2017 Latin American Business Environment Report

UF Center for Latin American Studies
UNIVERSITY *of* FLORIDA

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MASTER OF ARTS
LATIN AMERICAN STUDIES

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PREFACE

This is the 18th edition of the *Latin American Business Environment Report (LABER)*. Following the decision last year to include Cuba among the countries reviewed, we have added both Haiti and Puerto Rico as well. This rounds out the coverage of *LABER* so that it now includes a full 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 remains the same: to provide an accessible, balanced evaluation of the economic, social, political, policy and legal developments in Latin America 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 18th year.

Samantha Soffici helped with economic research, while Lauren Samuels 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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[*]Electronic versions of all 17 previous reports can be accessed at http://www.latam.ufl.edu/research-training/la-business-environment/publications. The report may be cited without permission, but users are asked to acknowledge the source.

CONTENTS

ABBREVIATIONS AND DEFINITIONS

ALBA: *Alianza Bolivariana para los Pueblos de Nuestra América (Boliviarian Alliance for the Peoples of our America)*, 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 include Puerto Rico as well.

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 be market-oriented.

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

2017 LATIN AMERICAN BUSINESS REPORT

Brian C. Gendreau and Timothy E. McLendon

EXECUTIVE SUMMARY

Political turmoil combined with continued low commodity prices to make 2016 an especially difficult year for Latin America. Corruption scandals brought down a government in Brazil, and weakened governments in many other countries, inhibiting their ability to respond to economic challenges and implement necessary reforms.

We classify the region's 20 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 (▼), no significant change (=) or uncertain (±). In 2016, nine environments improved and six 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, new governments in Argentina and Brazil may well change their environments in future years. The outlook for 2017 remains guarded because of the uncertain global political environment and the region's ongoing fiscal and external imbalances.

Latin American Business Environments

	2015 Environment			2016 Environment			2017
	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	▲			▲			=
Total	9	4	5	7	8	5	


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

OVERVIEW

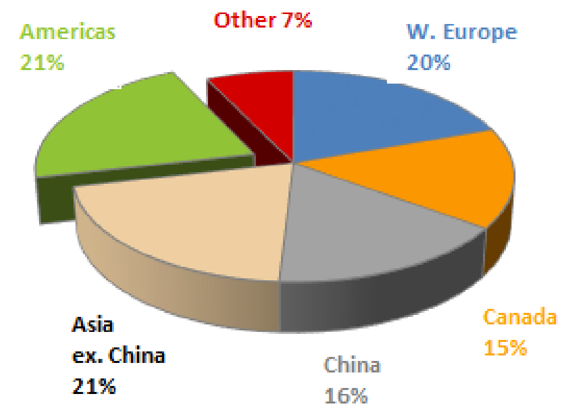
ECONOMIC AND POLITICAL OUTLOOK

Politics dominated the headlines in Latin America last year, and promise to do so again in 2017. In Brazil, the turmoil surrounding the impeachment of President Dilma Rousseff made it all but impossible for the government to address the country's recession and deteriorating fiscal condition for much of the year. In Venezuela, the opposition clashed repeatedly with President Nicolás Maduro as the economy spiraled downward. Colombia's government and the Revolutionary Armed Forces of Colombia, or FARC, signed a new peace deal in November, just two months after voters rejected the original peace agreement. In state and local elections, both the PMDB party of President Michel Temer of Brazil and PRI party of President Enrique Peña Nieto of Mexico suffered sharp losses, pointing to further challenges to the ruling parties in the year ahead. Protests about corruption arose in several countries in 2016, and corruption is likely to be a political issue across the region in the year ahead.

Then there was the election of Donald Trump. During the campaign, Mr. Trump did not propose a detailed foreign economic policy toward Latin America. But trade with Mexico and immigration were centerpieces of Mr. Trump's campaign, making Mexico the country most vulnerable to changes in U.S. policy. Mr. Trump has threatened to place a 35% tariff on automotive imports from Mexico, has been critical of U.S. firms for moving or planning to move production to Mexico, and has promised to renegotiate NAFTA. More than 80% of Mexico's exports go to its neighbor to the north, and Mexico's economy is closely linked to that of the United States through industrial supply chains. It is not clear, however, how far President Trump will go in seeking to restrict trade and investment in Mexico. Congress is controlled by a Republican party that has traditionally supported free trade and the free flow of capital, and the incoming economic team is reportedly split on trade issues. Nonetheless, 2017 appears destined to be the start of four years of uncertainty and tense relations between Mexico and the United States, and a darker business climate south of the border. Mexico is already feeling the effects: The peso fell 10% in the two days following November 8, and since the election economists have pared back their consensus forecast for 2017 GDP growth in Mexico from 2.2% to 1.5%.

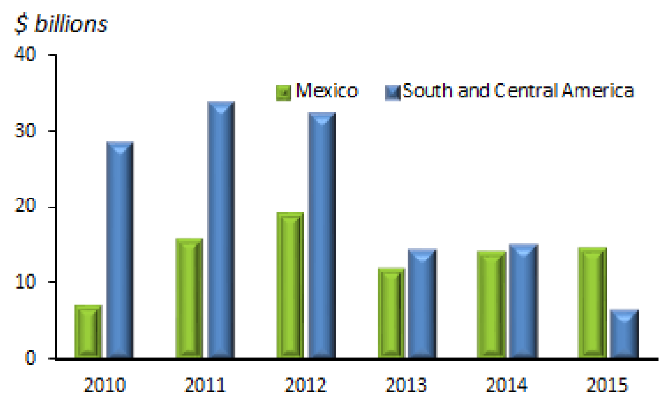
The other Latin American country likely to be affected the most by the regime change in Washington is Cuba. After seeming to favor a normalization of relations with Cuba, late in the campaign Donald Trump vowed to reverse some of the executive orders Barack Obama issued to relax restrictions on finance, trade and travel.

Figure 1. U.S. Trade
Exports plus imports, 2015



Source: IMF DoT Statistics ***$3,746 billion total***

Figure 2. U.S. foreign direct investment in Latin America



Source: BEA Figures include reinvested earnings but no current-cost adjustment.

Figure 3. Major export destinations

	United States	China	Americas[1]
Argentina	6%	9%	33%
Brazil	12%	**19%**	20%
Chile	13%	**28%**	18%
Colombia	**31%**	6%	32%
Mexico	**82%**	1%	5%
Peru	15%	**23%**	17%
Venezuela	**29%**	13%	18%

[1] ex. United States and Canada
Source: IMF Direction of Trade Statistics.
Shares with largest trading partner are in ***boldface***.

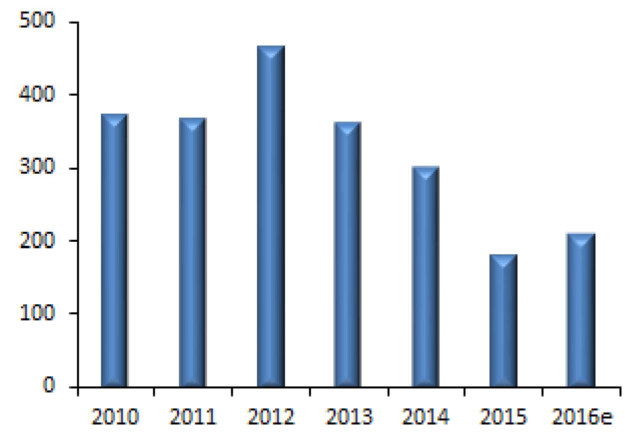
Initially, the new administration is likely to take a hard line on Cuba, although a complete reversal of the opening with Cuba would be difficult. Diplomatic relations have been reestablished. Major U.S. airlines have initiated regular flights to Cuba, and cruise lines now leave U.S. ports for Havana. The United States has exported an estimated $5.5 billion to Cuba since 2001, mostly in agricultural products. U.S. businesses have lobbied for an end to the embargo, and polls show a majority of Americans favor normalization of relations. Moreover, U.S. efforts to re-isolate Cuba would discourage the economic awakening that has occurred in Cuba in recent years. Eventually, rather than continuing to seek to isolate Cuba, President Trump may try to get a "better deal" with Cuba, seeking improvements in human rights and reparations for nationalized property in return for further normalization of relations. At this point, however, any such negotiations appear years away.

On his fourth day in office, President Trump cancelled U.S. participation in the Trans-Pacific Partnership (TPP), a free trade agreement among 12 countries, including Canada, Chile, Japan, Mexico, and Peru. The TPP would have resulted in greater trade volumes for its member states, increasing potential GDP growth rates. The Latin American countries that were parties to TPP are likely explore closer trade relationships with one another, and also with China. During Chinese President Xi Jinping's mid-November visit to Ecuador, Peru, and Chile, he received a warm welcome for China's proposed "new relationship" with the region which promises expanded trade and investment."

With the possible exception of Costa Rica, members of the Dominican Republic-Central America Free Trade Association (CAFTA) are unlikely to be the focus of changes in U.S. trade policy because they are not major exporters of manufactured goods. These countries and Mexico, however, could be affected deeply by a general border tax and by immigration reform. In 2016, remittances from migrants to Latin America amounted to an estimated $72 billion according to the World Bank, mostly coming from immigrants working in the United States. Funds sent home from abroad are an important source of income for many countries in the region. For example, remittances amounted to 17% of El Salvador's GDP last year, and 18% of GDP of neighboring Honduras. (Figure 4). Mexico received a record $28.1 billion remittances in 2016, $800 million more than in the previous peak year of 2007. Concerns that the new administration will impose restrictions on remittances appear to be the main factor driving the increase.

The beginnings of a recovery. In 2016, Latin America struggled to cope with a challenging external environment that included slow growth in Europe and the United States, decelerating growth in China, and low commodity prices.

Figure 4. U.S. exports to Cuba
$ millions



Source: IMF; UF estimates

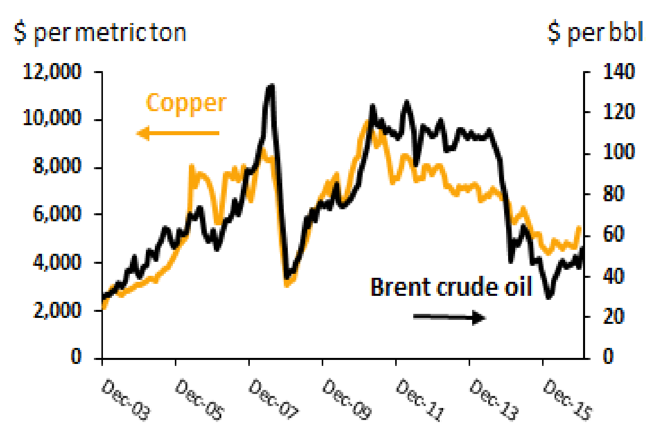
Figure 5. Remittances to Latin American
Countries with the most transfers from the United States

	Total remittances, $ bil:			
	2015	2016e	% from U.S.[1]	% of GDP[1]
Mexico	26.2	28.1	93	2
Guatemala	6.6	7.5	91	10
Dominican Republic	5.2	5.3	74	8
El Salvador	4.3	4.5	93	17
Honduras	3.7	3.8	89	16
Cuba	3.4	4.1	88	18
Nicaragua	1.2	1.2	52	9
Total	50.5	54.5		

Source: World Bank, Pew Research, and UF estimates.

[1] *2015*

Figure 6. Commodity prices are off their lows - though not by much



Source: IMF and U.S. Dept. of Energy

In general, the sharper the decline in a country's terms of trade since the global commodity supercycle came to an end in 2013-14, the deeper the decline in GDP growth (see Figure 7). (The terms of trade are the ratio of the prices a country gets for its exports relative to the prices it pays for its imports.) But countries have responded differently to the external shocks, and the policy choices have affected outcomes. The Pacific Alliance countries in particular have fared better than countries that are members of the region's other two trade agreements, especially the ALBA countries (Figure 8). The Pacific Alliance countries (Chile, Colombia, Mexico, and Peru) have allowed their currencies to depreciate, helping offset the deterioration in their terms of trade. They have also either reduced their fiscal deficits or seen only a modest widening of those deficits. All four still have investment-grade sovereign credit ratings, meaning that they have been able to maintain access to international markets at fairly low rates. In contrast, the ALBA countries' inflexible currencies have not been able to act as external shock absorbers, and as a group their fiscal deficits have widened markedly. None of the ALBA member states has an investment grade bond rating. In October, Venezuela's state-owned oil company, PDVSA, struggling to service its debt, was forced to ask bondholders to swap their existing bonds for new bonds with extended maturities (and therefore lower values).

The adjustment to lower commodity prices and weaker external demand is nearly over in Latin America. The consensus among economists is that growth will pick up in 2017, with the seven largest economies in the region eking out positive growth for the first time in two years (Figure 9). The outlook for the region is brighter for three reasons. First, growth in the developed markets, which has been tepid since the 2008 global financial crisis, is expected to rise. In mid-January the IMF raised its forecast for global growth to 3.4% for 2017 from 3.1%, citing better prospects in the United States, China, Europe, and Japan. The consensus among economists is not quite as sanguine about growth in China and Japan, but does see a slight acceleration in the United States and Europe (Figure 10). Second, commodity prices — including the price of oil — are off their lows. The futures market pricing in a rise in the price of crude oil to $55 per barrel by the end of 2018 — not high enough to provide much help to the countries in the region most dependent on oil revenues such as Ecuador and Venezuela, but a welcome change nonetheless from the sharp decline in prices of 2014-15. Third, most Latin American currencies have stopped falling against the dollar, and the Brazilian *real* and Colombian peso rose last year. Almost all central banks in the region had raised interest rates to prevent

Figure 7. Terms of trade and GDP growth
10 largest Latin American economies, 2013-16

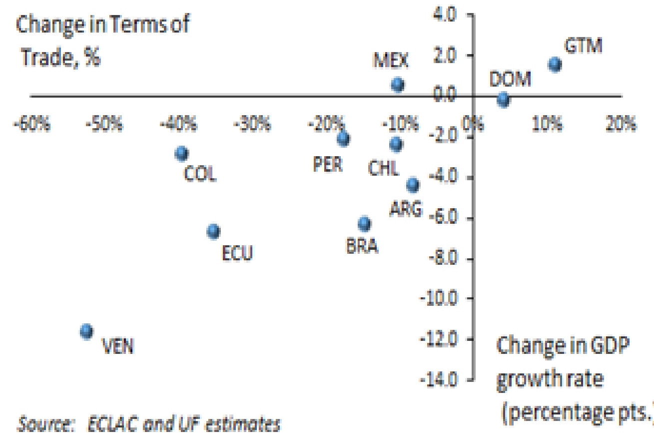


Figure 8. Real GDP growth, %, by trade alliance

	2002-13	2014-17f
ALBA	4.6	-3.5
Mercosur	4.6	-1.5
Pacific Alliance	3.5	2.4

Source: ECLAC, Consensus Economics, EIU, and UF estimates.

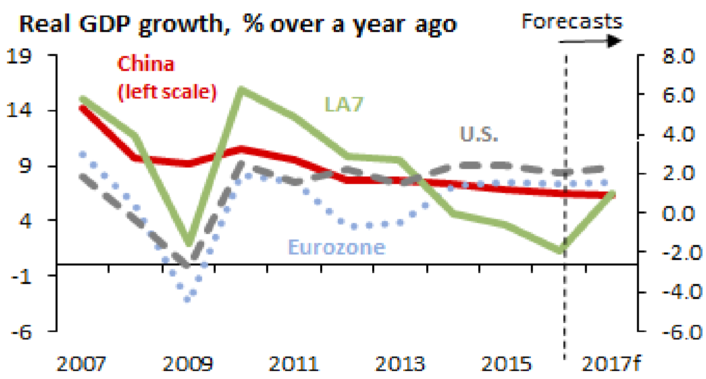
ALBA: BOL, CUBA, ECU, NIC, and VEN.
Mercosur: ARG, BRZ, PRY, UGY and VEN (through 2016)
Pacific Allicance: CHL, COL, MEX, PER

Figure 9. Economic performance and forecasts
Seven largest Latin American economies.

	2015	2016e	2017f
Real GDP, %	-0.6	-1.9	0.9
Inflation,%	27.1	77.8	75.0
ex. Venezuela	10.0	8.7	6.2
Unemployment rate, %	7.5	9.1	8.2
Current account, % of GDP	-3.4	-2.3	-2.1
Fiscal balance, % of GDP	-5.8	-5.8	-5.0

Source: 2015: ECLAC; 2016-17: Consensus forecasts from Consensus Economics and Bloomberg. The LA7 are the seven largest economies in Latin America by GDP: Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela.

Figure 10. Global GDP growth



Source: Consensus Economics, Bloomberg, and UF estimates.

the depreciation of their currencies from generating inflation. In the main, their efforts have been successful. Inflation has risen in the region, but less than in past episodes (IMF, 2016). With the pressure to maintain tight monetary conditions abating, authorities have some room to ease policy. Brazil, Chile and Colombia have already cut rates, and Chile should follow soon. Mexico, whose currency has come under pressure since the U.S. presidential election, is the exception; it will have to maintain tight monetary conditions for some time.

LEGAL ENVIRONMENT

During 2016, the overall legal environment in Latin America showed minor changes, being largely overshadowed by political and economic events. Although this is not yet reflected in the indices reported in Table 14 and 15, there are hopes that political change in the major populist democracies of Argentina and Brazil will foster an improvement in their legal environment in the form of a visible commitment to the rule of law. The ongoing corruption investigations and prosecutions, especially in Brazil, offer visible evidence of that commitment. The other populist nations, including Bolivia, Ecuador and Nicaragua, saw little improvement, and Venezuela's legal environment has imploded as surely as have its political and economic environments.

Political weakness contributed to an inability of governments in Bolivia and Chile to move forward with planned constitutional reforms. The rejection of Bolivia's reform may suggest an eventual end to the current regime of President Evo Morales in that country. Ecuador's President Rafael Correa accepted the results of a referendum in his country that rejected a change to allow him to run for another term (the reform adopted in December to extend presidential terms will not apply to President Correa). In Mexico, a new constitutional reform raising the status of the capital region to that of a state was adopted.

Economic necessity has obliged Brazil to open its offshore oil resources to foreign companies. Mexico likewise implemented 2013 and 2014 laws that ended the monopoly of its state oil company, Pemex, allowing foreign investment to help develop its deep-water oil resources. Meanwhile, Ecuador is moving ahead with oil and gas development in its sensitive Amazon region, after other countries failed to respond to President Correa's 2013 offer to leave the oil in the ground if developed countries offered contributions equal to half of the forfeited revenues. However, Colombia's constitutional court in February voided existing oil, gas and mining concessions in that nation's sensitive high-altitude moorland ecosystems. In May, the court expanded the ability of local governments to limit mining in their jurisdictions, striking down a 2001 law that vested all control of mining permits in the national government. In June, the Colombian constitutional court further revoked mining concessions in nine areas for failure to consult with indigenous communities affected by the mining, meaning that those agreements will now need to be re-negotiated with proper consultation.

Corruption investigations claim high-profile targets. Throughout the Americas, corruption scandals continue to implicate current and former leaders. In Brazil, President Dilma Rousseff's impeachment came amidst of corruption investigations involving other Labor Party leaders, but corruption charges also brought down the former speaker of the lower house, Eduardo Cunha, and implicated political leaders from many parties. Former leaders, including Brazil's ex-president Lula da Silva, Argentina's ex-president Kristina Fernández de Kirchner, Peru's ex-presidents Ollanta Humala and Alejandro Toledo, El Salvador's ex-presidents Mauricio Funes and Elias Antonio Saca, face charges of corruption. Guatemala's ex-president Otto Pérez Molina and his vice president, Roxana Baldetti, were convicted on corruption charges and incarcerated.

Corruption scandals are spread widely throughout the *LABER* countries, implicating government ministers (Brazil, Chile, Ecuador, Mexico), family members of political leaders (Bolivia, Guatemala, Mexico), regional governors (Brazil, Mexico), the police (Honduras), customs and tax authorities (Guatemala), pension authorities (Brazil), business leaders (Brazil, Chile, Colombia, Ecuador, Mexico), and even sports figures (Ecuador). Mexico, Colombia and Chile adopted new laws to combat corruption, while Brazilian prosecutors are using new powers under recent legislation. High-profile investigations and prosecutions claimed significant successes against powerful leaders, but the successive revelations (and publicity surrounding the release of the Panama Papers) have all tarnished the legitimacy of democratic institutions and have reduced citizens' trust in these institutions throughout Latin America, as shown in the most recent *Latinobarometro* survey.

Social liberalization trend continues. Recent years have seen many countries in Latin America move towards greater openness with regard to issues like drug legalization, same-sex marriage and abortion, and this trend continued in 2016. Mexico's supreme court overturned state laws forbidding same-sex marriage, and President Peña Nieto supported a constitutional initiative to allow same-sex marriage nationwide. Colombia's constitutional court overturned a ban on same-sex marriage in that country. Colombian and Panamanian decrees allowed the use of medical marijuana, while the Mexican president's proposal to liberalize marijuana laws foundered in congress. In Brazil, the health agency approved the use of medical marijuana. Chile modified its abortion laws, allowing the procedure in cases of rape, risk of death to the mother or fetal non-viability. In Brazil, a court invalidated laws criminalizing abortion during the first trimester. However, Central American and Caribbean nations resisted efforts to relax abortion prohibitions, notwithstanding fears raised by the spread of the zika virus and its possible effects on fetal development.

Some easing of regional border conflicts. In December 2015, the International Court of Justice (ICJ) ruled for Costa Rica against Nicaragua over the latter country's dredging activities in the San Juan River, which forms their border. Ecuador, Peru, Colombia and Costa Rica celebrated the amicable demarcation of their mutual maritime boundaries in September 2016. Further south, the new government in Argentina reached agreement with the United Kingdom to allow some direct flights from other South American countries to the Falkland Islands (Islas Malvinas), which Argentina has long claimed. However, the dispute continued on a political level, with Argentina protesting British military exercises on the islands. Elsewhere, disputes continued to simmer. Guatemala rejected efforts by Belize to submit their territorial dispute to the ICJ, and in April, security forces exchanged shots in Belize's border region killing a Guatemalan teenager. Venezuelan President Nicolás Maduro reiterated his country's claims to large parts of Guyana located west of the Essequibo River, a claim that has higher stakes since the discovery of large oil deposits off the coast of Western Guyana.

Security issues abide. As can be seen in Figure 11, Latin America provided 43 of the fifty most violent cities in the world in 2015 according to the Mexican NGO, Citizens' Council for Public Security and Criminal Justice.

