

**Latin America and the Caribbean faces significant economic difficulties in 2016-17,
says UN report**

Slowdown in China and changes in US monetary policy will affect region's recovery

Mexico City, 25 January – The challenging global context—including lower commodity prices and subdued global trade, the slowdown in China and the normalization of United States monetary policy—is negatively affecting the Latin America and the Caribbean, the United Nations said today in a new report.

After experiencing robust growth during the commodity boom, Latin America and the Caribbean have seen growth fall sharply in recent years, states the World Economic Situation and Prospects Report 2016. In 2015, the regional Gross Domestic Product (GDP) contracted by 0.5 per cent, amid domestic weaknesses and less supportive external conditions.

Economic growth in Latin America and the Caribbean is projected to recover to only 0.7 per cent in 2016. This picture encompasses dissimilar sub-regional situations. The economies of Mexico and Central America are projected to expand by 2.9 per cent in 2016, up from 2.5 per cent in 2015, benefiting from stronger domestic demand and the recovery in the United States. By contrast, after an estimated contraction of 1.6 per cent in 2015, South American economies are expected to contract moderately by 0.1 per cent in 2016. The Caribbean economies are expected to expand by 3.6 per cent in 2016, slightly above 2015, benefiting from a strengthening of tourism activity.

Among the largest countries, GDP growth in Mexico is expected to accelerate from 2.3 per cent in 2015 to 2.7 per cent in 2016, owing to a recovery in investment demand and the strengthening of the United States. In South America, the Brazilian economy is expected to remain in recession, contracting by 0.8 per cent in 2016, amid continuing weakness in investment and challenging fiscal and monetary conditions. Smaller economies such as Costa Rica, the Dominican Republic, Honduras, Nicaragua, Panama and the Plurinational State of Bolivia are projected to continue to register relatively robust growth rates in 2016, above 4.0 per cent.

Labour markets

The economic slowdown is gradually affecting labour markets across the region, particularly in South American economies. Unemployment rates started to increase visibly, amid lower job creation and decreasing employment rates. Hence, the regional unemployment rate is expected to have increased from 6.0 per cent in 2014 to 6.6 per cent in 2015, and to rise even further in 2016. In addition, real wages continue to improve only modestly in most countries, which together with the expected increase in unemployment will constrain households' consumption. A gradual deterioration in the quality of employment has also been observed, illustrated by an incipient shift from salaried work towards self-employment.

Monetary and fiscal policies

Fiscal and monetary authorities still seem to have some room for maneuvering for counter-cyclical policies, but external shocks are reducing the space across the region. In particular, the fiscal accounts deteriorated in 2015, owing to a sharp fall in revenues in several economies resulting from lower commodity prices. Countries such as Colombia, Ecuador and Mexico implemented important adjustments in public budgets.

The region—particularly South American economies—is also facing increasingly complex dilemmas regarding their monetary stances. Growth remains largely subdued, while inflation has visibly accelerated. In addition, the normalization of the monetary policy in the United States could increase financial volatility and

further reduce capital inflows. Countries such as Chile, Colombia and Peru have raised interest rates moderately in recent months.

Downside risks

The downside risks for the region are a sharper-than-expected slowdown in China and additional declines in commodity prices. An escalation of global financial turbulences involving a sharp increase in external financing costs could also affect the growth outlook for the region.

Besides the short-term fluctuations, the region will face serious difficulties in the medium-term to return to the economic growth rates of the previous decade, particularly if commodity prices continue to be subdued. In this context, recent progress in some socioeconomic indicators, such as the significant reduction in poverty, will be difficult to sustain.

About the report: *The World Economic Situation and Prospects report is produced annually 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). The report is available from <http://bit.ly/WESP>.*

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