Latin America and the Caribbean

Recent developments

The Latin America and Caribbean (LAC) region has emerged from the global crisis faster than expected. After contracting by 2.2 percent in 2009, GDP is estimated to have expanded by 5.7 percent in 2010, similar to the average growth recorded during the 2004 – 2007 boom years. Growth is forecast to slow to around 4.0 percent in the remainder of the forecast period, largely because of a weaker external environment as growth in advanced economies and China moderates. Nonetheless, the recovery compares well to the region's own past and the recovery in other emerging regions.

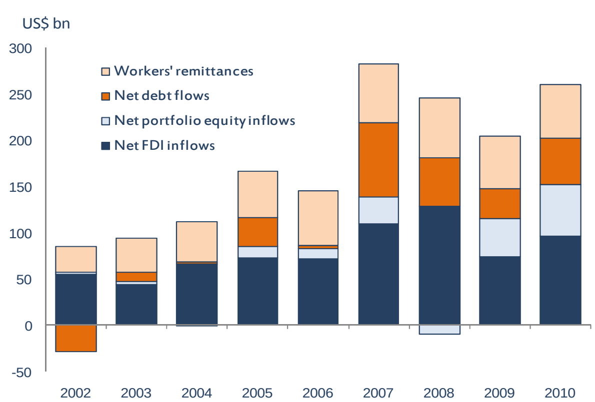
That strong aggregate performance masks significant differences within the region, reflecting differences in the terms-of-trade effects, capital flows and policies stances across countries and sub-region. *Central America* (particularly Mexico with its strong links to the US) was most affected by the crisis, with GDP declining by 5.9 percent in 2009. Although the rebound to an estimated 5 percent growth during 2010 in Central America was also the strongest, there is still considerable slack in the sub-region, with countries still having considerable catch-up to do before regaining pre-crisis trends. In the *Caribbean* countries, the impact of the crisis was smaller, while the rebound has been more muted, in part because remittances and tourism from high-income countries, an important source of foreign exchange and incomes are expected to remain weak. Overall, GDP for these countries is expected to grow by between 2½ and 4 percent over the forecast period, much less than the almost 7 percent rate recorded during the years 2005-2007.

The region's newfound resilience reflects the much healthier macroeconomic position from which it entered the crisis. Noticeable improvements have been made in terms of the quality and credibility of monetary policy, better fiscal and debt management, an improved balance sheet, and trade diversification towards Emerging Asia, and improved systems of financial regulation. All helped to bolster the region's resilience. The rebound was also supported by strong cyclical factors such as the rebound in external demand (particularly from China), renewed capital inflows, strong commodity prices, the turn in the inventory cycle and a significant boost to domestic demand from monetary and fiscal stimulus.

Financial conditions have also improved noticeably. After a brief pause during the global crisis, the LAC region experienced a strong recovery in capital inflows as the very loose monetary policy and the associated negative real interest rates that currently prevail in high-income countries have boosted yield-searching bond and equity capital inflows to the region. Based on the gains already made, net private inflows are expected to reach over $203 billion in 2010 – less than 7 percent shy of the 2007 peak, and almost 38 percent above 2009 (Figure R3.1 and Table R3.1).

The strong inflows have been a mixed blessing. On the positive side, it provided cheap financing, thereby boosting domestic demand. But increasingly, these flows are raising concerns

Figure R3.1 Financial flows to Latin America and Caribbean recovered sharply in 2010



Source: World Bank.