Figure 11. 50 Most Violent Cities in the World 2015

	City	Country	Homicides per 100,000
1	Caracas	Venezuela	119.87
2	San Pedro Sula	Honduras	111.03
3	San Salvador	El Salvador	108.54
4	Acapulco	Mexico	104.73
5	Maturin	Venezuela	86.45
6	Distrito Central	Honduras	73.41
7	Valencia	Venezuela	72.31
8	Palmira	Colombia	70.88
9	Cape Town	South Africa	65.53
10	Cali	Colombia	64.27
11	Ciudad Guyana	Venezuela	62.33
12	Fortaleza	Brazil	60.77
13	Salvador	Brazil	60.63
14	St. Louis	USA	59.23
15	João Pessoa	Brazil	58.40
16	Culiacán	Mexico	56.09
17	Maceió	Brazil	55.63
18	Baltimore	USA	54.98
19	Barquisimeto	Venezuela	54.96
20	São Luis	Brazil	53.05
21	Cuiabá	Brazil	48.52
22	Manaus	Brazil	47.87
23	Cumaná	Venezuela	47.77
24	Guatemala	Guatemala	47.17
25	Belém	Brazil	45.83
26	Feira de Santana	Brazil	45.50
27	Detroit	USA	43.89
28	Goiâna	Brazil	43.38
29	Teresina	Brazil	42.68
30	Vitoria	Brazil	42.64
31	New Orleans	USA	41.44
32	Kingston	Jamaica	41.14
33	Gran Barcelona	Venezuela	40.08
34	Tijuana	Mexico	39.09
35	Vitória de Conquista	Brazil	38.46
36	Recife	Brazil	38.12
37	Aracaju	Brazil	37.70
38	Campos dos Goytacases	Brazil	38.16
39	Campina Grande	Brazil	36.04
40	Durban	South Africa	35.93
41	Nelson Mandela Bay	South Africa	35.85
42	Porto Alegre	Brazil	34.73
43	Curitiba	Brazil	34.71
44	Pereira	Colombia	32.58
45	Victoria	Mexico	30.50
46	Johannesburg	South Africa	30.31
47	Macapá	Brazil	30.25
48	Maracaibo	Venezuela	28.85
49	Obregón	Mexico	28.29

Source: Consejo Ciudadano para la Seguridad Pública y la Justicia Penal A.C., http://www.seguridadjusticiaypaz.org.mx/biblioteca/prensa/summary/6-prensa/231-caracas-venezuela-the-most-violent-city-in-the-world

BUSINESS CLIMATE

According to the World Bank's 2017 rankings, there has been little change in the ease of doing business in Latin America over the past year. The World Bank assesses countries each year about the quality and efficiency of regulations involved in setting up and operating a business. It now surveys regulatory practices in 11 areas; some details of the survey by country are reported in Table 15 in the back of this publication. This year 10 out of 20 Latin American states (including Puerto Rico) moved up in the global ease of doing business, while 10 slipped in the rankings. Overall, the region's average ranking fell two points, from 99 to 101 out of the 190 countries in the World Bank's survey.

Figure 12. World Bank ease of doing business rankings

	2017 Rank	2016 Rank	
Mexico	47	38	↓
Colombia	53	54	↑
Peru	54	50	↓
Chile	57	48	↓
Costa Rica	62	58	↑
Panama	70	69	↓
Guatemala	88	81	↓
Uruguay	90	92	↑
El Salvador	95	86	↓
Dominican Rep.	103	93	↓
Honduras	105	110	↑
Paraguay	106	100	↑
Ecuador	114	117	↑
Argentina	116	121	↑
Brazil	123	116	↓
Nicaragua	127	125	↓
Bolivia	149	157	↑
Haiti	181	182	↑
Venezuela	187	186	↓
United States	8	7	↓
Puerto Rico	55	57	↑

Source: World Bank, *Doing Business 2017*. The rankings are based on quantitative measures of business regulation in 11 areas that are important to how the private sector functions. For 2017 the World Bank surveyed 190 countries; a rank of one is highest, 190 lowest. An upward-pointing arrow in the table above indicates a rise in the rankings and improving business conditions.

Figure 13. Ease of doing business rankings by trade alliance

	Average ranking 2017	Change in ranking 2006-17	
ALBA	98	45	↓
Mercosur*	109	17	↓
Pacific Alliance	53	-6	↑

Source: World Bank, Doing Business 2017 and UF estimates. An upward-poining arrow indicates a rise in the rankings and an improvement in business conditions.
**ex. Venezuela, which was suspended from Mercosur in 2016.*

To be sure, changes in a country or region's ranking depend on whether other countries are moving up or down. Still, the rankings point to considerable scope for improvement in the regulatory climate in Latin America relative to the rest of the world. Nine countries in Latin America are in the top half of the rankings, but only one — Mexico — is in the top quarter (and then just barely). Venezuela's ranking of 187 puts it fourth from the bottom, sandwiched between South Sudan and Libya. Not surprisingly, within Latin America, the more market-oriented Pacific Alliance countries have risen in the ease of doing business rankings over the past 11 years, while the more statist-oriented Mercosur countries and populist ALBA countries have fallen (Figure 13).

In interpreting the *Doing Business* surveys, it is worth noting that the rankings are about *de jure* regulations, and that enforcement may be uneven in some countries. In other words, *de facto* outcomes may differ from what might be expected from consideration of the *de jure* regulations alone. A different set of surveys conducted by the World Bank, the Enterprise Surveys, show a wide variation in outcomes in areas such as the number of days needed to get a construction permit, and sometimes far fewer days than the *Doing Business* surveys indicate (Hallward-Driemeir and Pritchett, 2015). Thus, for some firms doing business may not be as difficult as a low ranking would suggest, though a country's rise in the *Doing Business* rankings would still indicate movement toward a more favorable *de jure* and *de facto* regulatory climate.

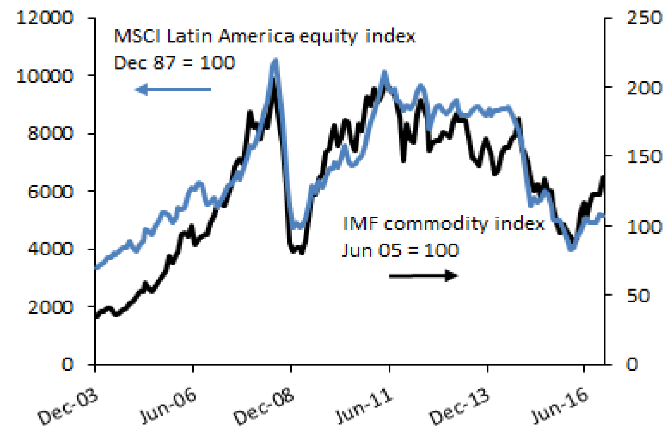
Finance and Investment in Latin America

The cliché in financial markets is that emerging market equities are a leveraged play on commodity prices and G-7 (developed market) growth. That cliché certainly seems to describe Latin America's stock markets as of late. An upward trend was established with the beginning of the commodity supercycle in 2003-04. That upward march in prices was interrupted by the global recession of 2008-09, only to resume when growth was restored in the developing world. Stock prices collapsed along with commodity prices in 2014, only to come off their lows with the partial recovery in commodity prices in 2016.

The upturn in Latin America's equity markets in 2016, however, reflects more than the partial recovery of commodity prices. An improvement in investor sentiment in Brazil, home of the region's largest stock market, also helped. Business confidence surged starting in May 2016 as it became increasingly likely that President Dilma Rousseff would be removed from office, promising an end to the standoff that had paralyzed policymaking. Business confidence continued to rise and has since stabilized at a relatively high level. Reformist President Mauricio Marci's first year in office in Argentina was also welcomed by the markets, although the economy has yet to respond to the new government's policy changes.

Capital flows to Latin America almost certainly declined in 2016, mainly because recession or weakness in the region's economies reduced the demand for imports, and therefore resulted in smaller current account deficits in need of external finance. The flows, however, were more than enough to finance the region's current account deficits: international reserves in the aggregate increased in Latin America. Complete data on financial flows to Latin America for the second half of 2016 are not yet available, but several indicators point to an acceleration in flows after the middle of the year. One is bond issuance out of Argentina, Brazil and Mexico. Asset prices are another indicator of increased foreign interest in the region's markets. In addition to the rise in stock prices, several currencies came off their lows in 2016 (Figure 16), and yield spreads over U.S Treasuries on sovereign bonds have narrowed for major Latin American countries, indicating an increase in demand (Figure 17). Looking ahead, the consensus expects an increase in capital flows to Argentina, Brazil, and Peru, and for the region as a whole as growth recovers and the demand for investment funds rises. Political tensions with the United States, however, are expected to make Mexico an exception to this broad recovery, as is the continued uncertainty in Venezuela.

Figure 14. Latin America's stock markets have been tracking commodity prices closely



Source: MSCI and IMF

Figure 15. Capital flows to Latin America

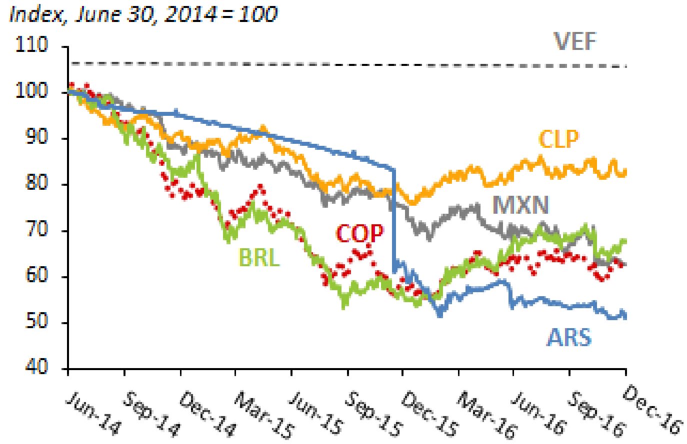
LA7, $ billions

	2015	2016e	2017f
Argentina	9.5	26.6	41.8
Brazil	56.3	20.0	34.4
Chile	5.0	5.8	4.3
Colombia	19.0	14.0	12.5
Mexico	34.9	36.9	28.1
Peru	10.1	7.3	8.3
Venezuela	22.5	7.3	2.8
Total, LA7:	157.3	117.9	132.2

Source: 2015 figures are financial account balances from the IMF. The 2016-17 figures are UF estimates based on consensus forecasts of current account balances plus changes in forecasted international reserves.

Figure 16. Major Latin American currencies

Exchange rates against the U.S. dollar
Index, June 30, 2014 = 100



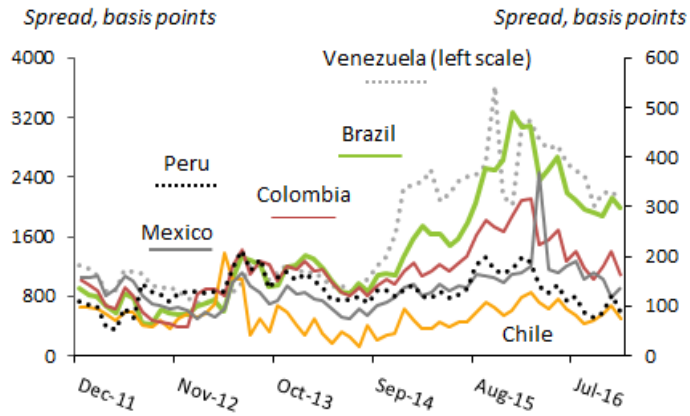
Source: Bloomberg

Although sovereign spreads narrowed in 2016, they remain at wider levels than before the end of the commodity supercycle in 2014, which resulted in slower economic growth or recession and lower government revenues. In general, sovereign spreads across Latin America vary with public debt-to-GDP ratios (Figure 18). Because its government is especially reliant on oil revenues, Venezuela is an outlier: Its spreads are much wider than its public debt-to-GDP ratio would predict. The bond market has been pricing in a high probability of default for CCC- rated Venezuela for some time, and in October state-owned oil company PDVSA reached an agreement with investors holding $2.8 billion of the company's debt to agree to swap their bonds for $3.4 billion of new securities with longer maturities. The agreement, which fell short of the amount sought by PDVSA, has alleviated concerns about a default by the company through 2017, though the relief will be short-lived because payments will increase after 2018.

Public debt burdens in Latin America as a whole rose slightly in 2016 to 38% of GDP, up 1.3 percentage points of GDP over 2015. However, this rate of increase has moderated over the past two years. The rise in public debt was limited by reductions in spending that offset falling government revenues, so the average fiscal deficit for the region as a whole remained constant at -3.0 percent of GDP. Fiscal accounts generally improved in Mexico and the Caribbean, whose economies benefited from their close links to the United States, which grew by about 2 percent in 2016 according to the consensus. Fiscal balances in South America, however, continued to widen as domestic and external demand remained weak.

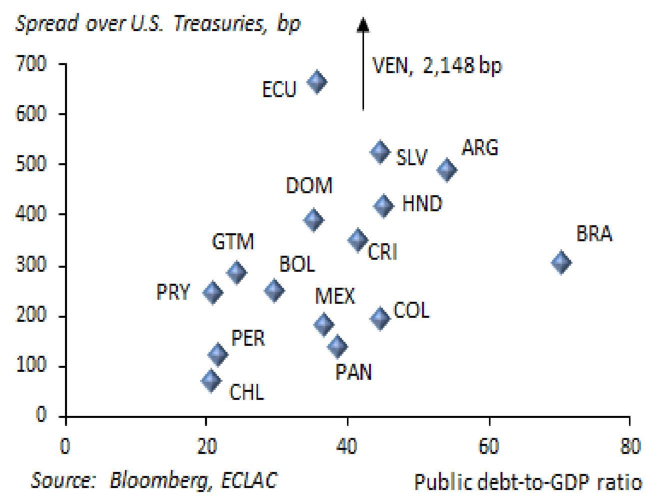
The cost of capital. The cost of capital in Latin America fell during 2016. A modest rise in yields on U.S. Treasuries — the most common measure of the risk-free rate which anchors the entire capital cost structure of dollar-based corporates worldwide —was more than offset by a sharp decline in emerging market corporate bond spreads over U.S Treasuries. The Bank of America/Merrill Lynch Corporate Plus Sub-Index Option-Adjusted Spread, for example, fell over 300 basis points (3 percent) during the year. Estimates of the cost of equity, meanwhile, have not changed since last year — the cost of equity estimates for five major Latin American markets in 2017 presented in Figure 19 are not substantially different from the estimates for last year presented in the 2016 *Latin American Business Environment Report.* Lower debt costs and largely unchanged costs of equity mean that the weighted average cost of capital (WACC) fell during 2016 for Latin American corporations that issue dollar-denominated debt. The weighted average cost of capital for any firm will depend on how much debt it has relative to equity, its debt cost, and the corporate tax rate it faces. For example,

Figure 17. Spreads on Latin American sovereign bonds have narrowed.



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

Figure 18. Sovereign spreads and public debt



a hypothetical Colombian firm financed 50% with debt and 50% with equity, a tax rate of 20%, a cost of equity of 9.4%, and a debt cost equal of 6.9% (the yield on the Bank of America/Merrill Lynch Latin America Corporate Index at year-end 2016) would have a WACC of 7.46%. Last year it's WACC would have been an estimated 8.34%. Lower capital costs should help boost investment in the region in 2017. On the margin, projects that would not have been feasible at last year's higher cost of capital will now be profitable.

Investment outlook. Latin American equities have become a high-beta asset class. Beta is a measure of an asset's sensitivity to broad market movements and represents systematic risk — the risk that cannot be diversified away. When the total return on global equities was slightly negative in 2015, the return on Latin American stocks, as measured by the MSCI Latin America U.S. dollar index, was -34.4%, making it the world's worst performing regional market. When global markets turned in a positive 8.5% return last year Latin American equities soared, returning 24.7%.

On average, valuations in Latin America are only slightly higher than they were a year ago despite last year's rise in stock prices. They are inexpensive relative to the developed markets, though not relative to other emerging markets, especially those in Eastern Europe. Unlike last year, the consensus among equity analysts is that earnings are going to grow at a double digit pace in all six major Latin American markets, with especially strong growth in Chile and Mexico — though these estimates were made by analysts before President Trump announced his intention to renegotiate NAFTA and to put a tariff on imports from Mexico. Taking earnings growth, valuations, and improving economies into account Brazil, Chile, and Peru all look fairly attractive relative to other emerging markets.

Figure 20. Valuations and earnings growth estimates

February 20

	Forward P/E	Price-to-Book	Earnings growth, %: 2016e	2017f
Argentina	11x	1.4	-7	13
Brazil	12x	1.5	-4	12
Chile	15x	1.6	6	28
Colombia	12x	1.3	-3	15
Mexico	16x	2.4	19	27
Peru	12x	2.0	6	11
Average:				
Emerging Markets	11x	1.5	1	15
EAFE	15x	1.7	7	11
United States	17x	2.8	19	17

Sources: P/E and P/B ratios are from MSCI. Earnings growth forecasts are consensus figures reported in Heckman Global Advisors Emerging Markets Equity Allocator, January 5, 2017. The P/B ratios for EAFE and the United States are for the iShares EAFE exchange traded fund and State Street's SPDR S&P 500 Exchange traded fund.

Figure 19. Estimated cost of equity, five major Latin American countries

February 2017

	Brazil	Chile	Colombia	Mexico	Peru
Sovereign yield, %:	5.46	3.24	4.09	3.86	3.86
Beta:	1.77	0.97	1.09	1.07	0.90
Estimated cost of equity, %:					
Damodoran model	15.3	7.1	9.4	7.6	7.1
Citigroup model	16.1	10.1	11.0	10.9	8.6

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 5.4% 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 71 reported by Fernandez (2016).

NAFTA REGION

MEXICO ▼

- **Mexico is already feeling the effects of a shift in U.S. trade policy toward protectionism.**
- **The sharp decline in the peso following the U.S. election complicates monetary policy.**
- **Follow-through on structural reform should help lift potential growth despite the uncertainty about trade.**

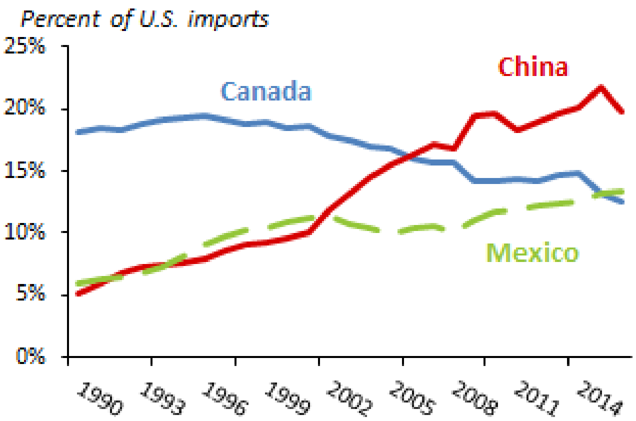
Shock waves from the U.S. presidential election reached Mexico even before Donald Trump took office. The peso lost 16% of its value between the election and the inauguration, most of it in the first two days after the election. Following conversations with the president-elect, Carrier Corporation cut back plans to move manufacturing units and jobs to Mexico, and Ford abandoned plans to make a $1.6 billion investment in an assembly plant in Mexico. The same day Mr. Trump had threatened to impose tariffs on cars made in Mexico by General Motors.

Within days of assuming office, it became clear that Donald Trump's stances on trade and Mexico had not softened. President Trump formally withdrew the United States from the Trans-Pacific Partnership (TPP), a 12-nation trade deal that included Mexico, reiterated his intention to renegotiate NAFTA, and affirmed his support for a "border tax" on companies that move production abroad.

It is not clear how much of President Trump's protectionist agenda will become law, or what the outcome of new NAFTA negotiations will be — both Canada and Mexico

Mexico: economic indicators	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	3.3	2.5	2.1	1.5
Consumer prices, % Dec/Dec	3.6	2.1	3.4	4.9
Government balance, % of GDP	-2.6	-3.0	-2.9	-2.6
Merchandise trade ($ bil)				
Exports	360	381	374	381
Imports	361	395	389	395
Current account balance, % of GDP	-1.5	-2.9	-2.9	-3.0
International reserves ($ bil)	25.0	168.4	175.0	173.0
Total external debt ($ bil)	347	426	487	537
% of GDP	29	37	29	29
% of exports	88	104	120	141

Figure 1. Mexico's share of U.S. imports has been growing — but not as fast as China's



Source: IMF Direction of Trade Statistics

reportedly would welcome some modifications to the treaty. But it is clear that Mexico, as the United States' second largest trading partner, with industries that are highly integrated into U.S. supply chains, is highly vulnerable to a switch toward less liberal trade policies. It is also vulnerable to threats to deport millions of Mexican immigrants living in the United States, or to restrictions on the ability of the 35 million people of Mexican origin living in the United States to send remittances to their families in Mexico. Last year, those remittances amounted to over $28.1 billion.

Last year, the Banco de Mexico raised interest rates five times in an effort to keep currency depreciation from turning into higher inflation. The U.S. election has now made maintaining economic stability much more difficult. Since the election business and consumer confidence in Mexico have deteriorated markedly, and economists — expecting weaker consumption and a fall-off in foreign investment — are paring back their forecasts for GDP growth. With the peso expected to be under continued pressure, policymakers will face both a softening economy and rising inflation.

The domestic political environment in Mexico, meanwhile, has become toxic. President Enrique Peña Nieto's popularity rating has plummeted following several corruption scandals and a move on the part of the government on January 1 to raise gasoline prices by 20%. The price increase was met with rioting that resulted in several deaths. Ironically, the administration has made considerable progress in in efforts to reform the energy and utility sectors and education. The reforms will help raise Mexico's long-term growth rate, though the proposed reforms to education have met with resistance (see below).

LEGAL ENVIRONMENT

Tougher anti-corruption laws adopted. In June, the Mexican Congress passed legislation to establish new offenses and to increase penalties for corruption by public officials. Intended to implement 2015 constitutional amendments, the new laws provide that officials convicted of bribery, embezzlement and other forms of corruption will face increased fines and jail time. The laws also include increased public disclosures for government-funded organizations. Another law replaces former public procurement legislation, and allows administrative penalties for companies that bribe officials or otherwise abuse the public procurement process. An additional administrative accountability law allows companies to avoid liability if they have in place sufficient "integrity policies", including whistleblower and reporting systems, as well as disciplinary procedures for employees who violate company policies or Mexican anti-corruption laws.

Court overturns state corruption laws. Mexico's supreme court invalidated laws passed in the states of Veracruz and Chihuahua which allowed anti-corruption investigators to be appointed by outgoing state governors. The court considered the state provisions to be unconstitutional because the primary anti-corruption agency is the federal National Anticorruption System.

Statehood for the Federal District. A constitutional amendment enacted in June made Mexico City the 32nd state of the Republic of Mexico. The amendment was undertaken to gain some autonomy from the federal government. The state's governor will henceforth be able to appoint the chief of police and the state prosecutor. After seeking broad public input with hundreds of proposals submitted online, a group of experts selected by mayor Miguel Ángel Mancera presented the first draft of the capital's new constitution. The 100 deputies of Mexico City's Constitutional Assembly, elected in June, began reviewing the document that will define the new federal status of the capital area. The proposed constitution will include mechanisms for integrating the informal sector (unsalaried, self-employed, and street vendors) into the state's commercial and tax structures. The final document will be approved by the constitutional assembly and take effect in February 2017.

