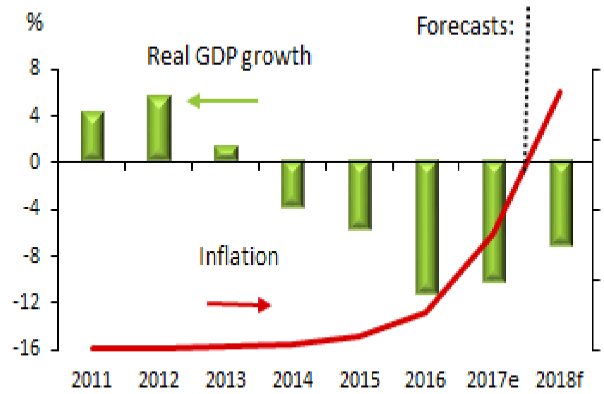
- **Venezuela's economy is collapsing.**
- **Incomes are falling amidst widespread shortages and accelerating inflation.**
- **The government is in selective default on its bonds.**

Venezuela has become a failed state, unable to provide its citizens with food, stability, or security. After four years' of deep recession, real GDP has fallen by a third, and the consensus sees a further decline of over 7% this year. Venezuela's inflation has turned into hyperinflation, with prices, according to the consensus, rising at a 6,000% rate — no one knows for sure because the government stopped publishing official statistics in 2015. Price controls and unrealistic exchange rates have resulted in empty shelves in stores, with severe shortages of food, basic household items, and medical supplies. Caracas has become the most violent city in the world. Citizens are fleeing the country.

The government's immediate policy objective is to avoid a default on its international bonds. The government has gone into arrears on some sovereign bonds and bonds issued by PDVSA, the state-owned oil company. It has stated it intends to renegotiate the debt, but it is hard to see how a renegotiation is possible given U.S. sanctions (including a prohibition on buying new issues from Venezuela) and the low likelihood Venezuela would come up with a reform program satisfactory to creditors. Venezuela is keen to avoid an outright default on its PDVSA bonds, because creditors could try to seize PDVSA's oil tankers and Citgo gas stations and refineries in the United States. With the exception of Sinopec, a Chinese state-owned oil company, creditors have not yet filed lawsuits preferring, perhaps, to wait for a permanent default. The rating agencies have declared Venezuela, which is still paying interest on some bonds, to be in selective default. The sovereign bond markets have been pricing in a high probability of default on Venezuela's bonds for several years.

Ironically, much of Venezuela's current woes can be traced to its mismanagement of PDVSA, which twenty years ago was widely considered to be as well managed as Western oil companies. After Hugo Chávez was elected president in 1998, however, PDVSA hired employees based on political loyalties rather than their technical skills. PDVSA

Figure 1. A failing economy



Source: ECLAC, Consensus Economics

was directed to sell oil to countries friendly to Venezuela, such as Cuba, at deeply discounted prices, and ordered to turn its revenues over to the government outside the legislative budgetary process. PDVSA's payrolls reportedly tripled, and it branched out into businesses and public works that were unrelated to the oil industry. Capital investment projects were postponed or cancelled and production began a six-year slide, culminating in a 13% decline in 2017. When the price of oil plummeted so did government revenues, and the public sector budget deficit ballooned to over 24% of GDP in 2016. The deficits have been financed with money creation, feeding inflation. With oil accounting for over 95% of Venezuela's exports both export revenues and GDP fell. The central bank's international reserves have fallen to a level that now amounts to only one and a half months' worth of imports.

Despite Venezuela's deepening economic woes, Nicolás Maduro and his Partido Socialista Unido de Venezuela (PSUV) have tightened their grip on power. Opposition parties, which won a veto-proof supermajority of seats in the National Assembly in December 2016, tried

Venezuela: economic indicators	Avg. 2010-14	2016	2017e	2018f
Real GDP, % change	0.3	-16.5	-11.2	-7.1
Consumer prices, % Dec/Dec	71.8	532.0	1662.0	5855.0
Public sector balance, % of GDP	-14.7	-24.3	-19.4	-15.6
Merchandise trade ($ bil)				
Exports	78.0	27.1	30.2	28.5
Imports	49.4	18.8	13.9	14.3
Current account balance, % of GDP	0.7	-1.5	0.2	0.2
International reserves ($ bil)	4.6	2.1	3.0	2.7
Total external debt ($ bil)	128.1	113.0	102.0	95.0
Total external debt, % of GDP	33.2	20	22	32
Total external debt, % of exports	182	406	317	333

unsuccessfully to induce President Maduro to free political prisoners and to force a recall referendum. The Supreme Court, filled with regime loyalists, was able to block most of the National Assembly's initiatives, and the electoral commission, filled with PSUV loyalists, prevented a recall referendum. In August the government sponsored the creation of a new constituent assembly. Ostensibly the assembly was formed to re-write the constitution, but it has since taken over all legislative powers.

Currently President Maduro and the PSUV have two sources of support – the military, which controls a majority of government ministries including PDVSA, and a large segment of the population dependent on government subsidies and handouts. A disorderly default could disrupt PDVSA's revenues and the ability of the government to continue to pay the military and buy support from the population, though it is not certain how this would play out. A rise in oil prices, meanwhile, could provide the government with some breathing room. The futures market is looking for oil prices to go up, but only to $60 a barrel by the end of 2018 — not enough to bring Venezuela out of its crisis. The IMF estimates that the fiscal break-even price of oil for Venezuela is $117.50.

LEGAL ENVIRONMENT

Dispute between national assembly and supreme court marks first half of 2017. Venezuela's supreme court, controlled by loyalists to the Maduro regime, played a significant role in stifling the opposition-controlled national assembly. In January, the court annulled an attempt to impeach President Maduro. In March, the court tried to take all the legislative powers from the assembly. Amid widespread protests and international criticism, the court reversed the ruling.

Venezuela's exchange rates
On January 26, 2018 the Venezuela abandoned its dual exchange rate system, eliminating the official peg, the Dipro, which had become highly overvalued because of Venezuela's inflation. Ten days later it announced a 99.6% devaluation of the bolivar fuerte, to 25,000 BsF per dollar. Venezuela's also has a black market rate which has been depreciating rapidly. As of February 18 it was trading at BsF 236,202 per dollar.

Venezuela withdraws from OAS. In April, Venezuela denounced the OAS charter, beginning a two-year withdrawal period. The country had denounced the Inter-American Convention on Human Rights in 2012,

Government sidelines opposition with creation of constituent assembly. In July, the government convened a national constituent assembly with power to rewrite the constitution. The new body quickly seized the authority of the opposition-led legislature; extended its time of service; sacked the chief prosecutor Luisa Ortega, who had criticized the government; called for trying opposition leaders for treason; and approved a law that would imposed criminal penalties on those using broadcast or social media to communicate messages of hate. Finally, after the opposition boycotted municipal elections, the constituent assembly ruled that political parties must have taken part in the previous election to compete in upcoming presidential elections.

U.S. and European sanctions target Venezuelan officials and institutions. In August, the U.S. imposed sanctions on Venezuela, restricting access to U.S. capital markets for Venezuelan institutions, including the state oil company PDVSA. Sanctions target officials as well, making it difficult for bondholders to negotiate approaches to manage the debt crisis. Sanctions imposed by the European Union in January 2018 include a travel ban and freeze on assets held by President Maduro and some of his key allies.

U.S. Supreme Court makes it more difficult to challenge expropriations by foreign nations. In May, the U.S. Supreme Court ruled against Helmerich & Payne over oil rigs expropriated by Venezuela in 2010. The case involved the Foreign Sovereign Immunities Act, which controls when other countries can be sued in American courts. The law contains an expropriation exception, but the court held that, for this exception to apply, any expropriation must have been done in contravention of international law. The result makes it more difficult to bring future expropriation cases in U.S. courts.

BUSINESS ENVIRONMENT

Venezuela remains a terrible place to do business. It ranked 188th out of 190 countries in the World Bank's 2018 *Doing Business* report, placed between South Sudan and Eritrea. It ranks 166th in Transparency International's corruption index out of 177 countries.

BRAZIL AND SOUTHERN CONE

ARGENTINA ▲

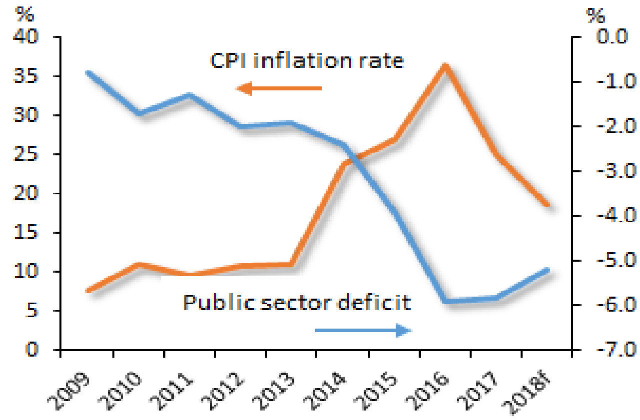
- **President Macri is trying to stabilize the economy while improving business conditions.**
- **Progress in reducing the public sector deficit has been slow.**
- **After a spike in 2016 inflation is subsiding.**

Since Mauricio Macri assumed the presidency in December 2015, ending 13 years of Peronist rule, he has sought a systematic transformation of the Argentine economy. His government has eliminated exchange rate controls, which allowed the peso to depreciate to a competitive level. It settled a dispute with hedge funds, allowing the country to regain access to international capital markets, and reduced utility subsidies that were straining the government budget. The Macri administration has also acted to restore transparency and integrity to government. Argentina's consumer price indices, for example, were brought up to international standards.*

In response to these policy changes the economy has rebounded from recession, and inflation — after a currency depreciation-related spike in 2016 — has declined. Still, it is too soon for the Macri administration to declare victory in its efforts to stabilize the economy while fostering a favorable business climate. The administration's immediate challenge is to reduce the country's public sector deficit, which reached 6.9% of GDP in 2017. The public sector deficit is the single most important macroeconomic variable to watch in Latin America: when governments lose control of deficits the temptation rises to finance them through money creation, which leads to inflation, overvalued real exchange rates, a loss of confidence, and capital flight. The Macri administration managed keep the deficit from growing further by raising utility tariffs (worth 0.8% of GDP), providing for a tax amnesty on assets held abroad, and cutting government spending. The deficit is likely to narrow in 2018-19 as a result of the end of the indexation of social security benefits to past inflation, reductions in energy and transportation subsidies, and spending cuts. But progress in reducing the deficit will be slow. The government is under pressure to avoid cuts in wages, pensions, and social transfers. Primary current spending rose 14.5% of GDP between 2006 and 2017, and

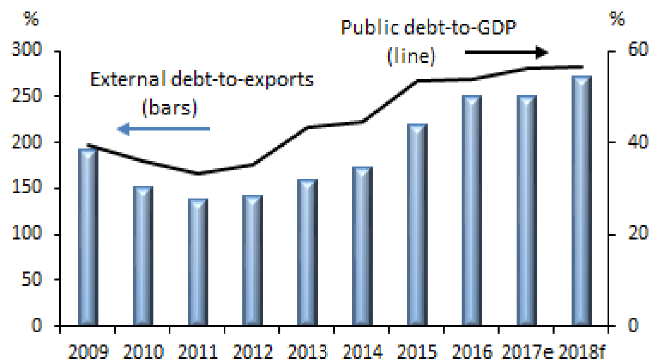
*In November 2016 the IMF lifted its censure on Argentina's official statistics agency, which had been publishing inaccurate figures.

