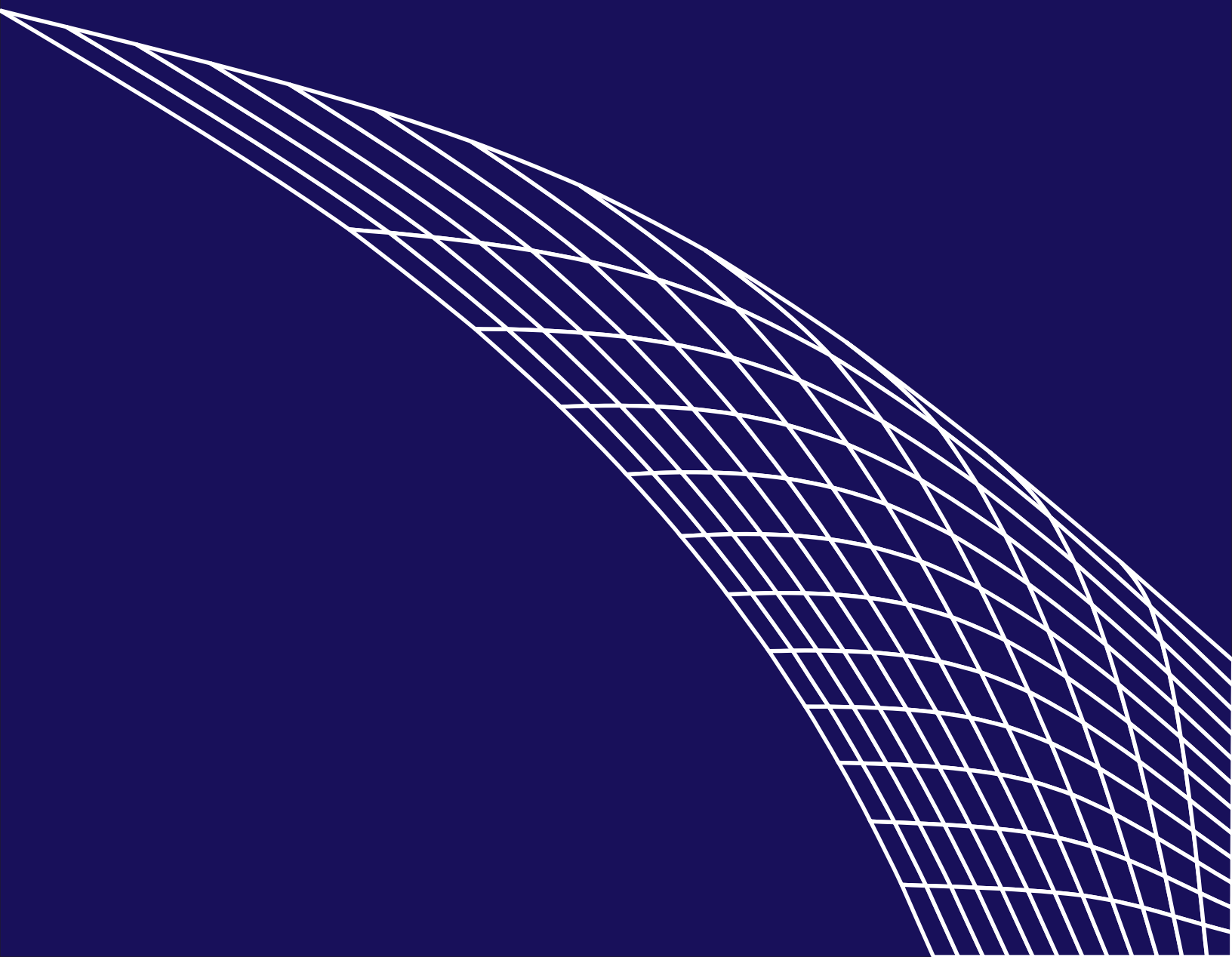


# 2005 Year International and Regional Economic Overview



# International Economic Context

International economy throughout 2005 was quite healthy, with preliminary figures of a 4.3% growth, slightly below the 5.0% achieved in 2004. The United States economy showed a growth of 3.5% compared to 4.2% in 2004. In contrast, the economy of China maintained its energetic economic activity growing 9.0%, as a result of significant investments mainly in infrastructure.

The Euro Zone registered a somewhat lethargic growth, closing 2005 at 1.2% versus 2.0% in 2004. Nevertheless,

worthwhile mentioning is the case of the vigorous Spanish economy with figures reaching a 3.5% growth of its GDP.