Education reforms implemented amidst teacher protests. Notwithstanding vehement and often violent protests by teachers, education reforms submitted by President Peña Nieto, have been introduced throughout the country. Teachers oppose the reform's mandatory evaluations. The reforms are meant to lessen corruption, reduce bureaucracy, improve teacher competency, and generate an updated curriculum in a school system ranked at the bottom of OECD states. Teacher protests and strikes in Oaxaca, Mexico City, and regions in the south of the country disrupted commercial activity and resulted in several deaths. Existing teachers were grand-fathered into the new system, but future teaching positions will depend upon passage of a qualifying examination.

New labor amendments under consideration. In October, the Mexican Senate approved amendments to two articles of the Mexican Constitution which address labor justice issues and fully conform Mexican labor laws with recommendations of the International Labor Organization. The proposed amendments would create federal and state labor courts responsible for worker-employer conflict resolution. An independent agency will be responsible for conciliation, "registration of collective bargaining agreements and union organization," at the federal level. The amendments will need approval of the lower house and a majority of the states in order to take effect.

Simplified corporations authorized. In March, a decree amended the general corporations law to allow incorporation of a simplified corporation, *sociedad por acciones simplificada* (SAS), within a 24-hour time frame. The new SAS requires fewer shareholders and allows electronic registration without the services of a notary, and is intended to encourage small businesses to incorporate.

BUSINESS ENVIRONMENT

Mexico fell two spots to 47th place in the World Bank's ease of doing business rankings. This fall moves Mexico to the bottom of the top quartile in worldwide rankings. However, improvements were shown in the time required to register property and to enforce contracts.

THE CARIBBEAN

CUBA[±]

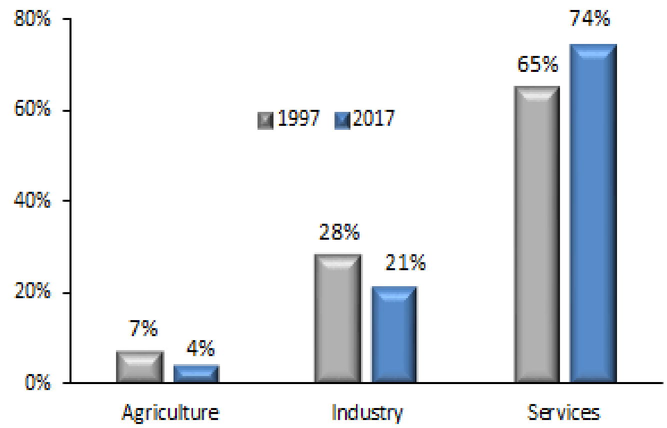
- **The new U.S. administration can be expected to put the normalization of relations with Cuba on hold.**

- **The death of Fidel Castro does not signal the beginning of a new era in Cuba.**

Before his death on November 25 at the age of 90, Fidel Castro made no secret about his distaste for the normalization of relations with the United States and had insisted that the ideals of the Cuban Revolution should never be abandoned. Following his death, it is natural to wonder if the economic reforms initiated by his brother, Raúl Castro will accelerate. Instability after Fidel Castro's death is unlikely: Raul Castro has been in charge since 2008 with no plans to step down until his term as president is up in 2018, and he has remained a supporter of the reforms. But it would be unrealistic to expect a swift transition to a more open, market economy. Internal opposition to the reforms persists in Cuba, and with the election of Donald Trump, the thaw in relations with the United States that has encouraged those reforms is, for the time being, in question.

Since Raúl Castro began a series of reforms after replacing his ailing brother as president in 2008, market forces have begun to play a larger role in the Cuban economy. Cuban citizens are now allowed to operate small businesses such as restaurants, barber shops, and room rentals, and they can buy and sell homes. Individuals and cooperatives are allowed to cultivate unused plots of land. Managers have been given more autonomy to allocate resources. These reforms have been accompanied by fewer restrictions on travel by Cubans abroad, and by the gradual spread of communication technology. Cell phones are more common in Cuba than they were just a year ago, and Wi-Fi spots have become popular in Havana, though so far not many exist. The pace of reform, however, has been uneven and slow. Self-employment is still limited to specific and usually unskilled activities. Architects, for example, may drive taxis but face difficulties going into business in their own profession. The government explicitly prohibits the accumulation of wealth — hardly an incentive to entrepreneurship — though it is hard to imagine that this is enforced effectively. Meanwhile, backtracking has occurred in some areas. Last year, for example, the state reasserted its control of part of the food distribution system. And not everyone in Cuba is happy with the reforms. The Cuban government laid off 600,000 government workers between 2010 and 2014 in an effort to improve productivity and free up labor for the private sector. While there have been no announcements recently of plans for further layoffs, the three-quarters of Cuba's workers that are still on government payrolls are apprehensive. Complaints that tourists and rising incomes in the private sector are responsible for rising prices are common in Havana.

Figure 1. Cuba has become a predominantly services-based economy



Source: EIU 2017 figures are forecasts.

Cuba's economy, meanwhile, is in trouble. Following a year of strong growth fueled by a boom in tourism and pickup in construction, growth decelerated sharply in 2016 as Cuba struggled to deal with two external shocks. First, prices for Cuba's traditional exports of nickel, refined oil, and sugar fell or remained flat. Second, with its economy in shambles, Venezuela cut supplies of oil to Cuba by as much as 40%. Cuba has traditionally swapped medical services for oil with Venezuela, and sold the oil it refines from Venezuela to the rest of the world. As a result of the

Cuba: economic indicators

	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	2.4	4.4	0.5	1.0
Consumer prices, % avg	6.7	4.2	4.7	4.8
Government balance, % of GDP	3.1	-0.5	-0.5	-0.3
Merchandise trade ($ bil)				
Exports	5.7	3.6	3.3	3.6
Imports	13.9	11.7	10.7	11.3
Current account balance, % of GDP	2.5	2.1	2.3	1.8
International reserves ($ bil)	n/a	12.1	11.7	11.2
Total external debt ($ bil)	24.1	26.0	26.3	28.6
% of GDP	32	30	28	29
% of exports	131	137	141	151

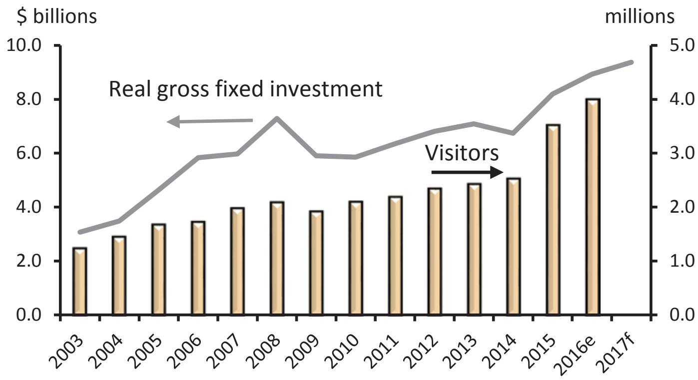
cut backs in oil imports, Cuba has had to ration energy domestically and delay payments to foreign creditors, and the country has seen its earnings from the export of oil products plummet. Rumors of a return to the hardships Cuba suffered in the early 1990s after the loss of subsidized trade with the Soviet Union are exaggerated – earnings from tourism will continue to help offset the lower oil imports. Still, Cuba will do well to eke out any growth at all in 2017.

Cuba may yet be hit with a third shock: A chilling of relations with the United States. Donald Trump has said he will reverse the deal President Obama reached to re-open relations with Cuba and relax restrictions on trade and travel unless the Castro regime agrees to free political prisoners and restore political freedoms. Cuba released 53 political prisoners a few weeks after Obama administration's 2014 announcement of a change in policy, but has resisted calls to free more political prisoners since that time.

The normalization of relations between the two countries that began in December 2014 has supported Cuba's reforms by supplying a steam of new visitors to the island and by increasing Cuba's connectivity with the rest of the world. Tourism is still formally banned under the Helms-Burton Act of 1996. However, in 2015, an estimated 266,000 U.S. citizens took advantage of one of the 12 licenses established in December 2014 under which the United States permits travel to Cuba — a 90% increase over 2014. U.S. airlines commenced regular air service to Cuba this year, and several cruise lines now offer cruises to the island. Several U.S. mobile carriers have signed voice, text, and data-roaming agreements with Etecsa, the Cuban telecommunications provider. One American bank has issued a credit card intended for use in Cuba, and U.S. credit cards are accepted for currency transactions at state-owned foreign exchange facilities in Havana, though they do not yet work elsewhere in Cuba.

So far, the Trump administration has not spelled out its intentions on Cuba, but it is likely it will initially take a hard line on Cuba — to do otherwise would appear to be backing down on Mr. Trump's campaign promises. History suggests, however, that Cuba will steadfastly resist demands on human rights or democratic reforms, even if it means enduring considerable hardships. This means that a stand-off and worsening of relations is possible, which could involve restrictions on travel and trade. But there are costs to isolating Cuba in the long run, and support exists in the United States for a further opening to Cuba. Any chill in relations would mean U.S. firms losing business to foreign competitors. The Trade Sanctions Reform and Export Enhancement Act passed in 2000 allows U.S. firms to sell food and medicine to Cuba, and between 2000 and 2016, the United States exported an estimated $5.5 billion to Cuba. Cuban-Americans could have their ability to see and support relatives in Cuba hampered. Americans would not be able to enjoy travel to the island or to buy Cuban cigars and rum. A *New York Times*/CBS poll found that nearly six in 10 Americans support normalizing relations with Cuba, and a 2016 Florida International University poll found that a majority — 56 percent — of Cuban Americans in Miami-Dade county "strongly" or "mostly" favor a re-engagement with the island. Cuba, meanwhile, has an obvious interest in avoiding isolation. Tourism provides a good example. According to a Cuban Ministry of Tourism 30-year development plan, capacity in Cuba's hotels is to grow from 63,000 rooms today to 85,000 in 2020 and 200,000 in 2030. It is hard to see how those rooms can be filled with a full U.S. trade and travel embargo still in place.

Figure 2. Tourism and investment have increased markedly since Cuba's reforms began in 2008



Source: World Bank and EIU

The day after Fidel Castro's death, Mr. Trump called Mr. Castro a "brutal dictator", and said "...our administration will do all it can to ensure the Cuban people can finally begin their journey toward prosperity and liberty." This suggests that he is leaving the door open to a rapprochement. Donald Trump, meanwhile, sees himself as The Man of the Deal, and the temptation will be strong for him to try to get a better deal from Cuba. Such negotiations, however, are bound to be to be difficult: Human rights, claims for expropriated property, and Cuba's insistence on compensation for damages from the embargo – issues on which little or no progress was achieved in past talks – will all be on the table.

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DOMINICAN REPUBLIC ▲

While most of the region struggled with slow growth or recession last year, real GDP in the Dominican Republic expanded by an estimated 6.2%, making it the fastest growing economy in Latin America. Growth was boosted by a record number of tourist arrivals, estimated to have exceeded 6 million. Tourist arrivals have grown by about 50% since 2009. As an oil importer, the Dominican Republic's economy has also been helped by low oil prices, which have helped keep inflation below 2%. Following his May 2016 reelection, President Danilo Medina is expected to focus on reforms in health and education and on an expansion of cash-transfer programs.

Dominican Republic: economic indicators	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	5.3	7.0	6.2	4.9
Consumer prices, % Dec/Dec	3.3	0.9	1.7	3.4
Current account balance, % of GDP	-5.8	-1.9	-1.8	-2.2
Total external debt ($ bil)	20.2	26.6	26.2	26.9
% of exports	127	151	148	144

Criminal defamation laws weakened. In February, the Constitutional Court invalidated parts of the Dominican Republic's press law that criminalize defamation of government officials, finding that these provisions violate freedom of expression guarantees in the Inter-American Convention on Human Rights.

Change to tax laws for businesses operating in free trade zones. A December 2015 law allowed businesses operating in free trade zones to offer any amount of their products for sale in the Dominican market. Prior to the reform, only 20% of a free trade zone business's products could be offered for sale on the domestic market.

Business environment ranking fall masks some improvement. The Dominican Republic fell ten places from last year's survey, according to the World Bank, yet this fall in the rankings came alongside a small improvement in its measurements, based on a decrease in corporate income tax rates and a decrease in time needed to approve new electricity connections. The Dominican Republic improved its ranking in Transparency International's Corruption Perceptions Index from 115 in 2014 to 103 in 2015. In this case, however, a significant move in the rankings masked a very small improvement in the country's actual score.

HAITI [=]

After an electoral process that took almost two years and was marred by allegations of fraud, Jovenel Moïse won Haiti's presidential election in late November 2016 and will take office in March 2017. He plans to focus on modernizing Haiti's agriculture, with the objective of reducing the need for Haitians to go to the Dominican Republic or the United States to find work. Mr. Moïse also intends to address corruption and reduce Haiti's dependence on external aid. However, the new president does not have a strong mandate: Voter turnout was unusually low following the widespread damage caused by Hurricane Matthew.

Haiti: economic indicators	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	2.0	1.7	2.0	2.4
Consumer prices, % Dec/Dec	5.0	9.0	15.9	10.3
Current account balance, % of GDP	-4.8	-2.5	-5.0	-7.5
Total external debt ($ bil)	1.3	2.1	2.0	2.5
% of exports	95	119	115	139

New elections laws have mixed effects. A new law on political parties allowed for the formation of many new parties with few members. Another law required that 30% of candidates be women. The number of women willing to register and campaign did not meet this legal quota. Nevertheless, the elections did see the entrance of women into the Haitian parliament for the first time.

U.S. adds Haiti to list of countries that fail to combat human trafficking. Notwithstanding a new 2014 law and a few reported investigations by Haitian authorities, the U.S. State Department included Haiti on an updated black list of countries that do not do enough to control human trafficking. Belize was the only other Western Hemisphere nation added to the list, which also includes Venezuela. Cuba had been removed from the list in 2015.

Haiti remains a very difficult business environment. Citing improvements to port infrastructure and a new ability to receive electronic copies of customs documents, Haiti moved up slightly in the World Bank *Doing Business* rankings, but it remains near the bottom. Transparency International's survey found similar small improvements, but Haiti is tied with Venezuela as the lowest-ranked country in the Western Hemisphere.

PUERTO RICO* ▼

- **Puerto Rico is struggling in the aftermath of the default on its government debt.**

- **Debt reduction will not ease the debt burden unless growth resumes.**

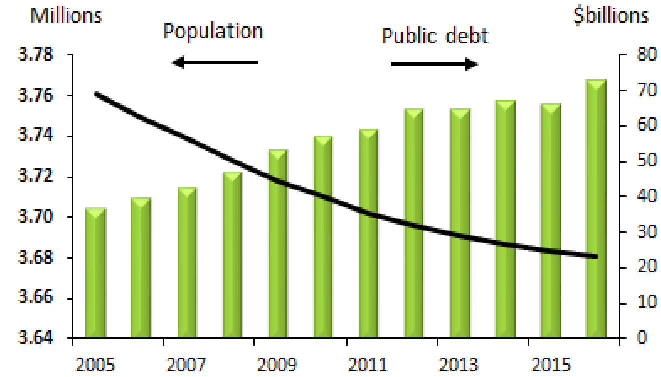
Puerto Rico's debt crisis came to a head in early July of last year when it became apparent that it would default on $2 billion in payments coming due on government and agency debt. Congress rushed to create the Federal Oversight Management Board (FOMB) to supervise Puerto Rico's finances and bring its debt under control. It also provided Puerto Rico protection from creditors in the form of a temporary stay on creditor lawsuits.

Debt crises are invariably contentious, and usually take years to resolve. So far, it appears Puerto Rico's crisis will be no exception. In late January of this year, the newly elected governor, Ricardo Rosselló, rejected the austerity plan proposed days earlier by the FOMB. That plan had 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 Puerto Rico intends to submit its own plan seeking to avoid deep spending cuts and widespread layoffs. If the governor does not submit a plan the FOMB finds acceptable, it has the legal authority to have its own plan deemed to have been "approved by the governor." Negotiations between the FOMB and creditors about a restructuring of Puerto Rico's debt are underway. If voluntary agreements are not reached, the FOMB has the authority to seek a court-ordered resolution.

From 1975 through 2006, Puerto Rico had a vibrant economy, with real incomes rising at a faster pace than in the United States or most of Latin America. But the commonwealth suffered a severe economic shock when Congress allowed tax breaks that had encouraged businesses to locate on the island to expire. The last of these tax breaks were phased out in 2006. The end of the tax breaks, plus the 2008-09 recession, brought factory closings and job losses, and Puerto Rico's real GNP has declined in all but one of the past seven years. Puerto Rico's population, meanwhile, has been falling as thousands have left to find jobs on the mainland. These shocks, together with chronic budget deficits, caused public debt to double between 2006-16 to a peak of $72 billion or 105% of GNP — a far heavier burden than any other country in Latin America.

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

Figure 1. Puerto Rico's debt crisis in one picture



Source: Government Development Bank and United Nations

Private forecasters expect that austerity will result in a decline in GNP for Puerto Rico at least through 2018. Puerto Rico needs fiscal balance and debt reduction but these alone are not enough to end the crisis. With high interest rates on its government debt and GNP falling, Puerto Rico's debt-to-GNP ratio is likely to continue to rise, much as Greece's has despite two support packages and a debt reduction deal. Structural reforms to improve the business climate would help, as would an end to the Jones Act, which in effect prohibits non-U.S. ships from carrying cargo between Puerto Rico and mainland U.S. ports. Puerto Rico has the most efficient port in Latin America, but because of these legal restrictions cannot make full use of it.

A worsening climate for business. Treated for statistical purposes as a sovereign country, Puerto Rico is ranked comparably to the higher-scoring Latin American countries in the World Bank's *Doing Business* report, but far below the United States. Puerto Rico has also slipped in the World Bank's governance indicators, suggesting a weakening of the rule of even U.S. law.

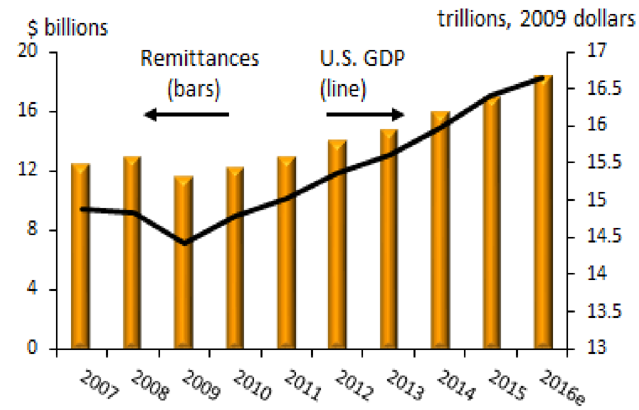
Puerto Rico: economic indicators

	Avg. 2010-14	2015	2016e	2017f
Real GNP, % change	-1.3	-0.6	-1.2	-2.0
Consumer prices, % Dec/Dec	1.9	0.1	-0.2	0.5
Government balance, % of GNP[1]	-6.3	-7.1	-8.0	-5.1
Merchandise trade ($ bil)				
Exports	62.1	69.4	68.7	68.1
Imports	43.2	43.2	41.4	41.4
Current account balance, % of GNP	7.0	9.2	10.2	9.4
Public debt ($ bil)	62.6	66.2	70.0	n/a
% of GNP	93	98	96	102

[1]Fiscal years

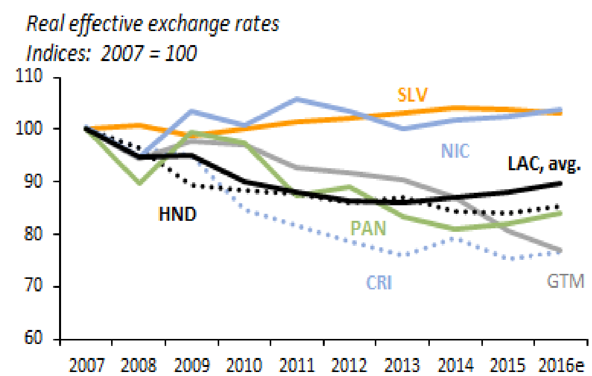
CENTRAL AMERICA

Figure 1. Remittances to Central America fluctuate with U.S. GDP



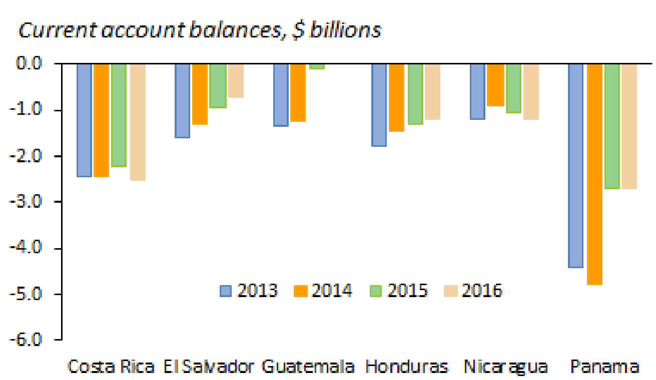
Source: World Bank, BEA

Figure 2. Not all of Central America's real exchange rates have fallen in recent years



Source: ECLAC

Figure 3. Central America has a history of Running current account deficits.



Source: ECLAC

COSTA RICA [=]

President Luis Guillermo Solís is expected to maintain pro-market policies for the rest of his term in office, which ends in 2018, and to continue to attempt fiscal reform. Costa Rica's debt is not on a sustainable path. The ratio of central government debt to GDP rose to an estimated 44.6% last year, a full 10 percentage points higher than it was four years earlier. The ratio of public debt to GDP, meanwhile, is 63.2% — its highest level since 1991 — and all three credit agencies have Costa Rica on negative watch. The administration's efforts at fiscal reform have been hampered by a deadlock with the opposition-controlled legislature. In December, the 2017 budget, which imposed deep spending cuts, was passed without a quorum after 20 of the 57 legislators left the chamber. The outlook for passage of tax reform legislation in the year ahead is clouded.

New labor code enacted. A new labor procedure code, adopted in January will take effect in July 2017. The new law defines the legality of strikes, and how authorities may respond to illegal strikes, expands prohibitions on discrimination in employment and adds protections for poor and pregnant employees. The new law address ILO reservations about Costa Rican labor law and practices.

New tax laws address property transfers and corporations. A May law imposes a 1.5% tax on transfers of real property, including indirect transfers of stock in a corporation owning property. A new corporation tax law was pending in congress in December, intended to replace one invalidated by the Supreme Court in 2015. In the meantime, because the court's ruling only applied prospectively, the national registry began liquidating corporations for failure to pay back taxes due through 2015.

A favorable business climate. Having shot up to 58 in the World Bank's 2015 *Doing Business* report, Costa Rica's progress stalled and it sank to 62 in 2016. Transparency International moved the country up from 47 to 40 in its 2015 Corruption Perceptions Index.

