2014

LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

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PREFACE

This is the 16th edition of the *Latin American Business Environment Report (LABER).*

Although changes have been incorporated over the years, the goal of the report remains the same: to present an accessible, balanced appraisal of the economic, social, political, policy and legal developments in the past year that have shaped the business and investment climate in Latin America as a region and in its 18 largest markets.*

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 in Haiti, throughout Latin America, 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 15th year.

Karina Lins helped with research for the legal environment analysis. JoAnn Klein assisted with editing, and Lenny Kennedy assisted with formatting the final document. We thank them for their invaluable assistance, but we alone are responsible for the content and analysis.

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EXECUTIVE SUMMARY

2014 was not a good year for Latin America. It experienced lower than expected growth for the fourth consecutive year. Weaker global growth, especially in the emerging economies, reduced the demand for, and the prices of, Latin American commodities. The prolonged nature of the economic downturn began to cascade into the rest of the environment.

We classify the region's 18 largest economies into three broad categories – attractive, problematic, and mixed – according the overall character of their business environments. The table further indicates if the yearly performance has improved (▲), deteriorated (▼), no significant change (=) or uncertain (?). In 2014, only five environments improved and eight 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. The outlook for 2015 was again guarded because of the uncertain global environment and the region's emerging fiscal and external imbalances.

Latin American Business Environments

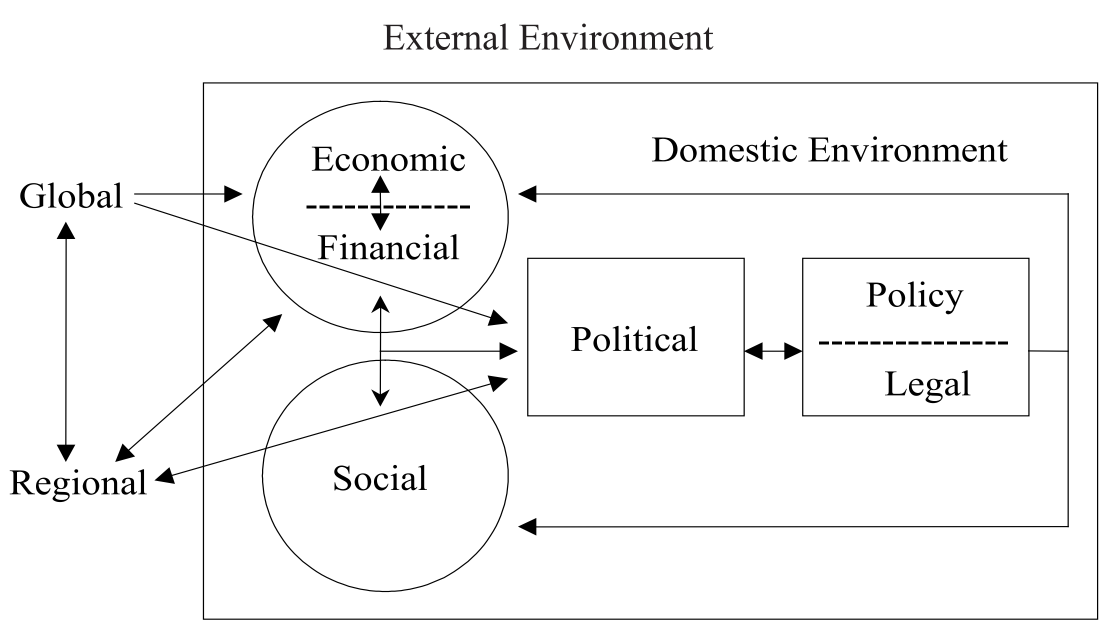
	2013 Environment			2014 Environment			2015
	Attractive	Problematic	Mixed	Attractive	Problematic	Mixed	Outlook
Mexico	▲			▲ ▼			?
Dom Rep	▼			▲			=
Costa Rica	=			=			=
El Salvador			▼			=	=
Guatemala			▲			=	=
Honduras			▼				=
Nicaragua		▲			=		=
Panama	=			▲			=
Bolivia		▲			▲		=
Colombia	▼			▲			?
Ecuador		=			▲		=
Peru	▼			=			=
Venezuela		▼			=		▼
Argentina			▼			▼	?
Brazil	▼			▼			?
Chile	=			▼			=
Paraguay			▲			=	=
Uruguay	▲						=
Total	9	4	5	9	4	5	

2014 LATIN AMERICAN BUSINESS ENVIRONMENT REPORT

INTRODUCTION

For the fourth year in a row, the business environment in Latin America in 2014 failed to regain the dynamism of the 2003-2010 cycle, and it appeared that 2015 would bring only modest improvements at best. Dragged down by the large South American economies, regional growth again declined, although it increased in Mexico and in Central America. In addition to lower commodity prices and financial market volatility, Latin American governments also struggled to cope with growing economic imbalances. In the face of these challenges, the 14 countries adhering to the centrist social-market paradigm did not deviate from their generally business-friendly policies. At the same time, the four leftist, populist regimes continued their course of heavy state intervention in the economy. The outcome of national elections in 2014 reinforced the political and policy status quo.

Figure 1
Components of the Latin American Business Environment



The conceptual framework in Figure 1 captures those components that constitute a country's business environment for purposes of this analysis. With these relationships in mind, Part I of the 2014 Latin American Business Environment Report (LABER) summarizes the major regional developments for each component, beginning in the last quarter of 2013 and continuing through October 2014. Part II presents thumbnail assessments of the performance of the 18 largest Latin American economies in 2014, grouped by geographic region and trading bloc (see Map). The report concludes in Part III with the 2015 outlook for the region and for each of the 18 countries, regrouped according to the overall character of their business environments: attractive, problematic or mixed. The tables that follow the text contain country and regional averages for the indicators referred to in this analysis. The Selected Sources section at the end of the report lists the publications we regularly consulted throughout the year to monitor developments in the region.

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[1] Venezuela, a founding member of the Andean Community (CAP), which left the Community and became a full member of Mercosur in 2012, is treated here in the Andean South American section. Bolivia is a member of CAP and associate member of Mercosur. Chile rejoined CAP in 2007 and is an associate member of Mercosur.

REGIONAL OVERVIEW

I. REGIONAL OVERVIEW

EXTERNAL ENVIRONMENT

The global economic environment deteriorated in 2014. Not only did economic growth not pick up, as projected at the end of 2013, but geopolitical tensions deepened in several regions. While not a major player in international affairs, Latin America was affected by the overall downturn. The regional environment continued to evolve, both internally and in its relations with the U.S.

Global Developments ▼[2]

- ***Global recovery stalled***

  In October, the IMF lowered its forecast for 2014 global growth to 3.3% from 3.7% in April. World output expanded at 3.3% in 2013. Although growth picked up in the U.S. in Q2, it fell in the EU zone, while growth in the emerging economies – most importantly China -- settled into a slower pace. This meant weaker export demand. In late September, *The Economist* Commodity Price Index was down 7.1% year on year.

- ***Global trade stagnated for third year in a row***

  In September, the World Trade Organization projected trade volume to increase by only 3.1%, compared to 4.6% in April. Because of falling commodity prices, trade revenue grew more slowly. During the 20 years preceding the 2008-09 financial crisis, world trade grew on average at more than twice the current growth rate. Multilateral trade negotiations were stalemated. The plunge in crude oil prices was particularly damaging for economies heavily depend on oil, the most extreme case being Venezuela where a $1 drop in the price of crude translates into $755 million in lost export revenue.

- ***Global financial markets stabilized at mid-year***

  For emerging markets, this translated into the recovery of capital inflows, lower bond spreads and strengthened currencies. Volatility returned in October presaging increased risk aversion.

- ***BRICS sought to enhance influence in international affairs***

  At their sixth summit, the BRICS states – Brazil, Russia, India, China and South Africa – five leading emerging economies, agreed to establish a development bank as a financing alternative to the IMF and World Bank. However, observers saw this as an attempt to counter the BRICS' declining economic influence in the face of weaker growth.

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[2] Symbols indicate significant change in the environment (▲improved; ▼ deteriorated; = no significant change) since the 2013 report was released.

Regional Developments ▼

- ***Pacific Alliance members deepened integration and explored ties with Mercosur***

  In February, the presidents of the four Alliance members – Mexico, Colombia, Peru and Chile – agreed to eliminate tariffs on 92% of all trade among them. In September, the foreign ministers of the PA and Mercosur announced they would attempt to strengthen ties between the two blocs. Bridging the gap between the open market economies of the PA and the more closed, protectionist economies of Mercosur will not be easy, although Uruguay, Paraguay and even Brazil favor allowing Mercosur member countries to negotiate bilateral agreements with non-members. Intraregional trade was comparatively low as was participation in global and regional value chains.

- ***Region continued to assert independence from Washington and diversify external relations***

  In the face of U.S. opposition, the region stood unified in supporting both the election of Venezuela to a seat on the UN Security Council and Cuba's participation in the 2015 Summit of the Americas in Panama. The Presidents of China and Russia made state visits to key Latin American countries. Over the last 25 years, Chinese trade and investment with Latin America has skyrocketed. They were important to all countries and crucial to several.

- ***The International Court of Justice ruled in longstanding Chile-Peru boundary dispute***

  The decision awarded a large track of the Pacific Ocean territorial waters to Peru but kept rich fishing grounds under Chilean sovereignty. The territorial dispute between Chile and Bolivia – also dating back to the 1879-83 War of the Pacific – awaited the Court's ruling.

DOMESTIC ENVIRONMENT

Largely because of sagging growth after 2010, the business environments of Latin America were losing the dynamism that both made them increasingly attractive to investors and generated significant social advancement. The low growth cycle was not reversed in 2014. Not only did external conditions deteriorate, but domestic conditions became more challenging; inflation increased as did deficits and debt. None of this had yet provoked widespread social unrest or political pressure for major policy changes. The 14 social market and four populist policy paradigms remained in place. However, in 2014 their comparative performances did not conform to recent patterns. The most notable underperformers were the resource rich economies of South America – most notably Brazil and Argentina – that did very well during the commodity boom. The2014 growth rates of these two countries, along those of Chile, Peru and Uruguay, were projected to fall well below their 2005-2014 annual averages (Table 1). Among the social market South American environments, only Colombia exceeded its average. By comparison, the 2014 growth rates for two of the three populist South American environments (Bolivia and Ecuador) did better, with both growing above the average rate. On the other hand, Venezuela did very badly. Also notable were the accomplishments of Central America (including Nicaragua), which had lagged during the commodity boom. All of these countries exceeded or approximated their 2005-14 averages.

This reversal underlines the importance of evaluating each environment annually across all of its components. Even though they were growing, Bolivia, Ecuador and Nicaragua had important components that were not business friendly in contrast to Chile, Peru, Uruguay and even Brazil, which slowed down but continued to attract significant foreign investment. Mexico, where 2014 growth barely exceeded the modest average, merited special attention for the package of structural reforms enacted during the year with the potential to sustain higher future growth.

Economic and Financial Performance ▼

- ***Growth was down and inflation up***

  The October IMF outlook lowered the 2014 forecast of regional economic growth to only 1.3%, (Figure 2), the lowest annual rate since the recession of 2009. Despite weak growth, inflation increased at the regional level (Figure 3). Although the poor performance of three large economies (Brazil, Argentina and Venezuela) skewed regional rates, only five of the 18 – the most important being Mexico -- were projected to grow faster in 2014 than 2013 (Table 1), while inflation declined in only six (Table 2).

- ***Slower global trade flows and falling commodity prices hurt the region***

  Export growth again stagnated as did imports (Figure 4) while the regional current account deficit increased (Table 3). Falling commodity prices, which weaken Latin America's terms of trade in 2013 (Figure 5), continued through 2014. The Dow Jones Commodity index was off 9.11% for the year in early October. In the first half of 2014 Latin American trade volume increased 5.2% but value declined 5.5%, according to the UN's Economic Commission for Latin America and the Caribbean (ECLAC). For the same period, import value was down 2.85% and volume up 2.2%. For the year, ECLAC expected only a 0.8% increase in exports and a small contraction for imports. The drop off would be most pronounced in South America, while Mexico and Central American trade were expected to grow in part because of the U.S. recovery.

- ***Capital flows held steady***

  At the regional level, net foreign direct investment (FDI) increased in 2013 (Figure 6), largely due to big jump in Mexico (Table 5). The growth of intra-regional FDI also continued. However, in the first six months of 2014, ECLAC reported that inward FDI in 13 of the larger economies fell 23%. Declining investment in mining and large corporate acquisitions were the major causes. The return of low volatility and diminished risk aversion in international financial markets boosted bond sales by Latin American governments and firms in the first half of 2014. Issuers took advantage of low borrowing costs to sell new bonds and refinance existing debt. Volatility jumped in October, and the region's stock markets gave back their earlier gains for the year.

- ***Remittances to the region increased but were still not back to pre-crisis levels***

  According to the Inter-American Development Bank, remittances to Central America have now exceeded the levels of 2008. However, remittances to Mexico and South America actually fell in 2013 and, while ECLAD reports that these increased in the first half of 2014, they have not yet recovered to the level of 2008.

- ***External debt and debt/GDP ratios increased***

  Total debt increased for six consecutive years through 2013, and the debt/GDP burden measured as a ratio of debt to GDP increased in four years prior to 2013 (Figure 7). During the first half of 2014, governments and corporations took advantage of favorable financial markets and improved risk ratings to sell international bonds.

