Recent Developments: Growth remained broadly flat in **Latin America and the Caribbean** in 2013, reflecting stable or declining commodity prices, the continued slowdown in China, the drop in first quarter US GDP growth and domestic challenges. The regional weakness carries over from 2013, weighing on merchandise exports in a number of countries. First quarter data for Brazil, Mexico and Peru was also weak reflecting a variety of influences including the weather-related decline in US GDP, the Chinese slowdown, and the recent tax increase in Mexico.

Despite the few weak outturns in the first quarter, industrial activity in early 2014 suggests a pickup in regional growth. Depreciations of regional currencies in the wake of the United States announcement of tapering intentions in May 2013 have persisted in 2014, with key currencies all remaining below their April 2013 level. Despite the mid-2013 financial volatility, gross capital flows to the region have increased, especially into domestic bond markets.

While still generally low across the region, inflation, being imported through depreciated exchange rates, has also been elevated in a handful of countries. Monetary tightening in Brazil to contain such inflationary pressures continued through the second half of 2013, and contributed to the ongoing slowdown and dampened growth in regional trading partners. In many countries, fiscal and monetary policies remained accommodative in an effort to support growth.

Outlook: Regional growth is expected to strengthen steadily from 1.9 percent in 2014, to 2.9 percent in 2015 and 3.5 percent in 2016. The recovery that is taking hold in advanced countries will increasingly support regional exports, as well as increased tourism receipts and remittances to the region. In addition, depreciated local currencies in much of the region may help countries gain market share as global trade growth accelerates.

Capital flows are expected to slow initially as monetary tightening in the United States continues but are expected to resume their growth in 2015/16. These flows will fuel domestic demand, especially fixed investment across the region. This coupled with the continued robust investment growth along the Pacific coast of South America, will lift regional growth in the medium term. On the other hand, the slowdown in China and the extended decline in commodity prices will weigh on exports, export revenues and also investment to keep growth around potential. Overall, with largely closed output gaps and limited excess capacity, there is little scope for sustained accelerations in growth without generating macroeconomic imbalances.

Risks: The outlook for the region is subject to a number of downside risks. A sharp or disorderly slowdown in China could result in a protracted slump in commodity prices, thereby eroding regional export and government revenues. Investment, especially in mining industries, would fall, providing an additional drag on overall economic growth.

Venezuela is currently experiencing high inflation along with a number of other macroeconomic imbalances and microeconomic distortions, and could see investment contract and slow sharply. Argentina has an uncertain economic outlook but the recent agreements on Paris Club debt, settlement with Repsol, and efforts to strengthen national statistics introduce upside risks to the outlook. From a more stable condition, Brazil, the region’s largest economy, with its tighter credit conditions, weakened investor confidence and microeconomic structural impediments, is expected to remain in a low but still positive growth environment in the short-run. The baseline forecast assumes a soft slowdown in growth for these economies this year, and a gradual improvement in 2015 and 2016. Given the systemic nature of these economies in the region, a sharper-than-expected slowdown in one or more of these three economies would have a ripple effect on growth across the region.

Lastly, more than a cyclical downturn, the key concern for the region is that slower long-term growth becomes the new normal. With the end of the double tailwind era of a booming commodity market supported by a surging China, and economies near or at full employment and domestic credit growing at slower rates, the region must turn to productivity growth in order to boost long-term GDP growth. Structural reforms such as upgrading the quality of the workforce, and fostering research, development and innovation, would go a long way in averting slower growth as the new normal.

Latin America and the Caribbean country forecasts

(annual percent change unless indicated otherwise)	00-09[a]	2010	2011	2012	Est. 2013	Forecast 2014	2015	2016
GDP at market prices (2010 US$)								
Argentina[b]	2.9	9.1	8.6	0.9	3.0	0.0	1.5	2.8
Belize	3.7	3.9	2.3	5.3	0.7	2.5	3.7	4.1
Bolivia	3.4	4.1	5.2	5.2	6.5	5.2	4.3	3.9
Brazil	2.9	7.5	2.7	0.9	2.3	1.5	2.7	3.1
Colombia	3.7	4.0	6.6	4.1	4.3	4.6	4.5	4.4
Costa Rica	3.8	5.0	4.4	5.1	3.5	3.7	4.3	4.6
Dominica	3.1	1.0	-0.3	-1.7	0.8	1.7	2.6	2.9
Dominican Republic	4.5	7.8	4.5	3.9	4.1	4.0	4.2	4.5
Ecuador	3.8	3.5	7.8	5.1	4.5	4.3	4.2	5.1
El Salvador	1.7	1.4	2.2	1.9	1.7	2.1	2.6	2.8
Guatemala	3.0	2.9	4.2	3.0	3.7	3.4	3.5	3.6
Guyana	1.0	4.4	5.4	4.8	4.9	4.4	3.5	3.6
Honduras	3.7	3.7	3.8	3.9	2.6	3.0	3.5	4.0
Haiti	0.6	-5.4	5.6	2.8	4.3	3.6	3.2	3.0
Jamaica	0.7	-1.5	1.7	-0.5	0.2	1.1	1.3	1.7
Mexico	1.3	5.1	4.0	4.0	1.1	2.3	3.5	4.0
Nicaragua[b]	2.5	3.3	5.7	5.0	4.6	4.5	4.4	4.4
Panama	5.6	7.5	10.8	10.7	8.0	6.8	6.2	6.4
Peru[b]	4.6	8.5	6.5	6.0	5.8	4.0	5.6	6.0
Paraguay	2.2	13.1	4.3	-1.2	13.9	4.8	4.3	4.0
St. Lucia	2.2	0.4	1.3	0.5	-0.9	0.9	2.2	2.8
St. Vincent and the Grenadines	3.2	-2.8	0.1	2.3	2.1	1.7	2.8	3.9
Venezuela, RB	3.3	-1.5	4.2	5.6	1.3	0.0	1.0	1.9

Source: World Bank.

a. GDP growth rates over intervals are compound average; current account balance shares are simple averages over the period.

b. Preliminary for long-term average. Data was recently rebased; missing earlier data was spliced with the previous series.