Costa Rica: economic indicators

	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	3.9	3.7	4.1	3.9
Consumer prices, % Dec/Dec	4.3	-0.8	0.8	2.8
Current account balance, % of GDP	-4.8	-4.6	-4.7	-5.1
Total external debt ($ bil)	13.9	23.7	24.9	27.0
% of exports	90	139	135	135

EL SALVADOR ▼

El Salvador's President, Salvador Sánchez Cerén of the leftist FMLN party, faces challenges in the form of a weak economy, widespread criminal and gang violence which has discouraged investment, and a standoff with the opposition over the 2017 budget. The administration is seeking a standby agreement with the IMF, and hopes the IMF will help broker an agreement on the budget. For its part, the main opposition party, Arena, insists on IMF monitoring of budget execution and wants more oversight of fiscal policy. Moody's downgraded El Salvador's government bond ratings to B3 in November 2016, citing the government's reliance on short-term funding and the ongoing budget impasse.

El Salvador: economic indicators	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	1.7	2.5	2.2	2.2
Consumer prices, % Dec/Dec	0.6	1.0	0.7	1.8
Current account balance, % of GDP	-4.9	-3.6	-0.2	-0.2
Total external debt ($ bil)	12.8	14.7	14.8	15.1
% of exports	213	216	221	213

Amnesty law found unconstitutional. In July, the Supreme Court's constitutional chamber declared parts of El Salvador's 1993 amnesty law unconstitutional, particularly sections which prevent the state from complying with the Inter-American Convention on Human Rights. The amnesty law is said to hinder investigation, prosecution, and reparations for cases of violence committed during the civil war.

Electronic signature law adopted. A new law approving use of electronic signatures took effect in April. Seen as a modern legal instrument to provide security for transactions made through information technology applications, the law provides legal support in case of breach of contract. The law also enables the creation of businesses to certify signatures.

Some worsening in the business climate has occurred. El Salvador fell to 95th in the World Bank's 2017 ease of doing business report, having made it more difficult for businesses to access credit information. The country is essentially unchanged in Transparency International's corruptions index. Although El Salvador's reported rate of crime victimization is low for Latin America, its homicide rate, at 64 per 100,000, is the second highest in the region.

GUATEMALA [=]

Guatemala's economy has managed to grow at a rate close to 4% despite the austerity measures that President Jimmy Morales put in place immediately after taking office in January 2016. These measures were intended to curb waste in government. Mr. Morales' approval rating has plunged from 80% to just 20%. The drop reflects the unpopularity of cuts to social spending and concerns about the influence of former military hard-liners in his party, the Frente de Convergencia Nacional (FCN-Nación). Although Mr. Morales is pursuing an anti-corruption program, an investigation opened in September against his brother and one of his sons has not helped his approval rating.

Guatemala: economic indicators	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	3.6	4.1	3.5	3.6
Consumer prices, % Dec/Dec	2.3	3.1	4.2	4.1
Current account balance, % of GDP	-0.1	-0.2	0.0	-0.1
Total external debt ($ bil)	16.6	20.2	20.2	20.2
% of exports	128	143	128	111

Guatemala accedes to Trademark Law Treaty. In March, Guatemala announced its accession to the Trademark Law Treaty. The treaty will lead to harmonization and simplification of procedures to register and renew trademarks, including by foreign trademark holders.

Mining rights curbed. A July ruling by the Supreme Court upheld the suspension of operations in a mine run by a subsidiary of U.S. mining company, Kappes, Cassidy & Associates. The court found that the mine had no valid municipal permit, that the company's environmental impact analysis was flawed, and that there had been no previous consultation with the community as is required by law.

CICIG renewed for two years. In May, Mr. Morales requested a two-year extension of the U.N.'s International Commission Against Impunity (CICIG) which was to expire in September 2017. CICIG was established in 2007 to investigate and assist with the prosecution of crimes committed by illegal groups and clandestine security structures, including those within the government.

Little change in the business environment. Guatemala fell to 88th place in the World Bank's most recent ease of doing business ratings despite a reduction in the corporate income tax. Guatemala fell to 123rd place in Transparency International's corruption index.

HONDURAS [±]

Honduras's economy has benefitted from low oil prices and trade with the United States in recent years. The IMF gave Honduras a generally positive review in October, recognizing the country's progress in reducing its fiscal deficit and maintaining stability. Extortion and gang-related violence, however, are widespread and threaten to deter investment and growth. President Orlando Hernández has proposed new anti-crime reforms, but progress against entrenched gangs is likely to be slow. Mr. Hernández is seeking a second term in elections to be held in November, but the rules are in dispute. In April 2015, the Supreme Court suspended a constitutional ban on re-election. The opposition claims it is up to Congress to create new laws governing presidential terms in office.

Honduras: economic indicators

	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	3.5	3.6	3.6	3.7
Consumer prices, % Dec/Dec	5.1	2.4	3.5	4.1
Current account balance, % of GDP	-7.6	-6.4	-5.8	-5.6
Total external debt ($ bil)	5.5	7.6	8.1	8.5
% of exports	89	68	74	76

New fiscal responsibility law tries to curb spending. In April, Congress approved the Law on Transparency and Accountability. The new law will set limits on the country's fiscal deficit and create a new governing body for its macro fiscal policy.

New campaign finance and accountability law adopted amidst corruption scandals. In September, after considerable delays, the Honduran congress adopted a reform law proposed by the OAS-backed Support Mission Against Corruption and Impunity in Honduras (MACCIH). The new law establishes a commission to supervise electoral campaigns and sets out penalties for violations. These can range from fines to the termination of the candidacy of individuals and even parties.

Business environment shows slight improvement. Honduras moved up to 105th place in the World Bank's ease of doing business ratings for 2017, up from 110th in the 2016 rankings. This improvement came notwithstanding changes in border inspections that made it more difficult to trade across borders. The country showed significant improvement in Transparency International's corruption rankings, moving from 126th in 2014 to 112th place in the 2015 index. Crime remains a serious problem: Honduras's homicide rate is the highest of any country not at war.

NICARAGUA [=]

Although it is one of the poorest countries in Latin America, Nicaragua has been one of the fastest growing. That growth, however, masks some vulnerabilities. One is the country's persistent, large current account deficits. Low agricultural prices recently have meant flat export revenues, while imports have continued to grow. As a result, Nicaragua's external debt is now 27% above its 2009-15 average level. To be sure, at 232% of exports, its external debt is manageable, and its central government debt is about 30% of GDP, well below the average for Latin America. However, 92% of that debt is denominated in foreign currencies, leaving the government exposed to foreign exchange risk. This exposure is a factor in its low (B2/B+/B+) sovereign credit ratings.

Nicaragua: economic indicators

	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	4.8	4.9	4.6	4.5
Consumer prices, % Dec/Dec	5.9	3.1	4.4	6.2
Current account balance, % of GDP	-10.1	-8.2	-9.5	-9.7
Total external debt ($ bil)	8.8	10.5	11.2	12.3
% of exports	199	218	232	232

Supreme court facilitates one-party system. In June, the Nicaraguan supreme court removed Eduardo Moealegre as leader of the Independent Liberal Party (ILP), effectively disrupting the coalition that opposed President Daniel Ortega's ruling party, the Frente Sandinista. Montealegre's replacement in the PLI, Pedro Vallejos, was rumored to be a collaborator with the ruling party. In August, the Supreme Electoral Council responded to a request by Vallejos and removed 28 opposition deputies from Congress for their failure to accept his leadership of the ILP.

U.S. may place conditions on aid to Nicaragua. In the run-up to Nicaragua's election, the U.S. House of Representatives passed the Nicaraguan Investment Conditionality Act, which would block the country from access to loans by international financial institutions unless the country holds free, fair and transparent elections. While the bill must still be approved by the U.S. Senate, Nicaragua's government criticized the bill as a violation of international law.

Little improvement seen in Nicaragua's business environment. The World Bank ranked Nicaragua 127th in its 2017 ease of doing business survey — the lowest in Central America — while Transparency International ranked it 130th in its 2015 Corruption Perception Index.

PANAMA [=]

- **Panama's growth is decelerating now that the canal expansion is complete but will remain rapid.**

- **Tourism and financial services to remain sources of growth.**

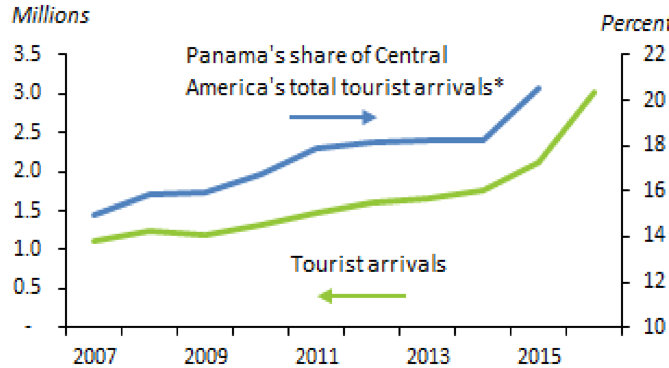
In June, Panama opened its "third canal" to shipping. The $5 billion expansion of the canal had been subject to long delays, work stoppages, and came in at least one billion dollars over budget. Its completion comes at a time when shipping rates are low, extending the time it will take for Panama to recoup its investment. But it was necessary to expand the canal to allow newer, massive container ships to use the canal and compete with ships going though the Suez Canal. Spending on the canal expansion and other public works projects had helped boost GDP growth, which had been the most rapid in Latin America during the years 2010-15. Panama's growth rate will decelerate now that construction on the canal has ended, but the country will still get a boost from public spending on a second Metro line and from urban renewal.

Meanwhile, Panama's two other major industries, tourism and finance, should continue to be sources of growth. Last year an estimated three million tourists visited Panama, spending an estimated $4.75 billion, with a total contribution likely amounting to 18 % of GDP. Following the leak in April of the "Panama Papers", the government convened a panel of international experts to improve and protect its role as a vibrant offshore banking center. The experts, however, were unable to reach agreement on a common report. Deposits in Panama's offshore banks have risen in the months following the leak.

New law imposes accounting obligations on offshore companies. A law adopted in October requires companies and other legal persons that do not do business in Panama to maintain accounting records for five years in the office of their resident agent.

Panama signs tax information exchange agreement with U.S. In April, Panama agreed to implement a Foreign Account Tax Compliance Act (FATCA) agreement with U.S. to allow for an exchange of tax information about U.S. persons with accounts in Panama. The Panamanian congress ratified the agreement in October requiring Panama-based financial institutions to report annually about accounts of U.S. persons. The agreement reflects Panama's continued efforts to get off the OECD gray list.

Figure 1. Panama's growing tourism industry is gaining market share.



Source: World Bank and UF estimates * includes Belize

Longtime trade dispute with Colombia worsens. A November 2015 WTO ruling found Colombian tariffs on textiles and shoes manufactured in Panama's free trade zone violated international trade rules, and a WTO appellate body upheld the ruling. After Colombia continued to impose the tariffs, Panama threatened retaliation. The WTO panel rejected Colombia's arguments that the higher tariffs were needed to combat smuggling and money laundering.

Little change seen in Panama's business climate. Panama slipped one place in the World Bank's latest *Doing Business* survey to 70th out of 190 countries. Panama ranked 42 out of 138 countries in the Global Competitiveness Index, up 8 places. However, the country moved up to 72 in Transparency International's 2015 corruption index, up from 94 in 2014.

Panama: economic indicators

	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	7.9	5.8	5.4	5.5
Consumer prices, % Dec/Dec	3.6	0.3	1.2	2.1
Government balance, % of GDP	-3.2	-3.9	-2.9	-1.6
Merchandise trade ($ mil)				
Exports	16.1	12.8	15.3	15.7
Imports	23.8	22.5	22.4	23.8
Current account balance, % of GDP	-10.8	-6.5	-5.0	-4.7
International reserves ($ bil)	2.9	3.4	3.9	3.9
Total external debt ($ bil)	62.7	87.7	95.3	103.0
Total external debt, % of GDP	243	321	292	308
Total external debt, % of exports	242	322	293	309

ANDEAN SOUTH AMERICA

BOLIVIA [±]

Despite its heavy dependence on exports of petroleum products and metals, Bolivia has so far weathered the weakness in global commodity markets fairly well. Although GDP growth decelerated following the end of the commodity supercycle in 2014, it has still averaged 4.6% over the past three years. Inflation, meanwhile, has remained subdued. Some clouds, however, have appeared on the horizon. Exports have fallen off — last year they were only two-thirds of their average 2009-14 value — resulting in a widening current account deficit that is expected to narrow only slightly in 2017. These deficits have been financed in part by drawing down the central bank's international reserves, which have fallen by a third over the past three years. The consensus expects they will decline further this year. The government has chosen to keep the currency pegged at Bs6.91:US$1 since November 2011, which means its exchange rate stands to rise relative to that of its trading partners if the dollar appreciates, which it likely will if interest rates rise in the United States, as forecasters expect.

President Evo Morales will likely seek to extend his term of office beyond its end in 2020, though a referendum to allow that failed in February 2016 (see below). Even if that effort is not successful, his party, the Movimieneto al Socialismo (MAS) will remain firmly in control in the face of a weak and divided opposition. The government is expected to continue to keep expenditures high, including public investment, as a way of softening the effect of soft export earnings on the economy, though this risks making the budget deficit larger.

LEGAL ENVIRONMENT

President Morales loses national referendum to allow re-election to fourth term. In February,Mr. Morales lost a national referendum on proposed revisions to the Bolivian constitution. One of the changes sought was to allow an incumbent president to run for a fourth consecutive term in office. In initial statements, Mr. Morales agreed to abide by the people's wishes. However, in its December congress, the ruling MAS party selected Evo Morales as its 2020 presidential candidate, so this issue is not yet settled.

Presidential decrees target mining coops. Following the August assassination of the deputy minister of the interior while he was attempting to mediate a strike by miners, President Morales issued several decrees: 1) reassigning to state control areas mined under contracts or subcontracts between mining cooperatives and national or foreign private companies; 2) returning to state control areas opened for mining where mining had not yet begun; 3) placing all workers with mining cooperatives under the general Bolivian employment law; 4) registering all mining cooperative workers with the national health service; and 5) making the use of dynamite in protests and demonstrations a criminal act.

President Morales targets journalists. Disputes between the Bolivian leader and the press resulted in criminal prosecutions. A judge in August allowed a criminal defamation suit by the president against a journalist who linked Mr. Morales to the death of a police officer in 2000. Another journalist who, in the course of reporting on a corruption scandal, had made disclosures about the president's mistress and illegitimate son fled to Argentina after facing threats.

BUSINESS ENVIRONMENT

Bolivia ranked 149th in the World Bank's latest ease of doing business ratings, rising 8 places since the last report. The rise came because of changes making it easier and quicker to start businesses, and allowing pre-trial conferences in contract disputes which should encourage settlements without the need for long and expensive litigation. Bolivia also showed a small improvement in Transparency International's corruption index, rising to 99th place.

Bolivia: economic indicators

	Avg. 2009-14	2015	2016e	2017f
Real GDP, % change	5.3	4.8	3.6	3.7
Consumer prices, % Dec/Dec	5.4	3.0	3.5	4.1
Government balance, % of GDP	-0.1	-4.5	-4.6	-3.2
Merchandise trade ($ bil)				
Exports	10.0	8.3	6.7	7.9
Imports	8.4	9.7	8.1	8.6
Current account balance, % of GDP	3.8	-5.6	-6.5	-5.2
International reserves ($ bil)	13.0	13.1	10.3	8.3
Total external debt ($ bil)	7.1	9.8	10.6	13.3
% of GDP	27	30	30	35
% of exports	65	102	135	144

COLOMBIA ▲

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

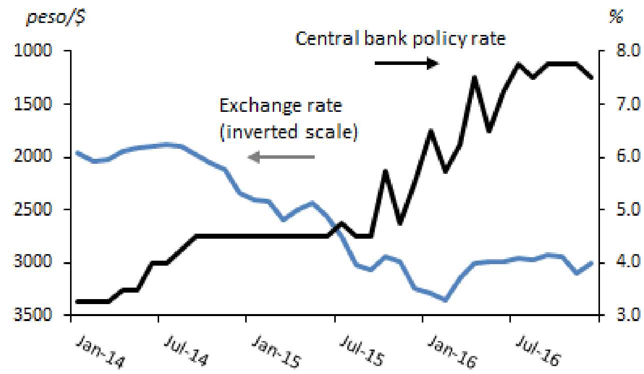
- **The worst of the oil price shock seems to be over, and the central bank recently cut interest rates.**

President Manuel Santos' main goal for the remainder of his second term, which ends in 2018, will be to end the conflict between the government and rebel movements that began in 1964. In November, the government signed a revised agreement peace agreement with the Fuerzas Armadas Revolucionarias (FARC), the largest of the country's two guerilla movements. Congress approved the revised peace agreement within a few days in late November. An earlier version of the agreement was rejected by a narrow margin in an October referendum. Most voters supported an end to the conflict, but thought the deal offered too much leniency to the FARC, which has a long history of kidnappings and killings. Mr. Santos was forced to reopen negotiations with the rebels and reach a new agreement that addressed at least some of voters' objections. Congressional opponents of the deal walked out before the November vote, and the peace agreement will remain a polarizing issue in Colombia. However, both houses of the legislature are controlled by Mr. Santos' Unidad Nacional coalition, making full implementation of the agreement likely over the next few months. In January, the government announced that it had restarted talks with the Ejército de Liberación Nacional (ELN), a smaller guerilla group.

Colombia's macroeconomic management has long been among the best in Latin America, and the country has largely avoided economic instability despite the conflict with the rebels. A permanent resolution of the conflict should put investment and tourism, both of which have enjoyed a revival in recent years, on a sound footing. The main challenge for Colombia over the past two years has been the collapse of the price of oil, Colombia's principal export. (Petroleum products account for about half of Colombia's exports.) Colombia allowed its exchange rate to depreciate, which helped offset the shock to its terms of trade. The central bank, the Banco de la República (Banrep), was forced to raise interest rates to keep exchange rate depreciation from turning into higher inflation. By December of last year, however, the currency had stabilized enough for Banrep to cut interest rates.

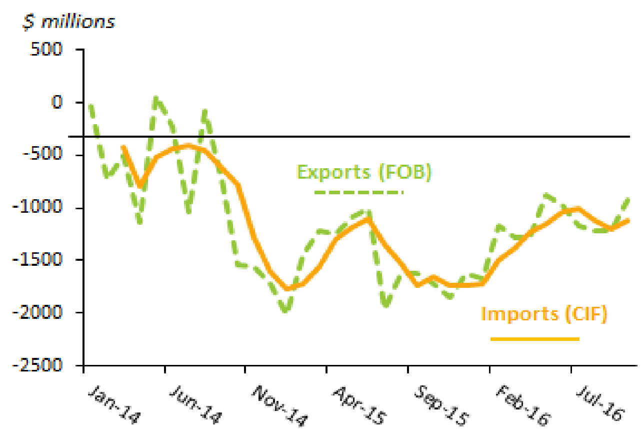
The Santos administration is expected to continue to adhere to an orthodox set of macroeconomic policies, including a flexible exchange rate, inflation targeting, and a medium-term plan to reduce the budget deficit.

Figure 1. A stabile exchange rate allowed central bank to cut interest rates in December.



Source: IMF

Figure 2. Colombia's trade volumes are picking up



Source: IMF

Colombia: economic indicators	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	4.8	3.1	2.0	2.5
Consumer prices, % Dec/Dec	2.9	6.8	5.7	4.4
Government balance, % of GDP	-2.7	-3.0	-3.9	-3.3
Merchandise trade ($ bil)				
Exports	55.6	38.1	32.6	35.8
Imports	53.2	52.1	44.0	45.4
Current account balance, % of GDP	-3.5	-6.7	-4.9	-4.0
International reserves ($ bil)	37.0	46.1	46.3	46.5
Total external debt ($ bil)	81	111	109	112
% of GDP	23	38	39	36
% of exports	123	220	242	228

Oil exports have also stabilized, and the trade balance is improving, which should help growth pick up in 2017.

Nevertheless, oil prices are still low enough to hamper fiscal performance. In December, the government increased the value added tax from 16% to 19% to help offset low oil revenues (see below). The higher tax rate, efforts to curb evasion, and a partial recovery in oil prices should allow the government to hold the budget deficit down to 3.9% of GDP in 2017 and 2.2% in 2018, and this will permit the government to follow through on a 2015 plan to increase infrastructure spending.

LEGAL ENVIRONMENT

Government tax reform measure enacted. Congress approved the tax reform bill in December, and it will take effect in January 2017. In addition to increasing value added taxes and certain excise taxes, the new law reduces corporate income tax rates from 43% to 33% over the next two years. Finally, the law introduces additional penalties and tools to combat tax evasion.

New anti-corruption legislation passed. In February, Colombia demonstrated its commitment to the OECD's Anti-Bribery Convention by enacting the Transnational Corruption Act. The new law will allow the Colombian government to impose administrative fines not only on companies domiciled in Colombia, but also on their parent companies or foreign subsidiaries. The law imposes penalties of up to 15 years in prison and higher fines for individuals, as well as fines and disqualification from government contracts for organizations convicted of corruption. The law also offers concessions for those who assist in identifying offenders.

Constitutional Court revokes mining licenses in parts of Colombian Andes. In February, the Constitutional Court revoked 347 mining licenses to private companies granted in environmentally sensitive areas of the Andes. The court found that environmental concerns under the Colombian constitution trumped rights of mining companies. The decision overturns part of Colombia's national development plan which had banned issuing licenses, but had allowed those already granted to continue. The decision enjoined any current or future mining in the region.

Constitutional Court moves to allow people displaced by war to reclaim lands. In February, the Constitutional Court also overturned part of the national development plan that prevented peopled displaced by Colombia's long guerrilla war from returning to their land. The court ruled that persons displaced by war have a fundamental right to restitution of their property, and that the state must preserve these rights.

U.S. court allows claims against Chiquita executives under Torture Victim Protection Act. In May, a federal district court in Florida allowed claims by Colombians against executives of Chiquita Brands Int'l, Inc. for violation of the Torture Victim Protection Act to go to trial. The Colombian plaintiffs claim they are victims of torture by paramilitary squads hired by Chiquita to prevent labor unrest and leftist agitation on banana plantations in Colombia. Chiquita had pleaded guilty in 2007 to U.S. charges of paying paramilitary squads, and was fined $25 million. The company claims that it paid the money under duress to avoid violence against its workers. In 2015, the U.S. Supreme Court had let stand an appeals court ruling dismissing claims by Colombian plaintiffs against Chiquita under the Alien Tort Claims Act, but that decision did not affect claims under the Torture Victim Protection Act.

Constitutional Court approves both initial peace referendum and subsequent peace agreement. In July, the Constitutional Court had approved the process for the initial referendum on the peace agreement between Colombia and the FARC guerrilla army. When that agreement was rejected in October, the government sought to avoid a referendum on the second, revised agreement. The Constitutional Court, in December, ruled in favor of the President Santos's fast-track plans to expedite the revised agreement. This decision allowed the agreement to be submitted to Congress for a simple up-or-down vote on its key aspects without allowing amendments to the deal.

