

Central America Business Forecast Report Q3 2014

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Abstracts

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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

Weaker credit growth and remittance inflows will drive a slowdown in household consumption in Nicaragua in the coming months. As such, we have revised down our forecasts for 2014 real private consumption growth from 2.8% to 2.0%, and real imports of goods and services from 10.0% to 7.0%. This has seen our forecast for real GDP growth fall from 5.1% to 4.3%.

A number of downside pressures on the Costa Rican colón persist, including a widening current account deficit, but we believe that the Banco Central de Costa Rica (BCCR) will defend the unit in the event of another sell-off, as significant currency depreciation in the year-to-date has heightened the bank's concerns about rising inflation and inflation expectations. Given our view for the unit to range trade in the coming months, we are revising our average exchange rate forecast for 2014 to CRC542.0/USD, from

CRC535.0/USD previously, implying an average exchange rate of CRC546.1/USD for the duration of the year.

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