Figure 2

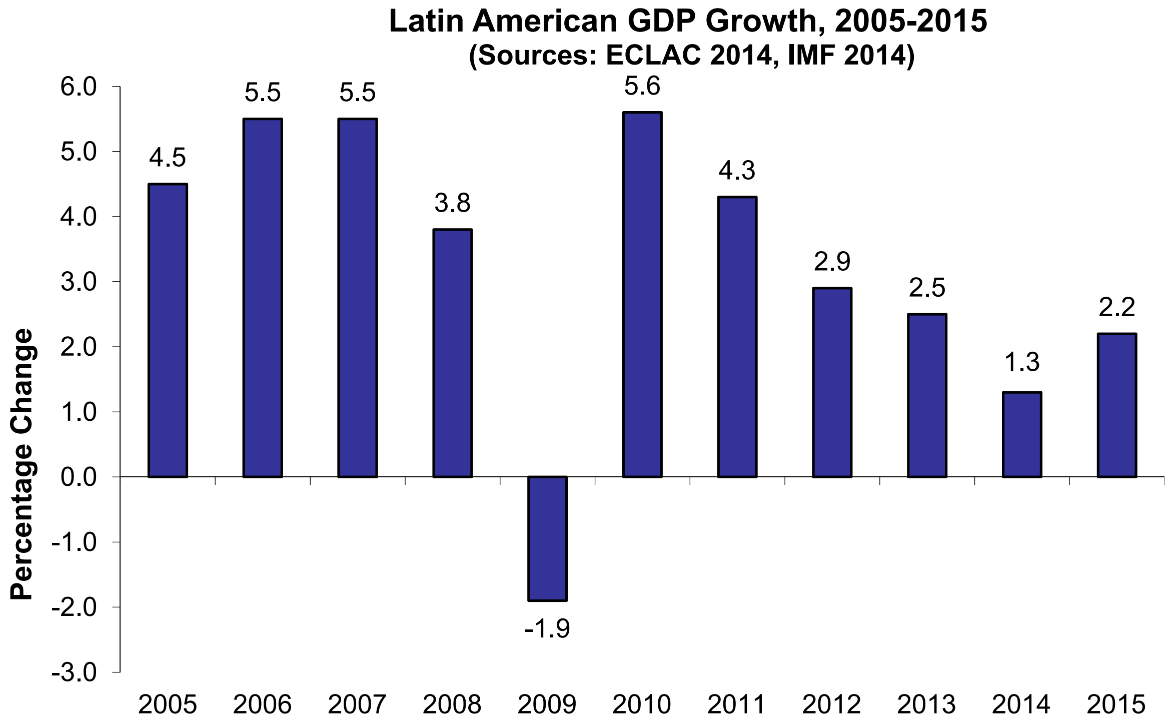


Figure 3

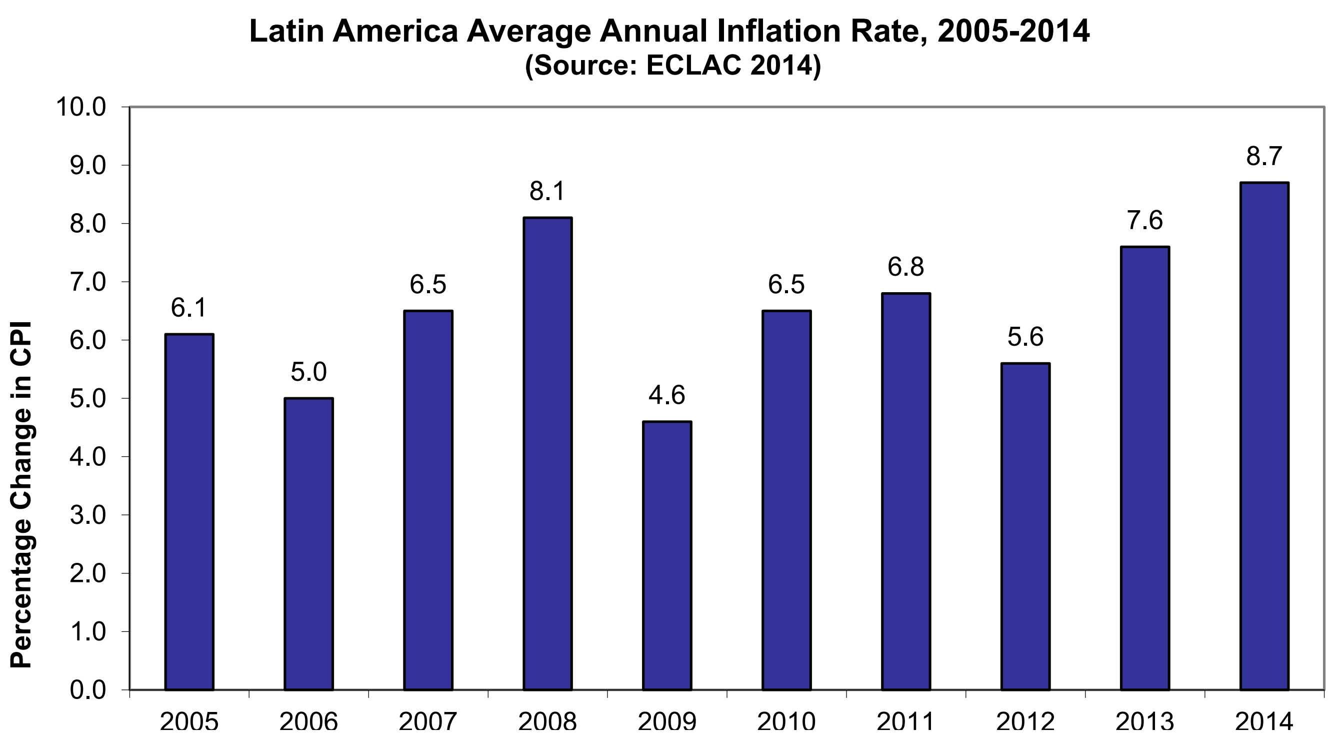


Figure 4

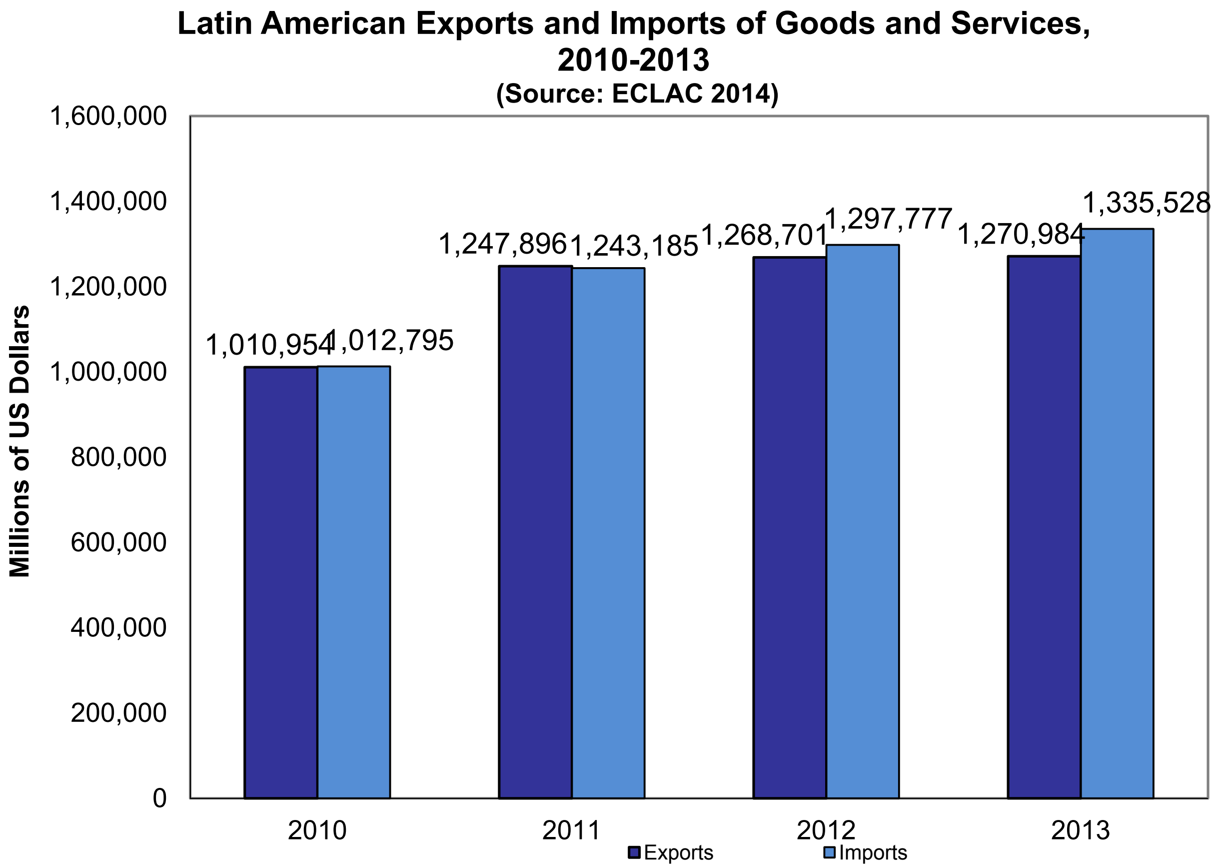


Figure 5

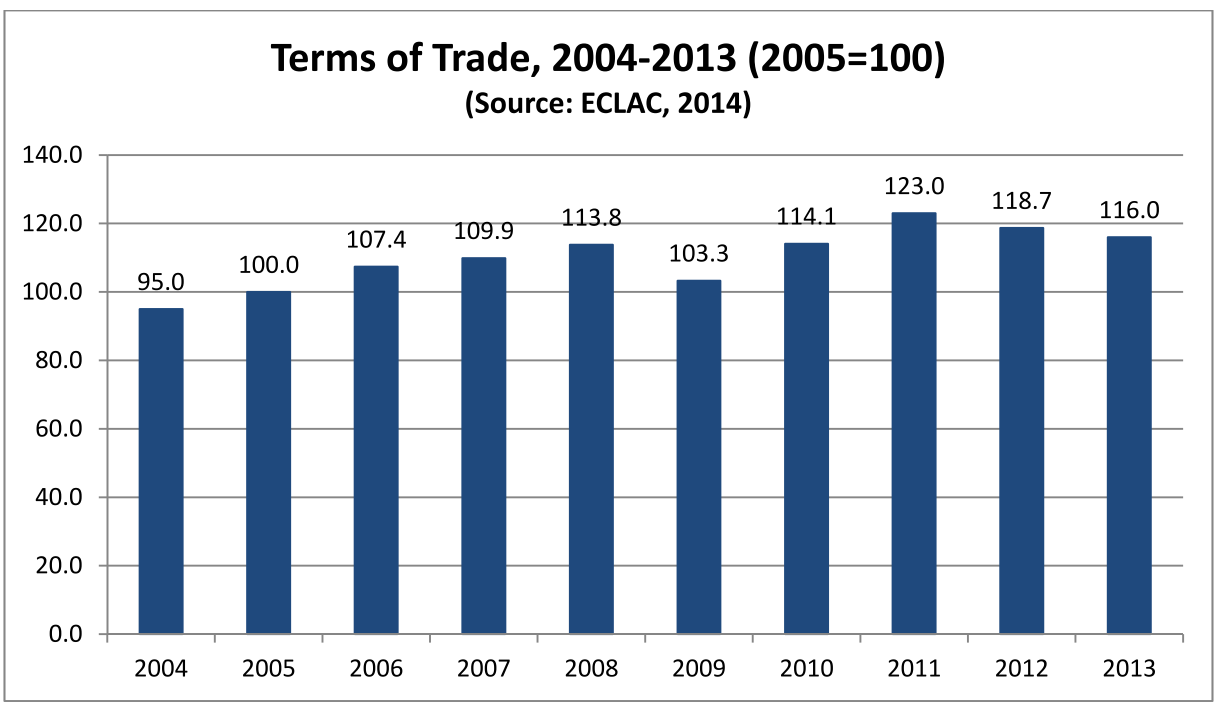


Figure 6

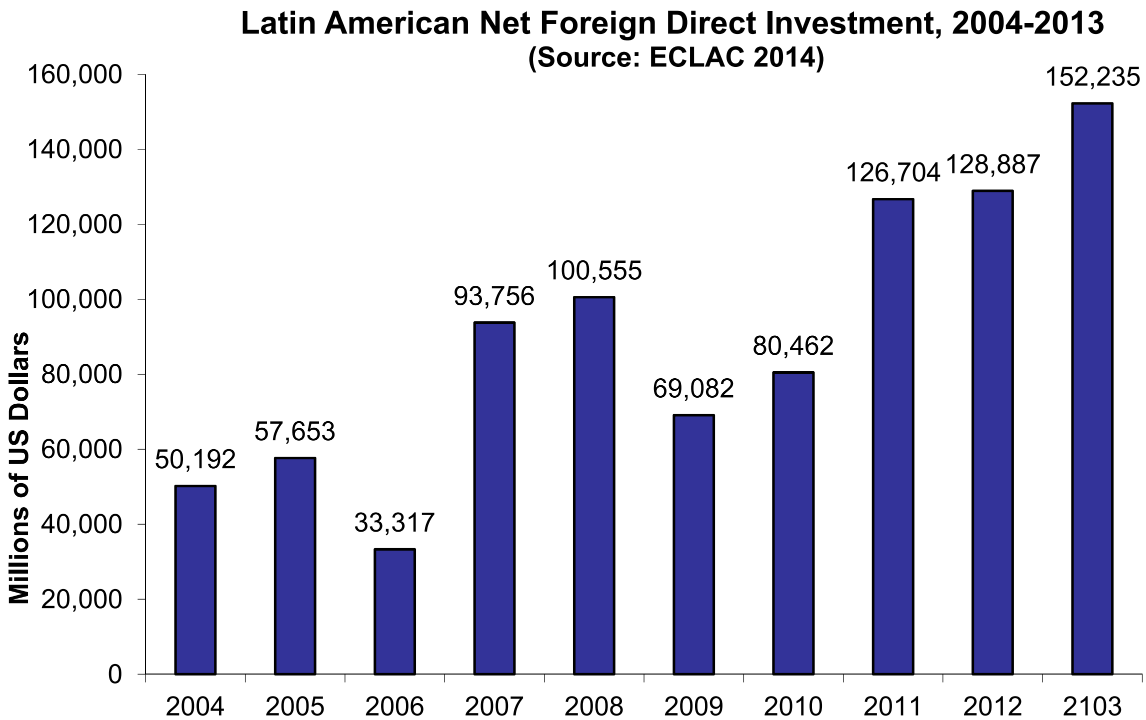
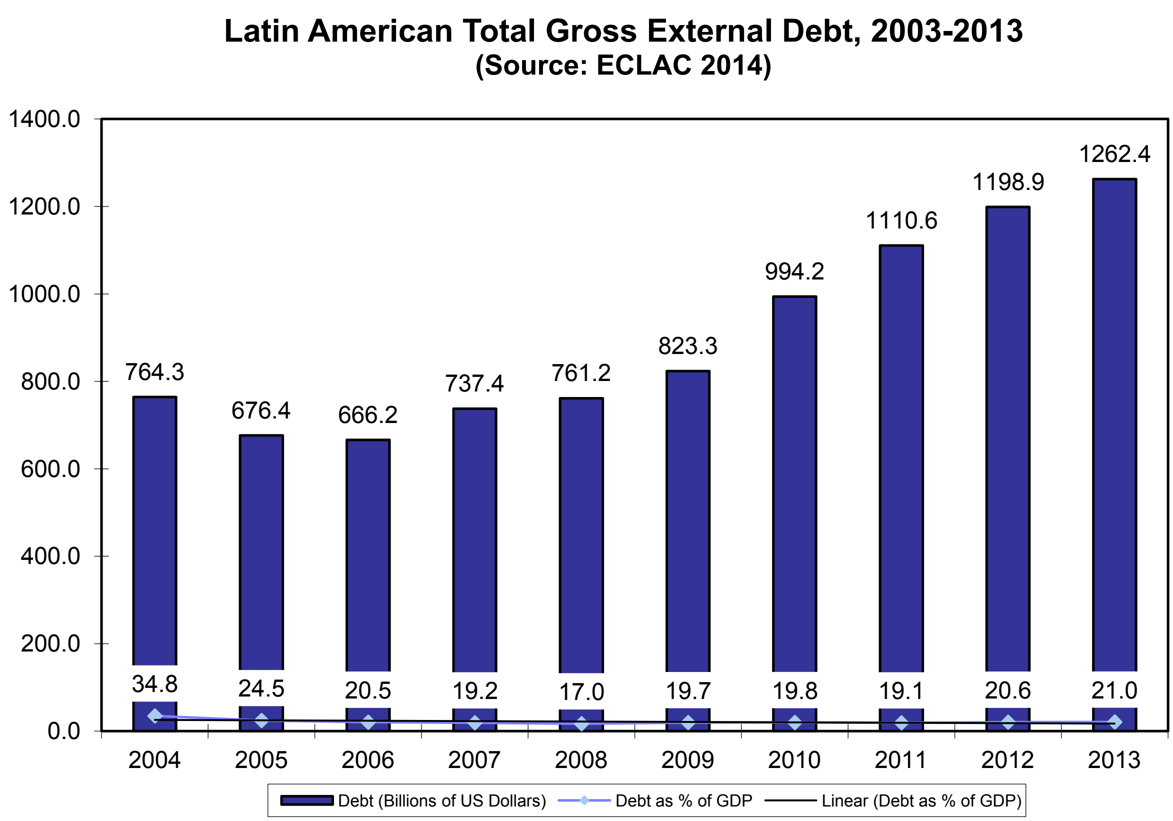


Figure 7



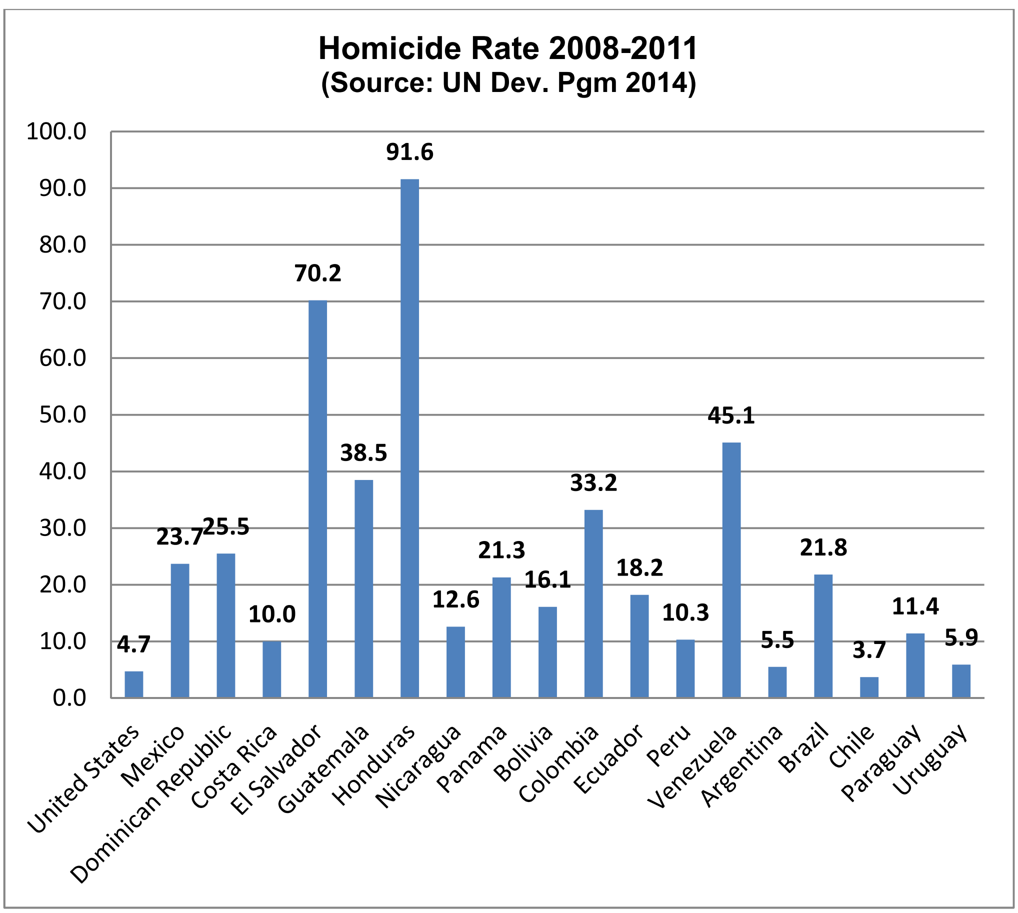
SOCIAL ENVIRONMENT =

The evidence suggested that the ongoing economic downturn had not yet reversed the social improvements of the last ten years. During the past decade, Latin America made progress in meeting the Millennium Development Goals in several important areas (reducing extreme poverty, hunger and child mortality), but the results are less impressive in others (equal representation for women, maternal mortality and deforestation). By the same token, crime and violence continued at high levels, especially in several Central American countries (Figure 8).

Unemployment remained low across the region (Table 8)

In the first half of 2014, the regional unemployment rate declined slightly. This was in spite of slower formal sector job creation – the primary cause of falling poverty, unemployment and inequality – which suggests that that the drop was due to lower labor force participation, according to an October ECLAC/ILO survey.

Figure 8



POLITICAL ENVIRONMENT =

Elections created uncertainty and the possibility of abrupt policy shifts. Nine of the 18 LABER countries held national elections. Although several elections featured tight contests and unexpected outcomes, there was no major political realignment in policy or ideological terms. However, divided government in those countries where the winners' parties did not win congressional majorities complicated governability.

