Overview: Subdued global trade, less supportive commodity markets, and domestic challenges curbed growth in 2013 in the Latin America and Caribbean region. Real GDP grew by 2.5 percent in 2013, broadly unchanged from 2012, but sharply below preceding years.

Consistent with the weakness in global demand during the year, growth in regional merchandise exports was weak, growing by 4.1 percent between January and November 2013, compared with 7.6 percent over the same period in 2012. Last year, the prices of agriculture products, base metals and precious metals fell 7.2, 5.5 and 16.9 percent, respectively. Given the commodity intensity of the region's exports, these price declines have severely dented the value of exports from the region, thereby resulting in a widening of the region's current account deficit from 1.7 percent of GDP in 2012 to 2.6 percent in 2013.

Despite a sharp drop off in June 2013 on the prospect of tapering of quantitative easing (QE) in the United States, gross capital flows to the region, for 2013, increased totaling $178 billion, compared with $150 billion in 2012. However, there was a significant decline in equity issuances in the second half of the year. With the mid-year sell-off in emerging market assets, key regional currencies depreciated, losing 3 to 13 percent of their values and have since remained below their May 2013 levels. On the upside, the depreciated currencies have provided support to the recent strengthening of exports in some of the region's economies, notwithstanding softer commodity prices.

In addition to external challenges, domestic demand was also weak in 2013, as growth moderated from cyclical highs. At the regional level, private and government consumption growth fell from being well over 3 percent in 2012 to 2.6 percent and 2.2 percent, respectively. This slowdown in domestic demand is reflected in the weakness in industrial activity during the year. Indeed, industrial production grew at only 0.5 percent for the first 10 months of 2013 compared to the same period in 2012.

Outlook: With conditions in the global economy expected to improve in 2014 and beyond, the regional economic outlook is positive, with growth strengthening steadily from 2.9 percent in 2014 to 3.7 percent in 2016. Together with the expected increase in global trade, the region's exports will grow from 4.0 percent in 2014 to 5.4 percent in 2016. The enhanced growth in exports will support GDP growth and improve current account balances. On the other hand, the continued decline in commodity prices will reduce export revenues, and likely lead to weaker trade balances.

With the commencement of QE tapering in January 2014, global financing conditions are likely to tighten as investors demand higher interest rates on developing-country debts. This is likely to slow debt flows to the region. Overall, total net capital flows are projected to decline by 3.7 percent in 2014. Weaker capital flows are likely to temper domestic demand and, thus, ease overall GDP growth.

Risks: The outlook for the region is subject to a number of downside risks. Weaker than expected growth in the high-income economies could affect the region's growth prospects through a less than robust recovery in the region's exports, tempering overall economic growth. The outlook assumes a moderate decline in commodity prices. Given China's importance in global commodity markets, a sharper-than-expected slowdown in China could result in a protracted and more severe slump in commodity prices, thereby eroding regional export and government revenues, and potentially aggravating current account imbalances.

Lastly, prospects hinge on the continued incremental withdrawal of QE, along with the gradual increase in global interest rates. Thus far, market sentiment towards the onset of tapering has been calm. If, however, in the future, market reactions cause global interest rates to unexpectedly rise sharply, then capital flows to the region could be curtailed significantly which could destabilize the financing of current account balances and lead to sharp depreciations in exchange rates and, quite possibly, increase imported inflation. These outcomes could lead to tighter monetary policies, thereby further reducing growth prospects.

Latin America and the Caribbean country forecasts
(annual percent change unless indicated otherwise)

					Est.	Forecast		
	00-09[a]	2010	2011	2012	2013	2014	2015	2016
GDP at market prices (2010 US$)								
Argentina	2.9	9.2	8.9	1.9	5.0	2.8	2.5	2.5
Belize	5.0	2.7	1.9	5.3	1.8	2.7	3.3	3.4
Bolivia	3.4	4.1	5.2	5.2	5.3	4.7	4.0	3.6
Brazil	2.9	7.5	2.7	0.9	2.2	2.4	2.7	3.7
Colombia	3.7	4.0	6.6	4.2	4.0	4.3	4.2	4.0
Costa Rica	3.8	5.0	4.4	5.1	3.4	4.3	4.1	4.1
Dominica	2.4	1.2	1.0	1.7	1.1	1.7	1.8	2.1
Dominican Republic	4.5	7.8	4.5	3.9	2.5	3.9	4.6	4.9
Ecuador	4.2	3.5	7.8	5.1	4.0	4.1	4.2	4.3
El Salvador	2.0	1.4	2.0	1.6	1.9	2.3	2.6	2.9
Guatemala	3.4	2.9	4.1	3.0	3.3	3.4	3.3	3.2
Guyana	2.1	4.4	5.4	4.8	4.4	3.9	3.5	3.5
Honduras	3.8	3.7	3.7	3.3	2.9	3.4	3.8	3.9
Haiti	0.6	-5.4	5.6	2.8	3.4	4.2	3.9	3.9
Jamaica	1.0	-1.5	1.7	-0.5	0.3	1.0	1.2	1.3
Mexico	1.3	5.1	4.0	3.8	1.4	3.4	3.8	4.2
Nicaragua	2.8	3.6	5.4	5.2	3.8	4.2	4.4	4.3
Panama	5.6	7.6	10.6	10.5	7.9	7.3	6.9	6.5
Peru	4.8	8.8	6.9	6.3	4.9	5.5	5.9	5.8
Paraguay	2.0	13.1	4.3	-1.2	14.1	4.6	3.3	3.0
St. Lucia	2.1	3.2	0.6	-0.9	0.7	1.5	1.7	1.8
St. Vincent and the Grenadines	2.9	-2.0	0.6	1.5	2.1	2.7	3.2	4.2
Suriname	4.4	4.1	4.7	4.5	3.9	4.1	3.5	3.5
Venezuela, RB	3.3	-1.5	4.2	5.5	0.7	0.5	1.7	2.3

Source: World Bank.
a. GDP growth rates over intervals are compound average