BUSINESS ENVIRONMENT

Only Mexico beats Colombia among Latin American countries in the World Bank's most recent ease of doing business rankings, with the country ranked 53rd of 190 countries in 2017. The most recent improvement is due to business registration changes that make it easier to start a new business. As part of its accession to the OECD, a process that began in 2013, Colombia has adopted measures that should help improve the business climate in coming years. These measures include efforts 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.

Colombia is in third place in the regional rankings in the 2016 Index of Economic Freedom. Colombia improved its ranking in Transparency International's corruption index, rising to 83rd place in 2015 from 94th in 2014. However this improvement in rankings masks a 2015 score that was unchanged from the 2014 index.

ECUADOR [±]

- **Ecuador continues to struggle with low oil prices.**
- **Investment demand remains weak.**

Given its dependence on oil, Ecuador was fortunate to get through 2016 with a contraction of only 1.9% in economic activity. Oil revenues, which accounted for about 30% of government revenues when oil prices began their descent in 2014, fell to 10% , and because oil production is about 13% of GDP, nonoil revenues fell as well. The government was forced to cut spending to prevent the budget deficit from exceeding its statutory cap of 4% of GDP. Ecuador is a dollarized economy (it uses the U.S. dollar as its currency) so it did not have the option of depreciating its currency to help offset the effect of lower oil prices on exports. Even though imports fell by more than exports, the current account balance turned into a deficit in 2016. The rating agencies did not cut Ecuador's credit rating from its already low, below-investment grade status. Although its public debt increased in 2016, Ecuador's debt burden is not especially high, and the outlook is for a gradual improvement in both fiscal and external accounts. A higher credit rating, however, will likely have to await a recovery in GDP growth and an improvement in the government's liquidity.

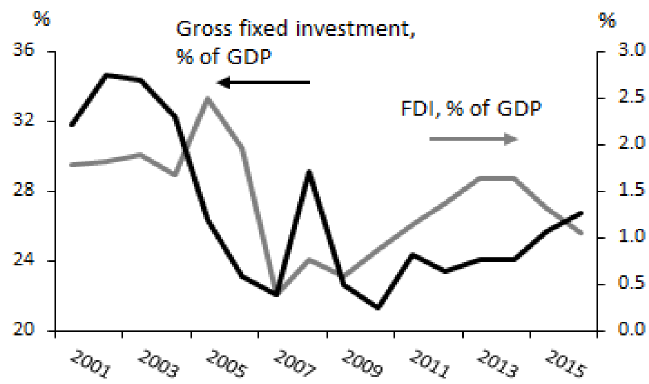
Potential investors in Ecuador will be watching the results of the presidential run-off election that is to occur in April. Although the government of outgoing President Rafael Correa has taken steps to attract foreign investment, memories of the country's reputation as a less-than-friendly place to do business has kept investment low by Latin American standards. Foreign direct investment in Ecuador as a percent GDP, for example, is only a third of Peru's.

New intellectual property law adopted. In December, Ecuador's new intellectual property law took effect. The law is controversial for making IP rights conditional on social conditions, and also for ignoring requirements of the Andean Community's common IP regime, as well as the international TRIPS agreement.

Ecuador joins Andean free trade agreement with EU. Although it suspended talks in 2009, Ecuador finally joined Colombia and Peru in a free trade agreement with the European Union. Effective in January 2017, the agreement provides for progressively eliminating tariffs.

Public-private partnership law seeks to attract investment. A law passed in December 2015 promotes public-private partnerships. The law creates an inter-

Figure 1. Business investment has yet to return to pre-crisis levels



Source: IMF, ECLAC

agency committee to prioritize projects, offers incentives for investors, including reduced income, value added and capital exit taxes. The law provides that Latin American arbitration bodies will serve as the official dispute resolution mechanism.

New losses for Ecuador in long-running Chevron case. The Chevron case originally involved multi-billion dollar claims for environmental damages allegedly caused by Chevron's subsidiary Texaco. In August, a U.S. appeals court affirmed the civil racketeering judgment against Ecuador and its U.S. attorneys, upholding a trial court holding that the Ecuadorian plaintiffs and their lawyers secured the Ecuadorian judgment using fraud and corruption. In June, the U.S. Supreme Court had rejected Ecuador's challenge of an international arbitration award to Chevron over commercial disputes, and the country paid Chevron U.S. $112 million in July.

Business environment showed little change in 2016. The World Bank ranks Ecuador 114th out of 190 countries in its most recent ease of doing business report. This represented a slight improvement from 2016. The country fell to 91st place in the 2016-17 global competitiveness rankings, down 15 places.

Ecuador: economic indicators

	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	5.0	0.3	-1.9	0.6
Consumer prices, % Dec/Dec	3.6	3.4	1.6	2.0
Government balance, % of GDP	-3.4	-3.8	-3.9	-2.3
Merchandise trade ($ bil)				
Exports	23.6	19.0	16.4	19.1
Imports	24.1	20.7	14.7	16.9
International reserves ($ bil)	2.2	2.1	4.2	4.1
Current account balance, % of GDP	-0.9	-0.6	-2.2	-0.2
Total external debt ($ bil)	18.7	27.3	34.1	37.6
% of GDP	22	27	33	36
% of exports	67	116	183	173

PERU ▲

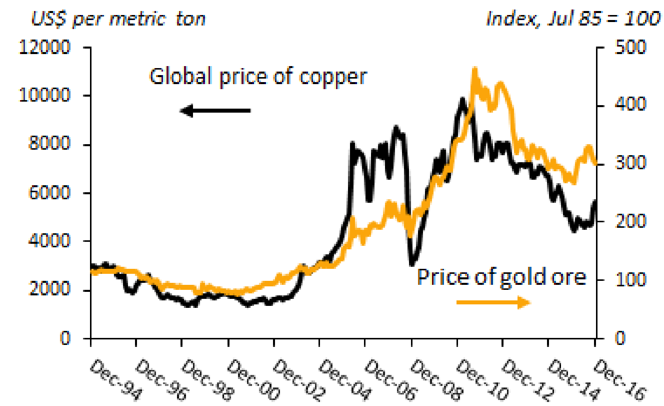
- **The economy is recovering steadily but slowly from the 2014-15 commodity price shock .**
- **Central bank rate hikes have dampened inflation.**
- **President Pedro Pablo Kuczyinski will pursue market-oriented policies, but faces challenges in improving the business climate.**

Over the past 25 years, Peru has been one of Latin America's best performing economies. Heeding the lessons learned in the early 1990s when the country experienced hyperinflation, Peru has since followed prudent fiscal policies, promoted private and public investment, and sought integration into the global economy. The result has been an average real GDP growth rate of 4.8% between 1991 and 2016 — a rate higher than the average for the six largest economies in the region and matched only by Chile. Helped by a boom in the mining sector, poverty in Peru fell from 58.7% of the population in 2004 to 21.8% by 2015, Peru, like other commodity-producing countries, saw its terms of trade deteriorate sharply beginning in 2014, and its growth decelerate. Peru allowed its currency to depreciate by about 16% during 2014-15, which helped soften the blow from lower commodity prices, but at the cost of an inflation rate that rose above the central bank's 1% to 3% inflation target. The central bank responded by raising its policy rate, which has succeeded in bringing inflation back down to within its target band. GDP growth picked up modestly in 2016 and should continue to do so in the year ahead.

Peru's President Pedro Pablo Kuczyinski, elected in April 2016, is an economist and former investment banker who served as prime minister in 2005-06. He can be expected to continue Peru's market-friendly policies while seeking to improve security and combat corruption. Some conflicts between the Kuczyinski administration and the opposition Fuerza Popular party, which has a majority in the National Assembly, are likely. But both the opposition party and President Kuczyinski's Peruanos por el Kambio (PPK) party share similar center-right orientations, so the opposition will likely stop short of being overtly obstructive.

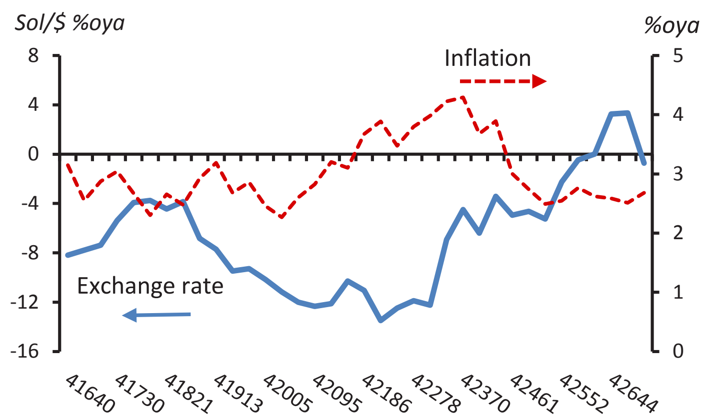
While Peru's macroeconomic management is sound, at the micro level Peru has considerable scope for improving its business climate. Dispute settlement remains problematic in Peru according to the U.S. State

Figure 1. The prices of Peru's two largest exports have stabilized



Source: IMF and BLS

Figure 2. The inflationary impact of the depreciation of the Sol is subsiding



Source: IMF

Peru: economic indicators	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	5.8	3.3	3.9	4.1
Consumer prices, % Dec/Dec	3.0	4.4	3.2	2.9
Government balance, % of GDP	0.9	-2.2	-2.9	-2.5
Merchandise trade ($ bil)				
Exports	42.4	34.2	35.4	38.2
Imports	38.1	37.4	36.0	37.9
Current account balance, % of GDP	-3.1	-4.1	-4.8	-3.4
International reserves ($ bil)	55.5	60.4	61.1	62.9
Total external debt ($ bil)	51.9	65.9	67.9	69.9
% of GDP	31	35	35	33
% of exports	113	152	152	145

Department's Investment Climate statement for that country, Piracy of intellectual property (including the counterfeiting of medicines) is common. Regulatory transparency and independence, have become central issues for foreign investors. While the legal and regulatory framework in Peru provides for transparent procedures, in practice delays and a lack of predictability in rulings are common. The U.S. State Department reports that U.S. and other non-Peruvian firms have complained in particular about re-interpretations of regulations and laws, usurious interest charges, and disproportionate fines levied by SUNAT, the Peruvian tax agency.

Civil unrest in the mining sector, meanwhile, has adversely affected Peru's perceived investment climate. Violent protests centered on environmental concerns have occurred against Mexican and Chinese-owned mining projects over the past two years. Still-high levels of poverty in rural areas and persistent activism in indigenous communities make further conflicts about extractive projects likely.

LEGAL ENVIRONMENT

Peru's congress grants President Kuczynski special legislative powers on economy and public matters. The Peruvian congress in late September passed legislation giving the executive branch powers to pass economic reform decrees for a 90-day period. The government issued decrees lowering sales taxes from 18% to 17%, and reducing taxes on small- and medium-sized businesses, while increasing taxes on larger businesses.

Decree expands penalties for those convicted of organized crime. President Kuczynski also issued an executive decree which includes longer prison sentences for those involved in criminal organizations and the revocation of conditional release for those convicted of certain crimes including murder for hire and money laundering.

New decree targets bureaucracy. In December, the Peruvian government approved a decree to eliminate bureaucratic obstructions to public services and the streamline public administration practices. The law requires that once the agency for competition and intellectual property (Indecopi) has determined a bureaucratic procedure to be illegal, that procedure can no longer applicable to anyone. The law also specified that public entities cannot appeal Indecopi decisions to axe a bureaucratic procedure in court directly: they must first seek approval from the relevant prosecutor's office and then from the council of ministers.

Financial intelligence unit given more powers. In November, another decree gave the financial intelligence unit additional authority to combat money laundering and terrorism offenses. Peru's ministerial council approved allowing the unit access to information covered under bank secrecy provisions. The decree also allowed the centralization of management of public notaries, and approved the expansion of the list of entities required to submit clients' financial information to include credit card processors, loan companies, betting agencies, lawyers and accountants.

New education reform law approved. In October, the Peruvian congress approved an education law to improve secondary schools. Part of the law increases minimum teacher pay in an attempt to recruit and retain more qualified teachers. The law will also require students to have access to at least three hours of drama, art or music per week, and seeks to preserve access to and teaching in indigenous languages. The law requires expansions to the education budget to fund infrastructure and other improvements, as well as to establish regional technical academies.

New laws target corruption. Following high profile corruption scandals, the government moved quickly to enact additional legal measures targeting corruption. The penal code was amended to increase penalties for corruption to include prison sentences of between two and 20 years. Another measure will ban politicians convicted of corruption from running for public office again.

BUSINESS ENVIRONMENT

Peru was ranked 54 out of 190 countries, in the World Bank's latest *Doing Business* report, slipping just behind Colombia in the rankings. The improvement in Peru's score stems from a decrease in corporate income taxes. Peru has slipped in corruption perceptions, falling to 88th place in 2015. Peru was essentially unchanged in the global competitiveness rankings for 2016-2017. The Economic Freedom Index ranks Peru fourth among Latin American nations, citing its sustained open-market policies and regulatory reforms.

VENEZUELA ▼

- **Venezuela Is facing the most severe economic and political crisis in its history.**

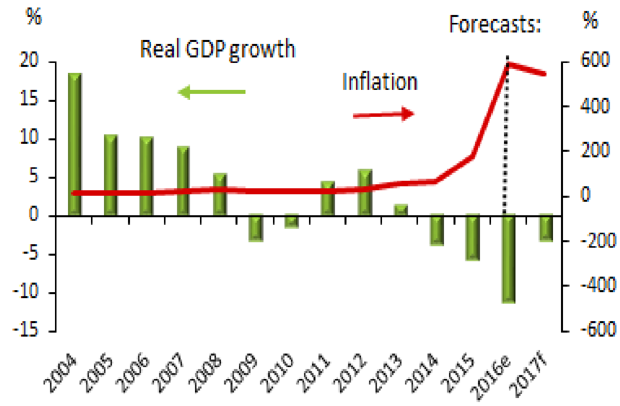
- **Economic activity is contracting rapidly amidst widespread shortages and near hyperinflation.**

- **The government and the National Assembly are deadlocked.**

Venezuela is rapidly becoming a failed state. It is in the third year of a deep recession. Inflation, according to the consensus, may have approached 600% in 2016. No one knows for sure because the government stopped publishing official statistics at the beginning of last year. GDP is in a freefall, with a consensus estimate of an 11.3% decline last year. (An early leaked estimate from the central bank put the decline at 18.6%.) Price controls and unrealistic exchange rates have resulted in empty shelves in stores, with severe shortages of food, basic household items, and medical supplies. The central bank's international reserves have fallen from $22 billion two years ago to $4 billion, and now amount to only 1.6 months' worth of imports. Sovereign bond markets are pricing in a high probability of default on the government's Caa3/CCC rated bonds. In October the state-owned oil company, PDVSA, was able to avoid a default only by persuading investors to exchange their bonds for new securities with longer maturities. Venezuela is a terrible place to do business. According to World Bank surveys its citizens have little confidence in the rules of society, in the judiciary, or in the enforceability of contracts. The government intimidates and criminally prosecutes its critics, and uses excessive force on unarmed protestors. It has the highest reported rate of crime victimization in Latin America, and the region's second highest homicide rate. How did Venezuela get to such a desperate state?

It was not always so. Between 2003— Hugo Chávez's fifth year as president — and its peak in 2010, GDP per capita in Venezuela more than tripled, and between 2004 and 2014 poverty was essentially halved. These were years in which the price of oil, the country's main export, rose rapidly. Hugo Chávez and his successor, Nicolás Maduro, used oil revenues to provide improvements to health care and education to millions. But trouble was brewing. The government nationalized plants in a variety of industries, including the steel, crude oil, glass, and supermarket industries. It put on price controls and introduced a fixed exchange rate (later expanded to three official rates) that quickly became overvalued. It failed to invest in PDVSA, whose production fell, reaching a 13-year low last year. GDP per capita failed to grow in 2013, then plummeted when the price of oil fell from a peak of $107 per barrel (WTI) in April 2014 to $26 per barrel in February 2016 before recovering to around $50 per barrel. Real GDP fell by a cumulative 20% during 2014-16 and the consensus expects it to decline by another 3.9% in 2017. As oil prices fell, so did government revenues, and the budget deficit ballooned to 9.2% of GDP last year. It was financed with money creation, which has led to an inflation rate estimated by the consensus to have reached 590% in 2016.

Figure 1. Picture of a failing economy.



Source: ECLAC, Consensus Economics

Opposition parties, which won a veto-proof supermajority of seats in the National Assembly in December of last year, tried first to induce President Maduro to free political prisoners and then to force a recall referendum. The efforts were unsuccessful. The Supreme Court, filled with regime loyalists, has been able to block most of the National Assembly's initiatives, and the electoral

Venezuela: economic indicators

	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	-3.9	-5.7	-11.3	-3.2
Consumer prices, % Dec/Dec	68.5	180.9	590.6	544.3
Government balance, % of GDP	-5.9	-7.7	-9.2	-7.0
Merchandise trade ($ bil)				
Exports	74.7	37.4	27.1	33.1
Imports	47.5	36.9	21.3	22.9
Current account balance, % of GDP	0.9	-4.3	-1.6	-0.5
International reserves ($ bil)	22.1	5.1	4.0	3.8
Total external debt ($ bil)	135.7	123.7	92.4	89.7
Total external debt, % of GDP	32.9	26	18	15
Total external debt, % of exports	177.0	322	333	265

commission, also filled with loyalists, has prevented a recall referendum from going through. Talks between the government and the opposition sponsored by the Vatican and Unasur, a regional cooperative body, fell through in December.

The opposition will continue to try to oust President Maduro, and he can be expected to resist with every means at his disposal. Recently, he appointed a hard-liner, Tareck El Aissami, as vice president, signaling a move away from dialogue, compromise, and reform. At this point Venezuela is running out of options. Mr. Maduro's game plan seems to be to stave off the opposition — and an increasingly discontent population — until the price of oil recovers. The futures market is looking for oil prices to go up, but only to $55 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 over $100 per barrel.

LEGAL ENVIRONMENT

Courts affirm government against Assembly. Facing desperate economic conditions, Mr. Maduro decreed a state of emergency on January 15. The opposition-controlled National Assembly claimed the move needed its approval. However, the Supreme Court ruled five days afterwards that the law is constitutional. The court also ruled that all decisions by the Assembly would be void until elected lawmakers who were allegedly involved in election fraud were removed.

U.S. and international corruption investigations target PDVSA, other businesses. U.S. prosecutors obtained guilty pleas to violations of the Foreign Corrupt Practices Act, conspiracy and wire fraud in at least six high profile cases involving Venezuelan officials or business leaders in 2016,

Venezuela's exchange rates
In March 2016, Venezuela adopted a new, dual exchange rate system. One rate is the official peg, known as the Dipro, and is for public sector transactions. It is fixed at VEF10:US$1. The other, called the Dicom (replacing the Simadi) is a managed floating rate, At end- January 2017 the Dicom was trading at VEF690:US$1. Venezuela also has a black market rate which has been depreciating rapidly. At the end of January 2017 it was trading at VEF3,541: US$1, down from VEF984:US$1 a year earlier.

with charges that illicit funds were laundered through the Venezuelan oil company. The U.S. Treasury, Andorra, Spain and Switzerland are also looking at suspicious banking activity involving current and former Venezuelan officials.

Referendum disputes with courts. The Supreme Court decided in March that any new constitutional amendment changing rules for recall referenda would not apply retroactively. In April, the elections court ruled that only it had authority to proscribe rules for recall referenda, rejecting the Assembly's referendum law. The elections court ruled that signatures from 20% of voters from each of Venezuela's 23 states would be required to bring a recall referendum. The timetable allowed by the court, pushed any referendum to February, thus ensuring that in the event President Maduro is recalled, he would be succeeded by his vice president.

Court assumes budget functions, authorizes central bank to take on new debt. Because the Assembly did not remove legislators whom it had found unqualified, the Supreme Court held the Assembly in contempt, and determined it was without authority to assume its budgetary responsibilities. In October, the court ruled that it would assume the duty of approving the budget. In July, the court had allowed the central bank to issue new debt without the approval of the Assembly under Venezuela's state of economic emergency.

Opposition leaders imprisoned. In August, an appeals court upheld the 13-year sentence imposed on opposition leader, Leopoldo López, who was found guilty of arson, criminal association and conspiracy, damage to public property and inciting violence and given a sentence of nearly 14 years imprisonment. Also in August, another opposition leader, Daniel Ceballos, former mayor of San Cristobal, was arrested and returned to prison. He had been arrested last year for inciting anti-government violence during protests, but had been placed on house arrest for medical reasons.

BUSINESS ENVIRONMENT

Venezuela remains one of the worst countries in the world for business. It ranked 187th out of 190 countries in the World Bank's 2016 *Doing Business* report, placed between South Sudan and Libya. It ranks 158th in Transparency International's corruption index. Venezuela continues to score at the bottom of both World Bank's rule of law ranking and the *Economic Freedom Index*.

BRAZIL AND SOUTHERN CONE

ARGENTINA ▲

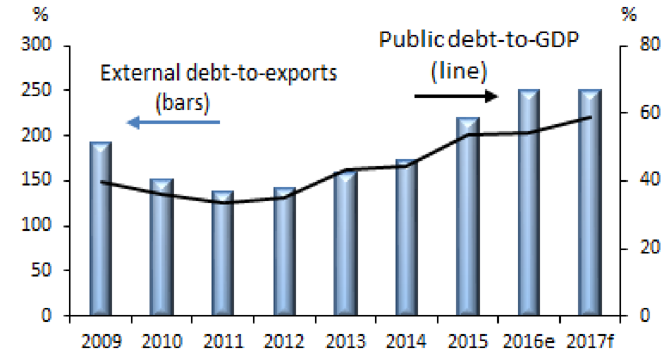
- **The new administration of Mauricio Macro has moved quickly to reverse economic distortions.**
- **The recession in 2016 was deeper and longer than expected, and inflation higher.**
- **The consensus sees a resumption of growth, lower inflation, and fiscal stability in 2017.**

Within days of taking office in December 2015, President Mauricio Macri began taking steps to eliminate the distortions that had hamstrung Argentina's economy during the previous 13 years' of Peronist rule. President Macri first announced the elimination of taxes on the country's major agricultural exports, then scrapped restrictions on the ability of individuals and companies to buy dollars. The elimination of currency controls led to an immediate 26% depreciation of the currency and an effective convergence of Argentina's official and "blue market" (black market) rates. Over the next few months, the Macri administration successively: (1) reached agreement with holdout creditors to pay $4.65 billion on defaulted debt, in effect ending the dispute and paving the way for Argentina's return to international capital markets; (2) arranged for the sale of $16.5 billion in global bonds, the largest sovereign bond issue ever by an emerging market; (3) announced a tax amnesty; (4) raised public utility prices, which had been out of line with costs; and (5) met with the IMF for a consultation on economic policy — the first such meeting in ten years.