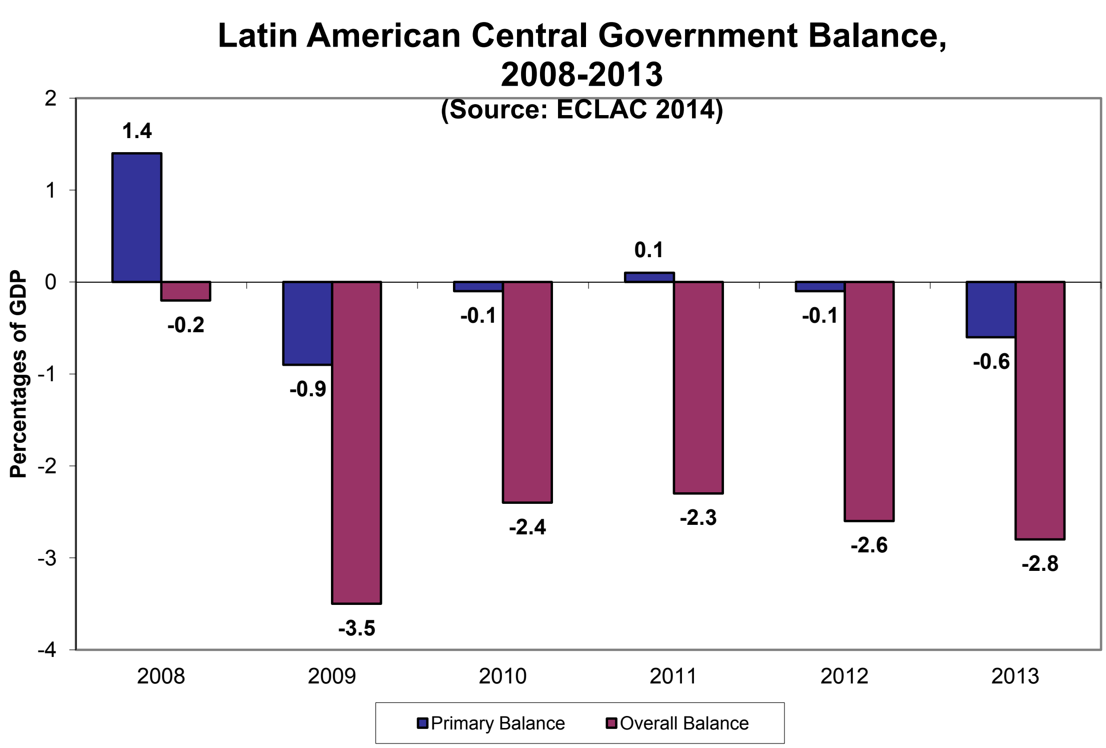
- The Presidents of Colombia, Bolivia and Brazil were elected with congressional majorities; the candidate (and former president) of the ruling party in Uruguay won in Uruguay with a majority in congress.
- Governing party nominees won in Honduras and El Salvador but they will not enjoy legislative majorities.
- Opposition candidates won in Costa Rica and Panama, again without control of congress.

POLICY ENVIRONMENT ▼

Slowing growth with the threat of higher inflation presented governments with tough choices: relax monetary and fiscal policies to stimulate reignite growth or raise interest rates and reduce spending to curb inflation.

- As the year progressed and economies stagnated, officials opted for growth-promoting policies.
- Fiscal deficits grew for fourth consecutive year (Figure 9, Table 11).
- Some retreat from resource nationalism, especially in Mexico.

Figure 9



LEGAL ENVIRONMENT =

The overall legal environment in Latin America saw only minor changes. The social market countries continued to maintain a positive legal environment, while the rule of law continued to diminish in the populist states. There was incremental progress both in combatting corruption and in dealing with the legacy of the past in Central America, with several high profile cases moving forward and the trial for genocide of Guatemala's former president, Efraín Ríos Montt, scheduled to resume in 2015. Further south, Argentina's vice president faces corruption charges while Brazil's supreme court reduced the sentences of several former leaders in the ruling Workers Party who were convicted for corruption and money laundering. This followed last year's decision that many of the defendants found guilty in the Mensalão corruption scandal would need to be re-tried. In the more populist states, Venezuela had jailed and charged opposition leader Leopoldo Lopez for violence surrounding a February opposition rally. Both Ecuador and Nicaragua had adopted laws eliminating presidential term limits. Violence and crime remained key problems in many countries, especially in parts of Central America and Mexico.

Bolivia began implementing its new constitution with a new mining law that requires state involvement in minerals extraction. Oil concessions in the Amazon continue to prompt protests in Ecuador, while large mining projects remain controversial in Chile, Peru and Guatemala. Moving in the opposite direction, Mexico adopted laws opening its strategic oil resources to foreign involvement. Argentina passed a new hydrocarbons law intended to promote shale and offshore oil exploration.

- ***Boundary disputes simmer***

  Following last year's adjudication of Nicaraguan-Colombian maritime boundaries, an ICJ decision adjusted the maritime boundaries of Peru and Chile to the advantage of the former. Costa Rica and Nicaragua have returned to the ICJ to adjudicate their boundaries in the Pacific and Caribbean. While Ecuador and Costa Rica reached amicable settlement of their longstanding boundary issues in the Pacific, the bitterest and intractable dispute between Chile and Bolivia over access to the Pacific remained before the ICJ.

- ***Pro-business reforms in some countries***

  The World Bank's Doing Business 2015 reported that reforms adopted throughout the region reduced procedural obstacles to starting and running a business. As a result, Colombia, Peru and Mexico surpassed Chile as the easiest countries to do business in. However, Venezuela ranked 182 out of 189 countries; while Brazil ranked 120 and Argentina 124.

COUNTRY PROFILES

NAFTA REGION

The presidents of the three NAFTA countries met in Mexico in February to mark the 20th anniversary of the trade bloc and to discuss its future. There was speculation that they would agree on steps to deepen and modernize the agreement and to integrate it into the Trans-Pacific Partnership. However, political controversy and opposition in Washington, most damagingly from President Obama's own party, forced them to table these measures. While there is no doubt that cross border trade and investment have increased dramatically, the major sticking point was over the impact of NAFTA on jobs – creation vs. losses. The immigration issue also clouded the meeting as did the crises in the Ukraine and in the Middle East. As a result, while some significant low level advances came out of the summit, there was no breakthrough on deepening NAFTA, or on using NAFTA as a building block toward a larger Pacific Basin trade agreement.

The U.S. and Mexico got caught up in a dispute over Mexican sugar exports, which U.S producers argued constituted dumping since they were subsidized. On a more positive note, Mexico was beginning to benefit from the U.S recovery, while U.S. investors stood to benefit from President Peña Nieto's new market opening reforms.

Mexico ▲▼[3]: Nationwide outrage over disappearance of students overshadowed passage of key reforms.

- ***Growth picked up during year***

  Exports increased to offset weaker consumer demand and provoke faster expansion after weak first quarter. The IMF forecast called for 2014 growth to be twice the 2013 rate. Inflation stayed within the central bank's targets. Earlier, the bank left the benchmark interest rate unchanged to dampen inflation, but rates were cut in June to spur growth. The government also took measures to speed up infrastructure spending.

- ***Strong external performance***

  Based on the 2013 economic reforms, Moody's upgraded Mexico's rating.in February making Mexico one of only two Latin American countries to attain a sovereign rating in the "A" range. It took advantage of its lower spreads to place four sovereign bond issues, making Mexico the most active seller in the region, according to ECLAC. Both exports and FDI picked up in 2013, while FDI was off in the first half of 2014, largely due to fewer large corporate acquisitions than during the same period in 2013. For 2014, ECLAC predicted that exports and imports and the country's current account deficit would all continue to grow. Although debt increased, it was quite manageable, given favorable financing terms and Mexico's strong currency reserves.

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[3] The symbols for each country indicate the following trends: ▲ business environment improved, ▼ business environment deteriorated, = no significant change since the 2013 report. The various tables in this report contain country-level data on each component of the environment.

- ***Violence grew as a serious threat to environment***

  The president's fight to reign in the cartels and improve citizen security did not yield the same results as his economic reform agenda. Instead, images of gruesome revenge killings and mass executions remained part of daily life, overshadowing a statistical decline in violent crime. The government created a unit of 5,000 gendarmes within the Federal Police to strengthen security forces. In early October, 43 students went missing after being caught in gunfire from local police and masked gunmen in southern Mexico. A local mayor and his wife with alleged ties to drug traffickers were implicated in the disappearance. With the students still missing in early November, the government felt compelled to issue a statement saying the event – by then a national outrage – had not affected investment flows.

- ***President's approval ratings declined***

  Mexicans did not share the enthusiasm in foreign circles for President Enrique Peña Nieto. In a September poll, only 37% of respondents approved of his management of the economy. In contrast to the bright future painted by the president, his fellow citizens were more focused on the economy's weak performance and the lack of attention to security. In spite of growing disillusionment, the three-party Pact of Mexico held together in Congress in order to pass Peña Nieto's reform package.

- ***Reforms established framework for further opening the economy***

  In mid-December, Congress and the states approved a comprehensive energy reform that, while preserving state ownership of hydrocarbons, opened the energy sector to private participation for the first time since 1938. Experts had long argued that private investment and management were necessary to reverse declining production. One estimate was that up to $20 billion of FDI would flow into the sector by 2025. The president signed implementing legislation in August that included the Fund for Stabilization and Development to manage energy revenues in a productive fashion. Measures were approved in July to complement 2013 constitutional reforms aimed at making the highly concentrated broadcasting and telecommunications sectors more competitive. Finally, a banking reform law was passed earlier in the year with the objective of increasing private sector lending to boost development and of strengthening government regulation of the financial services industry.

- ***New popular consultation law allows for plebiscites***

  In March, the Congress approved the Federal Law of Popular Consultation, intended to increase societal participation in public affairs. The law provides for organizing referenda on public policies, and allows for a plebiscite convened by the president, one-third of either chamber of Congress, plus a majority of the other chamber, or the support of at least 2 percent of registered voters. However, policies related to human rights, national security, elections, and state spending cannot be subjected to popular consultation. The opposition may seek to use the law to force a referendum on the new energy reform legislation.

DR-CAFTA REGION

DR-CAFTA celebrated its tenth anniversary in 2014. While it significantly increased both trade and investment in the region, it has not been transformational; and some of the member countries – namely Costa Rica and Nicaragua – benefitted more than others from the agreement. There were concerns that completion of the Trans-Pacific Partnership negotiations would wipe out this preferential arrangement with the U.S. The IMF projected that Central American economies would grow by 3.8% in 2014 in contrast to slower growth to the south. Central America benefitted from the U.S. recovery and a recovery of growth in coffee exports. ECLAC expected the region's exports to be up almost 4.0%. What had not improved was the wave of violent crime, which made the Northern Triangle one of the most dangerous regions in the world.

Dominican Republic▲: Stronger growth and reduced deficits produced modest improvement.

- ***Growth picked up and inflation held steady***

- ***Mixed external performance***

  In April the country sold a record $1.25 billion of its first long-term international bond issue since 1994. It held back on a second placement due to low investor interest. Exports increased in 2013; imports and the current account deficit decreased.

  Exports were expected to grow modestly in 2014, and imports contracted. While FDI inflows fell in 2013, they increased by 20% in the first half of 2014. Both the external debt and debt/GDP ratio increased.

- ***Poverty remained entrenched***

  While the recent growth rate was among the highest in the region, poverty declined much less than elsewhere. The World Bank reported that only two percent of the population escaped poverty in the previous decade, compared to 40% in Latin America as a whole. The government put the figure at 10%, and pointed out there are designated social programs for the poor. Unemployment was among highest in region.

- ***Policies focused on stabilizing the economy***

  As he promised in his 2012 campaign, President Danilo Medina stabilized the currency and reduced the fiscal deficit by enacting an unpopular increase in the tax rate. He also took steps to shift increased investment in education. These steps helped lower the output gap, but the absence of structural reforms limited prospects for improving potential output, as did the highly subsidized, inefficient energy sector.

- ***Flawed legal environment***

  In spite of Medina's promise to launch a serious fight against corruption, there was no evidence that it was in retreat. Ease of doing business and global competitiveness persisted as barriers to higher investment. The Medina government also was engaged in reforming the penal code, hoping to reduce crime and violence.

- ***Dominican Republic withdraws from Inter-American Court of Human Rights***

  In November, the constitutional court ruled that the Dominican Republic never properly ratified the 1999 agreement with the Inter-American Court as required by the country's constitution. As a result, the Dominican Republic withdrew from the jurisdiction of the Inter-American Court. That decision came only weeks after the Inter-American Court had ruled against an earlier decision by the country's supreme court which invalidated the citizenship of thousands of migrants of Haitian descent living in the Dominican Republic. The Inter-American Court found that the supreme court decision violated the Inter-American Convention on Human Rights and gave the Dominican Republic six months to remedy the situation.

- ***Citizenship law reformed***

  The new citizenship law was enacted to remedy the situation created by a September 2013 supreme court ruling which invalidated the citizenship of thousands of Dominicans of Haitian descent. The new law allows people born between 1929 and 2007 to apply for a restoration of their citizenship, but only if they have the proper registration. Lack of registration is a concern, as many Haitian descendants were never allowed to register their births or be listed in the civil registry.

Costa Rica =: New administration got a slow start.

- ***Growth and inflation held steady***

- ***Mixed external performance***

  Trade held steady, and the current account deficit decreased. FDI jumped in 2013 but so did the external debt and debt/GDP ratio. Inward FDI was down 21% in the first half of 2014. In April, Costa Rica issued a sovereign bond to take advantage of favorable borrowing conditions. But Moody's dealt it a setback in September when it downgraded government bonds to junk status because of persistent political obstacles to reining in the growing fiscal deficit and debt. Both Intel and a Bank of America subsidiary announced cuts in their Costa Rica operations. No progress occurred with regard to the country's incorporation into the Pacific Alliance, and the new administration seemed less likely to push it.

- ***Voters again opted for divided government***

  Luis Guillermo Solís of the Citizen's Action Party won the presidency in April with nearly 78% of the vote after the candidate of the ruling party, hopelessly behind in the polls, withdrew from the runoff. Solís is a newcomer who had never before held public office. He ran as an outsider, promising to govern from the center-left, giving priority to reducing poverty and inequality with increased social spending. However, his party won only 13 of the 57 seats in the unicameral National Assembly, which again complicated governability.

- ***Continued stalemate on fiscal policies***

  Although the fiscal deficit had deepened over the preceding decade (Table 11), previous administrations failed to enact the reforms needed to bring it under control because they were unable to build consensus in the increasingly fragmented democracy. Arriving in office, Solís decided to postpone proposing a comprehensive reform to grow revenue (converting the sales tax to a value added tax and adopting a global income tax) in favor of spending cuts, while at the same time he increased support for social programs. In September, the finance ministry reported that the deficit, then at 3.9% of GDP, was projected to grow to 6.7% in 2015.

- ***Strong legal environment helped offset policy inaction***

  With a strong rule of law culture and low corruption, Costa Rica had the third most competitive environment in Latin America again in 2014 (Table 12).

- ***Border disputes with Nicaragua at the ICJ***

  In November, Costa Rica won a judgment from the International Court of Justice (ICJ) that ordered Nicaragua to withdraw from disputed border territory in the Isla Calero, an environmentally sensitive area of three square kilometers along the San Juan River, where Nicaragua had been conducting dredging activities. In February, Costa Rica announced that it would file a new complaint in the ICJ against Nicaragua over disputed maritime territory in the Pacific and Caribbean. Costa Rica claimed that some areas opened by Nicaragua for oil exploration concessions lie within Cost Rican waters.

El Salvador =: Close election reinforced deep polarization.

- ***Weak economic performance***

  Over the past decade, El Salvador's economy grew at just over half the regional average (Table 1). Again in 2013, GDP growth was the slowest of the 18 LABER countries. In 2014, only Venezuela, Argentina and Brazil were projected to have slower growth rates. With such weak growth, inflation was not a problem.

- ***Weak external performance***

  Exports and imports remained stagnant. While exports were on a trajectory to grow in the rest of Central America in 2014, the outlook for El Salvador was a 1.5% decline. The current account deficit had progressively increased over the past four years. Net FDI decreased in 2013 as did inward FDI the first half of 2014 (down 67%). The external debt continued to grow, and the debt/GDP ratio remained the highest in Latin America (Table 7).

- ***Homicides up as gang truce collapsed***

  In April, the attorney general announced that the country's 2006 anti-terrorism law would be applied to gangs who carried out attacks on police stations. El Salvador struggled to find a means of combating gangs, with both militarization and pacification measures seemingly ineffective.

- ***FMLN retained the presidency***

Salvador Sánchez Cerén eked out a razor-thin victory over the Arena party's Norman Quijano. The bitter campaign and virtual tie in popular votes confirmed that El Salvador was deeply divided. If anything, polarization deepened, rendering governability even more problematic. Although it lost the presidency, Arena did better than expected. The next faceoff will come in the 2015 legislative elections.

- ***Tax reform enacted***

With enough votes from minor parties to overcome Arena and business opposition, Congress narrowly approved a bill that included an alternative minimum income tax, a tax on financial transactions and other revenue-enhancing measures. Passage was accompanied by a fiscal responsibility framework (FRF). Although passage of the reform demonstrated that Congress could act, it remained to be seen how much revenue would be generated, and whether the FRF would be fully developed and carried out. In the meantime, the fiscal deficit and public debt continued to grow. Even though he was identified with the more left wing of the FMLN, Sánchez Cerén was not expected deviate from the orthodox economic policies of his predecessors.

- ***Combating corruption and dealing with the past***

Former president Francisco Flores was arrested in September for corruption and for embezzling an estimated $15 million that was sent to El Salvador as aid from Taiwan. In January, Flores had been prevented from leaving the country. Meanwhile, a Spanish appeals court upheld jurisdiction over a case involving the 1989 massacre of Jesuits during the country's civil war. Five of the Jesuits were Spanish citizens. A Spanish trial court had earlier indicted 20 Salvadoran military officials for murder, terrorism and crimes for acts committed during the civil war.

Guatemala =: There were no significant changes in mixed environment.

- ***Growth and inflation kept pace***

There were indications that growth would pick up in the second half of 2014 due to the stronger U.S. economy.

- ***Fitch lowered credit rating in June***

In dropping Guatemala from BB+ to BB, the agency cited weak prospects for accelerating growth, a narrow revenue base and limited fiscal flexibility. With regard to the latter, the recent tax reform had a "muted impact on tax collection". Exports were stagnant in 2013, but both exports and imports were expected to grow in 2014. FDI in 2013 duplicated the 2012 FDI, while inward FDI in the first half of 2014 held steady. Total external debt, which had increased every year since 2005, grew again in 2013.

