World Economic Situation and Prospects 2014

Growth to accelerate in Latin America and the Caribbean in 2014, UN report says

Region's resilience and recovery of developed countries will help expand economies, but many countries remain vulnerable to internal and external risks that could cause setbacks

Mexico, 20 January—Latin America and the Caribbean are expected to accelerate their growth to 3.6 per cent and 4.1 per cent in the next couple of years, up from 2.6 per cent in 2013, according to the United Nations *World Economic Situation and Prospects 2014 (WESP)* released today.

The report attributes the positive growth in 2014-2015 to sound macroeconomic policies, resilient domestic demand and the gradual recovery in developed economies. However, it warns that economic growth remains subject to growth in other economies, mainly the euro area, the United States and China, which is now growing at a slower pace than in previous years.

In addition to external risks, countries in Latin America and the Caribbean face high volatility of capital inflows. The report stresses the region will have to coordinate fiscal, monetary, and exchange-rate policies in order to preserve financial stability and stimulate economic growth.

In 2013, although the region experienced growth, economic expansion was uneven. South America led with 3.2 per cent growth in gross domestic product (GDP) in 2013, up from 2.5 per cent in 2012, due to a rebound in Argentina and Brazil. By contrast, in Mexico and Central America, economic activity is estimated to have slowed down to 1.5 per cent in 2013 from 4.0 per cent in 2012, in part because the Mexican economy has faced structural constraints and GDP growth decelerated significantly to only 1.2 per cent.

Despite these setbacks, the outlook for the next two years for Mexico and the Central America remains positive, the report says. Central American economies will grow at a faster pace, benefiting in part from anticipated higher growth rates in the US economy.

The Mexican Government has also announced a set of reforms that should address some of the current structural weaknesses—in the energy sector for instance—which could potentially stimulate private investment. The country's economy is expected to expand by 4.0 per cent in 2014 and 4.2 per cent in 2015.

Caribbean continues struggling to recover from financial crisis

The Caribbean region is still struggling to recover from the impact of the global financial crisis in 2008. In 2013, the Caribbean economy is estimated to have expanded by 2.4 per cent, a slightly slower pace than in the past two years.

External demand has been subdued, particularly for the tourism sector, given the relatively slow economic recovery in the US and Europe. Weaker commodity prices have also affected exporters in the Caribbean, while domestic demand has been relatively weak following fiscal austerity measures and high levels of unemployment. However, the anticipated economic recovery in developed economies is expected to boost the tourism sector and have indirect spillover effects into other sectors, bringing the sub-region's GDP growth to 3.3 per cent and 3.8 per cent in 2014 and 2015, respectively.

Outlook on inflation looks stable

The outlook for inflation in Latin America and the Caribbean is fairly stable. The overall inflation rate was 6.7 per cent, up by 0.7 percentage points comparatively to 2012. This slight increase is the result of higher food prices and expansionary monetary policies in some countries since the second half of 2012. Venezuela had the highest inflation rate in the region in 2013, as a result of sharp currency devaluation and increased supply constraints in certain products. For the rest of the region, inflation is expected to remain relatively stable in 2014.

During 2013, Latin American countries adopted a wide range of monetary policies to target inflation and promote economic activity, but as inflationary pressures increased and exchange rates depreciated, many countries such as Brazil, the Dominican Republic and Guatemala started tightening their monetary policy cycle.

US Fed tapering to impact Latin America and Caribbean negatively

In 2014, as the US Federal Reserve prepares to gradually taper its Quantitative Easing programme—which seeks to stimulate the economy by purchasing government bonds and other long-term financial assets which in turn increase the money supply and lower interest rates—investors may seek higher interest rates in the US. For this reason, private capital flows to Latin America and the Caribbean are expected to slow down, contributing to currency depreciations and volatility in stock markets. On a positive note, the region has accumulated abundant international reserves, providing monetary authorities with some room to deal with currency volatility.