Table R3.1 Net capital flows to Latin America and the Caribbean
$ billions

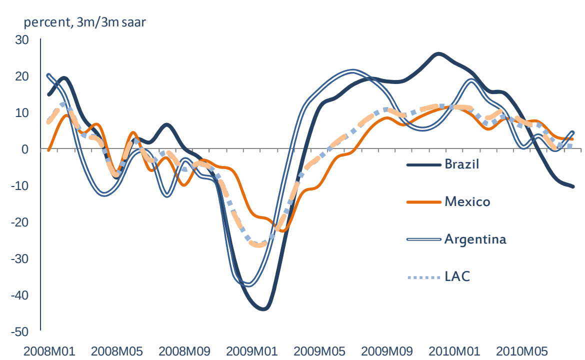
	2003	2004	2005	2006	2007	2008	2009	2010e	2011f	2012f
Current account balance	8.8	21.2	33.9	44.3	10.5	-34.5	-20.4	-52.8	-68.2	-84.9
as % of GDP	0.5	1.0	1.3	1.4	0.3	-0.8	-0.5	-1.2	-1.4	-1.6
Financial flows:										
Net private and official inflows	62.2	57.2	85.2	66.2	217.5	177.2	166.7	223.8		
Net private inflows (equity+debt)	57.5	67.3	116.6	86.1	218.5	170.7	147.5	203.4	212.9	212.7
..Net private inflows (% GDP)	3.1	3.1	4.5	2.8	6.1	4.1	3.8	4.5	4.4	4.1
Net equity inflows	46.6	65.3	84.4	83.0	138.2	118.2	115.2	153.3	160.9	170.5
..Net FDI inflows	43.3	65.9	72.2	72.0	109.4	127.9	73.6	99.3	109.9	127.5
..Net portfolio equity inflows	3.3	-0.6	12.2	11.0	28.8	-9.7	41.6	54.0	51.0	43.0
Net debt flows	15.7	-8.1	0.8	-16.8	79.2	59.0	51.5	70.5		
..Official creditors	4.7	-10.2	-31.3	-19.9	-1.1	6.5	19.2	20.4		
....World Bank	-0.4	-1.0	-0.7	-3.4	-0.1	2.4	6.6	6.2		
....IMF	5.6	-6.3	-27.6	-12.1	0.0	0.0	0.4	0.2		
....Other official	-0.4	-2.9	-3.0	-4.4	-1.0	4.1	12.2	14.0		
..Private creditors	10.9	2.0	32.2	3.1	80.3	52.5	32.3	50.1	52.0	42.2
....Net M-L term debt flows	9.2	-0.9	16.4	5.2	47.6	48.4	34.1	40.9		
......Bonds	16.7	3.1	20.6	-11.9	13.4	7.5	40.3	33.5		
......Banks	-7.0	-3.8	-3.9	17.7	34.6	41.4	-5.6	7.4		
......Other private	-0.5	-0.1	-0.3	-0.6	-0.4	-0.5	-0.5	0.0		
....Net short-term debt flows	1.8	3.0	15.7	-2.1	32.7	4.1	-1.8	9.2		
Balancing item /a	-35.4	-53.0	-84.8	-55.1	-90.2	-92.5	-94.3	-108.3		
Change in reserves (- = increase)	-35.6	-25.4	-34.4	-55.5	-137.8	-50.1	-52.0	-62.7		
Memorandum items										
Workers' remittances	36.7	43.3	50.1	59.2	63.1	64.6	56.9	58.0	62.0	69.0

Source: World Bank.
Note:
e = estimate, f = forecast
/a Combination of errors and omissions and transfers to and capital outflows from developing countries

about domestic overheating, external competitiveness and increased sterilization costs. Although the recovery in domestic financial conditions is not complete (domestic credit growth remains moderate), very large external capital inflows have induced booms in many equity- and bond markets, raising fears about possible asset price bubbles. Moreover, capital-inflow induced exchange-rate appreciations in the region are having growing impacts on competiveness and growth and are of increasing concern to regional policy makers.

The strong recovery in GDP during 2010 reflects a rapid bounce back in industrial activity during the early part of the year, followed by a sharp slowing mid-year. This is a pattern repeated in virtually every region of the world (see discussion in main text). Regional industrial production reached peak growth rates in excess of 11 percent (annualized) during the final months of 2009, but was actually declining during the third quarter (Figure R3.2). Chile proved an exception to this trend, with industrial production activity there growing relatively quickly, reflecting a bounce back after the 28 percent decline (3m/3m saar) recorded following the earthquake earlier in the year. Although forward looking indicators in the region point to continued growth, growth rates are expected to be more modest than earlier this year, as capacity utilization stabilizes throughout the region and output gaps approach zero. With private

Figure R3.2 Sharp recovery in industrial production growth is slowing

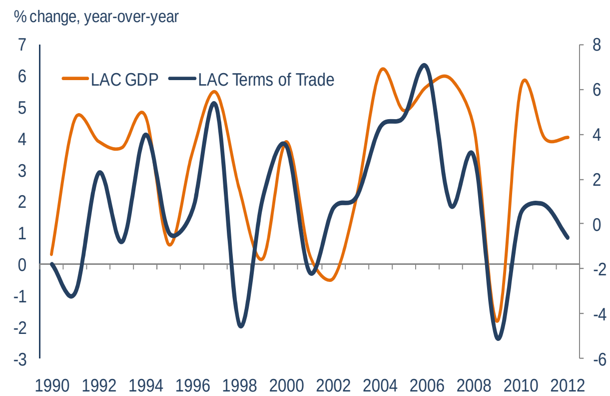


Source: World Bank

consumption, investment and export growth rates forecast to moderate substantially over the forecast, industrial production growth will also slow to more sustainable growth rates of around half those registered in the first half of 2010.

Deeper trade linkages to Emerging Asia, and China in particular, have contributed to the region's quick recovery through exports and rising commodity prices. Export volumes have fully recovered from the crisis, but as is the case with other high frequency indicators worldwide, export growth (temporary) slowed sharply mid year (Figure R3.3). Strong demand for commodities – especially from China – also benefited the region, boosting its terms of trade, raising incomes and contributing to stronger domestic demand (Figure R3.4).