- ***Comprehensive social development initiative launched in late 2013***

Guatemala is one of the poorest, most socially underdeveloped countries in the region. To reduce malnutrition, improve education and increase employment opportunities, an alliance of government, business community and religious leaders announced a national agreement on human development in early November. The initiative, which originated in civil society, sought to build a broad nonpartisan consensus on social issues.

- ***Fiscal deficit decreased slightly***

  To spur growth, the Central Bank embarked on a cycle of interest rate cuts.

- ***Minimal progress in combating corruption***

  In March, former President Alfonso Portillo, who had be extradited to the U.S., pleaded guilty in a New York court to conspiracy to use a U.S. bank to launder bribes from Taiwan while he was in office. He was sentenced to five years 10 months in prison. However, in spite of growing civil society mobilization against corruption, hundreds of corruption cases languish in the courts.

- ***Ríos Montt genocide trial to resume in 2015***

  The constitutional court ruled that the genocide trial of former dictator José Efraín Ríos Montt will resume in January 2015. Ríos Montt had been found guilty in May 2013 of genocide, torture and rape of indigenous Mayans during his 1982-83 rule, but the constitutional court overturned the conviction. The earlier genocide trial was marked by the removal and reinstatement of trial judges, and by a series of rulings that attempted to invalidate actions taken by other judges in the case.

- ***Removal of attorney general a negative step in fight against impunity***

  The constitutional court reduced the term of the respected attorney general, Claudia Paz y Paz, raising concerns about the rule of law in Guatemala. Together with the UN's International Commission against Impunity in Guatemala (CICIG), whose mandate is set to finish in September 2015, Paz y Paz is widely considered to be a key to the progress of efforts to end the culture of impunity. Former supreme court justice, Thelma Adana, was appointed to replace her.

- ***Former guerrilla leader convicted***

  In August, a Guatemalan court sentenced former guerrilla, Fermín Felipe Solano Barillas, to 90 years imprisonment for terrorism and crimes against humanity committed during the country's 1960-1996 civil war. While a few former military officials have received sentences for war crimes, the conviction of a former guerrilla is unprecedented.

- ***New "Monsanto" law repealed***

  In September, the Guatemalan constitutional court suspended, and the congress repealed, a law passed in June that would have provided property protection for new plant varieties. Dubbed the "Monsanto" law by critics, the law drew widespread opposition from indigenous and farming groups. The law, enacted to fulfill obligations under the CAFTA-DR agreement, had provided for Guatemala's accession to the International Convention for the Protection of New Plant Varieties, recognized property rights over new hybrid plant varieties and imposed possible fines and imprisonment for the unauthorized sale or use of protected plants.

Honduras ▼ : New administration inherited deteriorating environment.

- ***Economy underperformed.***

  GDP growth in 2014 was expected to show a modest improvement over 2013, but the economy has not recovered the robust pre-crisis growth. The coffee blight hurt Central America's largest producer. Rising inflation complicated monetary policy-making.

- ***Government sought IMF assistance.***

  Moody downgraded the credit rating in February to the same rank as Argentina and the Congo. It singled out the surging deficit and placement of short-term local bonds as the justification. Weak exports (down 10% in 2013 with only a modest increase expected in 2014) and flat FDI exacerbated the situation. Foreign debt jumped 27% in 2013 as did the debt/export ratio. The government and IMF entered into negotiations to secure a three-year support guarantee.

- ***Gang violence triggered surge of unaccompanied minors to U.S.***

  Although homicides were down, the rate was still the highest in the world (Table 12). Migrant remittances constituted 16% of GDP in 2013.

- ***Conservative National Party won presidency but not control of Congress***

  President Juan Orlando Hernández assumed office in January promising to act decisively to lower the fiscal deficit and reverse the wave of violence, but his National Party captured only 47 seats in the 128-member Congress. Libre, the party of the deposed President Manuel Zelaya (whose wife lost to Hernández in the presidential election), and the opposition Liberal Party won 39 and 26 seats respectively.

- ***Fiscal reform law enacted***

  The measure aimed to increase tax revenue was needed to reduce the deficit, which surpassed seven percent in 2013 (Table 11). The IMF conditioned its support on government measures to restore fiscal stability and spur growth. Congress passed a law opening the ailing state-owned telecommunications and electricity companies (Hondutel and ENEE) to private investment.

- ***Military mobilized to supplement police***

  This measure underlined the weakness and corruption inherent in the legal system. Of all the murders committed, it is estimated that the police are able to investigate only about 20%.

- ***New shoot down law targets drug trafficking***

  A new shoot down law, passed in February, gives the Honduran air force and navy broad powers to force down planes and intercept ships suspected of carrying drugs. A special agency took control of the four main airports in the country in a further attempt to restrict drug trafficking.

Nicaragua=: Environment blended populist politics and mainstream economics.

- ***Healthy growth with moderate inflation continued***

  Growth of 4.0% exceeded Nicaragua's 3.8% average for the period from 2005-2014 (Table 1). Inflation continued to fall, reaching 4.7% in 2014 (Table 2).

- ***External support from Venezuela and DR-CAFTA ties sustained external performance***

  Exports declined in 2013 but were projected to increase in 2014 relieving the large current account deficit. Responding to macroeconomic stability and the government's encouragement of foreign investment and respect for private property, FDI increased in 2013. The main recipients were energy, telecommunications, tourism and the free trade zones. The increase in external debt was offset by the highest level of international reserves in Nicaragua's history.

- ***Avoided region's wave of violent crime***

  Nicaragua has remained an island of calm in an increasingly violent region. Overall violence, as well as gang activity remains far below average for Central America.

- ***President Daniel Ortega remained firmly in control***

  The Sandinista president used social mobilization and social welfare programs to solidify support among the poor (nearly 60% of the population were below the poverty line) and used a friendly business climate to win the acceptance of the well off. The absence of an effective, active opposition, especially in Congress, facilitated the institutionalization of Ortega's dominance. A change to Nicaragua's constitution, allowing for unlimited re-election of presidents, paved the way for Ortega to run for a third consecutive term in 2016. A compliant supreme court had already invalidated the provision of the Nicaraguan constitution barring a president from serving more than one term, thus allowing Ortega to run a second time in 2012. The new reform also eliminated the rule that the winning candidate needs to receive at least 35% of the vote to be elected president.

- ***Nicaragua ran a small fiscal deficit***

  However, the country maintained a small primary surplus (Table 11). Nicaragua has reduced its external debt since 2003, and has continued to make small reductions in recent years (Table 7).

- ***On balance, strongest legal environment of four populist countries***

  Nicaragua ranked ahead of Bolivia, Ecuador and Venezuela in rule of law, economic freedom and the ease of starting a business (Table 12). It trailed all but Venezuela on perception of corruption and Ecuador on property rights.

Panama*▲*: Opposition candidate prevailed in presidential election.

- ***Growth slipped but still highest in region***

  The dispute between the Canal Authority and a Spanish construction company pushed back completion of the Panama Canal expansion.

- ***Positive external profile strengthened***

  Panama has gained widespread respect for its operation of the Canal – which celebrated its 100th anniversary in August – and for its management of the construction of a third set of locks to accommodate the new post Panamax container ships. The most concrete dividend of this positive assessment was the surge in FDI, which increased again in 2013 and the first half of 2014. Trade also was up, but increased debt remained on the negative side of the ledger. President Varela signaled he was realigning the country's foreign policy more closely with the region by restoring full diplomatic relations with Venezuela and by welcoming Cuba to the April 2015 Summit of the Americas hosted by Panama.

- ***Unemployment was among the lowest rate in the region***

  Panama's urban unemployment rate in 2013 was 4.7%. Among LABER countries, only Guatemala had a lower rate (Table 9).

- ***Juan Carlos Varela won the presidency***

  Varela came from behind to win, but his Panameñista party won only 12 of the 71 seats in the unicameral legislature while the outgoing ruling Cambio Democrático won 32 seats. This would necessitate negotiating support from opposition parties to pass legislation. However, in one of his first acts he invoked executive power to deliver on a major campaign promise: price controls on basic food items.

- ***Measures taken to curb fiscal deficit***

  In September the Varela administration announced that it was selling global bonds to help finance the 2014 budget deficit, which had exceeded the prescribed 2.0% of GDP since 2009 (Table 11). Earlier it announced that it would be delaying some of the large infrastructure projects begun under the previous government.

- ***Steps to strengthen the legal environment***

  Beyond reiterating the commitment of all newly elected Panamanian leaders to reduce corruption, Varela promised to restore balance in the separation of powers and to strengthen transparency. In an unprecedented act, supreme court justice, Alejandro Moncada, was charged with corruption involving improper business ties to former president Ricardo Martinelli. Moncado, who faced impeachment by the legislature, was suspended from office and had his assets frozen.

ANDEAN SOUTH AMERICA

Falling commodity prices affected the mineral resource economies of the Andean region. However, the impact on growth was not uniform. The downturn was greatest in Venezuela, which fell into recession. Growth increased modestly in Colombia and was off only slightly in Ecuador. Bolivia and Peru experienced larger drops but still stayed positive (Table 1). The region's governments continued to pursue divergent trade strategies with Colombia and Peru -- both business-friendly, attractive environments -- opting for the Pacific Alliance and the other two countries – problematic business environments -- for Alba-Mercosur. The new Chilean President, Michelle Bachelet, took the lead in attempting to bridge the two trade blocs.

Bolivia▲: Pragmatic populist Evo Morales easily won a third term as president.

- ***Solid economic performance continued***

  Although growth declined 2013-14, it was still the second highest rate among the 18 LABER countries with inflation projected to fall as well. Over the 2005-14 decade, annual GDP growth has averaged 5.0%.

- ***Strong external performance***

  Taking advantage of its favorable terms of trade, exports have been the most important component of the recent growth spurt. Commodities comprise more than 80% of exports and about 33% of fiscal revenues. In spite of declining commodity prices, exports increased in 2013 and were forecast by ECLAC to grow again in 2014. The key component in export growth was natural gas exports to Argentina and Brazil under long-term contracts. The government has managed the export windfall to build balance of trade and current account surpluses and to generate currency reserves. Although still modest, FDI increased in 2013, despite the president's inflammatory rhetoric against foreign companies. In June, S&P upgraded Bolivia with a stable outlook. It has the strongest rating of the four populist countries.

- ***Economic growth and redistributive social policies lowered poverty and unemployment***

  One result of Bolivia's decade of high growth has been a decrease in poverty, falling to 36.3% in 2011. Urban unemployment stood at 5.8% in 2011 (Table 9).

- ***Morales overwhelmed divided opposition***

  After the constitutional court ruled that he could run for a third term, Morales' re-election as president was never in doubt, and his MAS party again retained its 2/3 majority in Congress, which meant that the opposition could not block legislation. While the total vote for Morales was lower than in the last election, he won in the opposition stronghold of Santa Cruz.

- ***Healthy fiscal accounts***

  Bolivia was one of two countries in the region (Peru was the other) to have a budget surplus in 2013 (Table 11).

- ***Flawed legal environment created investor risk***

  Weak rule of law and property rights, high corruption and low economic freedom weighed down global competitiveness (Table 12). One sign of this weak rule of law was the suspension by Congress of two judges on the seven-member constitutional court for dereliction of duty and malfeasance. The judges were elected in 2011 under a constitutional reform that made judicial offices elected positions. The UN Office of the High Commissioner for Human Rights in Bolivia expressed fears that the trial of the two judges could harm due process and judicial independence in Bolivia.

- ***New child labor law draws criticism***

  Congress enacted a law lowering the minimum age of child workers. In an economy where child labor is widespread, the government argued that the measure afforded them the recognition and protection of the state. However, the new law will permit children as young as 10 to join the legal workforce, with parental approval and so long as it does not interfere with the child's education. The child labor law would seem to contravene the ILO's Minimum Age Convention, to which Bolivia is a party, which sets 14 as the minimum working age.

- ***Bolivia files suit in ICJ to reclaim its coast***

  In April, Bolivia filed suit in the ICJ, claiming a 240-mile strip of coastline in Chile that was lost by Bolivia to Chile during the War of the Pacific (1879-1883). In July, Chile's President Michelle Bachelet announced that her government will object to the authority of ICJ in the case. Bolivian grievances resulting from its loss of access to the sea have long embittered relations between the two countries. The suit comes after the January 2014 ICJ decision setting the maritime boundary between Peru and Chile.

- ***New mining law takes effect***

  The new mining law replaces the privatization law enacted in 1997, and conforms the minerals sector to Bolivia's 2009 constitution. Originally, the new law had banned the common practice of local co-operatives partnering with private companies, whether they are domestic or multinational corporations. However, protests by miners from co-operatives, who represent some 30% of the mining output, prompted changes to allow co-operatives and private companies to form mixed companies together with the state. The new law also prohibits privately owned mines from registering their minerals as property, thus preventing them from using the minerals as collateral for loans or listing them as assets, and also limits mining concessions to no more than 62,000 hectares.

- ***Shoot down law for drug traffickers***

  In April, Morales promulgated a new law authorizing the air force to intercept and force down suspected drug planes flying through Bolivian airspace. The country joins others which have adopted similar laws in the past year in an attempt to combat drug trafficking.

Colombia ▲: *President re-elected with mandate to conclude peace negotiations.*

- ***Growth held steady and inflation fell***

  Colombia's 2014 GDP growth was expected to surpass Peru, and be second only to Bolivia in South America (Table 1). The economy, which surpassed Argentina as the third largest in Latin America, benefitted from growing middle class consumption and construction, as well as the from 2012 labor market reforms that were beginning to take effect. Inadequate infrastructure remained a problem, but the government was implementing procedures to speed up private investment.

- ***On balance positive external performance***

  Both trade and FDI were off in 2013, but inward investment flows increased in the first half of 2014. External debt rose. In July, citing growth, Moody's raised the investment grade rating a notch to the same level as the other two agencies' ratings. In October, the government sold global bonds to help fund the 2015 budget.

- ***Farmers again took to the streets and armed guerrilla attacks increased***

  The protests were a follow-up to last year's protests and to an agreement with the government to improve support to agriculture. Their principal grievance was the negative impact of the U.S. free trade agreement on small farmers. In 2013 and into 2014, U.S. exports to Colombia jumped while Colombian exports to the U.S. fell. Although falling, the unemployment rate is the highest in the region (Table 9). The FARC and ELN guerrilla movements stepped up destruction of energy and infrastructure projects. Oil production, which accounts for 40% of export earnings, has declined in recent years.

- ***Santos prevailed in run-off***

  Former President Álvaro Uribe mounted serious opposition to the incumbent and his former protégé, Juan Manuel Santos, by challenging the centerpiece of the Santos campaign – the peace process about which, it turned out, many Colombians had reservations. The March legislative elections provided the first test. Although Santos' allies maintained effective control of Congress, Uribe's Democratic Center Party won 12 seats in the Lower House and 19 in the Senate, including the seat won by Uribe, to become the second largest force. Following a bitter campaign, and with the support of small leftist parties, Santos defeated Uribe's candidate, Óscar Iván Zuluaga, 51% to 45% in the June runoff. Santos ran as, and was elected as, the peace candidate, but it was clear that he would face constant scrutiny of the Uribe forces in future negotiations.

- ***Negotiations with guerrillas continue***

  In June, the government announced it would open peace negotiations with the smaller, resurgent ELN guerrillas, while there was still no agreement in the ongoing negotiations with FARC about reparations for victims, transitional justice or the disarming, demobilization and reintegration of the guerrillas into the political process. However, the government and FARC did reach agreement to set up a truth and reconciliation commission. The difficulty of negotiating peace was highlighted in November by FARC's capture of a Colombian army general in the northwest of the country.

- ***Santos announced policy agenda for second term***

  The policies associated with Colombia's business-friendly environment were not an issue in the election. However, the president promised to take steps to improve education. As the economy picked up steam, the Central Bank raised interest rates in April and continued into August.

- ***Reforms enhanced ease of doing business***

  In its Doing Business 2015, the World Bank ranked Colombia highest of the LABER countries, just ahead of Peru.

- ***Saga of Bogotá's mayor illustrates legal shortcomings***

  In January, a court suspended the 2013 decision of the prosecutor general dismissing Bogotá mayor, Gustavo Petro, a former left-wing rebel, for mismanagement of the municipal rubbish collection, and for attempting to reverse the privatization of this service. In March, the supreme court found the dismissal within the scope of the president's authority, but the Inter-American Commission on Human Rights then awarded precautionary measures to the mayor and ordered his reinstatement to office. Following the Commission's order, the superior tribunal ordered his reinstatement, and President Santos complied, allowing Petro's return as mayor.

Ecuador ▲: Another pragmatic populist environment became less problematic.

- ***Moderate growth continued and inflation was not a problem***

  Ecuador's growth rate in 2014 was 4.0%, nearing the 4.3% average growth rate of the previous decade (Table 1). At 3.2%, inflation was among the lowest of LABER countries (Table 2).

- ***Steps to regain access to financial markets***

  Ecuador had not been able to access international debt financing since its 2008 default, which depressed FDI. Instead of repairing relations, it turned to China for loans and investment, using its natural resources, especially oil, as collateral. In April, President Rafael Correa announced that his government was preparing to sell international bonds in the amount of $700 million by the end of the year. Observers pointed out that the shift may have been prompted by a growing fiscal deficit (the second highest debt/GDP ratio in the region, see Table 11) and China's aversion to granting more loans to Ecuador.   Preparation involved buying back the defaulted bonds and re-establishing relations with the IMF. In August, S&P upgraded the country's credit rating to B+. In justifying the upgrade, it cited pragmatic fiscal policies, and an improved investment climate.

- ***Protests continued***

  In spite of impressive social progress made under his tutelage, President Correa's relations with indigenous communities and NGO have remained rocky. One source of contention was Correa's decision to open a reserve in the Amazon to oil exploration, as well as a new water law that set up a board to regulate water use.