Twin deficits increasing region's vulnerability

The report warns that Latin America and the Caribbean face higher economic vulnerability as countries are experiencing twin deficits—fiscal deficits and current account deficits. The fiscal deficit refers to when government expenditure exceeds the revenue it generates, while the current account deficit is mainly caused by the value of goods and services that a country exports being less than the value of those that it imports. Under these circumstances, Governments are dealing with conflicting demands. Market pressure will require strengthening fiscal accounts, while social pressure for better public services is growing, as witnessed by large-scale protests in some countries of the region.

Many countries, such as Argentina, Chile, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama and Peru, implemented fiscal reforms in 2012-2013 in an attempt to broaden the tax base and to increase fiscal revenues. These reforms were crucial, but not yet sufficient to offset the loss in public revenues due to slower economic growth, the report says.

At the same time, public spending trended upwards during 2013, especially in South America, as a component of efforts to invigorate domestic demand. Expenditure rose above GDP growth rates in Argentina, Chile, Colombia, Ecuador, Peru, Paraguay, Bolivia and Uruguay. The report expects fiscal balances to deteriorate in 2013 and that some governments may find it more difficult to provide fiscal stimulus, in case economic conditions deteriorate further.

Meanwhile, the region's current-account deficit is expected to widen in 2013, owing mainly to the deterioration of the balance of trade in goods, as imports have increased faster than exports in the past few years and eroded the trade surplus. In addition, the sluggish performance of the inbound tourism market has worsened the deficit of trade in services, particularly in the Caribbean.

In 2014 and 2015, as developed economies are expected to perform better economically, demand for Latin American and Caribbean exports should generate higher revenues and narrow current-account deficits in the region. However, the deceleration of economic activity in China—the main commodity importer for the region—may reduce the annual trade gains of previous years. This could particularly affect several South American countries.

Table: Latin America and the Caribbean: rates of growth of real GDP, 2010-2015

	2010	2011	2012	2013[a]	2014[b]	2015[b]
Latin America and the Caribbean	5.8	4.4	3.0	2.6	3.6	4.1
Argentina	9.2	8.9	1.9	5.0	3.0	3.0
Barbados	0.2	0.6	0.7	0.2	1.0	2.0
Bolivia (Plurinational State of)	4.1	5.2	5.2	6.0	5.0	5.1
Brazil	7.5	2.7	0.9	2.5	3.0	4.2
Chile	5.8	5.9	5.6	4.3	4.4	4.6
Colombia	4.0	6.6	4.0	3.7	4.2	4.5
Costa Rica	5.0	4.4	5.1	3.0	4.2	4.3
Cuba	2.4	2.8	3.0	2.9	3.9	4.0
Dominican Republic	7.8	4.5	3.9	2.5	3.5	4.4
Ecuador	3.5	7.8	5.1	3.7	4.2	4.4
El Salvador	1.4	2.2	1.9	1.5	1.8	2.0
Guatemala	2.9	4.2	3.0	4.0	3.5	3.8
Guyana	4.4	5.4	4.8	4.6	4.5	4.0
Haiti	-5.4	5.6	2.8	3.5	4.5	4.8
Honduras	3.7	3.8	3.9	3.0	3.2	3.4
Jamaica	-1.5	1.7	-0.5	0.2	1.2	1.9
Mexico	5.1	4.0	3.9	1.2	4.0	4.2
Nicaragua	3.6	5.4	5.2	4.2	4.1	4.3
Panama	7.5	10.9	10.7	7.5	6.9	6.6
Paraguay	13.1	4.3	-1.2	12.6	4.6	4.7
Peru	8.8	6.9	6.3	5.3	6.1	6.3
Trinidad and Tobago	0.2	-1.6	1.5	2.0	2.5	2.7
Uruguay	8.9	6.5	3.9	3.5	4.1	4.2
Venezuela (Bolivarian Republic of)	-1.5	4.2	5.5	1.2	2.5	2.9
South America	6.4	4.6	2.5	3.2	3.4	4.1
Mexico and Central America	5.0	4.1	4.0	1.5	4.0	4.2
Caribbean	3.2	2.7	2.8	2.4	3.3	3.8

Source: UN/DESA, based on data of the United States Statistics Division and individual national sources.

Note:

a Partly estimated.

b Baseline scenario forecasts, based in part on Project LINK and the UN/DESA World Economic Forecasting Model.

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

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

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