Figure R3.4 GDP growth rebound also benefitting from strong recovery in the terms of trade

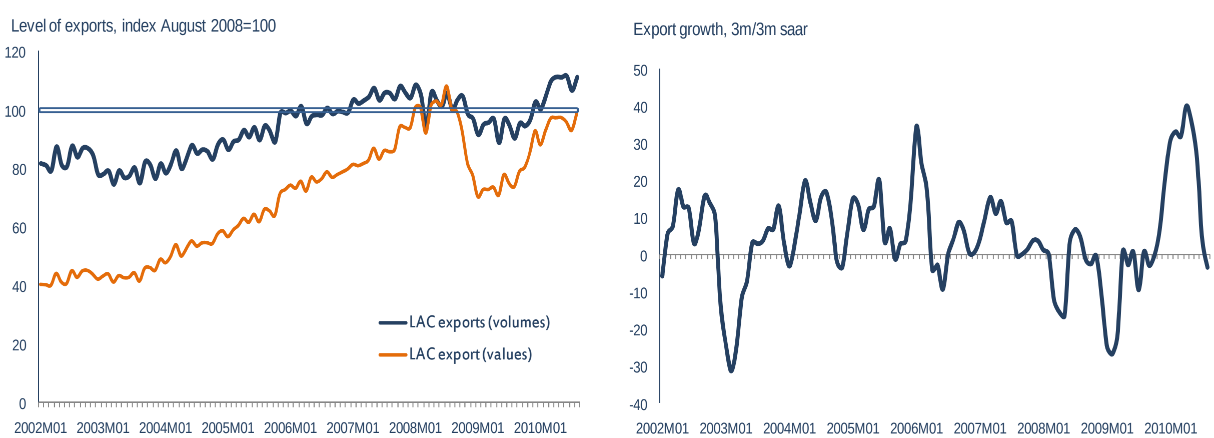


Source: World Bank

Regional imports were boosted by the rebound in investment spending (investment goods in the LAC region tend to have a high import content) (Figure R3.5). This, plus the real-effective appreciation of many of the currencies in the region meant that merchandise import volumes grew by an estimated 21.4 percent in the 12 months ending October 2010, versus 8.3 percent for exports. Had it not been for stronger commodity prices (notably metals prices see annex on commodities), the region's current account deficit would have deteriorated much more. As it is, it went from -0.5 percent of GDP in 2009 to about -1.2 this year (with about half the swing accounted for by Brazil) – nevertheless a marked swing from the 1 percent of GDP average surpluses recorded during the 2004-07 commodity boom.

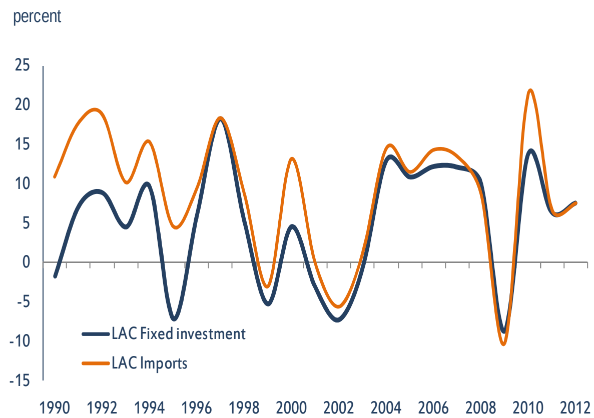
Tourism, an important source of foreign currency in many countries, especially in Central America and the Caribbean, also recovered in 2010. Tourism arrivals rose an estimated 3.3 percent in 2010, underpinned by a 3 and 3.2 percent growth recovery in Brazil and Mexico respectively and a sharp 8 percent increase in the number of visitors to Argentina. High-income islands in the Caribbean experienced a disappointing year, with only small increase in arrivals—in part due to inclement weather

Figure R3.3 Export volumes have recovered to pre-crisis levels, but growth is slowing rapidly



Source: World Bank.

Figure R3.5 Investment spending has been a major driver of imports



Source: World Bank

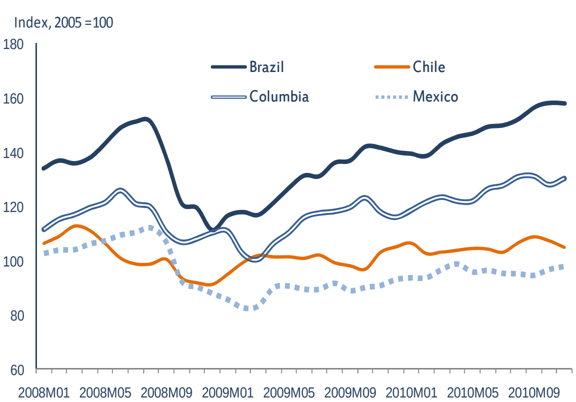
during peak season.

Remittances, also an important source of foreign currency for countries in the region, rebounded by a modest 2 percent in 2010, after falling an estimated 12 percent in 2009 – the second largest regional decline after Europe and Central Asia, where remittances fell 23 percent. Persistent unemployment in the United States and the concentration of joblessness in the construction sector where many regional remitters are or used to be employed underpin this weak performance, which is projected to remain relatively modest in 2011 and 2012.