- ***Opposition made big gains in February municipal elections***

  By winning most major cities, including Quito, the opposition dealt President Correa a surprising setback just one year after he easily won re-election and his Alianza PAIS party won 100 of the 137 seats in the National Assembly. However, the opposition remains too fragmented, and Correa is too popular and securely in control of the government for this setback to constitute a threat to his domination. Correa's decision to seek National Assembly approval of a constitutional amendment allowing indefinite presidential re-election suggested that he did not trust putting the measure for a popular vote in a referendum, his previously preferred method for securing such changes. In October, the constitutional court ruled that the Assembly may consider the constitutional amendment.

- ***Digital currency introduced***

  To increase access to banking (40% of the population does not have bank accounts), a new monetary code allowed the government to create a digital currency that was kept in electronic wallets accessible on mobile phones. Designed to complement not replace cash, authorities assured the public that every digital dollar would be backed by a physical U.S. dollar (the country's official currency) in the Bank of Ecuador. The new digital currency, the first of its type, was to become available in December.

- ***Ease of doing business – the best of a bad lot?***

  Of the four populist Latin American countries, Ecuador was the easiest in which to do business in according to the World Bank, and the country even outranked Brazil and Argentina.

- ***Chevron suit – the saga continues***

  In November 2013, an Ecuadorian court ordered Chevron to pay $9.51 billion in fines and legal fees for pollution in the Amazon by Texaco, which was later purchased by Chevron. This was a considerable reduction from an earlier judgment of $18 billion. In September 2013, an international arbitration tribunal, convened under the U.S.-Ecuador Bilateral Investment Treaty, had held that previous agreements between Ecuador and Texaco had validly released the American corporation from environmental claims.

  In March, the U.S. District Court for the Southern District of New York issued a ruling in a civil RICO lawsuit brought by Chevron against the plaintiffs' lawyers and consultants involved in the Ecuadorian case. The New York court found that the Ecuadorian judgment was the product of fraud and racketeering activity, and that lawyers had committed extortion, money laundering, witness tampering and obstruction of justice. The plaintiffs' attorneys were enjoined from seeking to enforce the Ecuadorian judgment in the U.S. Chevron subsequently filed a claim against the plaintiffs' attorneys for $32 million in attorneys' fees spent by the corporation in the case. The federal trial court ruling has since been appealed. In December 2013, an Ontario appeals court had allowed a suit to recover the Ecuadorian judgment from Chevron assets located in Canada. However, the Canadian Supreme Court agreed to hear Chevron's appeal of the decision.

- ***Ecuador and Costa Rica reach amicable settlement of border dispute***

  Breaking the pattern of appeals to the ICJ, Ecuador and Costa Rica reached a bilateral agreement to demarcate their maritime border. The agreement followed 29 years of intermittent talks.

Peru ▼: Attractive environment lost some of its luster.

- ***Economy continued to soften***

  GDP growth, which had slowed in each of the previous two years but at the beginning of 2014 was projected to recover, in October was on a trajectory fall, to almost half the 10-year running average. Weaker mineral prices and slowing investment in the mining sector were the major causes of the slowdown. Inflation remained under control.

- ***Rating upgrade***

  Both exports and FDI increased in 2013 and into 2014. In July, Moody's raised the investment grade two notches in response to a solid fiscal outlook and the prospects for structural reforms boosting potential growth. The government issued bonds on the global market in October for the first time in two years to retire short-term debt.

- ***Weaker president beset by challenges with two years left in term***

  President Ollanta Humala's approval ratings were stuck in the mid-20% range. The turnover in his cabinet continued with six cabinets in his first three years. The president also lacked a party to support him in Congress. The legislature confirmed his sixth prime minister by only a single vote in September. He was increasingly overshadowed by his first lady and the Minister of Economy and Finance, who had been a member of all six cabinets. The October regional elections delivered victories to leaders, some of whom were linked to corruption and drug trafficking, at odds with the traditional parties and the central government.

- ***Policies adopted to stimulate the economy***

  In July the government proposed a package of reforms to promote growth and attract more investment. They targeted elimination of structural bottlenecks instead of falling back on increased spending. The government negotiated enough support in Congress to pass the package. This was one of the considerations in Moody's ratings upgrade. Congress also approved partial privatization of the national oil company, Petroperu. For its part, the Central Bank loosened monetary policy.

- ***Peru wins maritime boundary dispute with Chile at ICJ***

  In January, the ICJ ruled on the maritime boundary dispute between Peru and Chile. The court gave Peru about 70% of the area it claimed. The disputed area arose from Chile's victory over Peru and Bolivia in the War of the Pacific (1879-1883), and from an incomplete demarcation of the maritime boundary in the 1920's. Under the ruling, the Chile will retain the inshore waters, which are rich fishing grounds. Implementation of the ruling was not expected to endanger the relations between the two countries, or mutual economic ties, both of which have improved greatly over the past decade.

- ***Continued success against Sendero Luminoso***

  In April, some 24 members of Movadef, the political wing of the Sendero Luminoso guerrilla group were arrested. The arrests followed an unsuccessful attack by the organization against a military base in Southern Peru. In a controversial action, eight members of Movadef, including the secretary general and the lawyers who have represented Abimael Guzmán, were released by penal court judges in August. As a result, the judicial council removed the three penal court judges who ordered the releases. The release of the Movadef members will not halt the terrorism proceedings against them.

Venezuela▼: Falling oil prices added to woes of region's most problematic environment.

- ***Economy in crisis***

  GDP growth turned negative in 2014 and was predicted to remain in recession through 2015. And with the annual cost-of-living increase just under 65% (triple the next highest rate, Table 2), hyperinflation gripped the economy. The dwindling supply of dollars allocated through a complicated set of currency controls forced companies short on repair parts and imported inputs to cut back on production or to shut down. This created shortages, everything from automobiles to medicines to basic food staples and even toilet paper, and triggered a thriving black market in dollars. In September, the black market bolívar-dollar exchange rate in Colombia (fueled in part by price-controlled goods smuggled across the border for resale) was approaching 100-to-1, while the lowest official rate was 6.3 bolivars.

- ***External performance deteriorated on several fronts***

  The shortage of dollars produced a sharp decline in imports in 2013 and 2014. Exports also fell, but there was still a current account surplus. FDI was up in 2013 but off by half in the first half of 2014 according ECLAC. Unable to exchange bolivars for dollars, international companies began to pull out of Venezuela. Both Moody's and S&P cut the country's credit rating. The spread over U.S. Treasuries rose to over 13% by mid-September. The government repeatedly assured investors there was no danger of a default, but it had to divert scarce dollars from imports to cover maturing bonds. By October, hard currency reserves fell to near a 10-year low.

- ***Student protests challenged the regime***

  The February protests were largely peaceful but resulted in casualties when counter-protesters backing the government took to the streets of Caracas. The students' anger was directed at the government of President Nicolás Maduro for not dealing with a variety of problems including rampant crime. Venezuela has one of the highest homicide rates in the region (Table 12), a fact highlighted by the brutal slaying of a former Miss Venezuela and her husband in January.

- ***Political polarization and fragmentation deepened.***

  The government prevailed 49-43% in the December municipal elections, but lost key cities to the opposition. The high abstention rate and public opinion surveys revealed growing public disenchantment. Growing majorities felt that the country was on the wrong path, while confidence in President Maduro fell during the year. The opposition, which had united under the Democratic Unity Roundtable for the past two elections, had its own problems, especially over participation in the student demonstrations. The government arrested a leading opposition leader, who was to be put on trial.

- ***Government responded to economic problems with more state control***

  Periodically throughout the year, speculation rose that President Maduro would be forced to make painful decisions – lift the subsidy on gasoline, devalue the bolivar and in general reintroduce market mechanisms to spur investment and production. This did not happen. Instead, aside from minor tinkering with exchange controls, he expanded state intervention in the economy with more price controls, rationing, and threats to expropriate companies he deemed uncooperative.

- ***Student leaders deported from Colombia, arrested in Venezuela***

  In September, two Venezuelan student leaders who had sought refuge in Colombia were deported by Colombia for overstaying their visas and for engaging in political activity in contravention of the terms of their visas. The student leaders were promptly arrested by Venezuela. Venezuelan authorities wanted to charge the students for participating in violent protests in 2010.

- ***Deeply flawed legal environment***

  By all important measures, Venezuela was by far the riskiest business environment in Latin America (Table 12) with little respect for property rights.

BRAZIL AND THE SOUTHERN CONE

Mercosur, the Common Market of the South, was founded in 1991, has expanded throughout South America. With the addition of Venezuela in 2013, there are currently five full member states and five associate members. Of the associate members, Bolivia and Ecuador have applied for full membership. At their July summit, the Mercosur presidents agreed to promote establishment of an economic zone that would include the member states of ALBA and Caricom, and in November, they will explore ways of strengthening ties with the Pacific Alliance. None of these initiatives was expected to produce serious economic integration in the near future, given the uneven success the four original members have had in integrating their economies and the current domestic challenges they face. GDP growth in Brazil and the four Southern countries was hit hard by the global slowdown and cooling commodity prices (Table 1).

Argentina▼: Default weakened increasingly problematic environment.

- ***Economy fell into recession and inflation surged***

  After a remarkable recovery and decade of high growth, Argentina's economy stalled in 2012 and contracted in 2014. Inflation grew unabated. The government revised the much criticized official consumer price index to give it more credibility and to avoid losing IMF recognition. Under the improved methodology, the 2014 cost of living increase was expected to be double the 2013 CPI.

- ***Default anchored weak external performance***

  Argentine bonds outperformed other emerging markets in 2013 as investors bet the government would reach an agreement with its holdout creditors who have been litigating in U.S. courts to enforce servicing of their bonds. But investors begin pulling out early in 2014 as the financial situation deteriorated. The peso plunged, and foreign-exchange reserves dwindled, raising concerns about the government's ability to service the debt. When added controls failed to stem the run on dollars, the central bank under a more pragmatic president officially devalued the peso in January. This stabilized bonds, but the July ruling by a U.S. Federal District court judge, stating that Argentina could not make payments to those holders who had accepted the rescheduled bonds unless it also made payments to the hedge fund holdouts, put the country into default for the second time since 2001. Moody's, Fitch and S&P all downgraded ratings. Exports, which had fueled the post-2002 growth spurt, slumped as commodity prices weakened and the current account balance turned negative. FDI, which dropped in 2013, evaporated in 2014. Under pressure, the central bank president resigned in October to be replaced by an appointee more in line with the administration. The new president implemented a set of measures aimed at reducing the run on dollars that reduced the gap between the official and black market exchange rates.

Argentina adopts law to service debt outside U.S. jurisdiction

In September, President Cristina Fernández de Kirchner signed a law that will allow holders of the $29 billion in Argentine bonds governed by foreign law to exchange them for bonds governed by Argentine law. The law would also replace the U.S-based Bank of New York Mellon with an Argentine bank as the country's financial intermediary. This would allow the government to evade the U.S. courts which have issued orders to enforce bonds held by holdout creditors. Passage of the law prompted the U.S. federal judge overseeing the bond case to hold Argentina in contempt for seeking to evade his order.

- ***Social programs and a higher minimum wage lowered poverty and reduced inequalities***

  On a number of important indicators, Argentina continued to have the strongest social environment in the region (Table 9).

- ***Country began gearing up for 2015 presidential election***

  A key question for the presidential election in October 2015 would be whether a united opposition candidate emerges to challenge ruling Peronist party.

- ***Hydrocarbons law passed to stimulate foreign investment in shale deposits***

  Several international firms had already signed joint venture contracts to make large, long-term investments in shale. But as much as $200 billion is needed to bring the large fields into full production. The law simplifies the investment process and creates fiscal incentives. Full implementation of the law would take place under the next administration.

- ***Weak legal environment undermined global competitiveness***

  Argentina's weak legal environment was underlined by its failure to enforce ICSID awards, seeking to force claimants to go to Argentine courts for enforcement of their awards.

Brazil ▼: Re-elected president faced mounting challenges.

- ***Economic performance continued to deteriorate***

  Instead of recovering as predicted at the beginning of 2014, GDP growth declined during the year. In July the economy went into the first recession in more than five years, and the consensus was growth would be near zero for 2014. Weaker industrial production, investment, consumption and export earnings were the major causes of the slowdown. Lower growth did not dampen inflation, which exceeded the upper target ceiling despite tighter monetary policy.

- ***Except for World Cup, external performance slipped***

  With world attention focused on Brazil, expecting the worst, the event came off smoothly. The stadiums were ready (just) in time, and the popular protests that surrounded last year's Confederations Cup did not recur. After the Cup, things went downhill. Exports declined in 2013, and were expected to decline in 2014, while the current account deficit increased. FDI, which jumped in 2013, held steady through the first half of 2014, but was no longer sufficient to cover the current account gap generated by the widening trade deficit. S&P downgraded Brazil to its lowest investment grade rating in March, and in September Moody's lowered its outlook for Brazil to negative, citing weak growth and the deteriorating fiscal situation. Devaluation of the real accelerated after the election falling to 2.58 in mid-November from 2.47 in mid-October.

- ***Weakening economy threatened to reverse gains in employment and poverty reduction***

  Unemployment fell to a record low in September, but in October, the economy lost the greatest number of jobs recorded since 1999. Between 2012 and 2013, the ranks of Brazilians in extreme poverty increased for the first time since 2003.

- ***Problematic economic situation and surprise contender tightened presidential contest***

  At the beginning of 2014, expectations were that President Dilma Rousseff would coast to re-election. The only question was whether she would win in the first round or have to go to a runoff against the second place finisher. Early in the year both of the two major party contenders – Aécio Neves and Eduardo Campos -- languished in the polls. But Campos' death in an air accident in July turned the race upside down. Marina Silva, who was Campos's vice presidential running mate, replaced him at top of the ticket of the Socialist Party. The environmental activist, who finished third in the 2010 election, quickly jumped into the lead in the polls as the outsider candidate of change. This made it clear that not only would there likely be a runoff, but the president could lose. The first round produced a second surprise: Neves, of the centrist Social Democracy Party, topped Marina Silva to finish in second place. In the very negative runoff campaign, Rousseff warned that, if elected, Neves would reverse the social gains made under 12 years of rule by the Workers Party. For his part, Neves pointed to the corruption that had occurred under these same governments. Both promised to restart the economy, although Neves was perceived to be the more business-friendly of the two. In the end, poorer Brazilians in the north of the country gave Rousseff the smallest winning margin since 1948. The election also strengthened the opposition in Congress, but it appeared that the government would again cobble together a loose coalition, anchored by the Workers Party, from the 28 parties represented in the legislative body.

- ***Policy makers struggled to balance competing needs***

  The zig-zag course in monetary-pursued policy during the year illustrated the difficult choices facing authorities. After progressively raising the SELIC interest rate over the previous 12 months to combat inflation, the central bank opted to keep it at 11% beginning in April as growth faltered. It then unexpectedly raised it to 11.25% at the end of October in an attempt to regain investor confidence in the government's efforts to control inflation. Fiscal policy retained a pro-growth bias despite growing a fiscal deficit with the primary budget balance falling into deficit. Responding to public pressure to improve education, Congress passed a National Educational Plan in June, which among other commitments, called for increasing spending on education to 10% of GDP. After the election the government did raise energy prices to reduce the drain on Petrobras.

- ***Escalating Petrobras corruption scandal dominated post-election environment***

During the campaign, Rousseff, who served as minister of energy under the Lula government, was dogged by charges of high level corruption involving Petrobras, the national oil company. After the election, they erupted into a serious crisis involving charges payoffs to company officials, politicians and the executives of leading construction firms. The U.S. Security and Exchange Commission launched its own probe into the wrong doings since Petrobras ADRs are traded in the U.S. The scandal added to the heavily indebted oil company's woes as it was struggling to raise production and profits. It also complicated the president's need to give her administration a fresh start.

- ***Tax information exchange agreement signed with U.S.***

In September, Brazil and U.S. agreed on a tax information exchange agreement that will allow information about U.S. taxpayers in Brazil to be provided to the American tax authorities. In return, U.S. institutions will supply Brazilian tax authorities with information on Brazilian taxpayers. The updated tax information exchange agreement will help both countries combat tax evasion, and was prompted by passage of the U.S. Foreign Account Tax Compliance Act (FATCA), which aims to identify financial activities of U.S. taxpayers abroad.

- ***Trade dispute with U.S. settled***

In October, Brazil and the U.S. reached agreement ending a 12-year dispute over cotton subsidies. Under the agreement, Brazil will no longer pursue WTO complaints against the U.S., while the U.S. will pay Brazilian cotton producers some $300 million. More importantly, the U.S. agreed not to extend credit guarantees to cotton exports for more than 18 months (as opposed to its previous practice of providing 3-year guarantees).

- ***New internet law takes effect***

In April, Brazil approved the Marca Civil da Internet law, which will ensure net neutrality, online privacy and freedom of expression, and protect providers from liability for 3rd party content. However, the law provides that it applies to any internet provider with a Brazilian user, meaning that foreign companies that comply with their own data protection laws can be liable for violating Brazil's enhanced standards. Possible penalties include fines of 10% of Brazilian revenues or blocking service in Brazil. Earlier drafts of the law had required all information on Brazilian users to be stored on servers physically located in Brazil, but lobbying by providers and businesses convinced the government to drop this measure.

Chile▼: Economic slowdown challenged new administration

- ***Growth slipped throughout the year***

The growth outlook at the beginning of 2014 was 4.5%. In October, the government reported growth of only 1.4% year-on-year, and the consensus was that it would remain under 2.0%, or less than half the 10-year average, for the year. Mining, manufacturing, consumption and investment all declined. Uncertainty regarding the ambitious policy agenda of the new administration may have contributed to the investment slowdown. Inflation in September was the highest in 5 years due to falling peso, but lower growth forced the Central Bank repeatedly to ease monetary policy. The stock market was up 4.7% in November for the year in pesos but down 6.6% when measured in dollars. Unemployment increased as growth fell.

- ***External performance softened***

The weakening price of copper (down nearly 25% in three years), which accounts for 60% of Chilean exports, was a major factor in export stagnation. The current account deficit jumped in 2012 and stayed up. FDI rose in 2013 but was down 16% in the first half of 2014. External debt increased, as did the debt/GDP ratio, but this did not threaten the country's investment grade credit rating because of strong currency reserves. By October, the peso had lost 17% of its value from a year earlier vis-à-vis the dollar.