Figure 1. A smaller public sector deficit is helping to stabilize inflation



Source: IMF, Consensus Economics

Figure 2. Argentina's debt has stabilized



Source: ECLAC and UF estimates

Argentina: economic indicators

	Avg. 2010-15	2016	2017e	2018f
Real GDP, % change	1.5	-2.2	2.8	2.9
Consumer prices, % Dec/Dec	16.4	36.4	25.0	18.6
Public sector balance, % of GDP	-2.7	-6.5	-6.9	-6.0
Merchandise trade ($ bil)				
Exports	72.9	57.9	58.7	62.5
Imports	66.7	55.9	66.8	72.5
Current account balance, % of GDP	-1.4	-2.6	-2.8	-5.0
International reserves ($ bil)	31.6	33.6	52.8	60.8
Total external debt ($ bil)	148.1	190.0	212.0	226.0
% of GDP	26	36	38	36
% of exports	169	259	269	271

is substantially higher than the average for Latin America as a whole.

Obstacles to reducing the fiscal deficit include the reluctance of Argentina's strong public sector unions to agree to wage restraint, and legislative opposition to pension reform. President Macri's Cambiemos party won a convincing victory and picked up seats in both the Senate and Chamber of Deputies in mid-term elections in last October, but still lacks a majority in either house. This will force the administration to negotiate for support for its agenda. It has some chance for success in doing that given that divisions have developed within the opposition Partido Justicialista (JP), the Peronist party, since their 2015 election defeats.

With a below-investment grade sovereign bond rating Argentina will need investors to remain confident that its public finances are under control. During the past two years Argentina has had little difficulty in financing its government or current account deficits. But its external debt is now 95% higher than it was relative to exports in 2011, while its public sector debt is 61% higher relative to GDP.

LEGAL ENVIRONMENT

New anti-corruption law adopted. In November, congress approved a broad law expanding prohibitions and penalties for corruption by corporations. The new law criminalizes bribery of public officials, and requires new anti-corruption compliance programs. The law allows for criminal liability to be imposed on corporations, and allows for broad penalties of 2 to 5 times any "undue" benefit obtained. Assets illegally obtained may be subject to forfeiture, and companies convicted of corruption banned from bidding for government contracting. Companies establishing compliance programs which detect wrongdoing may be exempted from responsibility, and the law allows for reduced penalties where companies voluntarily enter into agreements to collaborate with corruption investigations.

Freedom of information law adopted. The law establishes an Agency for Access to Public Information to help promote transparency, ensure compliance by government agencies and assist with public requests for information. The law imposes a presumption that all information held by the government will be publicly available. Under the law, not only state institutions are bound to provide access, but also companies, unions, political parties and businesses which have received public funds.

Tax reform to reduce corporate taxes. Under the law, approved in December, corporate income tax rates decline from 35% to 30% for 2018-2019, and fall to 25% thereafter. However, dividend withholding rates of 7% for profits in 2018-2019 would rise to 13% for profits after that time. The law also repeals an equalization tax of 35% on some income and limits deductions on interest from certain loans.

Public-private partnership law takes effect. The new law governs contracts between the public sector and private contractors in areas of infrastructure, housing, and services. The new law is intended to provide a stable but flexible framework that upholds the public interest. The law requires transparent bidding and selection processes. It provides for auditing and allows parties to include a clause in contracts referring any disputes to arbitration. Although the law is intended to help attract foreign investment in public infrastructure projects, the act contains a provision requiring at least 33% local content for public project.

Congress adopts controversial pension reforms. In a major victory for President Macri, congress approved pension reform legislation in December raising the retirement age from 65 to 70 for men, and from 60 to 63 for women. The formula for calculating payments was also adjusted, with reduced payments likely. The law was adopted amidst widespread protests that the government was harming the poor in its attempts to balance the budget.

Court revisits death of prosecutor, Alberto Nisman. In January 2018, a court ruled that Nisman was murdered in 2015 as he probed a possible cover-up relating to the 1994 bombing of a Buenos Aires Jewish center. Nisman's mysterious death came as he was about to accuse Argentina's former president Cristina Fernández de Kirchner and other ministers of disguising Iranian involvement in order to secure secret trade deals with that nation. In the days after his death, President Kirchner's investigators had ruled the death a suicide.

BUSINESS ENVIRONMENT

Argentina currently ranks 117th out of the 190 countries in World Bank's ease of doing business survey, a ranking that was almost unchanged from the year before. Argentina showed a slight gain in global competitiveness, but an unchanged and low ranking in corruptions perception. Some improvements in Argentina's business environment are likely, however, given the Macri administration's commitment to structural reforms. These include tax reforms intended to reduce distortions and labor market reforms intended to increase flexibility and discourage informality.

BRAZIL ▲

- **The Temer administration made early gains in stabilizing the economy.**

- **Brazil's corruption scandals, however, are not over and have hampered policymaking.**

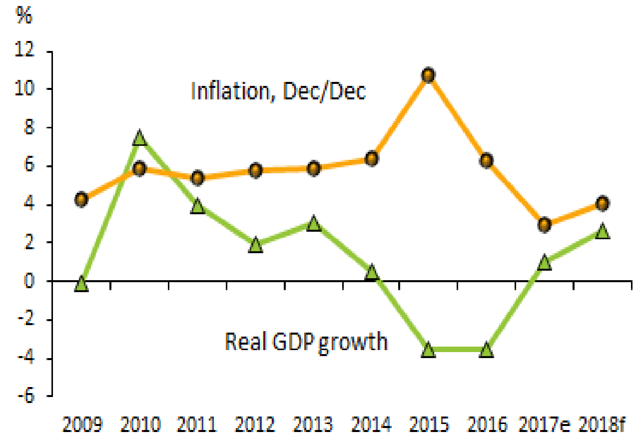
- **Pension reform is key to avoiding a fiscal crisis.**

When President Michel Temer took office after his predecessor, Dilma Rousseff, was impeached he inherited an economy in deep recession, burgeoning public deficits, and a political system that was paralyzed by a corruption scandal surrounding Petrobras, the state-owned oil company. Mr. Temer quickly took steps to bring Brazil's fiscal deficit down. He obtained approval from lawmakers for a constitutional amendment to cap public spending at the rate of inflation for as long as 20 years, and signed a far-reaching overhaul of Brazil's labor laws. As confidence returned the economy began to recover and last year managed to grow, though only by 1%. Inflation fell to a 2.9% rate in 2017, the lowest in almost 20 years, giving the central bank room to cut interest rates.

President Temer, however, has been unable to capitalize on these successes. Last May an audio tape surfaced in which Mr. Temer seems to approve the payment of hush money to a politician convicted of taking bribes. Although a vote that would have allowed charges against Mr. Temer to proceed failed in Congress, his approval rating dropped to 6%, making it hard to muster support for his agenda through congress. Corruption investigations of business executives and politicians, meanwhile, have continued (see below). While the investigations are strongly supported by voters, the fallout from the scandals continues to hamper the ability of the government and congress to put the economy on a stable growth path.

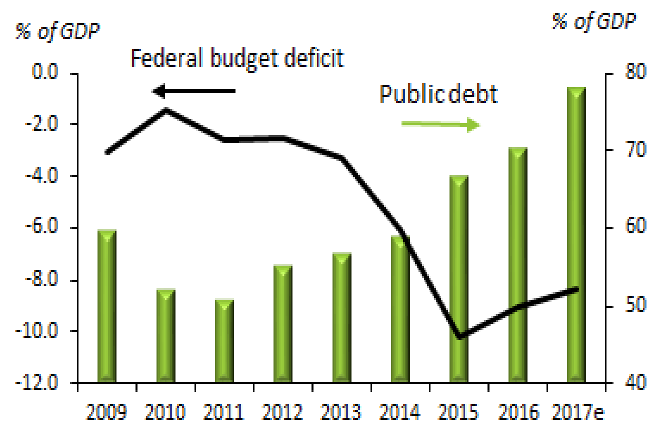
The focus in congress is now on pension reform, which is necessary if Brazil is to avoid a fiscal crisis. In recent years Brazil's public debt has grown rapidly and is on an unsustainable path. Brazil lost its investment-grade credit rating in 2015, and both Moody's and S&P describe the outlook for Brazil's credit rating as negative. Pension reform is necessary to stabilize public finances. Spending on social security pension spending Brazil's accounts for 40% of Brazil's non-interest government spending, and 9% of its GDP. Brazilian pensions are generous relative to those of the OECD, a group of wealthy, mostly developed nations. Under current rules the retirement age in Brazil

Figure 1. Brazil has come out of recession and its inflation has subsided



Source: IMF, Consensus Economics

Figure 2. Brazil's public debt is unsustainable



Source: ECLAC, Consensus Economics, UF estimates

Brazil: economic indicators

	Avg. 2009-15	2016	2017e	2018f
Real GDP, % change	1.2	-3.5	1.0	2.6
Consumer prices, % Dec/Dec	6.8	6.3	2.9	4.1
Public sector balance, % of GDP	-4.9	-9.0	-8.3	-7.3
Merchandise trade ($ bil)				
Exports	230.8	187.5	214.1	214.7
Imports	218.7	139.4	150.8	163.6
Current account balance, % of GDP	-3.3	-1.4	-0.7	-1.4
International reserves ($ bil)	351.7	356.8	373.8	379.2
Total external debt ($ bil)	486	543	560	586
% of GDP	21	32	29	28
% of exports	175	137	213	222

is 54, and Brazilian males can expect to earn as much as 70% of their pre-retirement incomes. With a rapidly aging population, the drain on public resources can only be expected to grow. The Temer administration introduced legislation in December 2016 that would have raised the minimum retirement age to 65 and reduced the amount widows and widowers would have received from their spouse's pensions. After that plan ran into resistance the government introduced a more modest one providing for a lower retirement age. The new plan, however, would save only $120 billion over 10 years — half the amount of the earlier plan and not enough on its own to stabilize public finances. Congress has delayed taking up the proposal until February.

