Latin America and the Caribbean expected to recover moderately in 2015, but substantial downside risks remain, says UN report

Domestic vulnerabilities, a further slowdown in China and changes in US monetary policy threaten future growth

Mexico City, 19 January—Latin America and the Caribbean is expected to experience moderate growth as the region continues to face challenging economic conditions, says the United Nations World Economic Situation and Prospects 2015 (WESP) released today.

The aggregate gross domestic product (GDP) for the region is expected to grow by 2.4 per cent in 2015, up from 1.3 per cent in 2014 – a poor performance due to domestic weaknesses and lower commodity prices. However, growth will be uneven, with Mexico and Central America expected to expand by 3.5 per cent in 2015, up from 2.6 per cent in 2014. By contrast, South America is projected to grow by only 1.9 per cent, compared to 0.7 per cent in 2014. The Caribbean economies are expected to expand by 3.8 per cent, similar to 2014.

The recovery will be led by the implementation of large public investment projects in countries such as Brazil, Chile and Mexico. Accommodative monetary conditions and supportive fiscal stances are also expected to buttress economic activity in some countries. Major risks to the region include weak domestic conditions and less favourable external factors, specifically a larger-than-expected slowdown in China and potential spillover effects from the normalization of the United States monetary policy.

Among the largest countries, GDP growth in Mexico is expected to accelerate from 2.4 per cent in 2014 to 3.4 per cent in 2015 due to a monetary and fiscal stimulus as well as the strengthening of the US economy. In 2015, Brazil’s economy is expected to grow modestly by 1.5 per cent. Chile is projected to expand by 3 per cent, recovering from a noticeable slowdown last year.

The Bolivarian Republic of Venezuela is expected to remain in recession, amidst lowering oil prices and extremely high inflation. Argentina is also struggling to contain inflation, which was 25 per cent last year, and after a negative growth in 2014 it is estimated to grow by only 0.8 per cent in 2015.

Other economies such as Panama, the Plurinational State of Bolivia, Colombia and Paraguay are projected to continue having strong growth rates in 2015, above 4.5 per cent. Peru’s economy is projected to grow by 4.6 per cent in 2015, up from 3.2 per cent in 2014, driven by a recovery in investment and resilient private consumption.
Domestic and external factors could derail the recovery

Major risks are related to a larger-than-expected growth decline in China, which would lead to further reductions in commodity prices. This would be particularly adverse for commodity exporters in South America, affecting external demand, investment prospects and fiscal positions in several economies. In addition, financial spillovers from the expected increments of interest rates in the United States might further reduce the domestic policy space to reinvigorate investment and growth in the region.

On the domestic front, large South American countries are facing the challenge to restore economic momentum through coordinated fiscal, monetary, exchange rate, macro prudential and structural policies. For instance, recent structural reforms and infrastructure concession programs in several countries are expected to generate benefits in the medium term. However, implementation problems or lack of coordination with other policies might derail the investment recovery.

The recent investment slowdown in Latin America

After the sharp decrease in investment rates in 2009 and the subsequent rebound in 2010, investment growth in the region has significantly slowed again. In spite of this, the rate of investment has varied among countries. In 2014, Argentina, Brazil, Chile, Mexico and the Bolivarian Republic of Venezuela registered very low or negative investment growth rates; in the Plurinational State of Bolivia, Colombia, and Panama, investment kept growing at relatively high rates, albeit lower than in 2013.

Lower external demand for commodities coupled with higher operating costs has impacted investment in big mining projects, particularly affecting countries that are specialized in the production and exports of minerals and metals, including Chile and Peru. In addition, expectations of weak economic activity and, in some cases, financial constraints have been relevant in countries such as Argentina, Brazil, Ecuador and the Bolivarian Republic of Venezuela.

Investment is expected to pick up for 2015 in several countries, although at lower rates than during the boom years of 2004-2008. In Mexico, the approved reforms should have a positive impact on investment in the oil and energy sector, while in Chile, local authorities have announced a large infrastructure investment programme.

In Brazil, oil and infrastructure concessions and the preparation for the Olympic Games in 2016 are expected to contribute to an investment recovery; and in Peru sustained growth of domestic consumption should support investment.

WESP is produced at the beginning of each year by the UN Department of Economic and Social Affairs (UN/DESA), the UN Conference on Trade and Development (UNCTAD), the five UN regional commissions and the World Tourism Organisation (UNWTO).

For more information, visit: http://www.un.org/en/development/desa/policy/wesp/

Media contacts:
- Florencia Soto Nino, sotonino@un.org, +1-917-367-4833 — UN Department of Public Information
- Mariana Castro, macastro@un.org.mx, +52 4000-9728 — Centro de Información de las Naciones Unidas