- ***Terrorist bombings raised security threat***

In the worst outbreak of violence since the dictatorship, the year witnessed more than 30 bomb attacks in Santiago, including one in September in a crowded restaurant that injured 14 people.

- ***Michelle Bachelet returned to power promising big changes***

Because the former president's multi-party New Majority center-left coalition effectively won control of both houses of Congress, the opposition could not block the tax, education, health care and constitutional reforms she promised in order to make Chile "different and fairer". In foreign relations, Bachelet promised to strengthen relations with her closest neighbors and to bridge the gap between the Pacific Alliance and Mercosur.

- ***Congress passed tax reform***

The measure was promoted to raise the revenue necessary to fund Bachelet's commitment to provide universal free education, the principle demand of student protestors. To be phased in over four years, the tax reform would raise corporate taxes and close loopholes benefiting the wealthy. It did not, as also promised, simplify the tax system. Opponents argued that the timing could not have been worse, since the tax increase would hurt the investment needed to revive the economy.

- ***Losing top spot in ease of doing business ranking tarnished environment***

Chile had long been considered to have the most attractive business environment and the most dynamic economy in Latin America. Falling behind Colombia, Peru and Mexico on the World Bank's 2015 ease of doing business ranking was a setback for this image.

Paraguay =: Environment featured sound economic fundamentals but weak institutions.

- ***Credible economic performance***

Growth declined in 2014 from an unsustainable 13.6% of 2013, but was still the highest of the Southern Cone countries. Inflation was up but remained manageable.

- ***Mixed external performance***

Exports picked up in 2013 but slowed in 2014. The current account was balanced. FDI was the second lowest in the region (Table 5) as was external debt (Table 6).

- ***Economic model privileging commercial agriculture was transforming countryside***

  Investors, mainly from Brazil, consolidated small holdings into large agribusinesses for livestock and grain production. The rural poor without land or jobs migrated to the cities where there were limited formal sector jobs. In April peasant associations, urban unions, religious groups and leftist parties organized a general strike protesting the administration's neglect of the poor. The president agreed to enter into dialogue with representatives of the strike organizers to discuss their concerns. The People's Army insurgency continued to defy a government offensive in the north.

- ***President's approval rating held up during first year***

  The biggest challenges to President Horacio Cartes came from the ruling Colorado Party, which, on returning to power, was eager to share the spoils of office that they had enjoyed prior to 2008.

- ***Business-friendly structural reforms enacted***

  The Public-Private Partnership Law was aimed at improving infrastructure while the Fiscal Responsibility Law sought to rationalize the budgeting process. Both reflected Cartes' focus on attracting foreign investment as the key to stimulating growth, and examples of policy biases of his government favoring the well off.

- ***Return to Mercosur***

  Following the impeachment of President Fernando Lugo in 2012, Paraguay had been suspended from Mercosur, which had the effect of allowing Venezuela to join. In December, Paraguay had ratified Venezuela's full membership in Mercosur, representing a policy reverse by Cartes. Paraguay was welcomed back to membership, attending the Caracas summit in July. However, Cartes protested some of the 183 resolutions adopted by Mercosur without the participation of Paraguay, including the protocol under which Bolivia will join Mercosur, claiming that these will need Paraguayan involvement in order to be implemented.

- ***Flawed legal system and weak institutions hurt environment***

  President Cartes made little progress in following up on his campaign promise of reducing corruption – the second highest of the LABER countries (Table 12).

Uruguay =: Election dominated but did not disrupt environment.

- ***Growth diminished and inflation increased***

  Although Uruguay took steps to reduce its ties to Argentina (exports were down to 5% from 25%) following the Argentine devaluation, the 2014 economic downturn in its large neighbor was still a drag on Uruguayan growth. In March, with inflation topping 9%, the government cut the VAT on food and utilities.

- ***Solid external performance***

  Even though it diversified its export portfolio, commodities still weighed heavily, and like the other regional economies, export growth declined. FDI increased every year from 2010-13, and again during the first half of 2014. Debt was also up. After Moody's upgraded the investment grade credit rating a notch, the county successfully issued 30-year bonds.

- ***Former president returned to office***

  Although the contest turned out to be closer than expected, Tabaré Vázquez prevailed in a runoff against Luis Lacalle Pou of the National Party, and the ruling Broad Front party retained its majority in the Assembly. The close race strengthened the opposition. Education and security were the main campaign issues. Neither candidate questioned the business friendly economic model or the social welfare system.

- ***Steps to shield economy from shocks and volatility***

  The government built external and fiscal buffers, secured contingency lines of credit, improved debt management and maintained a flexible exchange rate to cushion the economy. The current account deficit increased in 2013 while the fiscal deficit decreased.

- ***Marijuana regulations entered force***

  Having adopted a law providing for the legalization of marijuana in 2013, the government began implementing the legislation. In May, it issued a decree regulating the production, distribution and sale of marijuana. The decree fixes the price, the maximum permitted quantity consumers may purchase, and, significantly, the manner in which consumers will be identified. Under the new law, the government will supervise the growth and distribution of marijuana.

OUTLOOK

III. OUTLOOK

OUTLOOK FOR THE REGION

In recent years, the end-of-year outlooks for Latin America predicted recovery from the disappointing performance of the concluding year. However, each year turned out to be a disappointment. As 2014 drew to a close, the outlook for 2015 was less optimistic. 2015 seemed to promise less upside and more downside potential. The external environment was more unsettled, which did not augur well for improved trade and investment flows, and fiscal imbalances were growing. After four years of disappointing growth, Latin America could no longer wait for another commodity boom nor could it rely on implementing conventional counter cyclical monetary and fiscal measures. Instead the policy choices would be more difficult politically—implementing structural reforms to increase savings, investment and productivity. Although the challenge of transitioning to a new, more productive economic structure was widely understood and advocated, there was little evidence that governments were equipped to transform their economies, or that populations were willing to endure the pain during the adjustment. However, some countries were more likely to begin taking the necessary steps in 2015.

For each component of the regional business environment, and each country, we use following symbols to represent the outlook for the year ahead: likely to improve (▲), deteriorate (▼), or remain the same (=). A question mark (?) indicates that the outlook was uncertain. We further identify key variables to monitor in the coming 12 months.

EXTERNAL ENVIRONMENT

- ***Global ▼***

  The global outlook for 2015 was not promising. In October, the IMF adjusted both its global and emerging markets growth forecasts downward to 3.8% and 5.0% respectively. Of the mature markets, only the U.S. was growing – good news for Mexico and Central America – while China was continued to slowdown – bad news for South American commodity exporters. Increased financial market volatility and investor risk aversion were also headwinds.

  Keys: Geopolitical tensions; financial markets shocks; European, Japanese and Chinese growth.

- ***Regional =***

  The major question concerned the fate of the two major trade blocs, the new Pacific Alliance and Mercosur. Would they go their separate ways or find some way to reconcile the two competing paradigms? There was unlikely to be a major shift in U.S relations with the region.

  Key: Summit of the Americas in April

DOMESTIC ENVIRONMENT

- ***Economic and Financial Performance***

  The region's economies were not expected to significantly recover in 2015. In October, the IMF regional forecast was for 2.2% growth. Subsequent predictions were lower. Increased market volatility and risk aversion threatened to raise cost of debt. A prolonged decline in oil prices would benefit importing countries but damage exporters, especially those with high current account and fiscal deficits and growing external debts.

  Keys: Commodity prices; interest rates

- ***Social Environment ▼***

  Slower growth and higher inflation would eventually weaken key determinants of the stronger social environment: the creation of high wage formal sector jobs, higher minimum wages, cheap consumer credit and the revenue to finance infrastructure, education and social program, especially conditional cash transfers. Increased poverty and deceleration of middle class expansion would feedback on the economy through reduced spending. With regional economies poised for a fifth year of weak economic performance, 2015 was likely to see a deteriorating social environment.

  Keys: Economic growth; spending on social programs

- ***Political Environment =***

  While there were legislative elections scheduled in 2015 that could affect governability, there was only one presidential election on the calendar. However, that election was an important one -- Argentina. Victory by the opposition could significantly alter the business environment, which had been drifting in a populist direction in recent years.

  Keys: Election in Argentina

- ***Policy Environment ?***

  The policy environment promised to be more challenging and as a result more uncertain, in 2015. The top priority throughout the region would be to revive growth. Countries with low inflation were expected to pursue loose monetary and fiscal policies. However, the prospects of higher interest rates and growing budget constraints meant tighter limits on policies in both arenas. If the funding of popular social programs becomes more problematic, tax reform s could be advanced to generate more revenue. Countries with low growth and high inflation confronted even more challenging policy environments. The bigger policy test in 2015 would be whether governments begin to enact the deeper structural reforms necessary to sustain long term growth.

  Keys: Policies in Brazil, Argentina and Venezuela

- ***Legal Environment =***

  Security remained a major issue in Mexico and several of the CAFTA-DR countries. Venezuela, Argentina and Bolivia remained problematic environments for property rights. Argentina's ongoing legal dispute with American bondholders continued as a drag on its economy even while legal and policy solutions remained elusive. Threats to the rule of law remained as evidenced by threats to judicial independence in Guatemala, Bolivia and even Peru, and with the withdrawal by the Dominican Republic from the jurisdiction of the Inter-American Court of Human Rights. ICJ decisions had settled several mainly maritime border disputes, but the most problematic (Bolivia vs. Chile) would continue to percolate. The adherence of Latin American nations to international bodies, once universal, has suffered, with various states rejecting the Inter-American Court, the ICJ's jurisdiction and participation in ICSID.

COUNTRY OUTLOOKS

Attractive Environments (9)

These nine environments were classified attractive by virtue of having achieved sustained growth with moderate inflation; stable, globally integrated financial system; poverty reduction with a growing middle classes; stable, multiparty, centrist politics; social-market economic policies; and slowly improving legal systems. All except Costa Rica and the Dominican Republic had investment-grade sovereign credit ratings, and together they accounted for over 80% of the region's GDP compared to only about one-third in 2000, according to S&P. Investment grade countries were better positioned to successfully adapt to weaker commodity prices and more risk-averse financial markets, but their performances were not uniform during 2014. Neither was their outlook for 2015. Growth in both Chile and Peru slipped, while Colombia did comparatively well. Most troubling was the region's largest market, Brazil. Also of growing concern at the end of the year was Mexico.

- ***Mexico ?***

  What looked like a promising year with passage of additional reforms that were to inspire investor confidence and set the table for accelerated growth turned sour in October when a national outrage exploded over the disappearance and apparent murder of 43 students. Charges of corruption involving the purchase of the president's private residence further undermined the government's credibility. As 2014 wound down, there was considerable doubt about the health of the 2015 business environment.

  Keys: Resolution of missing students and credible steps to curb violent crime and corruption; U.S. recovery; implementation of reforms

- ***Dominican Republic =***

  The test for 2015 was progress on the longstanding challenges of advancing structural reforms, reducing energy subsidies and lowering corruption.

  Keys: Improved legal environment; continued U.S. recovery

- ***Costa Rica ?***

  Serious fiscal reform cannot be postponed much longer. Not only does inaction undermine the country's international creditworthiness, but it promises to erode the overall attractive standing of the business environment.

  Keys: Executive and legislative action to enact measures bring the budget back into balance.

- ***Panama =***

  Over the past decade Panama became the most dynamic business environment in Latin America. It was second only to Chile on global competitiveness (Table 12). The opposition victory did not threaten but confirmed the business-friendly policy consensus undergirding the environment. The question became how far Varela administration would move Panama toward the goal of becoming the region's business hub and world class trade logistics center

  Keys: Executive-legislative relations; management of recently-created sovereign wealth fund.

- ***Colombia =***

  Colombia had become one of the most attractive business environments in Latin America, a remarkable achievement considering where the country's position at the beginning of the century. Successful completion of the peace negotiations would bring an even greater breakthrough with multiple benefits. President Santos promised to accomplish this, but a number of difficult issues remained to be resolved to the satisfaction both of the combatants and the citizens, who must approve any final agreement in a referendum. Failure of the talks could reverse recent gains. In mid-November Santos suspended negotiations with the FARC following the kidnapping of a general, which underlined how delicate the peace process is.

  Keys: Credible progress in the peace negotiations

- ***Peru =***

  The consensus outlook for Peru was that economic growth would recover but not return to the rapid rate associated with the commodity boom. Transitioning to the next stage of development would require difficult reforms and long term investment in education, health, communications and infrastructure. It was questionable whether the political system, which seemed almost irrelevant during the boom, was up to the task. With national elections on the horizon, 2015 would be a good test.

  Keys: Mineral prices; executive-legislative relations.

- ***Brazil ?***

The Brazil of 2014 presented a very different environment than that of 2010 when country was grouped among the recently christened group of growing BRIC states and when Dilma Rousseff first assumed the presidency. Her thin margin of victory underlined how polarized Brazil had become – both socially and politically. She must revive an economy entering its fifth year of a low-growth and bring inflation down, while protecting the social gains of PT's new middle class constituents and regaining the confidence of investors. The investment grade rating hung in the balance. To add to her worries, she was under pressure to reduce violent crime and corruption, all of which she promised to do in the campaign. Rousseff must carry off this balancing act working with a strengthened opposition and a fractious multiparty ruling coalition in Congress. She did not get off to a promising start. The Petrobras scandal delayed renewal of her cabinet, most importantly the replacement of the much criticized finance minister.

Keys: Fate of investment grade rating; outcome of Petrobras scandal

- ***Chile ?***

Michelle Bachelet returned to the presidency with an ambitious reform agenda – one responding to the protests of recent years. There were concerns that her program would damage Chile's business-friendly environment just as the economy slumped. Likewise the terrorist bombings in Santiago created a security threat requiring government action. The challenges facing Chile as 2014 drew to a close were much more complicated than they seemed in March when the president was inaugurated.

Keys: Economic growth; price of copper; fate of reform proposals

- ***Uruguay =***

The 2015 election demonstrated again that Uruguay is a functioning representative democracy with a broad social-market policy consensus. The principle challenge facing the new Vásquez administration was reviving economy growth (2015 forecast 2.8%) in the context of the slowdown of its neighbors, especially Argentina. It would also have to deal with the fiscal deficit and deliver on campaign promises to strengthen education system and improve citizen security.

Keys: Developments in Argentina; commodity prices

Problematic Environments (4)

The defining features of these four environments were populist politics and policies, which created significant risk. Venezuela remained in a class by itself, with one of the most problematic business environments in the world. While the other three remain closely allied with Venezuela politically, they managed to distance themselves economically by achieving sustained growth with low inflation. However, falling energy prices cast a shadow over the 2015 outlook for Bolivia and Ecuador as well as Venezuela.

- ***Nicaragua=***

  Considering the absence of commodities, Nicaragua could be considered the most successful of the populist regimes. The highly personal nature of the political system raises questions about its long run survival. This it shares with the other three. However, biggest unknown in the short run was the fate of Venezuela's off -book subsidies given that country's deep economic problems.

  Keys: Continued Venezuelan assistance; U.S. growth.

- ***Bolivia=***

  President Morales effectively balanced the populist, nationalist rhetoric of Hugo Chavez with more orthodox macroeconomic policies and generous social benefits. This mix sustained growth and improved standards of living. Per capita income has surged and poverty dropped. Continuing this success depends heavily on maintaining natural gas production and relatively high global gas prices. For this Morales needs increased investment, both public and private. Congress passed a bill, which he had yet to sign, to stimulate private investment.

  Keys: Gas production: price and exports

- ***Ecuador=***

  Rafael Correa has transformed Ecuador, for better and for worse. He brought political stability, economic prosperity and meaningful social improvements to the country. In 2014, he even took steps to rebuild relations with the international financial community. But as with his fellow populists, Correa has concentrated power is his hands and increasingly limited the space for contending voices.

  Keys: Energy prices; access to international financial markets

- ***Venezuela?***

  Despite the ongoing economic crisis and Maduro's low approval ratings, he was not in danger of being forced from office as long as he retained the support of the military and Chavista leaders. The next big electoral test of his government would be the 2015 National Assembly elections. A defeat at the polls might convince the power brokers it was time for a change. The national elections also posed a challenge for the opposition. Could it reunite and mount a campaign that appealed to the disillusioned chavista rank and file? Given Venezuela's overwhelming dependence on oil exports (96% of hard currency earnings), continued low prices would have widespread repercussions, including the possibility of default.

  Keys: Legislative elections; oil prices

Mixed Environments (5)

The business environments in these five countries were mixed for different reasons. While the three Central American countries all implemented market-friendly policies, growth was weak; more significant, however, was the epidemic of violent, drug-related crime. The U.S. recovery was a positive development for Central America. Both of the South American mixed environments had enjoyed strong growth thanks to the global commodity boom, but Argentina faltered. Paraguay continued to grow, but failed to roll back the institutionalized corruption that discourages investors.

- ***El Salvador =***

  Intractable political polarization was a major – if not the major – constraint on the weakest economy in the region. Without this confrontation and stalemate, it is estimated that El Salvador could achieve the 3-4% annual growth rate of its neighbors. However, the 2015 legislative elections offer the kind of environment where political conflict and confrontation thrive. The economy was expected to grow at the same low level in 2015.

  Keys: Legislative elections; U.S. growth

- ***Guatemala =***

  The outlook is for a slight uptick in growth but no breakthroughs or major setbacks for a small export economy closely linked to the U.S. through trade, investment, migration and remittances.

  Keys: U.S. growth

- ***Honduras =***

  No breakthrough in reining in the high levels of drug-related, violent crime appeared likely in 2015, meaning that Honduras would remain a troubled environment in spite prospects for an IMF loan agreement.

  Keys: IMF agreement

- ***Argentina ?***

  In the context of lower global growth and weak commodity prices, exports were unlikely to continue compensating for the lack of access to international capital markets prolonged by the most recent default. Coming to an agreement with the bond holdouts in 2015 was therefore essential to reversing the current downward spiral. The upcoming campaign and October 2015 presidential election were likely to further politicize the policy agenda. The Peronists would be fighting to retain the presidency without a Kirchner for the first time since 2003 against an energized but fragmented opposition. The economy was expected to stay in recession making 2015 the fourth consecutive year of low/no growth.