LEGAL ENVIRONMENT

Corruption scandal implicates President Temer and nearly everyone else. The ongoing scandals began with corruption by the state-owned oil company, Petrobras. Together with associated scandals involving the construction company, Odebrecht, and meat and poultry companies, JBS and BRF, and most recently investigations over corrupt contracts to build stadiums for 2014's World Cup, these scandals all continued to complicate Brazil's economy and its politics. Among the prominent Brazilians targeted by prosecutors are current and former presidents, ministers, dozens of members of congress, and state governors. Prosecutors sought to charge President Michel Temer with corruption related to JBS, and the supreme court allowed the charges to proceed. However, a vote to allow the charges failed to secure the necessary 2/3 margin in congress. In July, former president and current candidate Luiz Inacio Lula da Silva was sentenced to 9 years in prison for corruption and money-laundering. Polling in January 2018 had Lula the frontrunner in 2018's election. As this report went to print (January 24, 2018), his conviction was upheld on appeal making him ineligible for office under so-called 'clean hands' laws signed by President Lula himself in 2010.

Brazil's supreme court invalidates presidential pardon decree. In December, President Temer issued a decree expanding the number of non-violent prisoners who could benefit from the traditional Christmas pardon. Although the justice ministry defended the decree as a purely humanitarian measure, prosecutors and the supreme court suspended controversial parts of the decree amid fears that it could benefit politicians and others convicted on corruption charges.

Labor reforms introduce more flexibility. Amidst the controversy surrounding corruption accusations, President Temer won a significant victory with the passage of labor reform legislation in July. The new laws increase flexibility on overtime and holidays, with expanded ability of employers and workers to negotiate on these matters. The law will allow for greater flexibility in part-time and contract work, and also abolishes compulsory labor union contributions. The hope is that the reforms will lead to greater employment by making it easier to hire and fire workers. Labor unions opposed the legislation.

New law allows outsourcing. A parallel labor reform adopted in March allows companies to outsource any job and regulates temporary employment. Responding to union criticism, President Temer limited the period companies could use outsourced labor to nine months, with a requirement that these temporary workers be given similar pay and working hours to regular workers.

New national identification document created. Intended to centralize information on citizens held by the government, a law adopted in April creates a national ID document for all biometric and other data currently held by voter registration, driver's license, taxpayer's and other government agencies. The new document will be issued by the federal electoral court, and managed by the Superior Electoral Tribunal, which will guarantee access to the information by federal and state agencies, municipalities and the legislature.

Law expands rights of immigrants. In May, Brazil adopted a new migration law replacing rules dating from the time of the military dictatorship. The new laws expand immigrant access to documents allowing them to stay in the country, provides guarantees for those whose deportation might subject them to harm if deported, and expands immigrant rights to take part in political and labor union activities.

Executive order expanding mining in Amazon blocked by court. President Temer sought to open an area of the Amazon on the border of Pará and Amapá states to gold, copper, iron and other mining activities. The order would have abolished reserve protected since 1984. The move was blocked by a judge amidst criticism by conservation groups worried expanded deforestation and threats to indigenous tribes. In the aftermath of the judicial decree, the order was rescinded, and an order affirming the status quo issued.

Court expands indigenous rights in the Amazon. In August, the supreme court ruled that indigenous people have a right to occupy their historic territory. The decision resolved a dispute with the Mato Grosso state government which had claimed that the federal government in establishing the Xingu Indigenous Park, had improperly appropriated vacant lands from the state. The court's unanimous decision affirmed traditional land borders for indigenous tribes. This decision and a related case rejected arguments that sought to limit indigenous land rights to those demarcated before the adoption of Brazil's current constitution in 1988.

Court orders mining company to consult with indigenous communities. In December, a federal court revoked a mining license held by the Canadian firm Belo Sun Mining, finding that the company failed to consult with local indigenous communities prior to any mining activities in the Lower Xingu River area. The court required the company to complete a rigorous consultation before any future license may be granted.

Tax amnesty law seeks disclosure of offshore assets. A new law enacted in March set conditions for taxpayers to report funds kept or repatriated from offshore. Under the law, which does not apply to politicians or public servants, or their relatives, citizens can apply for regularization of these assets, and pay an income tax on amounts reported together with a penalty.

New taxes hit online audio and video streaming. A December 2016 law expanded the services tax to impose a minimum 2% tax on online and video streaming services. The new law prohibits municipalities from offering benefits or exemptions that lower this rate in an attempt to attract companies.

Brazil takes steps to regulate drone usage. In May, Brazil's aviation authority issued regulations applicable to remotely piloted drone usage. The new regulations generally prohibit drone use over populated areas, requiring registration of all drones whether used for commercial or recreational purposes.

BUSINESS ENVIRONMENT

While the Temer government's priority has been to stabilize the economy, it has also sought to improve business conditions. The labor market reforms proposed by the administration and approved by congress in July should make employers more willing to hire workers. The administration, meanwhile, has simplified and made more transparent the criteria for infrastructure concessions. Brazil, however, has much more to do to improve the business climate. In its latest ease-of-doing business survey Brazil ranks 125 out of 190 nations — the fourth lowest in Latin America. In its 2017 consultation with Brazil the IMF recommended a number of structural reforms that would make it easier and less costly to do business, including reducing tariffs and non-tariff barriers to trade, simplifying the tax system, and further reforms to labor markets to increase flexibility and reduce excess litigation in labor courts.

CHILE ▲

- **The incoming Piñera administration will to pursue centrist, market-oriented policies.**
- **Pension reform will be at the top of the policy agenda.**
- **Chile's economy stands to benefit from an improved external environment in 2018.**

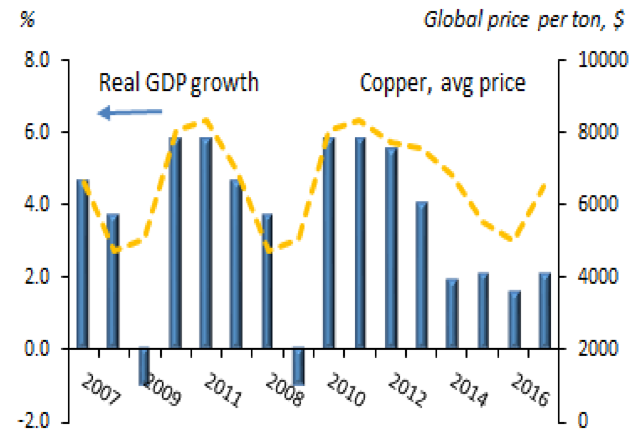
No fundamental shifts in policy are likely after Sebastián Piñera takes office as president on March 11. Mr. Piñera of the center-right Chile Vamos (CV) party defeated Alejandro Guillier, the candidate of the center-left Nueva Mayoria party of outgoing president Michelle Bachelet by 55% of the vote in a run-off election. (Mr. Piñera was president 2010-14.) The CV, however, lacks a majority of seats in either the Chamber of Deputies or the Senate, and will have to negotiate to advance any policy agenda.

The divisions in congress suggest that many of the reforms pushed by President Bachelet still enjoy considerable support. Hence, Ms. Bachelet's education and labor market reforms are likely to stay in place. Mr. Piñera's campaign platform included a proposal to roll back the increases in corporate tax rates introduced by Ms. Bachelet to pay for the reforms, but this is unlikely to find traction in congress. Mr. Piñera is, however, likely to pursue reform of Chile's mostly-private pension system, but to take a different tack from that proposed by the Bachelet administration, which proposed a state-managed system.

Chile's pension system is based mainly on its private pension plans known as Administradoras de Fondos de Pensiones (AFPs). This system, which has attracted praise from pension specialists, replaced Chile's government-run pay-as-you-go system in 1981 with funds managed by private firms (though Chile does have a government administered safety net for workers whose incomes or years of employment do not qualify them for the AFP minimums). Chilean workers contribute a mandatory 10% of their salaries to an AFP of their choice, which invests the funds mostly in stocks and bonds. Currently there are six AFPs, three of them managed by American firms. The funds have channeled billions in retirement savings into Chile's securities markets, promoting their development.

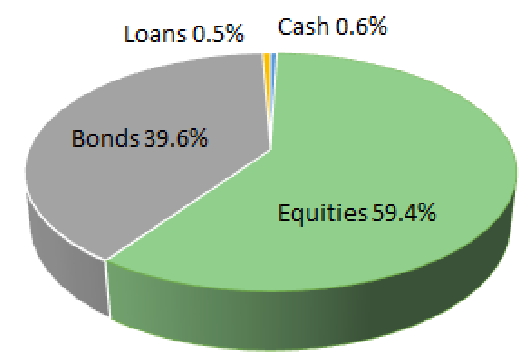
The funds have been criticized for their low returns, though it is not clear that they have underperformed the OECD average, especially when their relatively conservative investment strategies are taken into consideration. Concerns have risen that the AFPs do not provide adequate

Figure 1. Chile's GDP growth goes up and down with the price of copper



Source: IMF

Figure 2. Asset allocation of Chile's private pensions (AFPs)



Source: OECD, 2015

Chile: economic indicators	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	4.6	2.1	1.6	2.1
Consumer prices, % Dec/Dec	3.0	4.4	2.7	3.0
Government balance, % of GDP	-0.2	-2.2	-3.0	-2.8
Merchandise trade ($ bil)				
Exports	76.3	62.2	59.1	62.5
Imports	68.9	58.7	55.8	59.0
Current account balance, % of GDP	-1.6	-2.1	-1.7	-1.6
International reserves ($ bil)	38.6	37.2	38.9	39.1
Total external debt ($ bil)	118	156	161	163
% of GDP	46	65	68	64
% of exports	123	196	212	206

pensions to workers, and mass demonstrations have been held over the past two years calling for a nationalization of the system.

Under the Chilean system, a pensioner's average benefit is 45% of pre-retirement income, well below the 61% average in the OECD countries. Employers make no contributions. The problem, according to pension specialists at the OECD, is that contributions to the system are too small. The 10% employee contribution in Chile is just half the OECD average. Mr. Piñera 's campaign platform proposed more support for the poorest pensioners, but also advocated a gradual increase in employee contributions.

Mr. Piñera inherited an economy on the mend. Remarkably, given that copper accounts for over half of Chile's exports, the country managed to avoid recession after copper prices fell during 2014-16, though growth slowed markedly. With rising trade volumes and copper prices off their lows the consensus expects Chile's GDP to grow by 3.1% this year. The central bank has been on hold since May, but will move into tightening mode if Chile's growth puts upward pressure on prices.

LEGAL ENVIRONMENT

Government sends mixed signals on privacy. In March, President Bachelet submitted legislation to congress proposing to reform Chile's data protection laws to meet international standards. The reforms would require consent for use of personal data, limit automatic processing of data, limit international transfer of data and establish a data protection agency with the power to enforce security measures. A data protection council would have power to enforce the act. However, in August, the government issued a decree that would force telecommunications services to collect and retain more user data, including phone number, IP address, location and other identifying data for two years. The decree was strongly criticized by privacy. In November, the autonomous comptroller general's office ruled that the decree violated the constitution because the executive lacked authority to issue these regulations.