As indicated earlier, strong capital inflows have put upward pressure on the real exchange rates of some countries in the region (Figure R3.6). This has been particularly evident in Brazil, where the real effective exchange rate has increased by 13.2 percent during 2010, and by 41.5 percent since the 2008 lows. But even in countries such as Colombia, Chile and Mexico, real effective exchange rates have appreciated by 29.9, 14.9 and 18.5 percent respectively since their lows in late-2008/early 2009.

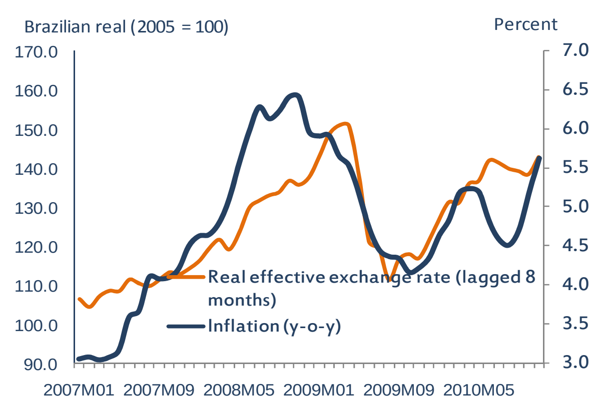
The brisk rebound in economic activity in the region during 2010, combined with the (continued) surge in capital inflows has raised concerns about overheating and the inflation outlook. In Brazil, for instance, the surging capital inflows and appreciation of the Real has coincided with rising inflation (Figure R3.7). Elsewhere in the region, where surging capital inflows has played less of a role, rising commodity prices have raised inflation somewhat, as food prices have a high weighting in the region's price basket. With a more rapid than expected recovery pushing up wage demands, a number of central banks in the region have started to tighten interest rates. Brazil, where first quarter growth came in at 9 percent, first raised its benchmark policy rate in April - Peru and Chile followed later. Although inflationary pressures have been strongest in Argentina, a desire to sustain the consumption boom suggests that policy may not be tightened

Figure R3.6 Upward pressure on real exchange rates



Source: World Bank.

Figure R3.7 Appreciating real is placing upward pressure on inflation



Source: World Bank

unless there is a dramatic reversal in capital flows. Mexico has also not yet tightened rates, reflecting its relative weak recovery.

Medium-term outlook

Aggressive policy stimulus and Chinese demand has enabled the region's commodity exporters (Brazil, Chile and Peru together account for 70 percent of the region's exports to China) to lead the recovery, growing by an estimated 7.6, 5.5 and 8.0 percent respectively in 2010. The region as a whole is estimated to have expanded by 5.7 percent in 2010, and is forecast to grow by around 4 percent per annum over the 2011-2012 period (Table R3.2). Private consumption is forecast to rebound by 5.0 percent after contracting by 1.2 percent during 2009, supported by the lagged effects of expansionary macroeconomic policies, while later in the forecast period, the government spending contribution to growth will wane as policy stimuli are being withdrawn. Stronger demand is also fuelling a cyclical rebound in fixed investment and imports.

As policy makers in the region begin tightening monetary policy and interest rates rise, many currencies will continue to experience appreciation pressures, which will adversely affect external competitiveness. Furthermore higher capital inflows in response to increased interest rate differentials could lead to excess credit expansion, complicating the task of policymakers in combating inflationary pressures, which are already rising in some economies.

Beyond 2010 growth in the region will likely slow as policy stimulus and the inventory cycle's contribution to growth wanes. Also, slower growth in the US in the second half of 2010 and

Table R3.2 Latin America and the Caribbean forecast summary
(annual percent change unless indicated otherwise)

					Est.	Forecast	
	95-06 [a]	2007	2008	2009	2010	2011	2012
GDP at market prices (2005 US$) [b]	2.9	5.6	4.0	-2.2	5.7	4.0	4.0
GDP per capita (units in US$)	1.4	4.2	2.7	-3.4	4.4	2.7	2.7
PPP GDP [c]	2.9	5.8	4.3	-1.8	5.7	4.0	4.1
Private consumption	3.4	7.1	5.1	-0.7	5.0	3.1	3.5
Public consumption	2.2	5.0	2.4	4.0	6.4	4.3	4.4
Fixed investment	3.5	12.3	8.7	-9.3	13.9	6.4	7.6
Exports, GNFS [d]	6.0	5.6	1.1	-10.3	14.3	5.8	6.4
Imports, GNFS [d]	6.2	13.1	8.3	-15.0	21.0	6.7	7.6
Net exports, contribution to growth	0.1	-1.8	-1.9	1.6	-1.8	-0.4	-0.5
Current account bal/GDP (%)	-1.7	0.3	-0.8	-0.5	-1.2	-1.4	-1.7
GDP deflator (median, LCU)	6.6	5.8	7.2	4.1	6.5	5.6	5.5
Fiscal balance/GDP (%)	-3.6	-1.2	-0.9	-4.0	-2.6	-2.2	-2.1
Memo items: GDP							
LAC excluding Argentina	3.0	5.3	3.8	-2.4	5.5	4.0	4.0
Central America [e]	3.6	3.7	1.8	-5.9	5.0	3.6	3.8
Caribbean [f]	4.2	6.0	3.3	0.6	2.5	3.7	3.8
Brazil	2.4	6.1	5.1	-0.2	7.6	4.4	4.3
Mexico	3.6	3.3	1.5	-6.5	5.2	3.6	3.8
Argentina	2.3	8.7	6.8	0.9	8.0	4.7	4.5