  Keys: Resolution of default; October election

- ***Paraguay =***

  The economy has become increasing dependent on export agricultural. Agriculture constituted an estimated 50% of GDP. The IMF forecast was for growth to increase to 4.5% in 2015. However, this was contingent on uncertain commodity markets. Although poverty has declined during the growth spurt, rural unrest continued. Having committed to a dialogue with popular organizations, the president must deliver credible responses to their demands, which included a higher minimum wage, land reform, and safer farm working conditions. Investors also awaited progress in reducing corruption before they increase their stake in the growing economy.

  Keys: Agricultural commodity prices

TABLES

Table 1

GDP GROWTH, 2005-2015

(Percentage Change)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Average 2005-2014	2015 [1]
NAFTA REGION												
Mexico	3.3	5.1	3.4	1.2	-6.0	5.3	3.9	4.0	1.1	2.4	2.4	3.5
DR-CAFTA COUNTRIES												
Dominican Republic	9.3	10.7	8.5	5.3	3.5	7.8	4.5	3.9	4.1	5.0	6.2	
Costa Rica	5.9	8.8	7.9	2.7	-1.0	5.0	4.5	5.1	3.5	3.6	4.6	3.6
El Salvador	3.6	3.9	3.8	1.3	-3.1	1.4	2.2	1.9	1.7	1.7	1.8	1.8
Guatemala	3.3	5.4	6.3	3.3	0.5	2.9	4.2	3.0	3.7	3.4	3.6	3.7
Honduras	6.1	6.6	6.2	4.2	-2.4	3.7	3.8	3.9	2.6	3.0	3.8	
Nicaragua	4.3	4.2	5.0	4.0	-2.2	3.6	5.7	5.2	4.6	4.0	3.8	4
Panama	7.2	8.5	12.1	10.1	3.9	7.5	10.8	10.2	8.4	6.6	8.5	6.4
ANDEAN SOUTH AMERICA												
Bolivia	4.4	4.8	4.6	6.1	3.4	4.1	5.2	5.2	6.8	5.2	5.0	5
Colombia	4.7	6.7	6.9	3.5	1.7	4.0	6.6	4.0	4.7	4.8	4.8	4.5
Ecuador	5.3	4.4	2.2	6.4	0.6	2.8	7.8	5.1	4.5	4.0	4.3	4
Peru	6.8	7.7	8.9	9.8	0.9	8.8	6.5	6.0	5.8	3.6	6.5	5.1
Venezuela	10.3	9.9	8.8	5.3	-3.2	-1.5	4.2	5.6	1.3	-1.7	3.9	-1
BRAZIL & SOUTHERN CONE												
Argentina	9.2	8.5	8.7	6.8	0.9	9.2	8.6	0.9	3.0	-1.7	5.4	-1.5
Brazil	3.2	4.0	6.1	5.2	-0.3	7.5	2.7	1.0	2.5	0.3	3.2	1.4
Chile	5.6	4.6	4.6	3.7	-1.0	6.1	5.8	5.4	4.1	2.0	4.1	3.3
Paraguay	2.1	4.8	5.4	6.4	-4.0	13.1	4.3	-1.2	13.6	4.0	4.9	4.5
Uruguay	6.6	4.1	6.5	7.2	2.2	8.9	7.3	3.7	4.4	2.8	5.4	2.8
LATIN AMERICA & CARIBBEAN	4.5	5.5	5.5	3.8	-1.9	5.6	4.3	2.9	2.5	1.3	3.4	2.2

SOURCES: 2005-2014, ECLAC, *2014 Economic Survey of Latin America and the Caribbean - Briefing Paper* (July 2014);

IMF, *World Economic Outlook* (October 2014)

[1] IMF projection, July 2014

Table 2

ANNUAL INFLATION, 2005-2014

(Percentage variation in CPI, December through December)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014 [1]
NAFTA REGION										
Mexico	3.3	4.1	3.8	6.5	3.6	4.4	3.8	3.6	4.0	3.9
DR-CAFTA COUNTRIES										
Dominican Republic	7.4	5.0	8.9	4.5	5.7	6.3	7.8	3.9	3.9	3.7
Costa Rica	14.1	9.4	10.8	13.9	4.0	5.8	4.7	4.5	3.7	4.2
El Salvador	4.3	4.9	4.9	5.5	-0.2	2.1	5.1	0.8	0.8	0.9
Guatemala	8.6	5.8	8.7	9.4	-0.3	5.4	6.2	3.4	4.4	3.2
Honduras	7.7	5.3	8.9	10.8	3.0	6.5	5.6	5.4	4.9	6.2
Nicaragua	9.7	10.2	16.2	12.7	1.8	9.1	8.6	7.1	5.4	4.7
Panama	3.4	2.2	6.4	6.8	1.9	4.9	6.3	4.6	3.7	3.2
ANDEAN SOUTH AMERICA										
Bolivia	4.9	4.9	11.7	11.8	0.3	7.2	6.9	4.5	6.5	6
Colombia	4.9	4.5	5.7	7.7	2.0	3.2	3.7	2.4	1.9	2.8
Ecuador	3.1	2.9	3.3	8.8	4.3	3.3	5.4	4.2	2.7	3.2
Peru	1.5	1.1	3.9	6.7	0.2	2.1	4.7	2.6	2.9	3.2
Venezuela	14.4	17.0	22.5	31.9	25.1	27.2	27.6	20.1	56.2	64.3
BRAZIL & SOUTHERN CONE										
Argentina	12.3	9.8	8.5	7.2	7.7	10.9	9.5	10.8	10.9	21.3
Brazil	5.7	3.1	4.5	5.9	4.3	5.9	6.5	5.8	6.2	6.3
Chile	3.7	2.6	7.8	7.1	-1.4	3.0	4.4	1.5	3.0	4.4
Paraguay	9.9	12.5	6.0	7.5	1.9	7.2	4.9	4.0	3.7	4.8
Uruguay	4.9	6.4	8.5	9.2	5.9	6.9	8.6	7.5	8.5	8.8
LATIN AMERICA & CARIBBEAN	6.1	5.0	6.5	8.1	4.6	6.5	6.8	5.6	7.6	8.7

SOURCE: ECLAC, *2013 Economic Survey of Latin America & the Caribbean*; ECLAC, *2014 Economic Survey of Latin America & the Caribbean-Briefing Paper* (July 2014).

IMF, *World Economic Outlook* (October 2014)

[1] Change in 12 months through May 2014

Table 3
EXPORTS, IMPORTS[1] AND CURRENT ACCOUNT BALANCE, 2010-2013
(Millions of US dollars)

	2010			2011			2012			2013 [2]		
	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account	Exports	Imports	C/Account
NAFTA REGION												
Mexico	314,116	327,720	-2,519	365,528	381,584	-12,556	387,524	401,859	-15,058	400,493	413,455	-25,856
DR-CAFTA COUNTRIES												
Dominican Republic	11,908	17,674	-4,330	14,185	20,201	-4,359	15,076	20,612	-3,971	16,053	19,758	-2,467
Costa Rica	13,836	14,739	-1,281	15,402	17,322	-2,187	16,928	18,814	-2,382	17,378	19,121	-2,529
El Salvador	5,553	9,177	-576	5,879	10,202	-1,112	6,094	10,513	-1,288	6,402	11,113	-1,577
Guatemala	10,802	15,099	-563	12,786	17,868	-1,599	12,594	18,251	-1,310	12,751	18,975	-1,465
Honduras	7,087	10,076	-836	9,000	12,572	-1,408	9,340	12,886	-1,587	8,969	12,666	-1,655
Nicaragua	3,736	5,512	-859	4,439	6,685	-1,267	5,008	7,364	-1,347	5,000	7,335	-1,280
Panama	18,895	19,948	-2,765	25,001	28,286	-4,993	28,220	29,597	-3,816	27,272	28,971	-4,806
ANDEAN SOUTH AMERICA												
Bolivia	7,171	6,622	766	9,238	9,176	77	12,239	9,617	2,259	12,542	10,893	1,012
Colombia	45,274	46,534	-8,809	63,088	61,735	-9,854	66,711	67,470	-11,834	65,754	68,392	-12,722
Ecuador	19,610	22,651	-1,625	24,669	26,393	-325	26,378	27,730	-331	27,758	29,861	-1,232
Peru	39,257	34,854	-3,782	50,640	43,660	-3,177	51,282	48,470	-6,281	47,991	49,832	-9,126
Venezuela	67,602	49,661	12,071	94,666	62,365	24,387	99,545	77,503	11,016	90,800	71,000	8,000
BRAZIL & SOUTHERN CONE												
Argentina	81,782	68,676	1,360	99,661	88,983	-2,271	96,034	84,029	48	97,441	90,389	-4,330
Brazil	233,515	244,202	-47,272	294,249	302,388	-52,473	282,442	304,088	-54,249	281,312	325,975	-81,075
Chile	81,945	68,446	3,224	94,543	86,556	-3,068	90,421	90,190	-9,081	89,471	90,262	-9,485
Paraguay	9,993	10,671	-654	13,361	12,687	109	12,410	12,010	-222	14,447	13,012	621
Uruguay	10,719	10,089	-753	12,868	12,779	-1,374	13,398	14,685	-2,709	13,603	14,964	-3,120
LATIN AMERICA & CARIBBEAN [3]	1,010,954	1,012,795	-57,943	1,247,896	1,243,185	-79,690	1,268,701	1,297,777	-106,455	1,270,984	1,335,528	-155,506

SOURCE: ECLAC, *2013 Statistical Yearbook for Latin America & the Caribbean*; ECLAC, *2014 Economic Survey of Latin America & the Caribbean*

[1] Exports and Imports Include both goods (FOB) and services

[2] Preliminary figures

[3] Includes only those countries which have complete data for the four years

Table 4
TERMS OF TRADE, 2004-2013
(2005=100)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
NAFTA REGION										
Mexico	98.1	100.0	100.5	101.4	102.2	90.8	97.7	104.7	102.6	102.5
DR-CAFTA COUNTRIES										
Dominican Republic	101.0	100.0	99.0	102.3	97.7	105.7	101.8	96.5	95.5	93.2
Costa Rica	104.0	100.0	97.1	96.1	92.5	95.6	91.8	88.4	87.9	88.2
El Salvador	100.0	100.0	98.7	97.7	95.0	98.1	94.4	94.4	93.2	
Guatemala	100.9	100.0	98.1	96.3	93.8	101.8	101.3	100.4	94.9	92.9
Honduras	100.0	100.0	95.4	93.6	87.9	94.0	96.6	104.7	91.4	85.6
Nicaragua	101.4	100.0	97.6	96.6	92.4	101.3	102.2	101.8	101.8	93.4
Panama	101.9	100.0	97.1	96.2	91.8	96.3	94.4	92.4	92.7	92.3
ANDEAN SOUTH AMERICA										
Bolivia	93.0	100.0	125.0	127.0	128.7	124.6	140.9	156.4	161.8	158.9
Colombia	92.2	100.0	103.8	112.1	124.4	107.0	121.0	135.4	135.5	128.5
Ecuador	89.3	100.0	107.3	110.3	121.1	107.2	118.0	129.8	131.7	133.5
Peru	93.2	100.0	127.3	132.0	114.4	108.1	127.7	143.9	136.9	130.4
Venezuela	76.5	100.0	119.4	130.9	161.6	117.6	139.8	168.1	169.7	166.3
BRAZIL & SOUTHERN CONE										
Argentina	102.2	100.0	106.0	110.0	124.6	118.9	118.4	126.3	125.8	118.5
Brazil	98.7	100.0	105.3	107.5	111.3	108.7	126.1	136.1	128.1	125.2
Chile	89.3	100.0	131.1	135.6	117.9	119.3	146.0	146.9	138.5	134.5
Paraguay	107.1	100.0	98.1	102.7	110.2	107.8	107.8	110.3	111.4	110.8
Uruguay	110.1	100.0	97.6	97.8	103.7	106.8	110.2	112.2	116.4	118.5
LATIN AMERICA & CARIBBEAN	95.0	100.0	107.4	109.9	113.8	103.3	114.1	123.0	118.7	116.0

SOURCE: *ECLAC, "Latin America: terms of Trade for Goods f.o.b."*, ECLAC, *2014 Economic Survey of Latin American and the Caribbean-Briefing Paper* (July 2014).

Table 5

NET FOREIGN DIRECT INVESTMENT, 2004-2013

(Millions of US dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 [1]
NAFTA REGION										
Mexico	20,389	18,206	15,105	23,997	27,156	7,727	8,303	10,718	-4,842	25,348
DR-CAFTA COUNTRIES										
Dominican Republic	909	1,123	1,085	1,667	2,870	2,165	1,622	2,275	3,142	1,990
Costa Rica	733	904	1,371	1,634	2,072	1,339	1,441	2,118	1,904	2,409
El Salvador	366	398	267	1,455	824	366	-226	218	484	137
Guatemala	255	470	552	720	737	574	782	1,009	1,205	1,275
Honduras	553	599	669	926	1,007	505	971	1,012	1,004	1,033
Nicaragua	250	241	287	382	626	463	491	961	761	784
Panama	1,019	918	2,547	1,899	2,147	1,259	2,363	2,956	3,162	4,371
ANDEAN SOUTH AMERICA										
Bolivia	63	-242	278	363	509	420	651	859	1,060	1,750
Colombia	2,873	5,590	5,558	8,136	8,110	3,789	-147	5,101	16,135	9,120
Ecuador	837	493	271	194	1,058	308	163	644	585	703
Peru	1,599	2,579	3,467	5,425	6,188	5,165	7,062	7,518	11,840	9,161
Venezuela	864	1,422	-2,032	1,587	45	-4,374	-1,462	4,919	756	2,400
BRAZIL & SOUTHERN CONE										
Argentina	3,449	3,954	3,099	4,969	8,335	3,307	10,368	9,232	11,064	7,857
Brazil	8,339	12,550	-9,380	27,518	24,601	36,033	36,919	67,689	68,093	67,541
Chile	5,096	4,962	5,214	7,720	6,367	5,654	6,264	3,192	6,212	9,335
Paraguay	32	36	114	202	209	95	216	557	480	382
Uruguay	315	811	1,495	1,240	2,117	1,512	2,349	2,511	2,693	2,812
LATIN AMERICA & CARIBBEAN	50,192	57,653	33,317	93,756	100,555	69,082	80,462	126,704	128,887	152,235

SOURCE: *ECLAC, 2013 Economic Survey of Latin America & the Caribbean* (2003 & 2004 data); *ECLAC, 2014 Economic Survey of Latin America & the Caribbean-Briefing Paper* (July 2014).

[1] Preliminary estimate from ECLAC, July 2014

Table 6
TOTAL GROSS EXTERNAL DEBT, 2004-2013
(Millions of US dollars)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
NAFTA REGION										
Mexico	130,925	128,248	119,084	128,090	129,424	165,932	197,727	209,743	227,323	258,560
DR-CAFTA COUNTRIES										
Dominican Republic[2]	6,380	5,847	6,295	6,556	7,219	8,215	9,947	11,625	12,872	14,919
Costa Rica	5,765	6,763	7,191	8,444	9,105	8,238	9,135	10,919	14,509	17,158
El Salvador	8,211	8,877	9,692	9,349	9,994	9,882	9,698	10,670	12,530	13,113
Guatemala	3,844	8,832	9,844	10,909	11,163	11,248	12,026	14,021	15,339	17,493
Honduras	6,023	5,135	3,935	3,190	3,464	3,345	3,773	4,188	4,844	6,642
Nicaragua[2]	5,391	5,348	4,527	3,385	3,512	3,661	3,876	4,073	4,289	4,532
Panama[2]	7,219	7,580	7,788	8,276	8,477	10,150	10,439	10,800	10,782	12,231
ANDEAN SOUTH AMERICA										
Bolivia	7,562	7,666	6,278	5,403	5,930	5,801	5,875	6,298	6,711	7,756
Colombia	39,497	38,507	40,103	44,553	46,369	53,719	64,723	75,903	78,763	91,879
Ecuador	17,211	17,237	17,099	17,445	16,900	13,514	13,914	15,210	15,913	18,488
Peru	31,244	28,657	28,897	32,894	34,838	35,157	43,674	47,977	59,376	60,823
Venezuela	43,679	46,427	44,735	53,378	53,223	70,246	97,092	110,745	118,949	118,766
BRAZIL & SOUTHERN CONE										
Argentina	171,205	113,768	108,839	124,542	124,916	115,537	129,333	141,139	141,889	133,672
Brazil	201,373	169,451	172,621	193,159	198,492	198,136	256,804	298,204	312,898	308,625
Chile	43,515	46,211	49,497	55,733	64,318	74,041	86,738	98,895	117,569	130,724
Paraguay	2,901	2,700	2,618	2,731	3,124	3,044	3,621	3,864	4,580	5,131
Uruguay	11,593	13,717	12,977	14,864	15,425	17,969	18,425	18,345	21,122	22,882
LATIN AMERICA & CARIBBEAN	**764,304**	**676,384**	**666,155**	**737,430**	**761,192**	**823,333**	**994,166**	**1,110,570**	**1,198,926**	**1,262,443**

SOURCE: ECLAC, *2013 Economic Survey of Latin America & the Caribbean* (for 2003-2005); ECLAC, *2014 Economic Survey of Latin America & the Caribbean-Briefing Paper (July 2014)*.

[1] Includes debt owed to the International Monetary Fund.

[2] Refers to external public debt.