New labor laws take effect. In April, sweeping labor reforms introduced in 2016 took effect. The laws strengthen unions, bring more people into the scope of collective bargaining, limit the ability of businesses to extend benefits to all workers without union agreement, and severely limit businesses from replacing striking employees. In addition, the collective agreement with a union sets a minimum floor, and new employees cannot be offered wages or benefits less than those in the earlier contract.

Social reforms reflect changes in Chilean society. In August, Chile's congress approved a law expanding access to abortion when the mother's life is in danger, when the fetus is not viable or in cases of rape. The new law, upheld by the constitutional court, replaces an absolute prohibition on abortion dating from the Pinochet regime. Congress began consideration of laws allowing for same-sex marriage and adoption by same-sex couples, and to allow individuals to change their gender identity.

President Bachelet misses opportunity to push constitutional reforms. The push for reform of Chile's Pinochet-era constitution was announced by President Bachelet with great fanfare in 2016, and a complicated consultative process began. However, the end of President Bachelet's term sees little concrete progress on constitutional reform, and as her term ends, she sent no proposals to congress. Her successor, President-elect Piñera, while seeing the need for improvements, takes a more moderate and limited view of constitutional change.

Former military and police officials convicted for human rights abuses. Officials responsible for torture and extra-judicial killings during Chile's military regime continue to face prosecution. In March, the supreme court upheld convictions of 33 former officials, sentenced for killings of members of the Communist Party's armed wing in 1987. An appeals court in April likewise upheld convictions of 19 military and intelligence agents for the forced disappearances and torture of more than a dozen Communist leaders in 1976. Charges were brought against numerous other former officials, including against former army commander-in-chief Juan Emilio Cheyre, for killings and abuses committed during the military regime.

BUSINESS ENVIRONMENT

By nearly all accounts Chile is one of the more business-friendly countries in Latin America, but no ranking is available the World Bank's latest *Doing Business* report, which has its methodology for Chile under review. While Chile's rank in the World Economic Forum's global competitiveness index has ranged between 33 and 35 in the last five years, Chile's rank fell from a high of 34 under the administration of former President Piñera to as low as 57 during President Bachelet's two terms in office. Ms. Bachelet, suspecting bias on the part of the bank's staff, has requested an investigation. The World Bank's chief economist resigned after telling the *Wall Street Journal* that Chile's slide in the index was due to methodological changes that could have been politically motivated, though he later retracted his remarks.

PARAGUAY [=]

President Horacio Cartes' term in will end in August 2018. Progress on policy initiatives will be difficult as the April 2018 presidential and legislative elections draw near. He is expected to end his term without reaching his goals in attracting foreign investment and reforming the public sector. In the first quarter of 2017, Paraguay's economy expanded by 6.5% (y/y). Both supply and demand factors played a role. The growth in supply was generated by a revival in the *maquila* (assembly for export) industry, a successful soy harvest, and construction activity. Growth in demand was bolstered by private investment and consumption and public sector investment.

Paraguay: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	5.0	4.0	3.9	3.8
Consumer prices, % Dec/Dec	4.6	3.9	4.1	4.2
Current account balance, % of GDP	-0.4	1.8	0.0	-0.6
Total external debt ($ bil)	16.0	16.3	17.4	18.6
% of exports	123	138	141	148

No second term for President Cartes. After senate approval of a constitutional amendment lifting the ban on presidents running for re-election prompted rioting and the burning of Paraguay's congress, President Horacio Cartes publicly abandoned plans to change the constitution to allow him to run again.

Former President Lugo ineligible to run again. Impeached in 2012, Mr. Lugo serves as a senator. He announced his intent to run for president in 2018. In December, an appeals court found him ineligible to run under the constitution.

Paraguay cleared for beef exports to U.S.. In October, the U.S. Department of Agriculture approved Paraguay to export fresh or frozen beef to the U.S., noting its success in combating foot-and-mouth disease.

Paraguay's business climate ranking fell slightly. For the second year in a row Paraguay fell in the World Bank's latest ease of doing business ratings. It is now ranked 108 out of 190 countries, and 11th out of 20 countries in the region

URUGUAY [=]

Uruguay's economic growth picked up in 2017, with GDP estimated to have risen by 3.1% accompanied by a halt to the rise in unemployment. In November inflation was running at a 6.3% rate. It it has been decelerating and has fallen in the central bank's 3%-7% target range for the first time in seven years. This decline can be attributed to a relatively tight monetary policy and an appreciating exchange rate. The current account in 2017 was in surplus and is estimated to have been 1.5% of GDP. Tourism inflows rose as a result of increased competitiveness relative to Argentina, but Uruguay's overall export competitiveness has suffered as a result of inflation-related appreciation in its real effective exchange rate.

Uruguay: economic indicators	Avg. 2011-15	2016	2017e	2018f
Real GDP, % change	3.4	1.5	3.0	3.0
Consumer prices, % Dec/Dec	8.5	8.1	6.3	6.7
Current account balance, % of GDP	-4.1	1.5	1.5	0.9
Total external debt ($ bil)	24.0	27.9	28.2	30.1
% of exports	151	183	166	172

Congress approves femicide law. In April, congress adopted a new law increasing penalties for killings of women. Such a killing in the context of domestic violence would be considered an aggravating circumstance when a criminal defendant is sentenced.

New accountability law adopted. The new legislation, adopted in September, has significant tax provisions. The law sets new rules for taxing internet-based services, when some activity takes place in Uruguay. The law likewise places limits on the deductibility of software from corporate income tax.

Uruguay's business climate shows little change. Uruguay benefits from strong institutions and a tradition of political stability. It was ranked 94 in the World Bank's latest ease of doing business ratings, down from 90 in the previous survey, mostly because other nations improved their scores. In perceptions of corruption, it retained its 21st place position in Transparency International's rankings — the highest ranking in Latin America and just below Japan. In the World Economic Forum's Global Competitiveness index it ranks 76 — higher than its neighbors Argentina and Brazil.

TABLES

Table 1
GROSS DOMESTIC PRODUCT
Annual Growth Rates

	2008	2009	2010	2011	2012	2013	2014	Average '06-'14	2015	2016	2017e [1]	2018f [1]
NAFTA REGION												
Mexico	1.4	-4.7	5.2	3.9	4.0	1.4	2.2	2.4	2.6	2.3	2.1	2.2
ANDEAN SOUTH AMERICA												
Bolivia	6.1	3.4	4.1	5.2	5.1	6.8	5.5	5.1	4.9	3.6	4.0	3.9
Colombia	3.5	1.7	4.0	6.6	4.0	4.9	4.4	4.7	3.1	4.3	1.7	3.0
Ecuador	6.4	0.6	3.5	7.9	5.6	4.9	3.8	4.4	0.1	-1.6	2.1	1.6
Peru	9.1	1.1	8.3	6.3	6.1	5.9	2.4	6.1	3.3	3.9	2.6	3.7
Venezeula	5.3	-3.2	-1.5	4.2	5.6	1.3	-3.9	2.9	-5.7	-11.3	-10.2	-7.1
BRAZIL & SOUTHERN CONE												
Argentina	4.1	-5.9	10.1	6.0	-1.0	2.4	-2.5	3.4	2.6	-2.2	2.8	2.9
Brazil	5.1	-0.1	7.5	4.0	1.9	3.0	0.5	3.6	-3.5	-3.5	1.0	2.6
Chile	3.7	-1.0	5.8	5.8	5.5	4.0	1.9	3.9	2.3	1.6	1.5	3.1
Paraguay	6.4	-4.0	13.1	4.3	-1.2	14.0	4.7	5.3	3.0	4.0	3.9	3.8
Uruguay	7.2	4.2	7.8	5.2	3.5	4.6	3.2	5.1	0.4	1.5	3.0	3.0
CENTRAL AMERICA & THE CARIBBEAN												
Costa Rica	2.7	-1.0	5.0	4.5	4.8	2.3	3.5	4.3	3.6	4.5	3.6	3.6
Cuba	4.1	1.4	2.4	2.8	3.0	2.7	1.0	4.1	4.4	-0.9	1.0	1.4
Dominican Republic	3.2	0.9	8.3	3.1	2.8	4.7	7.6	5.5	7.0	6.6	4.5	4.3
El Salvador	1.3	-3.1	1.4	2.2	1.9	1.8	1.4	1.6	2.5	2.2	2.3	2.2
Guatemala	3.3	0.5	2.9	4.2	3.0	3.7	4.2	3.7	4.1	3.5	3.1	3.4
Haiti	0.8	3.1	-5.5	5.5	2.9	4.2	2.8	2.2	1.2	1.4	1.0	3.0
Honduras	4.2	-2.4	3.7	3.8	4.1	2.8	3.1	3.6	3.6	3.6	4.2	3.7
Nicaragua	2.9	-2.8	3.2	6.2	5.6	4.5	4.6	3.7	4.9	4.6	4.7	4.3
Panama	8.6	1.6	5.8	11.8	9.2	6.6	6.1	7.8	5.8	4.9	5.3	5.6

SOURCE:

Economic Commission for Latin America and the Caribbean, IMF

1 Consensus Economics, January 2018. Cuba's and Haiti's estimate and forecast is from the Economist Intelligence Unit.

Table 2
ANNUAL INFLATION
(Percent change in CPI, December through December)