Few observers expected that the economy would respond quickly to President Macri's initiatives, or that those efforts would occur without opposition. The economy was in recession at the time Mr. Macri took office, and it has not yet returned to growth — it contracted by an estimated 2.3% last year, instead of the -0.2% decline the consensus had envisaged at the beginning of 2016. The recession in Brazil, which is Argentina's largest trading partner, did not help. Inflation climbed to 39%, boosted by higher utility prices and the pass-through from currency depreciation.* Citizens took to the streets in July to protest higher utility prices, and again in September to protest the Macri government's austerity measures. The price hikes and austerity, however, were necessary to address a fiscal deficit that had grown to 5% of GDP, and a growing public debt burden.

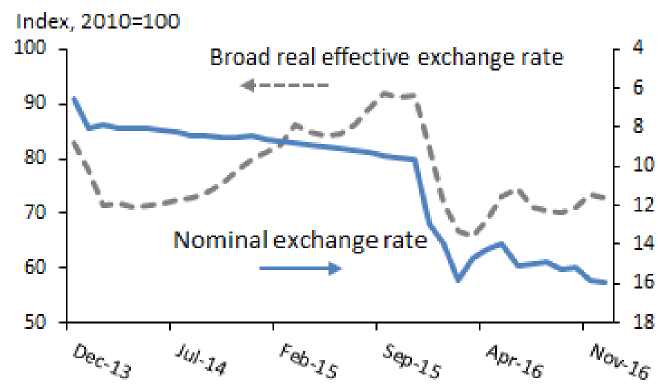
*In November the IMF lifted its censure on Argentina's official statistics agency, which had been publishing inaccurate figures.

Figure 1. Argentina's debt has been rising



Source: ECLAC and UF estimates

Figure 2. It's been real: the peso has depreciated in real as well as nominal terms



Source: Federal Reserve and Bloomberg

Argentina: economic indicators

	Avg. 2010-14	2015	2016e	2017f
Real GDP, % change	3.0	2.4	-2.3	2.9
Consumer prices, % Dec/Dec	13.2	27.5	39.4	21.4
Government balance, % of GDP	-2.4	-3.1	-5.0	-4.9
Merchandise trade ($ bil)				
Exports	75.3	56.7	56.8	60.3
Imports	64.8	57.2	55.6	61.4
Current account balance, % of GDP	-0.9	-2.5	-2.5	-3.4
International reserves ($ bil)	38.0	23.4	35.2	41.3
Total external debt ($ bil)	138.8	159.7	182.1	192.9
% of GDP	26	25	42	51
% of exports	151	219	250	249

Argentina is now engaged in a balancing act, attempting to bring down the fiscal deficit and inflation without making the recession worse. The government had taken a gradual approach to deficit reduction, supported by four consecutive rate hikes through the end of November. But since then the central bank has held rates constant. Disputes about monetary policy reportedly led to the resignation of Finance Minister Alfonso Prat-Gay on December 26, and the ministry he headed was spit in two.

Forecasters remain optimistic about Argentina, seeing a 2.9% increase in growth in 2017 as the initial contractionary effects of measures to eliminate distortions in the economy fade. JP Morgan's economists, looking at high-frequency data, estimate that economic activity picked up the fourth quarter of 2016, The consensus projects a decline in inflation to about 21% in 2017 — a view shared by respondents to the central bank's inflation survey published in January. A tax amnesty and higher-than-expected VAT receipts point to a slightly smaller fiscal deficit in 2016.

LEGAL ENVIRONMENT

Presidential decrees draw fire. Argentine presidents have long used their authority to pass decrees of necessary urgency with the force of law. In his first year, President Macri issued several such decrees attempting to dismantle programs created by ex-president Cristina Fernández de Kirchner, but also more controversially to change the telecommunications law and appointments of magistrates. One decree overturned ex-president Fernández's media law, creating a new communications authority, while another decree appointed two new justices to the Supreme Court. Another controversial decree postponed implementation of the national criminal procedure code, an area not previously considered to be subject to the president's decree powers.

Tax regulation removes foreign exchange restrictions. A December 2015 regulation eliminated all capital controls. As a result, there is no legal restriction limiting conversion, remittances or repatriation of earnings by investors in Argentina. Regulations continue to place minimum time periods for capital deposits in Argentina, though this has been reduced to 120 days.

New law allows plea bargaining. A new plea bargaining law is aimed at fighting corruption, offenses against the customs code and other white collar crimes. The new law, passed in October, provides that plea bargaining is permissible only for criminal cases in which the defendant is actually is involved. The law provides that sentences can only be reduced, not eliminated, and requires that other persons implicated must be of the same or higher authority.

Courts convict military leaders for human rights violations during dictatorship. A court in Buenos Aires sentenced the country's last dictator, Reynaldo Bignone, to 20 years in prison for crimes, while another 16 military leaders faced lesser prison sentences. Another court in Córdoba sentenced several other military officers to long sentences for crimes committed during the dictatorship in the 1980s, including torture, murder and the kidnapping of newborn babies.

After agreement with creditors, U.S. court lifts injunction allowing Argentina access to financial markets. President Macri sought negotiations with holdout creditors who did not participate in bond swaps in 2005 and 2010 and who had used the U.S. courts to pressure the country to settle debts from its 2002 default. In February 2016, the government reached agreement with most creditors amounting to U.S. $4.65 billion, and this agreement was approved by the Argentine congress in March. This agreement fulfilled the requirements of the U.S. district court in New York to lift its injunction preventing Argentina from paying the restructured debt. The deal involved around 90% of the holdout creditors. Congressional action was needed because of an earlier law that prevented negotiations with and barring payments to holdout creditors.

Former president Fernández indicted for corruption. In May, ex-president Cristina Fernández de Kirchner was indicted on corruption charges involving manipulating the central bank to support the Argentine peso for personal gain. In December, another court indicted her and several accomplices for fraud and corruption in public works projects in the south of the country. The charges allege that surcharges on these projects benefitted the ex-president and her associates.

BUSINESS ENVIRONMENT

Argentina currently ranks 116th out of 189 countries in World Bank's ease of doing business survey. Improvements cited by the World Bank included a new import licensing system that streamlined cross-border trade and some improvements to tax policies. Argentina showed slight gains in global competitiveness, but was unchanged in corruptions perception. Only Venezuela and Cuba rank lower among Latin American nations in the most recent *Index of Economic Freedom*. The report notes that Argentina performs "far below its potential".

BRAZIL ▲

- **The Temer administration is taking steps to restore fiscal balance.**

- **An easing of monetary policy should help bring Brazil out of recession.**

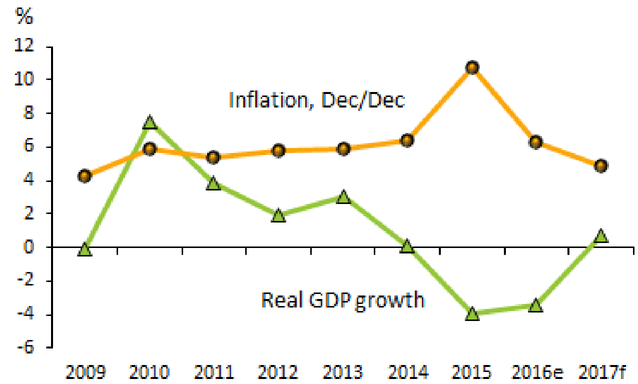
- **Ongoing corruption scandals, however, are a distraction to policymaking.**

Hopes were high that the new government of President Michel Temer would allow allow Brazil to move out of the political crisis that had paralyzed policymaking during the previous two years. Mr. Temer took office on August 31 after the impeachment and removal of his predecessor, Dilma Rousseff, from office. Formally, Ms. Rousseff was charged with breaching Brazil's fiscal responsibility law, but she had long ago lost public and congressional support amidst a wide-ranging corruption scandal, a recession, and unsound economic policies. Mr. Temer quickly took steps to bring Brazil's fiscal deficit under control. 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 began a program to privatize government assets. The fiscal tightening is necessary because Brazil's government deficit has widened to more than 9% of GDP, putting its public debt on an unsustainable path. Brazil lost its investment grade rating in 2015, and could face higher risk premiums on its international borrowings if the markets perceive its fiscal problems are not being addressed.

While acknowledging that its primary balance (noninterest deficit) must move into surplus, the government has chosen to take a gradual approach to strengthening public finances in order to avoid further lengthening the recession. The Central Bank began cutting interest rates in October in what promises be a sustained easing cycle. The easing should help offset the effects of the fiscal tightening and allow Brazil to emerge from recession this year.

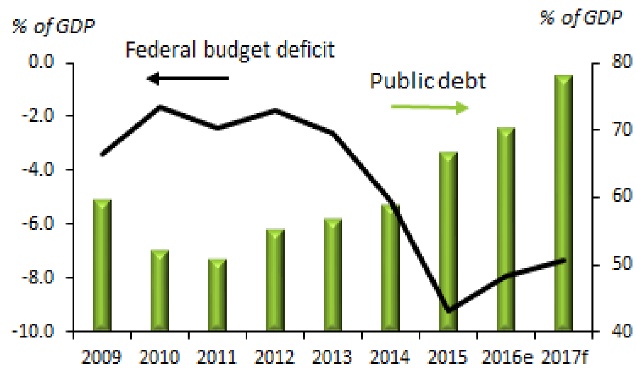
The new government had been in office only a few weeks, however, before it became apparent that the massive corruption scandal that began in 2014 was not over. The scandal is centered on bribes to officials of Petrobras, the state-owned oil company. Scores of people, including politicians and executives of some of Brazil's leading businesses have been charged, and during the fall the

Figure 1. Brazil should be coming out of recession while its inflation abates



Source: IMF, Consensus Economics

Figure 2. Brazil's public debt is unsustainable



Source: ECLAC, Consensus Economics, UF estimates

Brazil: economic indicators	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	3.3	-3.9	-3.4	0.7
Consumer prices, % Dec/Dec	5.9	10.7	6.3	4.9
Government balance, % of GDP	-2.7	-9.2	-7.9	-7.3
Merchandise trade ($ bil)				
Exports	233.1	190.1	187.5	194.6
Imports	220.6	172.4	140.8	151.0
Current account balance, % of GDP	-3.4	-3.2	-1.3	-1.4
International reserves ($ bil)	347.2	364.3	362.1	369.1
Total external debt ($ bil)	448	543	566	605
% of GDP	18	31	34	32
% of exports	158	144	137	252

charges spread to include yet more politicians, including President Temer himself (see the next section). The corruption investigations are strongly supported by voters, but the fallout from the investigations is likely to hamper the ability of the government to focus on restoring growth and stability.

LEGAL ENVIRONMENT

Corruption scandal implicates President Temer and nearly everyone else. Having brought down President Rousseff and the Speaker of the House Eduardo Cunha, and implicated former president Luiz Inácio Lula da Silva, the Supreme Court in late September authorized an investigation into new president Michel Temer's role in the widespread corruption scandal known as *Lava Jato*, or Operation Car Wash. In mid-December, plea bargains by directors of the Brazilian construction firm, Odebrecht brought allegations of illegal campaign donations against President Temer. Mr. Temer denies the allegations. Senate president Renan Calheiros faces embezzlement charges, though he has not been removed from his position as of this writing. There are estimates that some 50-60% of the Brazilian congress may be implicated in the scandals to some extent, as well as numerous other officials and business leaders. Since 2014, prosecutors have charged over 240 of Brazil's political and economic leaders for violating anti-corruption laws.

Brazil's supreme court voids anti-corruption bill under consideration by Congress. After the House of Representatives passed an amended an anti-corruption bill to weaken the authority of prosecutors to investigate and prosecute corruption and shielded lawmakers from corruption investigations, a Supreme Court justice issued an order sending the bill back to the House for reconsideration. The injunction issued by Judge Luis Fux held that the bill as passed by the House was based upon popular initiatives, and that this precluded Congress from amending the legislation in ways that would distort the purpose of the original citizen proposals.

Legal twist in President Rousseff's impeachment means that she remains eligible for public office in the future. Although Brazil's constitution provides that public officials removed by impeachment are banned from public life for eight years, judge Ricardo Lewandowski, who presided over the impeachment, issued a split decision that allowed separate votes on impeachment and loss of eligibility to hold future office. Although the Senate voted 61 to 20 to remove Rousseff, the Senate voted separately by 42 to 36 not to impose the eight-year ban.

Facebook's WhatsApp banned and un-banned. Judges banned access to WhatsApp in December 2015, again in February and again in July for failure to help police in criminal investigations by intercepting messages sent through the service. Each time, a higher judge quickly overturned the ban. In July, the Supreme Court lifted a ban imposed by a Rio judge, finding the nationwide blockage disproportionately burdensome on other users, as well as a violation of constitutional rights to freedom of expression.

Pre-salt oilfields fully opened to private investors. A 2007 law reserved a 30% minimum stake in all pre-salt oil deposits to the state-owned oil firm Petrobras. However, a new law adopted in November will allow the heavily indebted Petrobras to sell off blocks for exploration. The move represents an easing of what had once been a very nationalistic oil policy.

Arbitration decision upholds alternate dispute resolution mechanisms. A decision by Brazil's superior court of justice involved a dispute by two shareholders in Odbinv S/A, a holding company which controls one of Brazil's largest construction companies, and allowed the court to interpret Brazil's new arbitration law. Under the arbitration law, where an arbitration clause has defects that may prevent the arbitration, parties may turn to the courts to amend the clause and resolve any gaps that prevent the arbitration. The agreement at issued provided that disputes would be settled "by mediation or arbitration", except for issues involving the transfer of shares, which would be referred to the judiciary. The Brazilian court found that, since mediation could only be voluntary among both parties, the arbitration provision remained viable in the event the parties could not agree. The court also decided that the transfer of shares matter might also be considered in any arbitration, and that a reviewing court would seek to enforce the arbitration. The decision is seen as one which affirms the increased acceptance by Brazilian courts of arbitration mechanisms.

Criminal procedure clarified. In a February decision, the federal Supreme Court ruled that defendants could be made to begin serving prison sentences as soon as an intermediate appeals court has upheld the sentence, and not wait until all appeals are exhausted.

The court found that the policy does not violate constitutional presumption of innocence for criminal defendants. A subsequent November Supreme Court decision reaffirmed the policy of enforcing criminal sentences even pending final review by the supreme court. The new policy will affect the many defendants charged with corruption offenses.

New constitutional amendment seeks to limit public spending. In December, Congress approved an amendment to the Brazilian constitution which will place a 20-year ceiling on public spending. The new amendment will limit what the Brazilian government may spend in future years to that budgeted in the previous year, corrected only for inflation. The rule will apply to the executive, legislative and judicial branches of the federal government. Adoption of the amendment was accompanied by largescale protests by citizens fearful of expected cuts in social, health and education benefits.

City ban on Uber found unconstitutional. In October, a court in São Paulo state found the ban on use of the internet ride app, Uber, imposed by the municipality of São Paulo in 2015 unconstitutional. The court found that the city was not legally able to ban the privately organized transport of passengers arranged through the app. As originally adopted, the ban provided for heavy fines and even confiscation of vehicles that used apps such as Uber.

New antiterrorism law adopted in time for 2016 Olympics. In March, a new law to combat terrorism was enacted. Features of the new legislation include provisions that heinous crimes such as torture, narcotic trafficking and terrorism should not be subject to bail, clemency or amnesty. The law, intended to update Brazil's terrorism laws in time for the Rio Olympic games, provides definitions for terrorist offenses, and allows for charging those responsible for terrorist acts, as well as those who recruit or finance them. Finally, the new law provides for expanded penalties of between 12-30 years for those convicted of terrorist offenses.

Supreme Court judge supervising corruption investigations killed in January 2017 plane crash. Judge Teori Zavascki died when his small plane crashed in heavy rain while heading to a holiday destination west of Rio de Janeiro. The death was significant because Judge Zavascki had supervised aspects of the recent corruption investigations which involved federal politicians. Under Brazilian law, such investigations or prosecutions of federal officials require the approval of the Supreme Court. Although no evidence of foul play was found, the matter is under investigation by federal aviation authorities. Although President Temer will name a successor to the judge, the Supreme Court itself could transfer the supervision of the corruption investigations to another judge, and there were calls for this to happen.

Important legislation languishes as impeachment and corruption charges dominate the agenda. In May, immediately before her impeachment, President Rousseff submitted a data protection law to Congress. The draft data protection law had been under development and public comment for nearly six years. Reforms to pensions, also under consideration by congress, are seen as important to improving Brazil's precarious public finances. The proposed reforms include raising the minimum retirement age to 65, and prohibitions on collecting multiple pensions.

Rio de Janeiro declares state of financial emergency. In July, only weeks prior to the opening of the Olympic Games, the governor of Rio state declared a "state of calamity in financial administration". The governor sought federal assistance in the face of inability to pay for essential services, including security and hospitals. Although the declaration is normally used for natural disasters, it allowed the state to secure federal loan assistance without assembly approval. In September, 14 other states reported that they face impending bankruptcy if they do not receive federal assistance to fill gaps in revenue.

BUSINESS ENVIRONMENT

Brazil slipped somewhat in the World Bank's ease of doing business rankings, falling to 123rd place out of 190 nations in 2016. The bank did cite Brazil's new mediation law for making it easier to resolve contract disputes. Transparency International ranked Brazil 76th in its 2015 *Corruption Perceptions Index*, a fall of seven places from 2014. Brazil also slipped six places to 81 in global competitiveness rankings. Crime continues to be a problem, with 21 Brazilian cities appearing among the world's fifty most violent cities for 2015. Significantly for the business environment, however, neither São Paulo nor Rio de Janeiro appeared on that list.

CHILE [=]

Low copper prices have set a limit on Chile's near-term growth.

President Bachelet has made progress in advancing her labor and pension reform agenda ...

...but only incremental progress on further reform is likely ahead of November's elections.

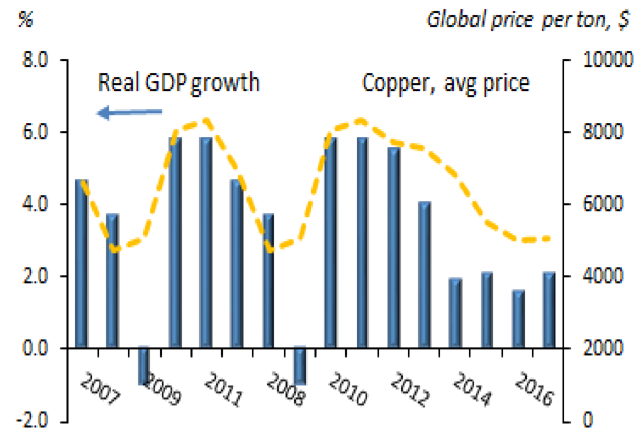
Weak prices for Chile's major export, copper, have limited President Michelle Bachelet's ambitious reform agenda. Thus, it came as no surprise that the 2017 budget, submitted in late September, featured the lowest annual increase in spending in 14 years. This disappointed her supporters, who have pushed for higher government spending, but Ms. Bachelet had little choice. A weak economy has limited the revenues available for spending increases. Some of her promises, such as that to provide free university educations to all but the wealthiest 20% of the population, were not likely to succeed even under more favorable economic circumstances. In addition, her approval rating is only 23% — suggesting it will be difficult for President Bachelet to garner support for her agenda on education and pension reform.

The proposed increase in government spending, while modest, will mean that Chile will be running a budget deficit for the fifth year in a row. The government projects that the deficit will fall to 1.1% of GDP by 2021, following a fiscal rule that takes the price of copper into account. Chile's public debt has been rising as a portion of GDP, but is still low at 21%, and Chile's investment grade bond rating ensures inexpensive funding costs.

A drop in Chile's inflation rate from 4.4% in 2015 to 2.7% last year — close to the mid-point of the central bank's 2% to 4% target, has given the bank leeway to cut its policy rate in January for the first time in two years. Further rate cuts are likely during 2017. The easier monetary policy stance, combined with copper prices that appear to have bottomed out and the modest upturn in growth the consensus expects in the developed world should result in a modest increase in growth in Chile in the year ahead.

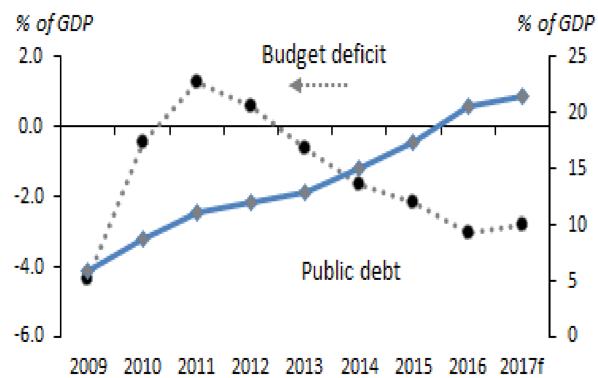
This year, politics in Chile will be dominated by jockeying ahead of the presidential and legislative elections to be held in November. Polls show that voter support for the two major parties, the ruling center-left Nueva Mayoría (NM) party and center-right opposition Chile Vamos

Figure 1. Chile's GDP growth tracks copper prices



Source: IMF

Figure 2. Chile's public debt burden is low despite budget deficits



Source: IMF and UF estimates

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

(CV) party, are at historic lows, and turnout in October's municipal elections was low. The voter fatigue likely reflects the weak economy and the corruption scandals.

LEGAL ENVIRONMENT

Labor legislation passes, though weakened by court decision. In August, President Bachelet signed new a new labor law that gives greater power to unions. The law is intended to improve working conditions and incentivize collective bargaining. Under the new law, unions can decide which workers will share negotiated benefits. The law also bans the use of replacement workers during strikes. The Constitutional Court had found that a provision of the law which gave unions the exclusive right to conduct negotiations on behalf of workers violated the right of all workers to bargain collectively and freely. Ms. Bachelet vetoed the parts of the law found unconstitutional. Some uncertainty remains under the new laws about negotiations between employers and employees that do not occur under union auspices.

Competition law strengthened. In August, Chile's congress passed an updated competition law. The new legislation provides for criminal penalties of up to 10 years in prison for collusion, together with prohibitions on involvement public or corporate management for those convicted. The new law allows the national economic prosecutor to investigate and prosecute under the law. The law also provides for mandatory pre-merger notifications to the national economic prosecutor of persons involved, as well as mandatory notifications in the acquisition of minority stakes of more than 10% of an entity. Under the two-part merger control provisions of the law, once the prosecutor has been notified, a merger cannot be completed until the prosecutor or competition court approve the transaction. The prosecutor is given up to 30 days to investigate the transaction, with the option of extending the investigation to 90 days.

Copper reserves law made public. In November, Chile's congress approved a law to make public information about the secret copper reserves law from the 1970's, under which the military received automatic funding based on earnings from copper exports. The law had long been kept secret for reasons of state security, but the secrecy drew criticism by adherents of open government, who argued the lack of information facilitated corruption.