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.
b. GDP measured in constant 2005 U.S. dollars.
c. GDP measured at PPP exchange rates.
d. Exports and imports of goods and non-factor services (GNFS).
e. Central America: Costa Rica, Guatemala, Honduras, Mexico, Nicaragua, Panama, El Salvador.
f. Caribbean: Antigua and Barbuda, Belize, Dominica, Dominican Republic, Haiti, Jamaica, St. Lucia, Trinidad and Tobago, St. Vincent and the Grenadines.

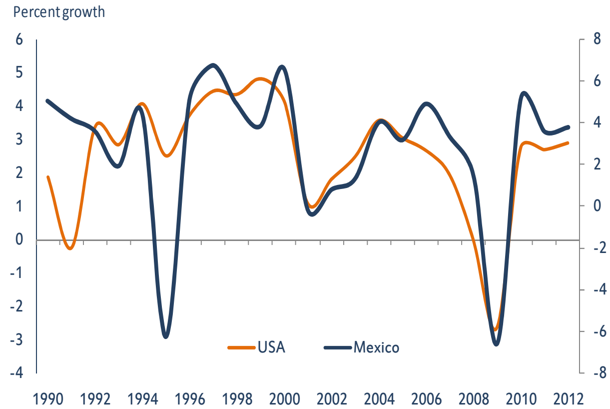
Source: World Bank

lingering high unemployment will undermine growth in Mexico, Central America and the Caribbean, through trade, investment, remittances and tourism linkages.

Brazil has resumed its pre-crisis growth dynamic. GDP is expected to have increased by around 7.6 percent in 2010, on account of strong commodity demand as well as the lagged effects of expansionary demand management policies. Going forward, activity will continue to benefit from an expanding labor force, real wage growth and credit expansion, facilitated by a strong financial sector, a diversified economy and highly diverse trade partners. Over the medium term growth is forecast to slow to, albeit still strong, 4.4 and 4.3 percent pace in 2011 and 2012, respectively. However, renewed global capital market volatility is expected to affect the Real, and Brazil's external competitiveness. Somewhat weaker growth in major trading partners during 2011-12 pose additional downside risks for Brazil's economic outlook. Brazilian policymakers should ensure that growth remains within levels that are sustainable over the long term. Brazil's ability to use monetary policy for this task is limited by the likelihood that higher interest rates will attract further capital inflows, while the long-term consequences of further appreciation for firms' export and import-competing points to a potential drawback of flexible exchange rates. In this context, a further fiscal policy tightening may be required.

Mexico was one of the few countries in region to not have fully recovered from the crisis in 2010, and with US output gaps only slowly unwinding over the forecast period, Mexican growth is projected to remain relatively weak and below potential (Figure R3.8). Mexican domestic demand is not expected to be sufficiently strong to drive internal dynamism, reflecting local structural weaknesses. Although a recovery in real wages and a rapid expansion in the working age population will support demand, the impact will be muted by weak employment prospects in both Mexico and the United States. Remittances are estimated to have declined by 8.7 percent in 2010 - well off the pre-crisis pace of 17.5

Figure R3.8 Mexican growth closely link to US developments

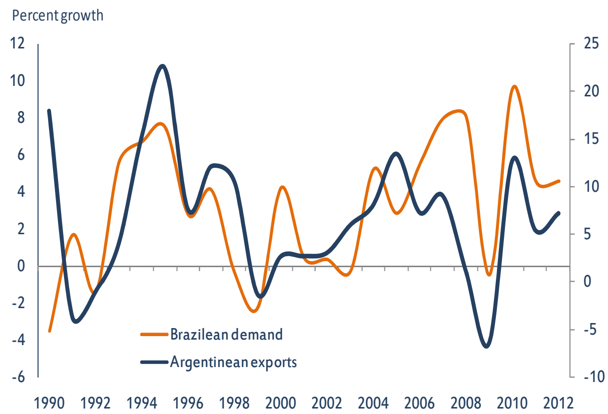


Source: World Bank

percent growth on average over 2004-2006. Trade (both exports and imports), which recovered rapidly during 2010 from very depressed 2009-bases, is expected to slow once more as global (particularly US) growth slows and the base effects dissipate. Overall GDP growth is forecast at 5.2, 3.6 and 3.8 over the 2010 – 2012 period.