	2008	2009	2010	2011	2012	2013	2014	Av. '07-'14	2015	2016	2017e [1]	2018f [1]
NAFTA REGION												
Mexico	6.5	3.6	4.4	1.9	3.6	4.0	4.1	4.0	2.1	3.4	6.8	4.0
ANDEAN SOUTH AMERICA												
Bolivia[3]	11.8	4.1	2.6	8.0	4.5	6.5	5.2	6.8	3.0	4.0	3.2	4.0
Colombia	7.7	2.0	3.2	3.1	2.4	1.9	3.7	3.7	6.8	5.7	4.1	3.3
Ecuador[3]	8.8	6.0	3.5	3.7	4.2	2.7	3.7	4.5	3.4	1.1	0.8	1.4
Peru	6.7	0.2	2.1	4.0	2.6	2.9	3.2	3.2	4.4	3.2	1.4	2.3
Venezeula	31.9	26.9	27.4	24.0	29.5	56.2	68.5	35.9	180.9	532.0	1662.0	3676.0
BRAZIL & SOUTHERN CONE												
Argentina	7.2	7.7	10.9	9.5	10.8	10.9	23.9	11.2	26.9	36.4	25.0	18.6
Brazil	5.9	4.3	5.9	5.4	5.8	5.9	6.4	5.5	10.7	6.3	2.9	4.1
Chile	7.1	-1.4	3.0	3.5	1.5	2.6	4.6	3.6	4.4	2.7	2.3	2.6
Paraguay[3]	7.5	2.7	4.6	8.3	3.6	2.7	5.0	5.0	3.1	3.9	4.1	4.2
Uruguay[3]	9.2	7.1	6.7	8.1	8.0	8.6	8.3	8.1	9.4	8.1	6.3	6.7
CENTRAL AMERICA & THE CARIBBEAN												
Costa Rica[3]	13.9	9.2	4.2	4.1	4.6	3.7	5.1	7.0	-0.8	0.8	2.1	3.1
Cuba [2]	n/a	2.2	4	5.3	6.5	7.3	7.6	5.5	4.2	4.7	7.3	5.3
Dominican Republic[3]	4.5	5.8	6.2	7.8	3.9	3.9	1.6	5.3	2.3	1.7	3.2	3.7
El Salvador[3]	5.5	2.3	-0.5	1.2	0.8	0.8	0.5	1.9	1.0	-0.9	1.3	2.0
Guatemala[3]	9.4	2.3	-0.5	1.2	3.4	4.4	2.9	4.0	3.1	4.2	4.5	4.3
Haiti	10.6	7.8	3.6	4.7	6.3	3.4	6.4	9.0	12.5	14.3	13.3	11.0
Honduras[3]	10.8	8.3	4.4	4.9	5.4	4.9	5.8	6.7	2.4	3.3	4.1	4.0
Nicaragua[3]	13.8	7.7	4.4	6.4	6.6	5.7	6.5	6.5	2.9	3.1	4.7	5.2
Panama[3]	6.8	3.9	3.3	4.0	4.6	3.7	2.6	4.4	0.3	1.5	1.2	1.9

SOURCE:

ECLAC 2017 Statistical Yearbook for Latin America and the Caribbean

1 2017 estimates and 2018 forecasts are from Consensus Economics, except for Cuba and Haiti, which are from the Economist Intelligence Unit.

2 Period averages.

3 IMF database.

Table 3
EXPORTS, IMPORTS, AND CURRENT ACCOUNT BALANCE
(Billions of Dollars)

	2013			2014			2015			2016			2017e			2018f		
	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account[2]	Exports	Imports	C/Account[2]
NAFTA REGION																		
Mexico	400.9	412.8	-31.0	418.8	433.9	-22.5	403.9	428.2	-28.2	398.8	420.8	-22.4	431.7	454.3	-20.1	458.2	481.0	-23.0
ANDEAN SOUTH AMERICA																		
Bolivia	12.8	11.0	1.1	14.0	12.9	0.6	9.9	11.8	-1.9	8.2	10.6	-1.9	9.8	12.4	-1.9	10.7	13.6	-2.1
Colombia	67.2	69.8	-12.1	64.1	75.9	-19.6	45.7	64.2	-18.6	41.4	54.4	-12.2	45.0	60.6	-11.6	49.5	66.1	-11.2
Ecuador	27.6	29.6	-0.9	28.9	30.2	-0.5	21.4	23.9	-2.1	19.6	19.1	1.4	21.0	23.0	0.3	23.0	25.0	-0.1
Peru	48.1	50.0	-8.6	45.5	48.9	-8.9	40.7	45.6	-9.2	43.3	43.4	-5.3	49.5	47.2	-3.7	53.0	50.0	-4.5
Venezuela	91.0	76.4	4.6	76.9	64.7	3.6	38.5	50.7	-18.2	n/a	n/a	n/a	31.2	23.9	1.1	28.5	24.3	0.7
BRAZIL & SOUTHERN CONE																		
Argentina	90.6	89.6	-12.1	81.8	80.4	-8.7	70.0	76.2	-17.2	70.6	74.5	-14.9	74.7	90.8	-28.2	79.5	97.5	-31.7
Brazil	279.7	325.6	-74.8	264.1	318.8	-104.2	223.9	243.1	-59.4	217.8	203.2	-23.5	251.8	219.7	-13.3	252.5	238.4	-28.2
Chile	88.8	90.8	-10.3	85.8	83.0	-4.5	71.8	71.0	-4.7	70.1	68.0	-3.6	78.6	74.4	-3.3	85.1	80.3	-4.1
Paraguay	14.5	13.0	0.5	14.0	13.2	0.03	11.8	11.4	-0.3	12.0	10.9	0.5	12.3	11.9	0.0	12.6	12.5	-0.5
Uruguay	13.9	14.8	-2.9	13.7	14.5	-2.6	12.2	12.0	-1.1	11.4	10.7	-0.04	16.7	13.6	0.9	17.3	14.8	0.6
CENTRAL AMERICA & THE CARIBBEAN																		
Costa Rica	15.8	16.8	-2.4	16.6	17.4	-2.4	17.1	17.1	-2.1	18.9	18.2	-2.0	20.0	19.0	-2.0	21.0	20.0	-2.0
Cuba	18.6	15.6	1.9	17.2	n/a	1.9	18.6	12.5	1.8	18.3	11.5	2.1	13.9	12	3.0	12.0	13.0	2.0
Dominican Republic	15.9	19.6	-2.5	17.0	20.2	-2.2	17.0	20.1	-1.3	18.2	20.8	-1	20.0	22.9	-1.3	21.0	24.0	-1.3
El Salvador	6.4	11.1	-1.6	6.5	10.9	-1.2	6.7	10.9	-0.9	6.7	10.5	-0.5	7.1	11.2	-0.5	8.0	12.0	-0.6
Guatemala	12.7	19.2	-1.4	13.8	20.1	-1.2	13.6	19.5	-0.1	13.2	18.8	0.9	13.9	20.1	0.7	14.3	23.0	0.4
Haiti	1.6	4.4	-1.3	1.7	4.8	-0.7	1.7	4.5	-0.3	1.6	4.2	-0.07	1.6	4.7	-0.6	1.6	5.1	-0.6
Honduras	6.3	10.0	-1.8	9.3	12.7	-1.4	9.3	12.9	-1.1	9.0	12.4	-0.8	9.5	12.9	-0.6	10.3	13.4	-0.7
Nicaragua	4.7	6.9	-1.2	5.3	7.3	-0.8	5.1	7.4	-1.1	5.2	7.5	-1.1	5.9	7.7	-0.9	6.0	8.3	-1.0
Panama	29.8	31.5	-4.4	28.0	30.7	-6.7	27.3	27.0	-3.8	26.2	25.0	-3.2	29.1	26.3	-2.9	31.2	28.2	-2.9

SOURCE:

2017 Economic Survey of Latin America and the Caribbean

Exports and imports are of goods and services; current account is the balance of exports of goods, services, primary and secondary income, and the capital account.

[2] Consensus Economics, January 2018.

Table 4
TERMS OF TRADE

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 [1]
NAFTA REGION										
Mexico	104.6	92.9	100.0	106.8	102.9	102.8	97.6	93.3	89.0	88.9
ANDEAN SOUTH AMERICA										
Bolivia	99.0	95.2	100.0	118.1	112.3	94.5	79.9	59.9	53.1	58.6
Colombia	91.3	86.1	100.0	114.8	108.4	100.6	91.6	69.1	68.7	75.1
Ecuador	103.7	86.7	100.0	112.4	112.1	113.2	112.7	83.8	81.6	87.9
Peru	84.6	82.6	100.0	107.2	104.4	99.0	93.6	87.8	87.1	91.4
Venezeula	115.5	84.1	100.0	120.2	121.4	118.9	111.8	63.3	52.3	n/a
BRAZIL & SOUTHERN CONE										
Argentina	96.4	97.2	100.0	110.9	115.7	108.1	105.4	100.8	107.3	106.3
Brazil	88.5	86.2	100.0	107.8	101.5	99.4	96.1	85.5	88.1	94.1
Chile	78.4	82.0	100.0	101.3	94.8	91.9	89.9	86.0	87.9	94.1
Paraguay	102.3	100.0	100.0	102.4	103.4	102.8	103.3	98.9	96.9	94.7
Uruguay	94.1	100.5	100.0	102.4	106.3	108.1	112.3	114.5	120.8	118.9
CENTRAL AMERICA & THE CARIBBEAN										
Costa Rica	100.8	104.1	100.0	96.3	95.8	96.1	97.0	98.0	96.7	99.5
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	96.0	103.8	100.0	94.7	93.8	91.5	97.7	105.4	105.3	103.6
El Salvador	107.1	105.1	100.0	100.8	97.1	96.5	101.2	109.5	111.3	108.0
Guatemala	92.6	100.5	100.0	99.1	93.7	91.8	92.3	89.3	92.3	91.2
Haiti	79.9	103.4	100.0	83.0	86.0	80.6	83.1	88.2	86.0	83.9
Honduras	91.1	97.3	100.0	108.4	94.6	88.6	90.4	87.2	87.3	86.8
Nicaragua	90.9	97.9	100.0	106.6	106.7	98.4	100.3	113.7	115.4	113.3
Panama	97.3	101.9	100.0	97.8	98.2	97.7	99.7	97.0	94.3	93.3

SOURCE:

2017 Economic Survey of Latin America and the Caribbean

1 2017 Preliminary Overview of the Economics of Latin America and the Caribbean estimates

Table 5
NET FOREIGN DIRECT INVESTMENT
(Billions of Dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016
NAFTA REGION									
Mexico	28.2	8.5	12.1	11.9	-1.8	34.9	20.8	22.6	28.5
ANDEAN SOUTH AMERICA									
Bolivia	0.5	0.4	0.7	0.9	1.1	1.8	0.7	0.6	0.4
Colombia	7.4	4.5	0.9	6.2	15.6	8.6	12.3	7.5	9.2
Ecuador	1.1	0.3	0.2	0.6	0.6	0.7	0.8	1.3	0.7
Peru	6.2	6.0	8.2	7.2	11.7	9.7	3.6	8.1	6.6
Venezeula	1.3	-3.6	-0.9	6.1	1.7	1.9	-0.7	2.6	n/a
BRAZIL & SOUTHERN CONE									
Argentina	8.3	3.3	10.4	9.4	14.3	8.9	3.1	10.9	2.4
Brazil	24.6	36.0	61.7	85.1	81.4	54.2	70.9	61.1	71.1
Chile	9.5	6.7	6.7	4.1	10.0	11.2	11.2	3.7	5.1
Paraguay	0.3	0.1	0.5	0.6	0.7	0.3	0.4	0.3	0.3
Uruguay	2.1	1.5	2.3	2.5	2.5	3.0	2.1	1.6	0.9
CENTRAL AMERICA & THE CARIBBEAN									
Costa Rica	2.2	1.3	1.6	2.3	1.8	2.4	2.8	2.8	2.6
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	2.9	2.2	2.0	2.3	3.1	2.0	2.2	2.2	2.4
El Salvador	0.8	0.4	-0.2	0.2	0.5	0.2	0.3	0.4	0.4
Guatemala	0.7	0.6	0.8	1.0	1.2	1.3	1.3	1.1	1.1
Haiti	0.0	0.1	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Honduras	1.0	0.5	1.0	1.0	0.9	1.0	1.3	1.1	0.8
Nicaragua	0.6	0.5	0.5	0.9	0.7	0.7	0.8	0.9	0.9
Panama	2.2	1.3	2.4	3.0	3.3	3.6	4.1	4.0	5.0

