

Background Note on the Regional Outlook for Latin America and the Caribbean

Economic growth in Latin America and the Caribbean is expected to continue at a subdued pace in 2014. The region is expected to grow moderately by only 2.6 per cent this year, although with different trends across sub-regions. Economic growth in Mexico and Central America is strengthening, benefiting from the pick-up in activity in the United States. In particular, Mexico is expected to experience an acceleration of economic activity, which should gain momentum in the second half of 2014.

By contrast, growth in South America is decelerating markedly, amidst increasing difficulties in some large economies. For example, Argentina is experiencing a noticeable slowdown together with persistent inflation pressures, while the Bolivarian Republic of Venezuela is likely to enter into recession. Brazil's economy is expected to expand at a very moderate rate of only 1.7 per cent in 2014, with meagre prospects for investment demand and increasing pressure for fiscal consolidation. Other South American countries such as Bolivia, Colombia and Peru continue on a more solid growth path, featuring stronger dynamism on investment demand. Meanwhile, growth in the Caribbean is expected to accelerate to 3.6 per cent in 2014.

Despite the continuing subdued growth, the unemployment rate is expected to remain relatively low in the region. The inflation outlook is also fairly stable and low, with the noticeable exceptions of Argentina and the Bolivarian Republic of Venezuela. In adjusting to the domestic business cycle and the United States Fed's QE tapering, the monetary stance remains mixed. Some countries with relatively low inflation, such as Chile, Mexico and Peru, have opted to reduce interest rates, while Brazil, Colombia and some Central American countries have tightened their monetary conditions.

Meanwhile, fiscal policy is moving towards a more supportive stance. For instance, Mexico and Chile are likely to increase their fiscal deficits this year because of counter-cyclical stimulus. However, the overall policy space to confront potential worsening external conditions in the near term has decreased. Importantly, reforms are needed in order to boost investment and productivity growth in the medium term.