GDP growth in **Argentina** is projected to have increased by a robust 8 percent in 2010, but expected to decelerate to 4.7 and 4.5 percent in 2011 and 2012 respectively. During 2010, Argentina and other commodity exporters in the region have benefitted from terms of trade gains, stronger external demand, in particular from Asia, while strong Brazilian demand has supported a sharp recovery in Argentina's industrial sector (Figure R3.9). Although the current lax monetary and fiscal policies are not sustainable over the long term, there are signs that economic policies may move towards a more moderate and "market friendly" approach. Two important steps here were the new negotiations with the Paris Club to restructure the official debt which has remained in default since 2001 and the agreement with the IMF for a technical mission to Argentina to help design a new nationwide CPI index. Also, the government seems keen to establish a social pact with unions and employers to anchor inflation expectations. However, no radical changes in the policy stance prior to the 2011 presidential

Figure R3.9 Argentinean exports benefitting from Brazilian demand



Source: World Bank, Datastream.

elections are expected.

Chile's well deserved status as the most stable and resilient economy in Latin America, owing to many years of sound and consistent economic management, will remain intact as GDP is forecast to grow by an average of 5.4 percent over 2010-12. This projected growth is even slightly faster than during the 2004 – 2007 boom periods, with forecast growth benefitting from the massive reconstruction activity following the earthquake. Around one-half of total exports are accounted for by copper mining, which was unaffected by the earthquake. Although continued export diversification and relatively strong demand from Asia will underpin export growth, import spending will rise as reconstruction gets under way, resulting in a somewhat weaker current-account balance over the forecast period.

Although GDP growth in **Colombia** is forecast to rebound from the 2009 slump and average 4.2 percent over 2010-12, the growth will be more subdued than the average 6.2 percent during the 2004-2007 boom years. Growth will be supported by high levels of investment and strong private demand, but the collapsing trade with Venezuela will prevent faster growth rates.

Given the recovery in commodity prices and activity in the region, the growth outlook for **Venezuela** (-2.3, 0.9 and 1.7 percent) over 2010-12 remains extremely dissatisfactory as government policy is creating severe economic distortions and the sustainability of macroeconomic policy remains under pressure. Notwithstanding the steep currency devaluation in early 2010 and various other measures implemented to avoid further depreciation, the exchange rate remains severely overvalued, while access to foreign currency remains difficult. Despite devaluation and higher oil prices which have boosted the government's revenues, current levels of spending are not sustainable and will only aggravate economic dislocations, hence failing to produce a sustainable recovery.

In **Peru**, real GDP growth is forecast to average 6.2 percent over 2010-12. Growth has been broad based, with household consumption and investment recoding strong growth in 2010 – a trend which is expected to continue over the forecast period.

The prospects for the **Caribbean** economies have been hindered by high unemployment and weak private consumption in the US and other high-income countries that affect the demand for tourism services and remittances inflows. Although the Dominican Republic-Central American Free-Trade Agreement (DR-CAFTA) has boosted growth over the 2004-2008 period, it has also increased the region's reliance on the US economy. With US growth projected to slow, the region's fragile recovery remains vulnerable to adverse trade, investment and remittance flow developments. Haiti's economy is projected to recover over the forecast horizon, after contracting an estimated dramatic 8.5 percent in 2010 due to the earthquake, boosted by reconstruction efforts financed mostly by aid flows.

Central American economies (excluding Mexico) were one of the hardest-hit sub regions in 2009 due to the sub region's close economic ties to the U.S. The recovery has also been hampered by limited fiscal space to implement counter-cyclical policies, while prospects for remittances – the greatest source of foreign exchange and large contributor to income and private consumption – continues to be hindered by still weak job prospects for many Central Americans working in the crisis affected US and Spanish (housing) markets. In countries such as Honduras, El Salvador, Guatemala and Nicaragua, where remittances are equivalent to 10-20 percent of GDP, and consumption heavily relies on remittances inflows, the recovery will be weaker. But in Costa Rica, where the contribution of remittances is relatively small, growth is forecast to have been stronger, at 3.6 percent in 2010. The region's growth prospects also continue to suffer from crime, corruption, weak institutions and a lack of competitiveness, stemming from infrastructure deficiencies. In Panama however, a number of mega-projects should support growth which is forecast to average 5.6 percent over 2010 - 2012.

Risks

Although LAC's improved resilience has passed the test of the global crisis, there is no room for complacency as the continued robustness of countries in the region is not a foregone conclusion. Paramount among the risks facing the region is dealing with the surging capital inflows and the destabilizing impact that this might have on exchange rates, external competitiveness and domestic asset prices. Already, delays in withdrawing domestic stimulus fast enough could be supporting unsustainable growth, and may be contributing to overheating of some economies. For the region's commodity exporting countries, further accommodative monetary policies (quantitative easing) in high-income countries may translate into even larger capital inflows and further commodity price and terms of trade gains adding to the pace of the recovery (and overheating).

Robust commodity prices have boosted export revenues and domestic income, which along with easy financing conditions has supported domestic demand. Should global growth slow more abruptly than projected in the baseline, these gains would be quickly unwounded. Countries such as Mexico, with its deep real and financial links to the US economy, and the commodity importing Central and Caribbean regions, with their dependence on tourism and remittance flows from the US, remain particularly vulnerable to weaker than projected US economic conditions.