SOURCE:

2017 Economic Survey of Latin America and the Caribbean

Table 6
TOTAL GROSS EXTERNAL DEBT [1]
(Millions of Dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017e [3]	2018f [3]
NAFTA REGION										
Mexico	193.0	246.0	292.0	349.0	406.0	442.0	426.0	422.7	449.0	478.6
ANDEAN SOUTH AMERICA										
Bolivia	5.8	5.8	6.1	6.6	8.1	8.8	9.8	10.6	13.3	17.4
Colombia	53.3	64.1	73.8	76.8	89.7	101.4	111.0	120.0	125.0	130.0
Ecuador	13.0	15.0	16.9	17.1	19.1	24.4	27.3	34.1	41.0	43.0
Peru	37.4	42.2	45.0	54.1	56.8	61.3	65.9	70.0	71.0	73.0
Venezeula	84.6	101.8	118.2	130.6	132.3	135.7	123.7	113.0	102.0	95.0
BRAZIL & SOUTHERN CONE										
Argentina	133.7	126.6	139.5	136.5	146.6	145.0	173.0	190.0	212.0	226.0
Brazil	281.7	352.4	404.0	440.5	483.8	556.9	543.4	543.0	560.0	586.0
Chile	72.6	85.0	99.3	120.4	134.6	152.0	158.0	164.0	179.0	190.0
Paraguay	13.9	15.9	15.6	16.0	15.7	16.5	16.2	16.3	17.4	18.6
Uruguay	18.0	18.4	18.3	24.0	24.3	26.2	27.3	27.9	28.2	30.1
CENTRAL AMERICA & THE CARIBBEAN										
Costa Rica	7.8	8.2	10.3	14.3	17.1	19.6	23.7	25.6	26.0	26.9
Cuba	27.0	29.0	30.0	29.0	29.0	30.0	30.0	30.0	29.0	29.0
Dominican Republic [2]	11.9	13.5	15.1	22.1	24.0	26.3	26.6	28.0	29.3	31.7
El Salvador	10.4	11.1	12.0	13.0	13.5	14.5	14.9	15.4	15.7	15.5
Guatemala	14.8	15.0	16.2	15.1	17.3	19.3	20.2	20.2	21.2	22.6
Haiti [2]	1.4	1.0	0.8	1.2	1.6	1.9	2.1	2.2	2.7	3.0
Honduras	3.8	4.0	4.4	5.1	6.8	7.3	7.6	7.6	8.6	9.0
Nicaragua [2]	5.9	7.0	7.9	9.0	9.7	10.1	10.5	10.7	11.2	11.9
Panama [2]	45.6	48.9	57.1	61.4	68.3	78.0	88.6	89.5	91.4	96.4

SOURCE:

2017 Economic Survey of Latin America and the Caribbean

1 Includes debt owed to the International Monetary Fund.

2 Refers to external public debt.

3 University of Florida forecasts

Table 7
TOTAL GROSS EXTERNAL DEBT TO EXPORTS
(in percentage)

	2010	2011	2012	2013	2014	2015	2016	2017e [1]	2018f [1]
NAFTA									
Mexico	75.8	77.7	87.3	99.3	102.8	103.4	103.6	101.7	109.9
ANDEAN SOUTH AMERICA									
Bolivia	79.7	64.6	53.0	62.1	62.3	98.3	127.4	133.4	161.1
Colombia	127.4	106.8	106.3	124.5	148.3	220.2	253.2	241.8	235.5
Ecuador	67.9	61.5	59.0	63.7	78.1	116.2	174.4	193.7	185.4
Peru	107.8	102.2	103.7	119.3	133.2	151.3	148.7	132.7	128.1
Venezeula	151.9	125.8	132.5	147.4	177.0	328.9	405.5	316.8	333.3
BRAZIL & SOUTHERN CONE									
Argentina	150.5	137.5	140.1	157.6	171.2	236.8	259.3	269.4	270.7
Brazil	140.7	127.9	152.0	165.8	201.2	230.4	234.0	212.8	222.4
Chile	95.5	97.8	122.4	138.4	163.8	203.1	218.4	214.1	208.6
Paraguay	142.8	116.8	129.8	109.3	119.5	139.1	138.5	140.8	147.6
Uruguay	165.0	136.5	173.2	132.4	141.2	172.3	183.0	166.4	171.9
CENTRAL AMERICA & THE CARIBBEAN									
Costa Rica	63.7	71.4	92.7	106.6	116.3	138.1	137.1	128.0	126.2
Cuba	184.1	165.1	145.7	156.2	165.3	205.9	222.2	208.6	241.7
Dominican Republic	100.1	101.3	141.0	144.6	149.6	152.3	149.6	143.1	147.6
El Salvador	218.7	204.6	212.5	209.7	219.6	217.6	226.7	217.3	192.0
Guatemala	135.1	123.5	116.5	130.8	134.1	142.6	145.4	145.5	150.8
Haiti	91.2	56.8	82.5	96.7	112.5	115.2	130.5	161.5	174.7
Honduras	80.1	69.7	75.1	108.3	78.4	81.2	83.7	89.6	86.4
Nicaragua	207.3	189.1	188.0	207.6	188.1	202.6	205.6	188.8	195.9
Panama	236.1	208.2	201.5	228.9	275.5	317.7	332.2	315.6	311.1

SOURCE:

Calculated by Total External Debt (US$ mil)/ ((Merchandise Trade Balance Exports + Services Exports + Net Transfers for Services)/1000)*100

1 University of Florida forecasts

Table 8
TOTAL EXTERNAL DEBT AS PERCENTAGE OF GDP

	2008 [3]	2009	2010	2011	2012	2013	2014	2015	2016	2017e [4]	2018f [4]
NAFTA REGION											
Mexico	11.8	21.4	23.2	24.6	29.0	31.8	33.6	36.3	28.7	28.7	29.7
ANDEAN SOUTH AMERICA											
Bolivia	35.6	33.5	29.4	25.4	24.4	26.7	26.6	29.8	31.4	36.6	44.8
Colombia	19.0	22.9	22.3	22.0	20.8	23.6	26.8	38.0	42.6	40.0	39.1
Ecuador	27.4	20.8	21.6	21.3	19.5	20.1	25.7	27.0	34.2	40.2	41.5
Peru	29.0	34.9	30.5	31.5	29.5	30.5	32.6	34.6	35.6	36.2	40.8
Venezeula	16.9	25.7	25.8	37.3	34.2	35.6	32.9	26.0	19.9	21.7	32.4
BRAZIL & SOUTHERN CONE											
Argentina	30.5	39.7	29.3	26.7	23.5	24.3	26.4	26.9	36.1	37.6	39.5
Brazil	12.0	16.9	16.0	15.5	17.9	19.6	23.0	30.6	31.5	28.5	28.3
Chile	35.8	42.2	39.1	39.6	45.4	48.6	58.8	65.8	67.4	66.1	64.9
Paraguay	16.9	87.6	79.5	62.0	65.2	54.2	53.4	58.1	59.9	59.1	59.0
Uruguay	50.8	56.8	45.7	38.1	46.8	42.3	45.8	51.1	52.5	47.2	47.2
CENTRAL AMERICA & THE CARIBBEAN											
Costa Rica	30.5	25.0	21.9	24.3	30.8	34.5	38.5	43.0	44.6	44.1	42.0
Cuba [2]	19.1	40.3	42.0	42.9	39.7	37.6	37.2	34.4	33.4	30.2	27.8
Dominican Republic [1]	50.0	24.6	25.1	26.2	36.5	38.6	40.3	39.1	39.1	39.2	39.6
El Salvador	46.6	50.1	51.7	51.9	54.8	55.5	57.9	57.5	58.2	57.9	56.0
Guatemala	28.5	39.3	36.4	34.1	30.0	32.0	32.9	31.6	29.4	28.0	27.6
Haiti [1]	29.9	22.3	14.3	10.4	14.8	18.6	22.4	24.9	28.8	31.1	30.4
Honduras	25.0	26.1	25.2	24.8	27.9	37.3	38.6	37.6	35.5	38.0	37.4
Nicaragua	41.4	70.0	80.5	80.9	86.1	89.0	85.6	82.7	81.1	81.1	81.8
Panama [1]	34.1	171.5	169.0	166.0	153.7	152.4	158.7	170.1	162.1	155.4	152.3

SOURCE:

ECLAC 2017 Statistical Yearbook for Latin America and the Caribbean, ECLAC 2015 Statistical Yearbook for Latin America and the Caribbean

1 Refers to external public debt.

2 Public external debt. From 2004 on, refers only to active external debt, excludes other external debt.

3 ECLAC 2015 Statistical Yearbook for Latin America and the Caribbean

4 University of Florida forecasts

Table 9
FISCAL BALANCE
(as percentage of GDP)