Chile adopts controversial new pensions law. In October, President Bachelet signed the pension reform law. The new law seeks to reform Chile's defined-contributions pensions system, once acclaimed as an example for other nations. Unlike other countries, Chile has no unfunded pension obligations, but the privately-funded pensions have proven to be insufficient for many people's retirement living expenses. The new law will require a mandatory 5% contribution by employers into a solidarity fund to help equalize pensions. The law also seeks to expand competition by adding a state-run pension fund manager. Another provision limits the commissions that can be charged by pension fund managers. However, the new law also expanded areas of investment by pension funds, allowing investment into real estate, closely held companies and infrastructure concessions for the first time.

Courts rule in human rights matters. In December, the Supreme Court ruled that the government may seek extradition from the U.S. of two secret police agents who were involved in a 1976 bombing in Washington D.C. in which Orlando Letelier, a former Chilean foreign minister, was killed. Last year, declassified U.S. documents that the bombing came on the orders of Chilean dictator Augusto Pinochet. In another high-profile case, a Chilean court rejected a suit against three justices of the Israeli supreme court for war crimes over their decision to allow construction of a security fence in that country. The suit had been founded on claims that Chile could exercise universal jurisdiction over human rights offenses committed elsewhere in the world.

BUSINESS ENVIRONMENT

Chile remains one of the more business-friendly countries in Latin America, but it has fallen to fourth place in the region in the World Bank's latest ease of business rankings. Transparency International ranks Chile at 21st in the world for corruption in its 2015 rankings, just below Hong Kong, Ireland, and the United States. Chile is also still the most competitive Latin American country, and is the most highly ranked Latin American country in the 2016 *Index of Economic Freedom*.

PARAGUAY ▼

Although the outlook for Paraguay's economy is favorable — its GDP is expected to grow by 3.6% in 2017— governance is becoming more difficult. The Senate rejected President Horacio Cartes' proposal to amend the constitution to allow presidential re-election. In December, the president vetoed the 2017 budget because it featured an unfunded increase in public salaries, interfered with central bank independence, and limited sovereign bond issuance. Meanwhile, attacks by the Ejército del Pueblo Paraguayo (EPP), a Marxist rebel group, have added to the instability.

Paraguay: economic indicators	Avg. 2010-14	2015	2016E	2017f
Real GDP, % change	7.0	3.0	3.7	3.6
Consumer prices, % Dec/Dec	4.8	3.1	3.7	4.3
Current account balance, % of GDP	-0.1	-1.7	-0.7	-0.7
Total external debt ($ bil)	15.9	16.2	14.4	15.4
% of exports	128	136	119	117

New entrepreneurship law enacted. Intended to incentivize private business and bring it into the formal economy, Paraguay enacted its entrepreneurship law. The law establishes a national entrepreneurship agency, and allows for the establishment of small lending and other financial tools to assist new businesses.

Farmers sentenced over police deaths in 2012 land dispute. In July, a Paraguayan court sentenced 11 farmers to up to 30 years in prison for the deaths of six policemen in 2012 land disputes. The clashes between the farmers and police left another 11 protesting farmers dead. The case is controversial in part because of the perceived lack of attention paid to the deaths of the farmers. The case also highlights continued inadequacies in the Paraguayan justice system. The 2012 disputes with landless peasants was a catalyst for the impeachment of former president Fernando Lugo.

Paraguay saw a slight decline in its business climate. It is ranked 106 in the World Bank's latest ease of doing business ratings. In perceptions of corruption, Paraguay improved to 130th in the world in Transparency International's 2015 rankings, up from 150 in 2014. This is tied with Nicaragua, and higher only than Haiti and Venezuela in the Western Hemisphere.

URUGUAY [=]

Uruguay barely avoided recession last year as demand for its main agricultural exports remained weak. Growth should pick up a bit in 2017 as growth resumes in Argentina and Brazil, two of its major trading partners, but will likely remain tepid. Slow growth will mean lower revenues, forcing the government to make spending cuts, raise taxes, and scrap plans to reduce the fiscal deficit to below 2% of GDP. As in most of Latin America, central government debt in Uruguay has risen in recent years, but at 45% of GDP, remains manageable. Inflation, meanwhile, is likely to remain slightly above the central bank's 3%-7% target,

Uruguay: economic indicators	Avg. 2009-15	2015	2016e	2017f
Real GDP, % change	4.9	1.0	0.7	1.3
Consumer prices, % Dec/Dec	8.1	9.0	8.9	8.3
Current account balance, % of GDP	-3.8	-3.5	-2.5	-1.6
Total external debt ($ bil)	23.1	28.7	21.4	22.4
% of exports	172	232	168	172

New criminal procedure law. Uruguay has adopted a criminal procedure law to take effect in 2017. One main feature of the new law is a shift from the traditional inquisitorial system to an oral trial system that will feature public oral trials. Uruguay is the latest of many Latin American countries to have made this shift to a model which more closely resembles that used in the U.S. and other common law countries.

ICSID panel affirms tobacco advertising restrictions. The arbitration panel ruled in favor of Uruguay's restrictive advertising law, including mandatory warnings and graphic images. Philip Morris argued the law violated a bilateral investment treaty between Uruguay and Switzerland. The arbitration panel rejected Philip Morris' claims, ordering the company to pay Uruguay $7 million in legal fees.

Uruguay's business climate shows little change. Uruguay benefits from strong institutions and a tradition of political stability. It was ranked 90 in the World Bank's latest ease of doing business ratings. 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. Freedom House ranks Uruguay third among Latin American nations in its 2016 *Index of Economic Freedom*, behind only Chile and Colombia.

TABLES

Table 1

GROSS DOMESTIC PRODUCT

Annual Growth Rates

	2007	2008	2009	2010	2011	2012	2013	2014	Average '06-'14	2015	2016e [1]	2017f [1]
NAFTA REGION												
Mexico	3.2	1.4	-4.7	5.2	3.9	4.0	1.4	2.2	2.4	2.5	2.1	1.5
ANDEAN SOUTH AMERICA												
Bolivia	4.6	6.1	3.4	4.1	5.2	5.1	6.8	5.5	5.1	4.8	3.6	3.7
Colombia	6.9	3.5	1.7	4.0	6.6	4.0	4.9	4.4	4.7	3.1	2.0	2.5
Ecuador	2.2	6.4	0.6	3.5	7.9	5.2	4.6	3.7	4.3	0.3	-1.9	0.6
Peru	8.5	9.1	1.1	8.3	6.3	6.1	5.9	2.4	6.1	3.3	3.9	4.1
Venezeula	8.8	5.3	-3.2	-1.5	4.2	5.6	1.3	-3.9	2.9	-5.7	-11.3	-3.2
BRAZIL & SOUTHERN CONE												
Argentina	9.0	4.1	-6.0	10.4	6.1	-1.1	2.3	-2.6	3.4	2.4	-2.3	2.9
Brazil	6.1	5.1	-0.1	7.5	3.9	1.9	3.0	0.1	3.5	-3.9	-3.4	0.7
Chile	4.6	3.7	-1.0	5.8	5.8	5.5	4.0	1.9	3.9	2.1	1.6	2.1
Paraguay	5.4	6.4	-4.0	13.1	4.3	-1.2	14.0	4.7	5.3	3.0	3.7	3.6
Uruguay	6.5	7.2	4.2	7.8	5.2	3.5	4.6	3.2	0.5	1.0	0.7	1.3
CENTRAL AMERICA & THE CARIBBEAN												
Costa Rica	7.9	2.7	-1.0	5.0	4.5	5.2	2.0	3.0	4.2	3.7	4.1	3.9
Cuba	7.3	4.1	1.5	2.4	2.8	3.0	2.7	1.0	4.1	4.4	0.5	1.0
Dominican Republic	8.5	3.2	0.9	8.3	3.1	2.8	4.7	7.6	5.5	7.0	6.2	4.9
El Salvador	3.8	1.3	-3.1	1.4	2.2	1.9	1.8	1.4	1.6	2.5	2.2	2.2
Guatemala	6.3	3.3	0.5	2.9	4.2	3.0	3.7	4.2	3.7	4.1	3.5	3.6
Haiti	3.3	0.8	3.1	-5.5	5.5	2.9	4.2	2.8	2.2	1.7	2.0	2.4
Honduras	6.2	4.2	-2.4	3.7	3.8	4.1	2.8	3.1	3.6	3.6	3.6	3.7
Nicaragua	5.3	2.9	-2.8	3.2	6.2	5.6	4.5	4.6	3.7	4.9	4.6	4.5
Panama	12.1	8.6	1.6	5.8	11.8	9.2	6.6	6.1	7.8	5.8	5.4	5.5

SOURCE:

Economic Commission for Latin America and the Caribbean, IMF

1 Consensus Economics, January 2017. Cuba's estimate and forecast are from the EIU ©reproduced by permission of the Economist Intelligence Unit.

Table 2

ANNUAL INFLATION

(Percent change in CPI, December through December)

	2007	2008	2009	2010	2011	2012	2013	2014	Av. '07-'14	2015	2016e [1]	2017f [1]
NAFTA REGION												
Mexico	3.8	6.5	3.6	4.4	1.9	3.6	4.0	4.1	4.0	2.1	3.4	4.9
ANDEAN SOUTH AMERICA												
Bolivia[3]	11.7	11.8	0.3	7.2	6.9	4.5	6.5	5.2	6.8	3.0	3.5	4.1
Colombia	5.7	7.7	2.0	3.2	3.1	2.4	1.9	3.7	3.7	6.8	5.7	4.4
Ecuador[3]	3.3	8.8	4.3	3.3	5.4	4.2	2.7	3.7	4.5	3.4	1.6	2.0
Peru	3.9	6.7	0.2	2.1	4.0	2.6	2.9	3.2	3.2	4.4	3.2	2.9
Venezeula	22.5	31.9	26.9	27.4	24.0	29.5	56.2	68.5	35.9	180.9	590.6	544.3
BRAZIL & SOUTHERN CONE												
Argentina	8.5	7.2	7.7	10.9	9.5	10.8	10.9	23.9	11.2	27.5	39.4	21.4
Brazil	4.5	5.9	4.3	5.9	5.4	5.8	5.9	6.4	5.5	10.7	6.3	4.9
Chile	7.8	7.1	-1.4	3.0	3.5	1.5	2.6	4.6	3.6	4.4	2.7	3.0
Paraguay[3]	5.9	7.5	1.9	7.2	4.9	4.0	3.7	4.2	4.9	3.1	3.7	4.3
Uruguay[3]	8.5	9.2	5.9	6.9	8.6	7.5	8.5	8.3	7.9	9.4	8.9	8.3
CENTRAL AMERICA & THE CARIBBEAN												
Costa Rica[3]	10.8	13.9	4.0	5.8	4.7	4.6	3.7	5.1	6.6	-0.8	0.8	2.8
Cuba [2]	n/a	n/a	n/a	n/a	1.3	5.5	6.0	5.3	4.5	4.2	4.7	4.8
Dominican Republic[3]	8.9	4.5	5.8	6.2	7.8	3.9	3.9	1.6	5.3	2.3	1.7	3.4
El Salvador[3]	4.9	5.5	0.1	2.1	5.1	0.8	0.8	0.5	2.5	1.0	0.7	1.8
Guatemala[3]	8.7	9.4	-0.3	5.4	6.2	3.4	4.4	2.9	5.0	3.1	4.2	4.1
Haiti	10.3	10.6	7.8	3.6	4.7	6.3	5.9	4.6	9.0	14.1	15.9	10.3
Honduras[3]	8.9	10.8	3.0	6.5	5.6	5.4	4.9	5.8	6.4	2.4	3.5	4.1
Nicaragua[3]	16.9	13.8	0.9	9.2	8.0	6.6	5.7	6.5	6.5	3.1	4.4	6.2
Panama[3]	6.4	6.8	1.9	4.9	6.3	4.6	3.7	1.0	4.5	0.3	1.2	2.1

SOURCE:

ECLAC 2016 Statistical Yearbook for Latin America and the Caribbean

1 2016 estimates and 2017 forecasts are from Consensus Economics,except for Cuba, which are from EIU ©reproduced by permission of the Economist Intelligence Unit.

2 Period averages.

3 IMF database October 2016

Table 3

EXPORTS, IMPORTS, AND CURRENT ACCOUNT BALANCE

(Billions of Dollars)

	2012			2013			2014			2015			2016e			2017f		
	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	387.5	401.9	-17.0	400.9	412.8	-31.0	418.8	433.9	-26.1	403.6	427.7	-33.2	397.8	420.4	-30.3	409.1	435.3	-30.1
ANDEAN SOUTH AMERICA																		
Bolivia	12.3	9.9	2.0	12.8	11.0	1.1	13.5	12.8	0.5	9.5	11.4	-1.9	7.8	10.8	-2.3	9.1	11.4	-2.0
Colombia	68.0	68.9	-11.2	67.2	69.8	-12.1	63.8	75.2	-19.5	45.2	63.5	-18.9	39.5	54.1	-13.8	44.0	56.1	-12.3
Ecuador	26.5	27.7	-0.2	27.6	29.6	-0.9	28.9	30.3	-0.6	21.4	23.9	-2.2	18.5	17.4	-0.2	21.6	20.0	-0.2
Peru	51.6	48.4	-5.1	48.1	50.0	-8.6	45.1	48.7	-8.2	40.1	45.4	-9.2	41.5	43.7	-6.6	44.7	46.0	-6.5
Venezeula	99.5	77.5	2.6	91.0	76.4	4.6	76.9	64.7	3.6	38.6	50.7	-20.4	28.0	29.3	-8.4	34.2	31.5	-3.0
BRAZIL & SOUTHERN CONE																		
Argentina	95.2	83.4	-1.4	90.6	89.6	-12.1	82.0	79.2	-8.0	70.6	75.0	-15.9	70.2	74.1	-14.8	74.5	81.8	-16.7
Brazil	281.1	302.2	-74.1	279.7	325.6	-74.8	264.1	318.8	-104.2	223.9	243.1	-58.9	220.5	203.1	-22.2	228.8	217.8	-27.4
Chile	90.2	90.6	-9.6	88.8	90.8	-10.3	85.9	83.4	-3.3	72.0	72.3	-4.8	68.9	68.8	-4.1	72.9	72.7	-4.1
Paraguay	12.5	12.0	-0.5	14.5	13.0	0.5	14.1	13.2	-0.1	11.8	11.4	-0.5	12.1	11.7	-0.2	13.1	12.9	-0.2
Uruguay	13.5	14.7	-2.6	13.9	14.8	-2.9	13.8	14.5	-2.6	12.1	11.9	-1.3	12.4	10.7	-0.8	12.7	11.8	-1.0
CENTRAL AMERICA & THE CARIBBEAN																		
Costa Rica	15.1	16.5	-2.4	15.8	16.8	-2.4	16.4	17.2	-2.4	16.8	17.2	-2.4	18.2	17.6	-2.2	19.7	19.2	-2.5
Cuba	18.6	14.9	2.4	18.6	15.6	1.9	17.2	n/a	1.9	18.6	12.5	1.8	18.3	11.5	2.1	18.6	12.2	1.7
Dominican Republic	15.0	20.6	-4.0	15.9	19.6	-2.5	16.9	20.1	-2.1	17.0	20.0	-1.3	17.2	20.2	-1.3	18.2	22.1	-1.7
El Salvador	6.1	10.5	-1.3	6.4	11.1	-1.6	6.5	10.9	-1.3	6.7	10.9	-0.9	6.6	10.5	-0.7	7.0	11.0	-0.9
Guatemala	12.5	18.3	-1.3	12.7	19.2	-1.4	13.8	20.1	-1.2	13.6	6.6	-0.1	13.7	19.6	0	14.8	21.7	-0.1
Haiti	1.3	4.2	-1.4	1.6	4.4	-1.3	1.7	4.8	-1.4	1.7	4.4	-0.7	1.7	4.1	-0.4	n/a	n/a	n/a
Honduras	6.7	10.3	-1.6	6.3	10.0	-1.8	6.6	10.0	-1.4	11.2	10.3	-1.3	10.9	13.9	-1.2	11.2	14.3	-1.2
Nicaragua	4.7	6.8	-1.1	4.7	6.9	-1.2	5.0	7.1	-0.9	4.8	7.0	-1.0	4.8	7.3	-1.2	4.4	6.4	-1.3
Panama	28.2	29.9	-4.2	29.8	31.5	-4.4	28.2	30.5	-4.8	27.3	27.0	-2.7	32.6	26.9	-2.7	33.5	28.6	-2.7

SOURCE:

ECLAC 2016 Statistical Yearbook for 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 2017.

Table 4

TERMS OF TRADE

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016 [1]
NAFTA REGION										
Mexico	103.3	104.6	92.9	100.0	106.8	102.9	102.8	97.6	92.6	92.2
ANDEAN SOUTH AMERICA										
Bolivia	93.9	99.0	95.2	100.0	118.1	112.3	94.5	79.9	65.0	61.5
Colombia	86.2	91.3	86.1	100.0	114.6	108.2	100.5	91.6	69.1	65.4
Ecuador	89.0	103.7	86.7	100.0	112.4	112.1	113.2	106.7	80.0	72.5
Peru	95.0	84.6	82.6	100.0	107.2	105.0	99.0	93.6	87.7	85.8
Venezeula	93.6	115.5	84.1	100.0	120.2	121.4	118.9	111.8	66.1	57.5
BRAZIL & SOUTHERN CONE										
Argentina	85.5	95.9	96.6	100.0	110.9	115.7	108.1	105.4	100.8	105.3
Brazil	85.3	88.5	86.2	100.0	107.8	101.5	99.4	96.1	85.5	86.4
Chile	91.7	78.4	82.0	100.0	101.3	94.8	91.9	90.1	86.2	84.8
Paraguay	95.3	102.3	100.0	100.0	102.4	103.4	102.8	103.3	107.5	109.8
Uruguay	87.1	94.1	100.5	100.0	102.4	106.3	108.1	112.3	114.5	118.2
CENTRAL AMERICA & THE CARIBBEAN										
Costa Rica	104.7	100.8	104.1	100.0	96.3	95.8	96.1	97.0	102.3	105.5
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	100.5	96.0	103.8	100.0	94.7	93.8	91.5	93.3	100.9	104.0
El Salvador	104.0	94.1	105.9	100.0	97.5	98.0	96.3	99.6	111.3	116.0
Guatemala	95.1	92.6	100.5	100.0	99.1	93.7	91.8	92.3	96.4	97.4
Haiti	111.2	79.9	103.4	100.0	83.0	86.0	80.6	83.1	93.4	95.9
Honduras	97.0	91.1	97.3	100.0	108.4	94.6	88.6	90.4	95.3	96.3
Nicaragua	94.6	90.9	97.9	100.0	106.6	106.5	98.2	100.1	111.7	114.1
Panama	101.9	97.3	101.9	100.0	97.8	98.2	97.7	103.5	103.5	104.1

SOURCE:

ECLAC 2016 Statistical Yearbook for Latin America and the Caribbean

1 Estimates

Table 5

NET FOREIGN DIRECT INVESTMENT

(Billions of Dollars)

	2007	2008	2009	2010	2011	2012	2013	2014	2015
NAFTA REGION									
Mexico	24.2	27.9	8.3	11.4	11.0	-2.0	32.7	18.2	18.2
ANDEAN SOUTH AMERICA									
Bolivia	0.4	0.5	0.4	0.7	0.9	1.1	1.8	0.6	0.5
Colombia	8.1	8.1	3.8	0.9	6.2	15.6	8.6	12.4	7.9
Ecuador	0.2	1.1	0.3	0.2	0.6	0.6	0.7	0.8	1.1
Peru	5.4	6.2	6.0	8.2	7.5	11.8	9.2	7.8	6.7
Venezeula	3.8	1.3	-3.6	-0.9	6.1	1.7	1.9	-0.7	2.6
BRAZIL & SOUTHERN CONE									
Argentina	5.0	8.3	3.3	10.4	9.4	14.3	8.9	3.1	10.5
Brazil	27.5	24.6	36.0	61.7	85.1	81.4	54.2	70.9	61.6
Chile	8.3	7.5	6.2	6.0	3.1	7.9	9.5	9.4	4.7
Paraguay	0.2	0.2	0.1	0.2	0.6	0.7	0.1	0.3	0.3
Uruguay	1.2	2.1	1.5	2.3	2.5	2.5	3.0	2.1	1.6
CENTRAL AMERICA & THE CARIBBEAN									
Costa Rica	1.6	2.1	1.2	1.4	2.3	1.8	2.8	3.7	2.7
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dominican Republic	1.7	2.9	2.2	1.6	2.3	3.1	2.0	2.2	2.2
El Salvador	1.5	0.8	0.4	-0.2	0.2	0.5	0.2	0.3	0.4
Guatemala	0.7	0.7	0.6	0.8	1.0	1.2	1.3	1.3	1.1
Haiti	0.1	0.0	0.1	0.2	0.1	0.2	0.2	0.1	0.1
Honduras	0.9	1.0	0.5	1.0	1.0	0.9	1.0	1.1	1.1
Nicaragua	0.4	0.6	0.5	0.5	0.9	0.7	0.7	0.8	0.8
Panama	1.8	2.2	1.3	2.4	3.0	3.3	3.6	4.0	4.5

SOURCE:

ECLAC 2016 Statistical Yearbook for Latin America and the Caribbean

Table 6

TOTAL GROSS EXTERNAL DEBT [1]

(Millions of Dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016e [3]	2017f [3]
NAFTA REGION										
Mexico	123.6	193.0	246.0	292	349	406	442	426	487	537
ANDEAN SOUTH AMERICA										
Bolivia	5.9	5.8	5.8	6.1	6.6	8.1	8.8	9.8	10.6	13.3
Colombia	46.4	53.3	64.1	73.8	76.8	89.7	101.4	111.0	108.6	111.7
Ecuador	16.9	14.8	16.2	16.9	17.1	19.1	24.4	27.3	34.1	37.6
Peru	35.0	37.4	42.2	45.0	54.1	56.8	61.3	65.9	67.9	69.9
Venezeula	66.7	84.6	101.8	118.2	130.6	132.3	135.7	123.7	92.4	89.7
BRAZIL & SOUTHERN CONE										
Argentina	125.9	133.7	126.6	139.5	136.5	146.6	145.0	159.7	182.1	192.9
Brazil	198.5	281.7	352.4	404.0	440.5	483.8	556.9	543.4	566.3	605.1
Chile	63.5	72.6	85.0	99.3	120.4	134.6	149.7	155.7	160.6	162.7
Paraguay	3.1	13.9	15.9	15.6	16.0	15.7	16.5	16.2	14.4	15.4
Uruguay	15.4	18.0	18.4	18.3	24.0	26.5	28.1	28.7	21.4	22.4
CENTRAL AMERICA & THE CARIBBEAN										
Costa Rica	8.8	7.8	8.2	10.3	14.3	17.1	19.6	23.7	24.9	27.0
Cuba	n/a	n/a	n/a	n/a	23.5	25.0	25.1	26.0	26.3	28.6
Dominican Republic [2]	7.2	11.9	13.5	15.1	22.1	24.0	26.3	26.6	26.2	26.9
El Salvador	1.0	10.4	11.1	12.0	13.0	13.5	14.5	14.7	14.8	15.1
Guatemala	11.2	14.8	15.0	16.2	15.1	17.3	19.3	20.2	20.2	20.2
Haiti [2]	1.9	1.4	1.0	0.8	1.2	1.6	1.9	2.1	2.0	2.5
Honduras	3.5	3.8	4.0	4.4	5.1	6.8	7.3	7.6	8.1	8.5
Nicaragua [2]	3.5	5.9	7.0	7.9	9.0	9.8	10.2	10.5	11.2	12.3
Panama [2]	8.5	45.6	48.9	57.1	61.4	68.3	78.0	87.7	95.3	103.0

SOURCE:

ECLAC 2016 Statistical Yearbook for Latin America and the Caribbean

1 Includes debt owed to the International Monetary Fund.

2 Refers to external public debt.

3 University of Florida estimates and forecasts

Table 7

TOTAL GROSS EXTERNAL DEBT TO EXPORTS

(in percentage)

	2010	2011	2012	2013	2014	2015	2016e [1]	2017f [1]
NAFTA								
Mexico	75.7	77.6	87.1	98.5	102.7	103.5	120.0	141.0
ANDEAN SOUTH AMERICA								
Bolivia	79.7	64.6	53.0	62.1	64.6	102.4	134.7	143.5
Colombia	127.2	107.4	105.7	124.8	148.5	220.4	242.1	228.1
Ecuador	73.5	61.5	59.0	63.7	78.2	116.1	182.9	172.8
Peru	107.8	102.2	103.7	119.3	133.1	152.1	151.6	145.3
Venezeula	151.9	125.8	132.5	147.4	177.0	322.0	333.1	264.5
BRAZIL & SOUTHERN CONE								
Argentina	150.5	136.1	140.1	157.6	171.4	218.8	249.5	249.3
Brazil	140.7	127.9	152.0	165.8	201.2	230.4	244.0	251.9
Chile	95.5	97.8	122.4	138.4	158.6	196.2	212.4	205.7
Paraguay	171.5	115.9	127.9	107.8	116.7	135.9	118.7	117.1
Uruguay	165.0	136.5	173.2	187.0	200.3	232.0	168.5	172.3
CENTRAL AMERICA & THE CARIBBEAN								
Costa Rica	63.7	71.4	92.7	106.6	117.3	138.9	134.9	135.2
Cuba	n/a	n/a	124.7	127.3	134.5	137.1	141.3	151.2
Dominican Republic	100.1	101.3	141.0	144.6	150.3	151.4	147.7	144.2
El Salvador	218.7	204.6	212.5	209.7	221.9	216.2	220.5	212.6
Guatemala	135.1	123.5	116.5	130.8	134.1	142.6	127.8	110.5
Haiti	120.2	58.7	85.5	93.9	115.3	118.8	114.6	139.0
Honduras	80.1	69.7	75.1	108.3	110.3	67.5	73.7	75.6
Nicaragua	207.3	189.1	188.0	209.2	203.0	218.5	232.0	231.8
Panama	257.3	226.4	217.1	228.9	275.7	322.2	293.2	308.6

SOURCE:

Calculated as total external debt/(exports of goods and services + primary income), in U.S. dollars.