Table 7
TOTAL EXTERNAL DEBT AS PERCENTAGE OF GDP, 2004-2013

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 [1]
NAFTA REGION										
Mexico	17.3	15.2	12.5	12.4	11.8	18.8	19.1	17.9	19.2	20.4
DR-CAFTA COUNTRIES										
Dominican Republic	29.6	17.4	17.7	16.0	15.9	17.6	19.3	18.5	21.9	24.5
Costa Rica	31.0	33.9	31.9	32.1	30.5	27.8	25.2	22.1	32.0	34.5
El Salvador	52.0	51.9	52.2	46.5	46.6	47.8	45.3	42.6	52.6	54.1
Guatemala [2]	16.0	13.7	32.6	32.0	28.5	29.8	29.1	29.4	30.4	32.3
Honduras	67.9	52.6	36.0	25.8	25.0	22.9	23.8	23.6	26.1	35.7
Nicaragua [3]	93.1	84.6	66.7	45.4	41.4	40.1	43.4	41.1	40.3	40.0
Panama [3]	50.9	45.9	42.6	39.2	34.1	39.2	36.2	32.5	28.4	28.8
ANDEAN SOUTH AMERICA										
Bolivia	86.2	80.3	54.8	41.2	35.6	33.5	29.9	26.3	24.8	25.3
Colombia	33.7	26.3	24.7	21.5	19.0	23.1	22.6	20.7	21.3	24.2
Ecuador	52.7	41.5	36.5	33.1	31.2	22.3	24.0	19.1	18.2	19.7
Peru	44.8	37.7	32.6	32.2	28.9	29.2	29.7	28.0	30.8	30.1
Venezuela	38.8	31.9	24.4	23.2	16.9	21.3	40.5	35.0	31.2	32.0
BRAZIL & SOUTHERN CONE										
Argentina	111.8	51.1	41.1	37.6	30.6	41.2	27.8	25.3	23.5	21.0
Brazil	30.3	19.2	15.8	14.1	12.0	12.2	12.0	12.0	13.9	13.6
Chile	43.2	37.1	32.1	32.2	35.8	43.1	39.9	39.4	44.1	47.1
Paraguay	36.1	30.9	24.6	19.8	16.9	19.1	18.1	15.4	18.6	16.8
Uruguay	83.9	65.8	66.3	63.5	50.8	59.0	47.4	38.8	42.2	40.6
LATIN AMERICA & CARIBBEAN	**34.8**	**25.4**	**21.3**	**20.0**	**17.7**	**20.4**	**20.2**	**19.4**	**20.6**	**21.0**

SOURCE: *ECLAC, 2014 Economic Survey of Latin America & the Caribbean*; ECLAC, *2013 Statistical Yearbook*

[1] Preliminary figure for Latin America and the Caribbean. Data by country not yet available for 2012.
[2] For 2003-2005, public external debt only
[3] Public external debt only

Table 8

EXCHANGE RATES, COUNTRY RISK AND IMF AGREEMENTS, 2014

	Currency	US Dollar Exchange Rate: Oct. 16, 2013	US Dollar Exchange Rate: Oct. 22, 2014	% change	Country Risk[1]: September 2013	Country Risk[1]: October 2014	IMF Relations
NAFTA REGION							
Mexico	peso	12.99	13.53	-4.16%	BBB	BBB	Flexible Credit Line (11/12-11/14)
DR-CAFTA COUNTRIES							
Dominican Republic	peso	42.84	43.06	-0.51%	B	BB	Consultation: Reduced deficits
Costa Rica	colón	517.46	527.22	-1.89%	BB	BB	Report: Improved fiscal transparency
El Salvador	colón/U.S. dollar	8.93	8.57	4.03%	BB	BB	Concerns: Weak growth, deficits
Guatemala	quetzal	8.12	7.47	8.00%	BB	BB	Consultation: Inadequate revenue
Honduras	lempira	20.82	20.84	-0.10%	CCC	CCC	Considering 3-yr support program
Nicaragua	córdoba oro	24.87	26.21	-5.39%	CCC	CCC	Staff Report: Favorable
Panama	balboa/U.S. dollar	1.02	1.00	1.96%	BBB	BBB	Consultation: Strong economy
ANDEAN SOUTH AMERICA							
Bolivia	boliviano	7.60	6.75	11.18%	BB	BB	Consultation: Significant progress
Colombia	peso	1,888.00	2,029.89	-7.52%	BBB	BBB	Flexible Credit Line (6/13-6/15)
Ecuador	U.S. dollar	1.00	1.00	0.00%	CCC	B	Reengaged with Fund
Peru	nuevo sol	2.81	2.85	-1.42%	A	BBB	Consultation: Stromg but slowing
Venezuela	bolivar fuerte	6.31	6.29	0.32%	CCC	CCC	No consultation since 2004
BRAZIL & SOUTHERN CONE							
Argentina	peso	5.84	8.47	-45.03%	CCC	CCC	Awaiting new CPI and GDP data
Brazil	real	2.18	2.47	-13.30%	BBB	BBB	Concern: Large external deficit
Chile	peso	499.00	584.00	-17.03%	A	A	Consultation: External challenges
Paraguay	guarani	4,551.88	4,471.00	1.78%	BB	BB	Consultation: Strong fundamentals
Uruguay	peso	21.98	24.00	-9.19%	BB	BB	Consultation: Basically positive

SOURCES: Oanda <www.oanda.com/convert/fxhistory>; IMF Homepage <www.imf.org>

Key for IMF Agreements:

The Flexible Credit Line works as a renewable credit line, which at the country's discretion could initially be for either one- or two-years with a review of eligibility after the first year.

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.

[1] Country risk is based on Sovereign Risk figures from the Economic Intelligence Unit 2013.

Table 9
SOCIAL ENVIRONMENT, 2014

	POPULATION[A] (Millions) 2013	AVG. POP. GROWTH[A] % 2010-2015	LITERACY RATE[A] (% age 15+) [1] 2005-2012	GDP PER CAPITA[D] (PPP $U.S.) [2] 2013	GDP P/C (PPP) GROWTH[C] % 2013 [3]	INCOME INEQUALITY[A] GINI index [4] 2003-2012	HDI[A] (World rank) [5] 2013	POPULATION IN POVERTY[B] % 2012	URBAN UNEMPLOYMENT RATE[C] % 2013
NAFTA REGION									
Mexico	122.3	1.2	93.5	$16,463	-0.1	47.2	71	37.1	5.7
DR-CAFTA REGION									
Dominican Republic	10.4	1.2	90.1	$11,696	2.8	47.2	102	41.4	7.0
Costa Rica	4.9	1.4	96.3	$13,872	2.2	50.7	68	17.8	9.2
El Salvador	6.3	0.7	84.5	$7,762	1.1	48.3	115	45.3	(2012) 6.2
Guatemala	15.5	2.5	75.9	$7,295	1.2	55.9	125	(2006) 54.8	3.8
Honduras	8.1	2.0	85.1	$4,591	0.6	57.0	129	(2010) 67.4	6.0
Nicaragua	6.1	1.4	78.0	$4,571	3.1	40.5	132	(2009) 58.3	(2010) 9.7
Panama	3.9	1.6	94.1	$19,411	6.6	51.9	65	(2011) 25.3	4.7
ANDEAN SOUTH AMERICA									
Bolivia	10.7	1.6	91.2	$6,130	5.2	56.3	113	(2011) 36.3	(2011) 5.8
Colombia	48.3	1.3	93.6	$12,371	3.3	55.9	98	32.9	10.6
Ecuador	15.7	1.6	91.6	$10,469	2.8	49.3	98	32.2	4.7
Peru	30.4	1.3	89.6	$11,775	4.5	48.1	82	23.7	5.9
Venezuela	30.4	1.5	95.5	$18,194	-0.1	44.8	67	23.9	7.8
BRAZIL & SOUTHERN CONE									
Argentina	41.4	0.9	97.9	$14,760	2.1	44.5	49	4.3 [6]	7.1
Brazil	200.4	0.8	90.4	$15,074	1.7	54.7	79	18.6	5.4
Chile	17.6	0.9	98.6	$21,911	3.2	52.1	41	(2011) 11.0	5.9
Paraguay	6.8	1.7	93.9	$8,043	11.8	52.4	111	(2011) 49.6	8.4
Uruguay	3.4	0.3	98.1	$19,590	4.0	45.3	50	5.9	7.1

SOURCES: UNDP, *Human Development Report 2014*[A]; ECLAC, *Statistical Yearbook 2013*[B]; ECLAC, *Economic Survey of Latin American & the Caribbean 2014*[C]; World Bank, *World Development Indicators, GDP Per Capita (current int'l $)*, 2013D

[1] 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] 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] Preliminary figures for annual growth rates.

[4] 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] 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] Percent of urban population in poverty.

Table 10
POLITICAL ENVIRONMENT, 2014

	Level of Democratic Consolidation				Current Government		
	Election Inaugurating Democracy	Unscheduled Head-of-State Changes	Political Rights[1]	Civil Liberties[2]	President / PM	Term	Control of Legislature
NAFTA REGION							
Mexico	2000		3	3	Peña Nieto	2012-2018	Govt. Coalition
DR-CAFTA COUNTRIES							
Dominican Republic	1963	1	2	2	Medina	2012-2016	Government
Costa Rica	1949		1	1	Solís	2014-2018	Opposition
El Salvador	1984		2	3	Sánchez Cerén	2014-2019	Shifting Alliances
Guatemala	1985 [3]	1	3 ⬆	4	Perez Molina	2012-2016	Opposition
Honduras	1982	1	4	4	Hernández	2014-2018	Shifting Alliances
Nicaragua	1984		5 ⬇	4	Ortega	2011-2015	Government
Panama	1994		1	2	Varela	2014-2019	Opposition
ANDEAN SOUTH AMERICA							
Bolivia	1980 [3]	7	3	3	Morales	2015-2020	Government
Colombia	1958		3	4	Santos	2014-2018	Govt. Coalition
Ecuador	1978 [3]	8	3	3	Correa	2013-2017	Govt. Coalition
Peru	1980 [3]	1	2	3	Humala	2011-2016	Opposition
Venezuela	1958	6	5	5	Maduro	2013-2019	Government
BRAZIL & SOUTHERN CONE							
Argentina	1983 [3]	4	2	2	C. Fernández de Kirchner	2011-2015	Government
Brazil	1989		2	2	Rousseff	2015-2019	Govt. Coalition
Chile	1989		1	1	Bachelet	2014-2018	Government
Paraguay	1993		3	3	Cartes	2013-2018	Govt. Coalition
Uruguay	1985		1	1	Vázquez	2015-2020	Government

SOURCE: *Freedom in the World 2012: The Arab Uprisinga and their Global Repercussions.* <http://www.freedomhouse.org/report/freedom-world/freedom-world-2012>

[1] 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.

[2] 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.

[3] Interrupted democracies

⬆ ⬇ Up or down indicate, respectively, an improvement or a worsening of the political environment from 2013.

Table 11
CENTRAL GOVERNMENT BALANCE, 2008-2013
(Percentages of GDP)

	Primary Balance						Overall Balance					
	2008	2009	2010	2011	2012	2013	2008	2009	2010	2011	2012	2013
NAFTA REGION												
Mexico	-0.2	-0.5	-1.2	-1.0	-1.1	-0.8	-1.6	-2.2	-2.7	-2.5	-2.7	-2.4
DR-CAFTA COUNTRIES												
Dominican Republic	-1.9	-1.6	-0.7	-0.1	-4.1	-0.8	-3.5	-3.5	-2.7	-2.2	-6.6	-3.1
Costa Rica	2.4	-1.3	-3.1	-1.9	-2.3	-2.9	0.2	-3.4	-5.2	-4.1	-4.4	-5.4
El Salvador	1.8	-1.2	-0.4	-0.1	0.5	0.6	-0.6	-3.7	-2.7	-2.3	-1.7	-1.8
Guatemala	-0.3	-1.7	-1.8	-1.3	-0.9	-0.6	-1.6	-3.1	-3.3	-2.8	-2.4	-2.1
Honduras	-1.9	-5.3	-3.7	-3.2	-4.3	-5.4	-2.5	-6.0	-4.7	-4.6	-6.0	-7.6
Nicaragua [1]	0.0	-0.7	1.2	2.1	1.6	0.8	-0.9	-1.7	0.1	0.9	0.1	-0.1
Panama	3.4	1.4	0.1	-1.1	-0.8	-2.3	0.3	-1.5	-2.4	-3.3	-2.7	-4.2
ANDEAN SOUTH AMERICA												
Bolivia [1]	0.8	-0.4	1.4	-0.2	2.7	1.9	0.0	-2.0	-0.1	-1.1	1.8	1.3
Colombia	0.6	-1.2	-1.2	-0.3	0.1	-0.1	-2.3	-4.1	-3.9	-2.8	-2.3	-2.9
Ecuador	0.3	-3.5	-0.9	-0.7	-1.0	-4.6	-1.0	-4.2	-1.6	-1.5	-1.9	-5.9
Peru [1]	3.5	-0.2	2.3	4.3	4.2	2.9	2.1	-1.4	1.1	3.2	3.1	1.8
Venezuela	0.1	-3.7	-2.1	-1.8	-2.2	-0.3	-1.2	-5.0	-3.6	-4.0	-4.9	-3.4
BRAZIL & SOUTHERN CONE												
Argentina	2.8	1.4	1.2	-0.1	-0.2	-1.4	0.7	-0.8	-0.1	-1.9	-1.9	-2.6
Brazil	2.4	1.2	2.1	2.3	1.8	1.6	-1.2	-3.5	-1.7	-2.6	-2.3	-2.9
Chile	4.6	-3.7	0.1	1.8	1.2	0.0	4.1	-4.2	-0.4	1.3	0.6	-0.6
Paraguay	2.8	0.6	1.6	1.0	-1.6	-1.6	2.3	0.1	1.2	0.7	-1.8	-1.9
Uruguay	1.8	1.3	1.3	1.9	0.4	0.9	-1.1	-1.5	-1.2	-0.6	-2.0	-1.6
LATIN AMERICA & CARIBBEAN	1.4	-0.9	-0.1	0.1	-0.1	-0.6	-0.2	-3.5	-2.4	-2.3	-2.6	-2.8

Source: ECLAC, *2013 Economic Survey of Latin America & the Caribbean* (for 2008-2009); ECLAC, *2014 Economic Survey of Latin America & the Caribbean-Briefing Paper* (July 2014).

[1] General government

Table 12
LEGAL ENVIRONMENT, 2014

	Rule of Law[1]	Homicide Rate[2]	Corruption Perception[3]	Economic Freedom 2014[4]	Property Rights[5]	Ease of Doing Business[6]	Global Competitiveness[7]
	Percentile Rank 2013	2008-2011	Rank 2013	Rank	Percentile Rank	Rank 2014	Rank
NAFTA REGION							
United States (for comparison)	90.5 ⬇	4.7	19	12	80 ⬇	7	3 ⬆
Mexico	36.0 ⬇	23.7	106 ⬇	55 ⬇	50	39	61 ⬇
CAFTA-DR							
Dominican Republic	37.0 ⬆	25.0	123 ⬇	80⬆	30	84	101 ⬆
Costa Rica	65.9 ⬆	10.0	49 ⬇	53 ⬇	50	83	51 ⬆
El Salvador	29.9 ⬆	70.2	83	59 ⬇	40	109	84 ⬆
Guatemala	13.3 ⬇	38.5	123 ⬇	83⬆	25 ⬇	73	78 ⬆
Honduras	10.4 ⬇	91.6	140 ⬇	112⬇	30	104	100 ⬆
Nicaragua	31.3 ⬆	12.6	127 ⬆	102 ⬆	15	119	99
Panama	47.9 ⬇	21.3	102 ⬇	71	30	52	48 ⬇
ANDEAN SOUTH AMERICA							
Bolivia	14.2 ⬇	16.1	106 ⬇	158 ⬇	10	157	105 ⬇
Colombia	40.8 ⬇	33.2	94	34 ⬆	50	34	66 ⬆
Ecuador	11.8 ⬇	18.2	102 ⬆	159	20	115	n/a
Peru	33.2 ⬆	10.3	83	47 ⬇	40	35	65 ⬇
Venezuela	1.0	45.1	160 ⬆	175 ⬇	5	182	131 ⬆
BRAZIL & SOUTHERN CONE							
Argentina	28.4 ⬇	5.5	106 ⬇	166 ⬇	15	124	104
Brazil	52.1 ⬆	21.8	72 ⬇	114 ⬇	50	120	57 ⬇
Chile	87.7 ⬇	3.7	22 ⬇	7	90	41	33 ⬆
Paraguay	24.2 ⬆	11.4	150	78 ⬆	30	92	120 ⬇
Uruguay	66.4	5.9	19 ⬆	38 ⬇	70	82	80 ⬆
ASIA (for comparison)							
China	39.8 ⬆	1.0	80	137 ⬇	20	90	28 ⬆

⬆⬇ Up or down indicate, respectively, an improvement or a worsening of the environment from 2013 *LABER*. The absence of an arrow indicates "no change" from the previous year.

1: As measured by the World Bank's Governance Indicators: 1996-2013 <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: UN Dev. Pgm, *Human Dev. Rep. 2014*.

3: As measured by Transparency International, Corruption Perceptions Index 2013 <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.

4: As measured by the Heritage Foundation's 2014 *Index of Economic Freedom*. Scores are based on a 1 to 100 scale, 1 = an environment that is least conducive to economic freedom, 100 = most conducive. Countries are also ranked in order of economic freedom, 1 being the most free.

5: As measured by the Heritage Foundation's 2014 *Index of Economic Freedom*. %ages measure degree to which a country's laws protect private property rights & degree to which its government enforces those laws. I00% = private property is guaranteed by the government, 0% = private property is outlawed.

6: World Bank Group, *Doing Business 2014*. The Doing Business reports rank countries on their ease of doing business based on a series of factors, including time required to start a business, register property, enforce contracts, and trade across borders, access to credit and tax structure.

7: As measured by the *Global Competitiveness Report 2014-2015*, 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.

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SELECTED SOURCES MONITORED FOR 2014 LABER

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http://www1.lanic.utexas.edu/la/region/news/

Latin America Advisor (Subscriptions available to mailto:freetrial@thedialogue.org)

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UN Economic Commission for Latin America and the Caribbean (ECLAC)

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