	Primary Balance						Overall Balance					
	2012 [1]	21032	2014	2015	2016	2017	2012 [1]	2013	2014	2015	2016	2017
NAFTA												
Mexico	-0.7	-0.5	-1.2	-1.3	-0.3	1.4	-2.6	-2.3	-3.2	-3.4	-2.6	-1.3
ANDEAN SOUTH AMERICA												
Bolivia[3]	2.7	2.0	-1.7	-3.6	-2.4	n/a	1.8	1.4	-2.5	-4.5	-3.0	n/a
Colombia	0.1	-0.1	-0.4	-0.8	-1.6	-0.6	-2.3	-2.3	-2.4	-3.0	-4.0	-3.6
Ecuador	-0.1	-4.5	-4.9	-2.0	-3.6	-2.4	-2.0	-5.7	-6.3	-3.8	-5.6	-4.7
Peru[3]	2.4	1.8	0.8	-1.1	-1.3	-1.7	1.3	0.7	-0.3	-2.2	-2.4	-2.9
Venezeula	-2.2	1.1	1.1	-0.2	n/a	n/a	-4.9	-2.0	-1.9	-1.4	n/a	n/a
BRAZIL & SOUTHERN CONE												
Argentina	0.0	-1.3	-2.3	-1.9	-2.2	-2.5	-1.8	-2.5	-4.2	-3.7	-5.9	-5.5
Brazil	1.9	1.4	-0.3	-1.9	-2.5	-2.2	-1.8	-2.6	-5.0	-9.0	-7.6	-7.8
Chile	1.2	0.0	-1.0	-1.5	-2.0	-1.9	0.6	-0.6	-1.6	-2.1	-2.7	-2.7
Paraguay	-1.4	-1.4	-0.7	-1.1	-0.7	-0.9	-1.7	-1.7	-1.1	-1.8	-1.4	-1.5
Uruguay	0.4	0.9	0.0	-0.5	-1.0	-0.1	-1.9	-1.5	-2.3	-2.8	-3.7	-2.8
CENTRAL AMERICA & THE CARIBBEAN												
Costa Rica	-2.3	-2.8	-3.0	-3.0	-2.4	-2.9	-4.4	-5.4	-5.6	-5.7	-5.2	-6.1
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	6.7	1.9	0.6	-0.5	n/a	n/a
Dominican Republic	-2.8	-0.4	-0.1	0.3	0.5	0.8	-5.2	-2.7	-2.6	-2.4	-2.4	-2.4
El Salvador	0.5	0.6	0.8	1.3	1.7	1.9	-1.7	-1.8	-1.6	-1.1	-0.8	-0.9
Guatemala	-0.9	-0.6	-0.4	0.1	0.4	-0.5	-2.4	-2.1	-1.9	-1.4	-1.1	-1.9
Haiti	2.0	-1.0	-0.5	0.3	0.8		1.7	-1.4	-0.9	0.1	0.6	n/a
Honduras	-4.3	-5.8	-2.1	-0.6	-0.4	-0.5	-6.0	-7.9	-4.4	-3.0	-2.9	-3.6
Nicaragua	1.5	1.0	0.6	0.3	0.4	0.1	0.5	0.1	-0.3	-0.6	-0.6	-0.9
Panama	-0.7	-1.9	-2.3	-2.1	-2.5	-2.4	-2.6	-3.8	-4.0	-3.9	-4.3	-4.5

SOURCE:

2017 Preliminary Overview of the Economics of Latin America and the Caribbean

1 ECLAC 2016 Figures

2 ECLAC 2017 Figures

3 General government

Table 10
CURRENCY & EXCHANGE RATES

	Currency [1]	Exchange Regime [2]		Dollar Exchange Rates [3]		
		Exchange Rate Arrangement	Exchange Rate Anchor	Dec. 2016	Dec. 2017	% Change
NAFTA REGION						
Mexico	Peso	Free floating	Inflation-targeting framework	20.73	19.57	5.93%
ANDEAN SOUTH AMERICA						
Bolivia	Boliviano	Stabilized arrangement	Mon etary aggregate target	6.93	6.91	0.29%
Colombia	Peso	Floating	Inflation-targeting framework	3002.00	2985.00	0.57%
Ecuador	US Dollar	No separate legal tender	U.S. Dollar	USD	USD	USD
Peru	Sol	Floating	Inflation-targeting framework	3.36	3.70	-9.19%
Venezeula	Bolívar	Conventional Peg	U.S. Dollar	675.20	38798	-98.26%
BRAZIL & SOUTHERN CONE						
Argentina	Peso	Floating	Other	16.67	18.83	-11.47%
Brazil	Real	Floating	Inflation-targeting framework	3.26	3.32	-1.72%
Chile	Peso	Free floating	Inflation-targeting framework	667.1	615.0	8.47%
Paraguay	Guaraní	Floating	Inflation-targeting framework	5737.50	5590.00	2.64%
Uruguay	Peso	Floating	Inflation-targeting framework	29.18	28.77	1.43%
CENTRAL AMERICA & THE CARIBBEAN						
Costa Rica	Colón	Stabilized arrangement	Other	553.17	569.40	-2.85%
Cuba	Cuban Peso/Convertible Peso	Dual exchange rate	U.S. Dollar	24.00	24.00	0
Dominican Republic	Peso	Crawl-like arrangement	Inflation-targeting framework	46.66	48.4	-3.60%
El Salvador	US Dollar	No separate legal tender	U.S. Dollar	USD	USD	USD
Guatemala	Quetzal	Floating	Inflation-targeting framework	7.52	7.35	2.38%
Haiti	Gourde	Crawl-like arrangement	Other	67.40	63.30	6.48%
Honduras	Lempira	Crawling peg	U.S. Dollar	23.49	23.59	-0.42%
Nicaragua	Córdoba	Crawling peg	U.S. Dollar	29.32	30.78	-4.74%
Panama	Balboa	No separate legal tender	U.S. Dollar	USD	USD	USD

SOURCE:

1 The Economist Intelligence Unit: http://www.eiu.com/default.aspx

2 IMF 2016 Annual Report on Exchange Arrangements and Exchange Restrictions

3 January 2018 Latin American Consensus Forecasts

Table 11
COUNTRY RISK AND IMF RELATIONS

	Country Risk [1]			Sovereign Spreads [1]		IMF Relations [2]
	Moody's	S&P	Fitch	December '16	December '17	Summary of IMF comments:
NAFTA REGION						
Mexico	A3	BBB+	BBB+	135	125	Economy resilient in challenging external environment.
ANDEAN SOUTH AMERICA						
Bolivia	Ba3	BB	BB-	120	141	Low commodity prices warrant a rebalancing of policies.
Colombia	Baa2	BBB-	BBB	158	119	Favorable outlook underpinned by peace agreement.
Ecuador	B3	B-	B	627	489	Improving competitiveness is key to sustaining growth.
Peru	A3	BBB+	BBB+	90	63	Steadfast implementation of sound policies and reforms.
Venezeula	Caa3	SD	RD	2079	3950	No consultation since 2004
BRAZIL & SOUTHERN CONE						
Argentina	B2	B+	B			Policy changes have put economy on a sounder footing.
Brazil	Ba2	BB-	BB	297	229	Rise in political uncertainty casts shadow on outlook.
Chile	Aa3	A+	A	75	51	Fundamentals and policy framework remain strong.
Paraguay	Ba1	BB	BB	222	151	Expansion needs to be broader and more inclusive.
Uruguay	Baa2	BBB	BBB-	186	101	Growth has picked up and unemployment has stabilized.
CENTRAL AMERICA & THE CARIBBEAN						
Costa Rica	Ba2	BB-	BB	363	393	Output gap has been closed.
Cuba	Caa2	NR	NR	n/a	n/a	Cuba withdrew from IMF membership in 1964.
Dominican Republic	Ba3	BB-	BB-	428	295	Outlook is favorable as growth approaches full potential.
El Salvador	Caa1	CCC+	B-	483	361	Low investment is behind low growth.
Guatemala	Ba1	BB-	BB	246	194	Macroeconomic performance has been solid.
Haiti	NR	NR	NR	n/a	n/a	Completed 6-month Staff-Monitored Program in December.
Honduras	B1	BB-	NR	258	283	Encouraging strength in the economy, advances in security.
Nicaragua	B2	B+	B+	n/a	n/a	Fiscal stance is broadly adequate, but buffers are needed.
Panama	Baa2	BBB	BBB	154	90	Economy is among the most dynamic in the region.

SOURCE:

1 Bloomberg

2 IMF Country Pages: Under Article IV of the IMF's Articles of Agreement the IMF holds bilateral discussions with members, visits the country, usually every year.
A staff team economic and financial information, and discusses country's economic developments and policies with officials and the IMF Executive Board.

Table 12
SOCIAL ENVIRONMENT

	Population[1] (Millions)	Avg. Pop. Growth [1] %	Literacy Rate [1] (% age 15+)	GDP Per Capita [2] (PPP $US)	GDP (P/C) Growth % [3]	Income Inequality [4] (GINI Index)	HDI (World Rank) [5] 2016	Population in Poverty [6] %	Unemployment Rate 2016 [7] %	Internet Penetration [8]
NAFTA REGION										
Mexico	124.6	1.12	94.5	17,877	1.0	51.8	77	11.7	4.3	57.4
ANDEAN SOUTH AMERICA										
Bolivia	11.1	1.51	92.5	7,248	2.7	47.3	118	14	4.0	39.7
Colombia	47.7	0.99	94.2	14,181	1.1	52.5	95	14.5	9.2	58.1
Ecuador	16.3	1.28	94.4	11,264	-2.9	47.6	89	9.3	5.2	54.1
Peru	31	0.95	94.2	13,044	2.6	44.7	87	9.2	6.7	45.5
Venezuela	31.3	1.24	97.1	n/a	n/a	40.5	71	n/a	21.2	60
BRAZIL & SOUTHERN CONE										
Argentina	44.3	0.91	98.1	19,979	-3.2	42.1	45	5.4	8.5	70.2
Brazil	207.4	0.73	92.6	15,153	-4.4	51.7	79	7.8	11.3	59.7
Chile	17.8	0.77	97.5	23,960	0.5	48.2	38	2	6.5	66
Paraguay	6.9	1.18	95.1	9,586	2.8	49.3	110	9	5.1	51.3
Uruguay	3.4	0.27	98.5	21,662	1.1	42.6	54	2	7.9	66.4
CENTRAL AMERICA & THE CARIBBEAN										
Costa Rica	4.9	1.16	97.8	16,642	3.3	50.6	66	4.6	8.2	66
Cuba	11.1	-0.29	99.8	(2013) 6789	-0.9	n/a	68	n/a	n/a	38.8
Dominican Republic	10.7	1.18	91.8	15,235	5.4	47.7	99	10.3	5.5	61.3
El Salvador	6.2	0.25	88.0	8,634	1.9	42.6	117	12.3	7.0	29
Guatemala	15.5	1.75	81.5	7,960	1.1	50.6	125	36.9	n/a	34.5
Haiti	10.6	1.34	60.7	1,787	0.1	n/a	163	n/a	n/a	12.2
Honduras	9	1.6	89	4,746	2.2	52.5	130	36.2	4.0	30
Nicaragua	6.0	0.98	82.8	5,551	3.6	51.5	124	20.3	5.9	24.6
Panama	3.8	1.27	95.0	23,053	3.2	50.2	60	10.2	5.5	54
Puerto Rico	3.4	-1.74	93.3	38,393	n/a	n/a	n/a	n/a	11.8	80.3

SOURCE & NOTES

1 The CIA World Factbook, February 2018: For Literacy Rate, Data refer to percentage of population aged 15 or older who can, with understanding, both read and write a short simple statement on their everyday life

2 World Bank: GDP per capita (Purchasing Power Parity in $U.S.). 1 PPP dollar has the same purchasing power in the domestic economy as 1 U.S. dollar has in the U.S. economy.

3 CEPAL, Economic Survey of Latin American & the Caribbean 2017.

4 IMF Regional Economic Outlook, April 2017: The Gini index measures inequality over the entire distribution of income or consumption. A value of 0 represents perfect equality, and a value of 100 perfect inequality

5 UNDP, Human Development Report 2016:The Human Development Index (HDI) measures a country's achievements in three aspects of human development: longevity (life expectancy at birth), knowledge (combination of literacy rate and enrollment ratio), and a decent standard of living (GDP per capita - PPP in $U.S.). HDI rank is based on a total of 169 countries.