The tightening stance of monetary policy in the region, even as interest rates in high-income countries remains very low has led to a surge of capital flows into several countries in the region (see discussion in main text). Attractive interest rate spreads, the region's positive growth outlook, strong commodity prices and the low opportunity cost of borrowing in high-income countries have all contributed to the increase in flows. While for many countries the inflows have been positive and helped support productive investments, in others, notably Brazil they have contributed to a consumer credit boom, rapidly rising imports and asset prices.

At this stage, monetary policy appears overburdened. Despite efforts to control money expansion with higher interest rates and administrative controls (including taxes on short-term capital inflows), many currencies in the region have appreciated sharply, hurting domestic competitiveness in both exporting and import-competing sectors. In this context, further tightening of fiscal policy may be required both to keep demand under control, but also to restore the fiscal space that the effective counter-cyclical policies of the past few years have depleted. This is all the more important, given the potential need to react should today's rapid inflows reverse rapidly as exchange rates deviate ever more from underlying fundamental levels.

The possibility of intensified and prolonged sovereign debt stresses in a number of high-income (European) countries, which subsided during the summer, has increased once again. As discussed in the main text, Latin America retains close financial and trade ties with both Spain and Portugal, and as such could be exposed to significant repercussions should conditions in those countries deteriorate sharply. So far, these risks have not materialized and indeed banks in these countries have expanded business in the region attracted by its strong growth prospects, However, should they be forced to restructure and or deleverage, they could call on the assets of regional subsidiaries —extending a European tightening of credit to Latin America. In a less severe scenario Latin America could benefit if it is seen as a more secure location for investing.

Even though the region's public finances have emerged from the global downturn in relatively good shape, some countries in the region remain vulnerable to a sharp increase in their debt stock, reflecting weak revenue bases, and/or limited financing options. Some of the smaller countries in the region (Jamaica, the Dominican Republic) have already agreed on lending arrangements with the IMF. In Argentina, the financing of the rapid expenditure growth is placing the longer-

Table R3.3 Latin America and the Caribbean country forecasts
(annual percent change unless indicated otherwise)

					Est.	Forecast	
	95-06 [a]	2007	2008	2009	2010	2011	2012
Argentina							
GDP at market prices (2005 US$) [b]	2.3	8.7	6.8	0.9	8.0	4.7	4.5
Current account bal/GDP (%)	-0.2	2.8	2.1	2.8	1.8	1.3	1.2
Antigua and Barbuda							
GDP at market prices (2005 US$) [b]	4.3	9.1	0.2	-8.5	0.0	2.5	3.0
Current account bal/GDP (%)	-10.5	-32.9	-29.4	-23.1	-21.9	-19.2	-17.3
Belize							
GDP at market prices (2005 US$) [b]	5.7	1.2	3.8	0.0	1.5	2.1	2.4
Current account bal/GDP (%)	-12.1	-4.1	-9.7	-7.0	-7.2	-7.8	-7.6
Bolivia							
GDP at market prices (2005 US$) [b]	3.8	0.0	6.1	3.4	4.1	4.0	4.2
Current account bal/GDP (%)	-3.0	12.1	12.0	4.7	8.0	7.7	7.1
Brazil							
GDP at market prices (2005 US$) [b]	2.4	6.1	5.1	-0.2	7.6	4.4	4.3
Current account bal/GDP (%)	-2.0	0.1	-1.7	-1.5	-2.7	-3.0	-3.2
Chile							
GDP at market prices (2005 US$) [b]	4.2	4.6	3.7	-1.5	5.5	5.8	5.0
Current account bal/GDP (%)	-1.5	4.5	-1.5	2.6	0.6	0.3	-0.3
Colombia							
GDP at market prices (2005 US$) [b]	2.4	6.9	2.7	0.8	4.3	4.4	4.0
Current account bal/GDP (%)	-2.2	-2.9	-2.8	-2.2	-2.7	-1.9	-2.2
Costa Rica							
GDP at market prices (2005 US$) [b]	4.5	7.8	2.6	-1.5	3.6	3.4	3.8
Current account bal/GDP (%)	-4.0	-6.3	-9.3	-1.8	-3.2	-2.8	-3.3
Dominica							
GDP at market prices (2005 US$) [b]	1.4	4.9	3.5	-0.8	1.2	2.0	2.8
Current account bal/GDP (%)	-18.7	-25.2	-36.4	-32.6	-30.4	-25.8	-22.8
Dominican Republic							
GDP at market prices (2005 US$) [b]	5.2	8.5	5.3	3.5	4.4	4.2	4.3
Current account bal/GDP (%)	-0.8	-5.2	-9.9	-4.6	-5.9	-5.4	-5.2
Ecuador							
GDP at market prices (2005 US$) [b]	3.2	4.0	7.2	0.4	2.3	2.3	2.0
Current account bal/GDP (%)	-1.4	3.5	2.0	-0.5	-0.8	-1.5	-1.4
El Salvador							
GDP at market prices (2005 US$) [b]	2.7	4.6	2.4	-3.5	1.3	2.5	2.8
Current account bal/GDP (%)	-2.5	-5.8	-7.2	-1.8	-3.1	-3.3	-3.4
Guatemala							
GDP at market prices (2005 US$) [b]	3.5	6.3	3.3	0.6	2.2	2.5	2.8
Current account bal/GDP (%)	-4.9	-5.4	-4.7	-0.7	-2.5	-2.6	-3.1
Guyana							
GDP at market prices (2005 US$) [b]	1.7	5.4	3.0	2.5	2.8	3.2	3.8
Current account bal/GDP (%)	-9.4	-10.4	-16.5	-11.2	-9.0	-10.9	-12.8
Honduras							
GDP at market prices (2005 US$) [b]	3.8	6.3	4.0	-1.9	2.4	3.1	3.3
Current account bal/GDP (%)	-6.6	-9.0	-12.9	-3.1	-4.7	-2.9	-4.1
Haiti							
GDP at market prices (2005 US$) [b]	1.0	3.3	0.8	2.9	-8.5	7.6	7.6
Current account bal/GDP (%)	-24.1	-8.0	-11.9	-9.7	-13.6	-9.6	-10.4

