Recent Developments: Economic activity in the Latin America and Caribbean region contracted by 0.9 percent in 2015. Activity in countries excluding Argentina, República Bolivariana de Venezuela and other high-income economies in the region contracted by 0.7 percent[1]. Sharp declines in several South American economies, due in part to domestic challenges exacerbated by the continued slump in commodity prices, outweighed output expansions in Mexico, Central America and the Caribbean.

The South American economy shrank by 2.1 percent in 2015. Brazil's GDP contracted 3.7 percent as investor confidence diminished due to elevated inflation and widening fiscal deficits. República Bolivariana de Venezuela's GDP declined 8.2 percent in 2015, weighed down by high inflation and import controls that curtailed consumer spending and impeded production. Ecuador contracted 0.6 percent as a result of low oil prices and the appreciation of the U.S. dollar, which hurt its competitiveness.

Growth rose modestly in developing Central America and Mexico. Mexico grew 2.5 percent in 2015, supported by expanding exports to the United States, despite being weighed down by low oil prices. Output in the Caribbean expanded by 3.3 percent as investment picked up in the Dominican Republic and stronger business and consumer confidence lifted growth in Jamaica.

Outlook: A gradual return to growth is anticipated in the medium term, as policy uncertainty diminishes, commodity prices stabilize, growth firms in the United States and the Euro Area economies continue to recover. Activity in the region is projected to be flat in 2016, but then recover and strengthen to an average of 2.2 percent for 2017-18. Growth in Mexico, Central America and the Caribbean will offset weakness in South America. Excluding high-income economies in the region, activity is forecast to rise to a 0.1 percent pace in 2016.

South America is not expected to resume growth until 2017, as the sub region's largest economies gradually adopt policies to unwind macroeconomic imbalances and restore business and consumer confidence. Prospects are brighter for Mexico and Central America, which will benefit from ties to the strengthening U.S. economy and robust remittances in line with stronger U.S. labor markets. Similarly, Caribbean economies are on track to expand 3 percent in 2016-18, as a result of economic proximity with the United States, robust remittances, and solid tourism activity.

Brazil is forecast to contract by 2.5 percent in 2016. The eventual calming of inflation fears and narrowing of fiscal deficits will lessen the need for further interest rate increases and cuts in government spending, and should pave the way for a return to growth in 2017. With oil prices expected to stabilize around current levels, the economy of the República Bolivariana de Venezuela is projected to bottom out in 2018.

Growth in Mexico should accelerate to 3 percent in 2016-18. Despite being weighed down by fiscal austerity measures, Mexico will benefit from reforms, a weak peso, and a strengthening United States, which will lift its export-based manufacturing sector. The opening of the energy sector should continue to support foreign investment, and other reforms are expected to contribute to stronger growth.

Risks: The Latin America and the Caribbean region faces the risk of financial volatility and reduced capital flows sparked by higher U.S. interest rates, and higher investor risk aversion. The region would also be negatively impacted by a protracted slowdown in Brazil and República Bolivariana de Venezuela. In addition, the region is threatened by a more severe slump in commodity prices, which would hurt export and government revenues of commodity exporters. Finally, extreme weather could also set back growth: forecasts suggest the El Nino weather pattern will be the strongest on record, hurting agriculture and potentially damaging infrastructure.

[1] High-income countries in the region are: Antigua and Barbuda, Argentina, The Bahamas, Barbados, Chile, Trinidad and Tobago, Uruguay, and Venezuela, RB.

Latin America and the Caribbean country forecasts
(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	1.7	0.7	1.9	3.0
Belize	1.5	3.6	3.0	2.5	2.6	2.8
Bolivia	6.8	5.5	4.0	3.5	3.4	3.4
Brazil	3.0	0.1	-3.7	-2.5	1.4	1.5
Chile	4.2	1.9	2.1	2.4	2.9	3.1
Colombia	4.9	4.6	3.1	3.0	3.3	3.5
Costa Rica	3.4	3.5	2.8	4.0	4.2	4.4
Dominica	1.7	3.4	-3.0	4.0	2.0	2.0
Dominican Republic	4.8	7.3	5.6	4.6	3.8	3.9
Ecuador	4.6	3.7	-0.6	-2.0	0.0	0.5
El Salvador	1.8	2.0	2.4	2.5	2.6	2.8
Guatemala	3.7	4.2	3.7	3.6	3.5	3.6
Guyana	5.2	3.9	3.5	3.8	4.0	4.0
Haiti	4.2	2.7	1.7	2.5	2.8	3.0
Honduras	2.8	3.1	3.4	3.4	3.5	3.6
Jamaica	0.5	0.7	1.3	2.1	2.4	2.6
Mexico	1.4	2.3	2.5	2.8	3.0	3.2
Nicaragua	4.6	4.7	3.9	4.2	4.1	4.0
Panama	8.4	6.2	5.9	6.2	6.4	6.6
Paraguay	14.0	4.7	2.8	3.6	4.0	4.2
Peru	5.8	2.4	2.7	3.3	4.5	4.6
St. Lucia	-1.9	-0.7	1.7	1.6	1.9	2.1
St. Vincent and the Grenadines	2.3	-0.2	2.1	2.7	3.0	3.4
Uruguay	5.1	3.3	1.5	1.9	2.8	3.0
Venezuela, RB	1.3	-4.0	-8.2	-4.8	-1.1	0.0

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.