6 IMF Regional Outlook, April 2017.

7 IMF Regional Outlook, April 2017.

8 CIA World Factbook, February 2018: Data refer to number of users who access the internet.

Table 13
POLITICAL ENVIRONMENT

	Level of Democratic Consolidation				Current Government [4]		
	Election Inaugurating Democracy	Unscheduled Head of State Change	Political Rights [2]	Civil Liberties [3]	President/ PM	Term	Control of Legislature
NAFTA							
Mexico	2000		3	3	Peña Nieto	2012-2018	Govt. Coalition
ANDEAN SOUTH AMERICA							
Bolivia	1980 [1]	7	3	3	Morales	2014-2019	Government
Colombia	1958 [1]		3	3	Santos	2014-2018	Govt. Coalition
Ecuador	1978 [1]	8	3	4	Moreno	2013-2017	Govt. Coalition
Peru	1980 [1]	1	2	3	Kuczynski	2016-2021	Opposition
Venezuela	1958	6	6	5	Maduro	2013-2019	Gpvernment
BRAZIL & SOUTHERN CONE							
Argentina	1983 [1]	4	2	2	Macri	2015-2019	Opposition
Brazil	1989	2	2	2	Temer	2016-2019	Govt. Coalition
Chile	1989		1	1	Bachelet	2013-2017	Govt. Coalition
Paraguay	1993		3	3	Cartes	2013-2018	Govt. Coalition
Uruguay	1985		1	1	Vázquez	2014-2019	Government
CENTRAL AMERICA & THE CARIBBEAN							
Costa Rica	1949		1	1	Solís	2014-2018	Opposition
Cuba	n/a		7	6	Castro	2013-2018	Government
Dominican Republic	1963	1	3	3	Medina	2016-2020	Government
El Salvador	1984		2	3	Sánchez Cerén	2014-2019	Shifting Alliances
Guatemala	1985 [1]	1	4	4	Morales	2015-2019	Opposition
Haiti	1986 [1]	6	5	5	Moise		
Honduras	1982	1	4	4	Hernández	2013-2017	Govt. Coalition
Nicaragua	1984		5	4	Ortega	2016-2021	Government
Panama	1994		2	2	Varela	2014-2019	Govt. Coalition

SOURCE & NOTES

1 Interrupted democracies

2 Freedom in the World 2015: https://freedomhouse.org/report/freedom-world/freedom-world-2015#.Vi5J5n6rTIU Freedom House definition: Those rights that enable people to participate freely in the political process. On this scale 1 represents the most free and 7 the least free

3. Freedom in the World 2015: https://freedomhouse.org/report/freedom-world/freedom-world-2015#.Vi5J5n6rTIU Freedom House definition: Freedoms to develop views, institutions and personal autonomy apart from the state. On this scale 1 represents the most free and 7 the least free.

4 CIA Factbook

Table 14
LEGAL ENVIRONMENT

	Rule of Law[1]	Lack of Confidence in Judiciary[7]	Corruption Perception[2]	Economic Freedom[3]	Property Rights[4]	Global Competitiveness[5]	Crime Victimization[6]
	Rank 2017	2011-2015	Rank 2017	Rank 2017	Percentile Rank	Rank	% Yes
NAFTA							
United States (for comparison)	92↑	35	16↑	17↓	81↑	2↑	14
Mexico	33↓	74	135↓	70↑	58↑	51	31
ANDEAN SOUTH AMERICA							
Bolivia	10↓	68	112↑	168↓	26↑	n/a	29
Colombia	41↓	69	96↓	37↓	64↑	66↓	25
Ecuador	27↑	48	120↓	160↓	39↑	97↓	31
Peru	34↓	70	117↓	43↑	58↑	72↓	33
Venezuela	0.5	77	169↓	179↓	7↑	127↑	41
BRAZIL & SOUTHERN CONE							
Argentina	40↑	72	85↑	156↑	32↑	92↑	26
Brazil	52↑	90	96↓	140↓	55↑	80↑	24
Chile	85↓	79	26↓	10↓	68↓	33	22
Paraguay	29	75	135↓	80↑	38↑	112↑	24
Uruguay	74↓	65	23↓	38↑	70	76↓	24
CENTRAL AMERICA & THE CARIBBEAN							
Costa Rica	67↓	59	38↑	63↓	52↑	47↑	22
Cuba	35↑	n/a	62↓	178↓	32↑	n/a	n/a
Dominican Republic	45↓	52	135↓	76↑	56↑	104↓	26
El Salvador	26↓	60	95↓	66↓	45↑	109↓	23
Guatemala	15	56	112↓	75↑	45↑	84↓	24
Haiti	16↑	61	157↑	159↓	13↑	128	22
Honduras	12↓	52	135↓	100↑	45↑	96↓	22
Nicaragua	30↑	45	151↓	98↑	31↑	93↑	18
Panama	56↑	55	96↓	54↑	61↑	50↓	16
ASIA							
China (for comparison)	46↑	n/a	77↑	111↑	48↑	27↑	n/a

SOURCE & NOTES

↑↓ Up or down indicate, respectively, an improvement or a worsening of the environment from that reported in the 2016 *LABER*. The absence of an arrow indicates "no change" from the previous year.

1 As measured by the World Bank's Governance Indicators: 1966-2016 <www.worldbank.org>. The percentages measure the extent to which agents have confidence in and abide by the rules of society, including perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts

2 As measured by Transparency International, Corruption Perceptions Index 2017 <www.transparency.org>. Focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The scores used in the index range from 10 (country perceived as virtually corruption-free) to almost 0 (country perceived as almost totally corrupt). The country ranks measure the corruption level in 180 countries as perceived by business people, risk analysts, investigative journalists and the general public.

3 As measured by the Heritage Foundation's 2017 *Index of Economic Freedom*. Scores are based on a 1 to 100 scale, 1 being an economic environment that is least conducive to economic freedom, 100 being the most conducive. Countries are also ranked in order of economic freedom, 1 being the most free.

4 As measured by the Heritage Foundation's 2017 *Index of Economic Freedom*. The percentages measure the degree to which a country's laws protect private property rights and the degree to which its government enforces those laws. l00% indicates that private property is guaranteed by the government, 0% indicates that private property is outlawed.

5 As measured by the *Global Competitiveness Report 2016-2017*, produced by the World Economic Forum <http://www.weforum.or/reports>. This ranking is based on a total of 142 countries and is determined by measuring 12 pillars of competitiveness, including: Institutions, Infrastructure, Health & Primary Education, Higher Education, Good Market Efficiency, Labor Market Efficiency, Financial Market Development, Technological Readiness, Market Size, Business Sophistication, and Innovation.

6 AmericasBarometer, LAPOP, 2017. The number reflects the percentage of respondents who have themselves been victims of crime in the last year.

7 AmericasBarometer, LAPOP, 2017. The number reflects percentage of those expressing little or no conidence in the judiciary to punish the guilty party if they were victims of a robbery or assault.

Table 15
BUSINESS ENVIRONMENT

	Days Required to[1]				Paying Taxes[2]			Intellectual Property[3]	
	Start a Business[a]	Register Property[b]	Enforce Contracts[c]	Trade Across Borders[d]	Number of Payments[a]	Hours Required[b]	Tax Rate (% Profit)[c]	Unlicensed Software Use[a]	Commercial Value of Unlicensed Software[b]
NAFTA									
United States (for comparison)	6	15	420	3	11	175	44	17	9,095
Mexico	8	39↑	341	29↓	6	241↑	52	52	980
ANDEAN SOUTH AMERICA									
Bolivia	45	90	591	192↑	42	1,025	84	79	98
Colombia	11↓	15↑	1,288	172↑	12	239	70	50	281
Ecuador	49	38	523↑	120	10↓	666↓	33	68	137
Peru	27↓	8↓	426	96	9	260	36	63	210
Venezuela	230↓	52	720↓	806↓	70	792	65	88	402
BRAZIL & SOUTHERN CONE									
Argentina	24↑	52	995↓	51↓	9	312↑	106	69	554
Brazil	80	31	731	61↑	10	1958↑	68	47	1,770
Chile	6	29	480	84	7	291	33↓	57	296
Paraguay	35	46	606	144	20	378	35	84	89
Uruguay	7↓	66	725	144	20	190↑	42	68	57
CENTRAL AMERICA & CARIBBEAN									
Costa Rica	23	11↑	852	44	10	151	58	59	90
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	17↓	45	590↓	26	7	317	49↓	76	84
El Salvador	17↓	31	786	39↑	7↑	180↑	36↑	81	63
Guatemala	27↓	24	1,402	84	8	248↑	35	79	169
Haiti	97	312	530	50	47	184	43↓	n/a	n/a
Honduras	13	29↓	920	136	48	224↓	44↓	75	36
Nicaragua	14↓	56	490↓	108	43↓	201	60↑	82	23
Panama	6	23	790↓	30	52	417	37	72	117
Puerto Rico	6	191	630	50	16	218	63	41	28
ASIA									
China (for comparison)	23↑	20	496↓	47	7↑	207↑	67↑	70	8,657

SOURCE & NOTES

↑↓ Up or down indicate, respectively, an improvement or a worsening of the environment from 2017 *LABER*. The absence of an arrow indicates "no change" from the previous year.

1 As measured by the World Bank Group's report *Doing Business 2018*: a) Average time in calendar days spent registering a firm. b) Average time in calendar days spent completing the procedures to register property. c) Average time in calendar days from the moment a plaintiff files a lawsuit in court until the moment of payment. d) Average time in hours necessary to comply with all procedures required to export goods.

2 As measured by the World Bank Group's report *Doing Business 2018*: a) total number of tax payments per year b) time it takes to prepare, file and pay (or withhold) the corporate income tax, the value added tax and social security contributions c) total amount of taxes and mandatory contributions payable by the business.

3 As measured by the Business Software Alliance, *2016 BSA Global Software Piracy Study* (May 2016): a) Percentage of unlicensed software installed; b) Estimates are based on 2016 losses due to copyright business software piracy in millions of USD.

SELECTED SOURCES MONITORED FOR *2018 LABER*

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América Economía **(http://www.americaeconomia.com/)**
BBC Mundo.com **(http://news.bbc.co.uk/hi/spanish/news/)**
Bloomberg.com: Latin America (http://www.bloomberg.com/news/regions/latinamerica.html)
Business News Americas **(http://www.bnamericas.com/)**
Brazil Focus: Weekly Report **(Subscriptions available at fleischer@aol.com.br)**
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http://www1.lanic.utexas.edu/la/region/news/
Latin America Advisor **(Subscriptions available at: mailto:freetrial@thedialogue.org)**
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