Table 8

TOTAL EXTERNAL DEBT AS PERCENTAGE OF GDP

	2007 [3]	2008 [3]	2009	2010	2011	2012	2013	2014	2015	2016e [4]	2017f [4]
NAFTA REGION											
Mexico	12.3	11.8	21.6	23.4	25.0	29.5	32.3	34.1	37.2	28.7	28.7
ANDEAN SOUTH AMERICA											
Bolivia	41.2	35.6	33.5	29.4	25.4	24.4	26.7	26.6	29.8	29.8	35.1
Colombia	21.5	19.0	22.9	22.3	22.0	20.8	23.6	26.8	38.0	38.5	36.0
Ecuador	34.2	27.4	23.7	23.3	21.3	19.5	20.1	24.2	27.0	32.6	36.1
Peru	32.5	29.0	13.4	11.4	10.0	9.9	12.1	13.5	14.3	17.5	18.2
Venezeula	23.2	16.9	25.7	42.5	37.3	34.3	35.6	32.9	26.0	17.5	15.0
BRAZIL & SOUTHERN CONE											
Argentina	37.8	30.5	39.7	29.3	26.7	23.5	24.3	26.4	24.8	42.4	51.1
Brazil	14.1	12.0	16.9	16.0	15.5	17.9	19.6	23.0	30.6	34.0	32.7
Chile	32.2	35.8	42.2	39.1	39.6	45.4	48.6	57.9	64.8	66.3	62.6
Paraguay	19.8	16.9	87.6	79.5	62.0	65.2	54.2	53.4	58.3	53.8	54.4
Uruguay	63.5	50.8	56.8	45.7	38.1	46.8	46.1	49.1	53.7	43.9	43.6
CENTRAL AMERICA & THE CARIBBEAN											
Costa Rica	32.1	30.5	25.8	21.9	24.3	30.8	34.5	39.5	44.7	47.1	49.3
Cuba [2]	15.2	19.1	19.8	n/a	n/a	32.1	32.4	31.1	29.9	28.4	29.3
Dominican Republic [1]	56.3	50.0	24.6	25.1	26.2	36.5	38.6	40.3	39.1	37.0	35.5
El Salvador	46.5	46.6	50.1	51.7	51.9	54.8	55.5	57.9	56.7	55.7	55.6
Guatemala	32.0	28.5	39.3	36.4	34.1	30.0	32.0	32.9	31.6	29.0	27.1
Haiti [1]	27.3	29.9	22.3	14.3	10.4	14.8	18.6	22.3	26.8	25.8	30.7
Honduras	25.8	25.0	26.1	25.2	24.8	27.9	37.3	38.6	37.5	38.7	39.7
Nicaragua	45.4	41.4	70.0	80.5	80.9	86.1	89.7	86.5	82.6	88.0	90.2
Panama [1]	39.2	34.1	171.4	169.1	165.9	153.6	152.2	158.6	168.4	183.0	197.6

SOURCE:

ECLAC 2016 Statistical Yearbook for Latin America and the Caribbean, ECLAC 2014 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 estimates and forecasts

Table 9

FISCAL BALANCE

(as percentage of GDP)

	Primary Balance						Overall Balance					
	2011 [2]	2012 [3]	2013	2014	2015	2016	2011 [2]	2012 [3]	2013	2014	2015	2016
NAFTA												
Mexico	-1.0	-0.7	-0.5	-1.2	-1.3	-0.4	-2.5	-2.6	-2.3	-3.2	-3.5	-2.9
ANDEAN SOUTH AMERICA												
Bolivia[4]	-0.2	2.7	2.0	-1.7	-3.6	n/a	-1.1	1.8	1.4	-2.5	-4.5	n/a
Colombia	-0.3	0.1	-0.1	-0.4	-0.8	-0.7	-2.8	-2.3	-2.3	-2.4	-3.0	-3.9
Ecuador	-0.7	-0.1	-4.5	-4.9	-2.0	n/a	-1.6	-2.0	-5.7	-6.3	-3.8	n/a
Peru[4]	2.1	2.4	1.8	0.8	-1.2	-1.8	1.0	1.3	0.7	-0.3	-2.2	-2.9
Venezeula	-1.8	-2.2	1.0	0.9	-0.2	n/a	-4.0	-4.9	-1.9	-1.6	-1.8	n/a
BRAZIL & SOUTHERN CONE												
Argentina	-0.1	0.0	-1.3	-2.3	-1.9	-2.7	-1.9	-1.8	-2.5	-4.2	-3.8	-5.0
Brazil	2.2	1.9	1.5	-0.3	-1.9	-2.8	-2.4	-1.8	-2.6	-5.1	-9.2	-7.9
Chile	1.8	1.2	0.0	-1.0	-1.5	-2.3	1.3	0.6	-0.6	-1.6	-2.2	-3.0
Paraguay	1.0	-1.4	-1.4	-0.7	-1.2	-0.7	0.7	-1.7	-1.7	-1.1	-1.8	-1.5
Uruguay	1.8	0.4	0.9	-0.1	-0.5	-0.5	-0.6	-1.9	-1.5	-2.3	-2.8	-3.0
CENTRAL AMERICA & THE CARIBBEAN												
Costa Rica	-1.9	-2.3	-2.8	-3.1	-3.0	-2.6	-4.1	-4.4	-5.4	-5.7	-5.8	-5.5
Cuba	n/a	n/a	n/a	n/a	n/a	n/a	3.0	6.7	1.9	0.6	-0.4	n/a
Dominican Republic	-0.1	-2.8	-0.4	-0.1	0.3	0.2	-2.1	-5.2	-2.7	-2.6	-2.4	-2.7
El Salvador	-0.1	0.5	0.6	0.8	1.3	2.4	-2.3	-1.7	-1.8	-1.6	-1.1	-0.2
Guatemala	-1.3	-0.9	-0.6	-0.4	0.1	-0.1	-2.8	-2.4	-2.1	-1.9	-1.4	-1.6
Haiti	1.9	2.0	-1.0	-0.5	0.3	0.8	1.6	1.7	-1.4	-0.9	0.1	0.6
Honduras	-3.2	-4.3	-5.8	-2.1	-0.6	-0.3	-4.6	-6.0	-7.9	-4.4	-3.0	-3.2
Nicaragua	1.5	1.5	1.0	0.6	0.3	0.2	0.5	0.5	0.1	-0.3	-0.6	-0.9
Panama	-1.1	-0.7	-1.9	-2.3	-2.1	-0.8	-3.3	-2.6	-3.8	-4.0	-3.9	-2.9

SOURCE:

ECLAC 2016 Statistical Yearbook for Latin America and the Caribbean

1 ECLAC 2013 Figures

2 ECLAC 2015 Figures

3 ECLAC 2016 Figures

4 General government

5 Federal public sector

Table 10

CURRENCY & EXCHANGE RATES

	Currency [1]	Exchange Regime [2]		Dollar Exchange Rates [3]		
		Exchange Rate Arrangement	Exchange Rate Anchor	Dec. 2015	Dec. 2016	% Change
NAFTA REGION						
Mexico	Peso	Free floating	Inflation-targeting framework	17.14	20.73	-17.32%
ANDEAN SOUTH AMERICA						
Bolivia	Boliviano	Stabilized arrangement	Other	6.89	6.93	-0.58%
Colombia	Peso	Floating	Inflation-targeting framework	3329.45	3002.00	10.91%
Ecuador	US Dollar	No separate legal tender	U.S. Dollar	USD	USD	USD
Peru	Sol	Floating	Inflation-targeting framework	3.38	3.36	0.60%
Venezeula[4]	Bolívar	Conventional Peg	U.S. Dollar	6.29	10.00	-37.10%
BRAZIL & SOUTHERN CONE						
Argentina	Peso	Crawl-like arrangement	Other	13.265	15.89	-16.52%
Brazil	Real	Floating	Inflation-targeting framework	3.98	3.26	22.09%
Chile	Peso	Free floating	Inflation-targeting framework	698.75	670.40	4.23%
Paraguay	Guaraní	Floating	Inflation-targeting framework	5821.90	5737.50	1.47%
Uruguay	Peso	Floating	Monetary aggregate target	29.75	29.18	1.95%
CENTRAL AMERICA & THE CARIBBEAN						
Costa Rica	Colón	Other managed arrangement	Other	531.08	553.17	-3.99%
Cuba	Cuban Peso/Convertible Peso	Dual exchange rate	U.S. Dollar	1.00	1.00	0
Dominican Republic	Peso	Crawl-like arrangement	Inflation-targeting framework	45.57	46.66	-2.34%
El Salvador	US Dollar	No separate legal tender	U.S. Dollar	USD	USD	USD
Guatemala	Quetzal	Crawl-like arrangement	Inflation-targeting framework	7.62	7.52	1.33%
Haiti	Gourde	Crawl-like arrangement	Other	57.03	67.25	-15.20%
Honduras	Lempira	Crawl-like arrangement	U.S. Dollar	21.41	23.49	-8.85%
Nicaragua	Córdoba	Crawling peg	U.S. Dollar	27.84	29.32	-5.05%
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 2014 Annual Report on Exchange Arrangements and Exchange Restrictions*

3 Bloomberg Lab

4 Venezuela currently has another, lower official rate and an active black market for foreign exchange

Table 11

COUNTRY RISK AND IMF RELATIONS

	Country Risk [1]			Sovereign Spreads [1]		IMF Relations [2]
	Moody's	S&P	Fitch	November '15	November '16	
NAFTA REGION						
Mexico	A3	BBB+	BBB+	125.283	183.5	New Flexible Credit Line of $88 Billion
ANDEAN SOUTH AMERICA						
Bolivia	Ba3	BB	BB-	n/a	88.6	Need to continue building domestic demand
Colombia	Baa2	BBB	BBB	96.38	195.8	New Flexible Credit Line of $11.5 Billion
Ecuador	B3	B	B	n/a	664.1	$364 Million provided as Financial Support for earthquake relief
Peru	A3	BBB+	BBB+	125.23	124	Despite external conditions, activity is expected to accelerate
Venezeula	Caa3	CCC	CCC	41.55	2147.1	No consultation since 2004
BRAZIL & SOUTHERN CONE						
Argentina	B3	B-	B	n/a	489	Economy expected to rebound from 2016 recession
Brazil	Ba2	BB	BB	87.48	305.9	Recovery from recession remains weak and will be gradual
Chile	Aa3	AA-	A+	97.73	72.5	Reforms have potential to lift growth and reduce inequality
Paraguay	Ba1	BB	BB	n/a	246.9	Economy remains resilient despite regional slowdown
Uruguay	Baa2	BBB	BBB-	126.879	186.3	Baseline projection forsees temporary and moderate slowdown
CENTRAL AMERICA & THE CARIBBEAN						
Costa Rica	Ba1	BB-	BB+	84.915	350.6	GDP expected to return to potential over medium-term
Cuba	Caa2	NR	NR	n/a	n/a	n/a
Dominican Republic	B1	BB-	B+	128.715	388.9	Objective to strengthen resilience to external shocks
El Salvador	B3	B	B+	85.469	523.2	Issues: Low growth, outward migration, and weak competitiveness
Guatemala	Ba1	BB	BB	128.167	286.6	Solid macroeconomic performance, new admin tackling corruption
Haiti	NR	NR	NR	n/a	n/a	US$ 41.6 Million approved for Hurricane Matthew relief
Honduras	B2	B+	NR	n/a	417	Outlook remains favorable, program performance satisfactory
Nicaragua	B2	B+	B+	n/a	n/a	Economic outlook remains favorable
Panama	Baa2	BBB	BBB	123.578	137.5	Economic outlook remains favorable, uncertain external environment

SOURCE:

1 Bloomberg

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

Table 12

SOCIAL ENVIRONMENT

	Population[1] (Millions)	Avg. Pop. Growth [1] %	Literacy Rate [1] (% age 15+)	GDP Per Capita [2] (PPP $US)	GD P P/C (PPP) Growth [3] %	Income Inequality [4] (GINI Index)	HDI (World Rank) [5] 2015	Population in Poverty [6] %	Unemployment Rate [2] %	Internet Penetration [2]
NAFTA REGION										
Mexico	123.2	1.15	95.1	17,276	1.2	51.8	74	(2012) 37.1	4.9%	57.4
ANDEAN SOUTH AMERICA										
Bolivia	11.0	1.54	95.7	3,095	3.2	48.1	119	(2011) 36.3	2.7%	45.1
Colombia	47.2	1.02	94.7	6,056	2.2	53.8	97	30.7	10.1%	55.9
Ecuador	16.1	1.31	94.5	6,248	-1.2	46.7	88	33.6	4.6%	48.9
Peru	30.7	0.96	94.5	6,121	1.9	44.9	84	23.9	4.2%	40.9
Venezeula	30.9	1.28	96.3	n/a	-6.9	39.8	71	32.1	8.6%	61.9
BRAZIL & SOUTHERN CONE										
Argentina	43.9	0.93	98.1	13,431	1.4	42.4	40	(2012) 4.3 [7]	8.2%	69.4
Brazil	205.8	0.75	92.6	8,538	-4.6	51.8	75	18.0	6.8%	59.1
Chile	17.7	0.80	97.5	13,389	1.0	53.1	42	7.8	6.4%	64.3
Paraguay	6.9	1.17	93.9	4,160	1.7	44.4	112	40.7	4.5%	44.4
Uruguay	3.6	0.27	98.5	15,573	0.6	31.8	52	5.6	7.0%	64.6
CENTRAL AMERICA & THE CARIBBEAN										
Costa Rica	4.9	1.19	97.8	10,629	2.6	51.6	69	17.7	8.3%	59.8
Cuba	11.2	-0.3	99.8	(2013) 6789	4.2	n/a	67	n/a	3.3%	31.1
Dominican Republic	10.6	1.21	91.8	6,373	5.8	46.8	101	40.7	15.0%	51.9
El Salvador	6.2	0.25	88.0	4,219	2	44.4	116	40.9	6.2%	48.9
Guatemala	15.2	1.79	81.5	3,903	2.1	53.8	128	(2006) 54.8	2.9%	27.1
Haiti	10.5	1.71	60.7	828	-0.1	n/a	163	n/a	6.8%	12.2
Honduras	8.9	1.64	88.5	2,495	2.2	52.5	131	(2010) 69.2	3.9%	20.4
Nicaragua	6.0	0.99	82.8	2,086	3.8	46.7	125	(2009) 58.3	5.3%	19.7
Panama	3.7	1.30	95.0	13,268	4.1	50.7	60	23.2	4.3%	51.2

SOURCE & NOTES

1 The *CIA World Factbook October 2016*: 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 *ECLAC, Economic Survey of Latin American & the Caribbean 2016*

4 *April 2016 IMF Regional Economic Outlook*: 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 *ECLAC, Statistical Yearbook 2015*

7 Percent of urban population in poverty

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	4	Santos	2014-2018	Govt. Coalition
Ecuador	1978 [1]	8	3	3	Correa	2013-2017	Govt. Coalition
Peru	1980 [1]	1	2	3	Kuczynski	2016-2021	Opposition
Venezeula	1958	6	5	5	Maduro	2013-2019	Opposition
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	Aguirre	2015-2019	Opposition
Haiti	1986	6	5	5	TBD 1st round October 2016, 2nd round January 2017		
Honduras	1982	1	4	4	Hernández	2013-2017	Shifting Alliances
Nicaragua	1984		4	3	Ortega	2012-2016	Government
Panama	1994		2	2	Varela	2014-2019	Shifting Alliances

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]	Homicide Rate (Per 100,000)[7]	Corruption Perception[2]	Economic Freedom[3]	Property Rights[4]	Global Competitiveness[5]	Crime Victimization[6]
	Rank 2016	2011-2015	Rank 2016	Rank 2015	Percentile Rank	Rank	% Yes
NAFTA							
United States (for comparison)	90	4	18↓	11↑	80	3	n/a
Mexico	38	16	123↓	62↓	50	51↑	46
ANDEAN SOUTH AMERICA							
Bolivia	11↓	12	113↓	160↑	10	121↓	30
Colombia	45↑	28	90↓	33↓	50	61	34
Ecuador	14↑	8	120↓	159↓	15	81↓	29
Peru	35↑	7	101↓	49↓	40	67↑	39
Venezeula	1	62	166↓	176	5	130↑	48
BRAZIL & SOUTHERN CONE							
Argentina	22↑	8	95	169	15	104↑	41
Brazil	50↓	25	79↓	122↓	45↓	81↓	37
Chile	87↓	4	24↓	7	85↓	33↑	37
Paraguay	28	9	123↑	83	30	117↑	35
Uruguay	75↓	8	21	41↑	70	73	35
CENTRAL AMERICA & THE CARIBBEAN							
Costa Rica	69↓	10	41↓	50↑	50	54↓	35
Cuba	30↓	5	60↓	177	10	n/a	n/a
Dominican Republic	38↓	17	120↓	88↓	30	92↑	41
El Salvador	32↓	64	95↓	63↓	35	105↓	31
Guatemala	15↑	31	136↓	82↑	20	78	36
Haiti	10↑	10	159↓	150↑	10	n/a	n/a
Honduras	17↑	75	123↓	113↑	30	88	38
Nicaragua	28↓	12	145↓	109↓	10	103↑	31
Panama	53↓	17	87↓	66↑	30	42↑	32
ASIA							
China (for comparison)	44↑	1	79↑	144↓	20	28	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: 1966-2015 <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 2016 <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 177 countries as perceived by business people, risk analysts, investigative journalists and the general public.

3 As measured by the Heritage Foundation's 2016 *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 2016 *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 As measured by Latinobarometro 2015. "Have you, or someone in your family, been assaulted, attacked, or been the victim of a crime in the past 12 months?" Those who responsed "Don't know" or did not provide an answer were excluded from the results.

7 UN Office on Drugs & Crime, 2016. The rates reflect the most recent available data from 2011-2015

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↓	42↑	341↑	28↑	6	286	52	52	980
ANDEAN SOUTH AMERICA									
Bolivia	45↑	90↑	591	240↑	42	1,025	84	79	98
Colombia	9↑	16	1,288	172↑	12↓	239	70	50	281
Ecuador	49↑	38	588	120↓	8	664↓	33	68	137
Peru	26	7	426	96↑	9	260	36	63	210
Venezeula	144	52	610	147	70	792	65	88	402
BRAZIL & SOUTHERN CONE									
Argentina	25	52	660↓	51↓	9	359↑	106↑	69	554
Brazil	80↑	31↑	731	67↑	10↓	2038↑	68↑	47	1,770
Chile	6	29	480	84↑	7	291	31↓	57	296
Paraguay	35	46	606↓	144↓	20	378	35	84	89
Uruguay	5	66	725	144↑	20↑	271↑	42	68	57
CENTRAL AMERICA & CARIBBEAN									
Costa Rica	23↑	19	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	15	45	505↓	26↑	7	317↓	42	76	84
El Salvador	16↓	31	786	47↑	41↑	248↑	39	81	63
Guatemala	20↓	24	1,402	84↑	8	256	35↑	79	169
Haiti	97	312	530	50	47	184	40	n/a	n/a
Honduras	13↑	22	920	136↑	47	184	40	75	36
Nicaragua	13	56↑	419↑	108↑	42↑	201↑	61↑	82	23
Panama	6	23	686	30↑	52	417	37	72	117
ASIA									
China (for comparison)	29↑	20	453	47↑	9	259↑	68	70	8,657

SOURCE & NOTES

↑↓ Up or down indicate, respectively, an improvement or a worsening of the environment from 2016 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 2017*: 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 2017*: 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 *2017 LABER*

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World IP Review **(www.worldipreview.com/)**

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