Recent Developments: The region, on average, is contracting but there is considerable divergence. South America is particularly hard hit because three large economies – Argentina, Brazil, and República Bolivariana de Venezuela -- are in recession. Other South American countries, including Bolivia, Chile, and Colombia, have also slowed. In contrast, the Mexico and Central America sub-region has registered relatively stronger growth due to their close economic ties to a steadily growing United States. These economies have benefitted from competitiveness gains due to currency depreciation and more robust consumption supported by falling unemployment and moderating inflation. Similarly, the Caribbean, which also enjoys close ties to the United States, is being lifted by a booming tourism sector.

Outlook: The region is forecast to contract by 1.3 percent in 2016 after a 0.7 percent decline in 2015, the first back-to-back years of recession in more than 30 years. It is projected to begin expanding again in 2017, gradually gaining momentum to around 2 percent in 2018. Prospects vary across the region: South America is anticipated to contract by 2.8 percent this year, and have a mild recovery in 2017, followed by a strengthening of output growth to 1.7 percent in 2018. In contrast, supported by ties to the United States and strong exports, output in the Mexico and Central America sub-region and in the Caribbean is expected to grow at around 3 percent in 2017 and 2018.

Brazil is forecast to contract by 4 percent in 2016 amid attempts at policy tightening, rising unemployment, shrinking real incomes, and policy uncertainty. If political uncertainties persist, the implementation of fiscal initiatives may be delayed, further weighing on investment.

As a result of ongoing macroeconomic adjustments and structural reforms, activity in Argentina is expected to decline modestly in 2016, before picking up on a firmer basis in 2017-18. Capital inflows are expected to pick up following a formal exit from technical debt default and restored access to international debt markets, and a return of investor confidence. Net exports will benefit from a significantly weaker Argentine peso.

In contrast to South America, the Mexico and Central America sub-region is more closely linked to the U.S. economy through trade, investment, and remittance flows. Growth is expected to remain broadly unchanged in 2016, due both to the protracted decline in agricultural commodity prices and to fiscal consolidation across the sub-region. A modest increase in growth should follow in 2017-18, as the real depreciation of local currencies spurs net exports and the U.S. economy continues to expand. Household consumption is expected to continue picking up, as real incomes are supported by low inflation and falling unemployment, particularly in Mexico, which is expected to grow by 2.5 percent this year. In a number of Central American economies, domestic monetary policy is expected to remain largely accommodative in the short- and medium-term, with low inflation rates encouraging investment. Stronger investment growth is also expected in Mexico, as benefits from recent structural reforms materialize.

Despite strong tourism, growth in the Caribbean region will slow in 2016, representing a normalization from a bumper year in 2015. Major tourism-associated construction is winding down, and a number of Caribbean economies are pursuing fiscal consolidation to strengthen public finances and lower heavy public debt burdens. While the Zika virus outbreak poses a substantial downside risk, tourism is expected to continue to expand and support growth. Fiscal consolidation in several Caribbean countries will weigh on growth in the medium-term.

Risks: Should commodity prices drop further, falling fiscal and export revenues are likely to trigger additional policy tightening and weigh on growth. External debt across the region has been increasing, much of it denominated in foreign currency, particularly U.S. dollars. Further increases in debt ratios could lead to sovereign credit downgrades.

Recessions in Brazil and República Bolivariana de Venezuela have yet to bottom out and could last longer than previously expected. There is a risk that these recessions may spill over to other countries in the region.

Latin America and the Caribbean forecast summary

(annual percent change unless indicated otherwise)

	2013	2014	Est. 2015	Forecast 2016	2017	2018
GDP at market prices (2010 US$)						
Argentina	2.9	0.5	2.1	-0.5	3.1	3.0
Belize	1.3	4.1	0.9	0.8	1.8	2.2
Bolivia	6.8	5.5	4.8	3.7	3.4	3.4
Brazil	3.0	0.1	-3.8	-4.0	-0.2	0.8
Chile	4.3	1.8	2.1	1.9	2.1	2.3
Colombia	4.9	4.4	3.1	2.5	3.0	3.5
Costa Rica	3.4	3.5	2.8	3.3	3.6	4.0
Dominica	1.7	3.4	-4.0	2.5	2.0	2.0
Dominican Republic	4.8	7.4	6.9	5.0	4.3	4.0
Ecuador	4.6	3.7	0.3	-4.0	-4.0	0.0
El Salvador	1.8	2.0	2.5	2.2	2.3	2.3
Guatemala	3.7	4.2	4.1	3.5	3.5	3.6
Guyana	5.2	3.8	3.0	4.0	3.9	3.8
Haiti[a]	4.2	2.8	1.2	0.9	1.9	2.2
Honduras	2.8	3.1	3.6	3.4	3.5	3.5
Jamaica	0.5	0.7	0.9	1.5	2.2	2.6
Mexico	1.4	2.3	2.5	2.5	2.8	3.0
Nicaragua	4.5	4.7	4.9	4.4	4.2	4.1
Panama	8.4	6.2	5.8	6.0	6.1	6.2
Paraguay	14.0	4.7	3.0	3.0	3.2	3.4
Peru	5.9	2.4	3.3	3.5	3.5	3.2
St. Lucia	-1.9	-0.7	1.6	1.5	2.0	2.0
St. Vincent and the Grenadines	2.3	-0.2	1.8	2.4	3.1	3.1
Trinidad and Tobago	2.3	-1.0	-2.0	-2.0	2.0	2.5
Uruguay	4.6	3.2	1.0	0.7	1.6	2.5
Venezuela, RB	1.3	-3.9	-5.7	-10.1	-3.4	1.6

Source : World Bank.

World Bank forecasts are frequently updated based on new information and changing (global) circumstances. Consequently, projections presented here may differ from those contained in other Bank documents, even if basic assessments of countries' prospects do not significantly differ at any given moment in time.

a. GDP is based on fiscal year, which runs from October to September of next year.