Table R3.3 (continuation)

	95-06 [a]	2007	2008	2009	Est. 2010	Forecast 2011	2012
Jamaica							
GDP at market prices (2005 US$) [b]	0.8	1.4	-0.5	-3.0	0.6	2.2	2.5
Current account bal/GDP (%)	-5.5	-15.8	-19.6	-9.3	-7.9	-6.6	-5.9
Mexico							
GDP at market prices (2005 US$) [b]	3.6	3.3	1.5	-6.5	5.2	3.6	3.8
Current account bal/GDP (%)	-1.9	-0.8	-1.5	-0.7	-1.0	-1.2	-1.3
Nicaragua							
GDP at market prices (2005 US$) [b]	4.1	3.2	7.5	-5.6	3.0	3.0	3.3
Current account bal/GDP (%)	-20.1	-17.7	-25.8	-12.9	-13.8	-12.7	-12.6
Panama							
GDP at market prices (2005 US$) [b]	4.5	12.1	10.7	2.4	5.7	5.4	5.8
Current account bal/GDP (%)	-5.3	-7.1	-11.5	0.0	-6.1	-5.5	-5.5
Peru							
GDP at market prices (2005 US$) [b]	3.3	8.9	9.8	0.9	8.0	5.5	5.2
Current account bal/GDP (%)	-3.3	1.3	-3.7	0.2	-1.7	-1.3	-1.6
Paraguay							
GDP at market prices (2005 US$) [b]	1.2	6.8	5.8	-3.8	8.5	4.0	4.2
Current account bal/GDP (%)	-1.5	1.5	-2.5	0.3	-1.8	-1.8	-0.9
St. Lucia							
GDP at market prices (2005 US$) [b]	2.4	2.2	0.8	-3.8	1.2	2.7	2.8
Current account bal/GDP (%)	-13.2	-36.0	-35.2	-19.8	-16.8	-13.8	-12.0
St. Vincent and the Grenadines							
GDP at market prices (2005 US$) [b]	4.3	8.4	1.1	-2.8	-1.0	3.1	3.9
Current account bal/GDP (%)	-18.2	-34.5	-39.2	-34.0	-34.6	-31.0	-28.4
Trinidad and Tobago							
GDP at market prices (2005 US$) [b]	6.5	4.6	2.3	-3.0	2.2	2.8	2.8
Current account bal/GDP (%)	3.9	25.5	32.9	21.8	25.7	26.0	27.1
Uruguay							
GDP at market prices (2005 US$) [b]	1.5	7.5	8.5	2.9	7.9	4.6	4.2
Current account bal/GDP (%)	-0.9	-0.9	-4.8	0.7	-0.6	-0.7	-0.6
Venezuela, RB							
GDP at market prices (2005 US$) [b]	1.6	8.2	4.8	-3.3	-2.3	0.9	1.7
Current account bal/GDP (%)	7.5	8.0	12.0	2.6	5.9	5.2	4.7

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.

Barbados, Cuba, Grenada, and Suriname are not forecast owing to data limitations.

a. Growth rates over intervals are compound average; growth contributions, ratios and the GDP deflator are averages.

b. GDP measured in constant 2005 U.S. dollars.

Source: World Bank

term health and sustainability of public finances at risk and exposing the economy to a rapid acceleration of inflation. In Venezuela, government policy is creating severe economic distortions and the sustainability of macroeconomic policy remains under pressure. Although the recent steep currency devaluation (along with the introduction of a secondary rate for non-essential imports) should temporary boost the government's fiscal position and help to finance (largely inefficient) government spending, current levels of spending are not sustainable and will only aggravate economic dislocations, and therefore not support a sustainable recovery.

Inflexible labor markets, high non-wage costs, scarce skilled labor and limited infrastructure remain serious challenges that need to be addressed if the region is to achieve the higher longer term growth to which it aspires and required to make more progress against poverty.