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## Regional Outlook For 2005: Moderate Growth On Shaky Grounds

by LADB Staff

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Economists of the region are projecting moderate growth in 2005, according to chief economist of the Banco Centroamericano de Integración Económica (BCIE) Marvin Taylor Dormond. This year will be much like 2004, with expected growth of 3.3%. Much of the growth hinges somewhat dangerously on that of the US, expected to increase by 4.3%, and on global trade, predicted to rise by 7.3%. Taylor was speaking to regional economic reporters on the occasion of the release of the report Principales Tendencias Macroeconómicas Regionales.

Among the countries, Honduras at 4.2% is slated to do best, El Salvador and Costa Rica at 2.9%, usually the most dynamic, worst. Inflation will be moderate as well, at around 6.7%, bettering last year's 9.3%, "provided monetary-fiscal discipline is preserved, and oil-price behavior moderates." Oil clouds the picture in that gains in world trade will likely be accompanied by gains in demand for crude, which could drive prices higher.

The greatest growth stimulus will be in exports, expected to grow 7.6% to US\$17.03 billion as the deficit in current accounts falls to 6.8%. Here a relevant variable will be remittances from nationals working abroad. Another unknown will be passage this year of the Central America Free Trade Agreement (CAFTA) and the surge in foreign investment anticipated from the treaty (see NotiCen 2005-01-06).

Fraught with variables BCIE executive president Harry Brautigam added to the list of variables advances in the process of a customs union, because, he said, "We are absolutely convinced that, if we remain five independent markets, with independent trade policies, we are not going to be very attractive." Regional trade is growing at a 10%-11% rate, and now stands at about US\$3.8 billion. Taylor added still another item, deficit spending in the public sector. He projected that deficit at 2.2% for the region, similar to last year, and recommended governments cut spending in 2005.

These slender gains will amount to a regional per capita GDP increase of 1.2%. The economically active population (EAP) will also rise to 14.8 million for the region. Guatemala, with around 11.8 million people, will have 5.6 million EAP;

El Salvador will have 2.7 of its 6.8 million economically active;

Honduras, 2.7 of a total population of 7 million;

in Nicaragua, 2.1 of its 5.4 million will be EAP this year;

of Costa Rica's 4.2 million people, 1.7 will be EAP.

### *Rife with caveats*

Also included in the caveats of the BCIE report is a warning on the US economy upon which the region is so dependent. "The fiscal deficit of the United States has been increasing rapidly because of tax cuts and increases in military and security spending," read the text. It worried that US dependency on Asian capital flows poses a danger to the region. "If for economic or political reasons these capital flows are interrupted, there would be a greater increase in interest rates in the US and a greater depreciation of the dollar," it said. Yet another concern is the as yet untold fallout from the expiration of the Multi-Fiber Agreement (MFA), which threatens the region with the loss of a substantial portion of its maquila industry (see NotiCen, 2005-01-13).

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