

# Central America Business Forecast Report Q2 2014

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## Abstracts

### Core Views

The region's economic trajectory remains divergent. Despite our expectations for slower real GDP growth in Panama in the next several years, it will remain the regional outperformer. On the other hand, we have a more mixed outlook for growth in the 'northern triangle' countries, with Guatemala likely to fare better than Honduras and El Salvador.

Central American will remain heavily dependent on the performance of the US economy, which remains a major source for remittance flows, and a destination for goods exports.

Drug-related violence and high levels of insecurity will remain the major concerns for most of the region's electorate, although such concerns will be particularly elevated among the 'northern triangle' states of Guatemala, El Salvador and Honduras.

### Major Forecast Changes

Following the release of Q313 GDP data, we have revised up our 2014 real GDP growth forecast for Nicaragua to 5.1%, from 4.2% previously, based on our view for a continued strengthening of the country's export performance. Indeed, we believe that economic growth will be driven by strengthening US demand for manufactured exports, and a modest uptick in coffee production following the recent renovation and rehabilitation of several major farms.

While we have downgraded our GDP forecasts for Honduras after incorporating the latest data provided by the central bank, we expect that growth will pick up slightly in 2014, to 2.8%, compared to our estimate of 2.2% in 2013. The improvement will be

based on a better performance in the export sector and greater confidence in the country as an investment destination as political risk subsides following the presidential election.

### **Key Risk To Outlook**

**Downside Risk:** We note downside risks to our 2014 real GDP growth forecast of 7.1% for Panama, in light of significant delays in the Panama Canal expansion project in recent weeks. Should work continue to progress slowly in the coming months, we could be encouraged to revise down our real GDP growth forecast for this year.

**Downside Risk:** Should Nicaragua's export performance remain poor, the central bank may consider modestly accelerating the rate of the córdoba's depreciation in order to bolster economic competitiveness. Indeed, given that the córdoba has appreciated in real effective exchange rate terms in recent years, a significantly weaker exchange rate could provide a boost to Nicaragua's export sector, particularly its burgeoning textile manufacturing industry.

## Contents

Executive Summary

Core Views

Major Forecast Changes

Key Risk To Outlook

Political Outlook - Regional

SWOT Analysis

Central America Facing Continued Challenges To Political Stability

Political stability will remain elusive for much of Central America over the next decade.

Economic Outlook - Regional

SWOT Analysis

Economic Outlook

Energy Security Questions To Linger

Central America looks set to see continued pressure on energy security in the short term, with a rising fuel import burden and high proportion of its power mix derived from unreliable hydropower.

Investment Climate

Mesoamerica Railway To Boost Logistics Capacity

The revival of the Mesoamerica railway project has the potential to greatly improve logistical capacity across Central America in the coming years, increasing supply-chain efficiencies intra-regional trade.

### **CHAPTER 1.1: POLITICAL OUTLOOK - COSTA RICA**

Domestic Politics

Surprises Pave The Way For PAC President

In line with our expectations, none of the candidates in Costa Rica's February 2 presidential election were able to surpass the 40.0% threshold to win outright, setting the stage for a run-off on April 6.

### **CHAPTER 1.2: ECONOMIC OUTLOOK - COSTA RICA**

Balance Of Payments

Little Improvement In Current Account Ahead

TABLE: CURRENT ACCOUNT

### **CHAPTER 2.1: POLITICAL OUTLOOK - EL SALVADOR**

## Domestic Politics

### FMLN In Pole Position Heading To Second Round Of Presidential Elections

In line with our expectations, no candidate garnered a majority of votes in the first round of El Salvador's presidential elections held on February 2, meaning a second round will be held on March 9.

## **CHAPTER 2.2: ECONOMIC OUTLOOK - EL SALVADOR**

### Balance Of Payments

#### Current Account Deficit To Reverse Trend, Narrowing In 2014

Following five consecutive years of deterioration in El Salvador's current account, we believe that 2014 will finally see the deficit begin to narrow.

TABLE: CURRENT ACCOUNT

## **CHAPTER 3.1: POLITICAL OUTLOOK - GUATEMALA**

### Domestic Politics

#### Security Risk To Remain On Centre Stage Politically

The controversy surrounding the Guatemalan Constitutional Court's ruling that the country's attorney general must step down in May has again thrust drug violence, corruption, and impunity into the spotlight, both domestically and internationally.

## **CHAPTER 3.2: ECONOMIC OUTLOOK - GUATEMALA**

### Balance Of Payments

#### Better Export Outlook To Bolster Current Account

We expect that exports will rebound significantly in 2014, following a very lacklustre year due in large part to poor coffee harvests.

TABLE: CURRENT ACCOUNT

## **CHAPTER 4.1: POLITICAL OUTLOOK - HONDURAS**

### Domestic Politics

#### Political Divisions To Keep Progress Slow

## **CHAPTER 4.2: ECONOMIC OUTLOOK - HONDURAS**

### Economic Activity

#### Exports, Investment To Support Stronger Growth

While we have downgraded our GDP forecasts after incorporating the latest data provided by the central bank, we expect that growth will pick up slightly in 2014, to 2.8%, compared to our estimate of 2.2% in 2013.

TABLE: ECONOMIC ACTIVITY

## **CHAPTER 5.1: POLITICAL OUTLOOK - NICARAGUA**

Domestic Politics

Canal Project Terms Risk Public Opposition

The potential expropriation of private land by the Chinese consortium overseeing the proposed Nicaraguan canal project could engender public opposition in the coming months, increasing political risk and threatening the project's completion.

## **CHAPTER 5.2: ECONOMIC OUTLOOK - NICARAGUA**

Exchange Rate Forecast

NIO: Crawling Peg Here To Stay Amidst Reliance On Exports

TABLE: BMI NICARAGUA CURRENCY FORECAST

## **CHAPTER 6.1: POLITICAL OUTLOOK - PANAMA**

Domestic Politics

Navarro's Rise Poses Challenge To An Arias Win

While Panama's May 2014 presidential election was beginning to look like an easy victory for José Domingo Arias of the ruling Cambio Democrático late last year, the polls have tightened significantly in recent months

## **CHAPTER 6.2: ECONOMIC OUTLOOK - PANAMA**

Economic Activity

Slower Growth Here To Stay

We forecast a continued moderation in Panamanian real GDP growth in 2014, as delays to the canal expansion project temper growth in the construction and communications and transport sectors.

TABLE: ECONOMIC ACTIVITY

## **CHAPTER 7: BMI GLOBAL ASSUMPTIONS**

Global Outlook

## Global Growth Optimism Turning To Disappointment

Table: Global Assumptions

Table: Developed States, Real GDP Growth, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH  
FORECASTS, %

Table: Emerging Markets, Real GDP Growth, %

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