Japan displayed signs of a modest but relatively sustainable 2% growth. While the conglomerate of developing countries expanded their economies at a pace of 6.4%, a visible reduction compared to the 7.3% attained in 2004, as a response to the trend of global and regional figures.



The sound dynamism trade of goods and services displayed worldwide in the previous year continued, although with a slight deceleration if compared to the results achieved in 2004. In fact, estimates show that the growth rate of goods exported worldwide increased 7% compared to the notable 10.3% of 2004. While purchases in developed countries contracted from 8.8% in 2004 to 5.4% in 2005. Developing countries exports which expanded by 10.4%, a reduction of 4.1% compare to their performance in 2004.

The United States Federal Reserve continued increasing the federal funds rate, reaching 4.25% versus the 2.25% rate at beginning of this same year, leading to a rise of interest rates in reference markets. Likewise, the European Central Bank decided to augment its monetary policy

interest rate that for two years remained at 2.0%, to 2.25%, suggesting intent of controlling inflation rates within the European Monetary Union.

As a whole, throughout 2005, World economy was less dynamic than in 2004, with the prevalence of factors associated to rising oil prices, high impact natural disasters, increasing international interest rates coupled to a reduction of capital flows to developing countries, a decline of economic activity in the Euro zone and Japan, the permanent uncertainty generated by the United States twin deficits (fiscal and current account), the threat of terrorist attacks and geopolitical tension pockets.

## Latin American Environment

During 2005, the trend in Latin America was a loss of economic dynamism, despite favourable growth rates with an average of 4.3% (5.6%, 2004), propelled by a recovery in investments, and the continuous drive of foreign demand and upgrading of commercial exchange conditions that had positive effects on the commercial account surplus of South America and Mexico.

Venezuela kept its profile as the most dynamic economy with 9%, followed by Argentina 8.6%, Dominican Republic 7%, and Chile Peru, Uruguay and Panama recording average rates of 6%. Growth in Mexico and

Brazil was modest at 3% and 2.5%, respectively.

Important to mention is the fact that during this period public finances were strengthened, foreign indebtedness management was extremely stringent and there was a significant accrual of international reserves, leading to a reduction of external vulnerability of the region.

## Macroeconomic Trends in Central America

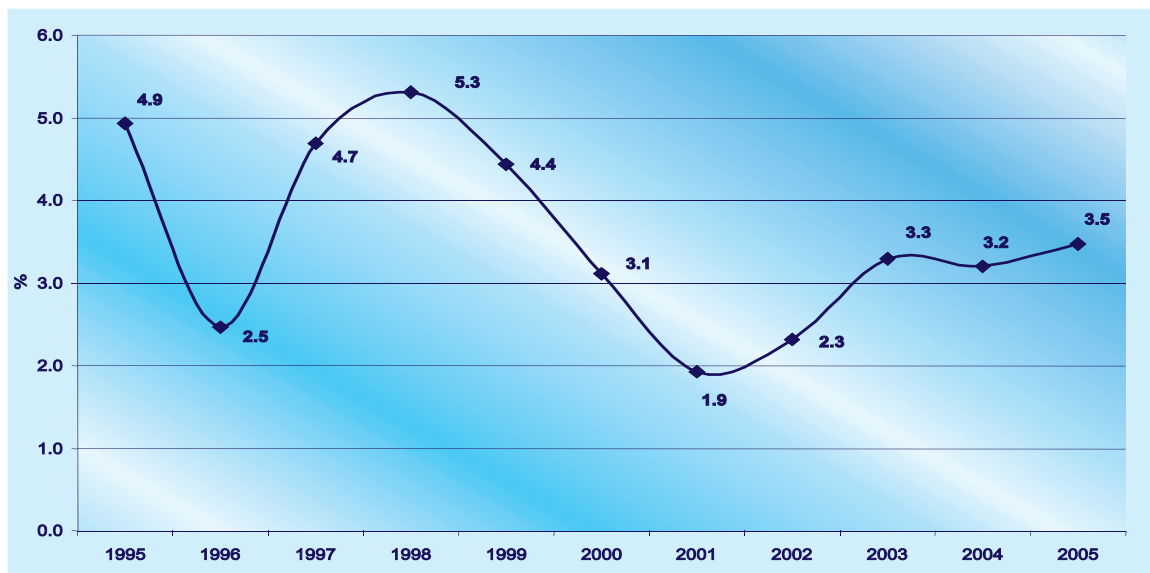
According to CABI estimates, Central America displayed a weighted average growth of 3.5%, slightly above the 3.2% registered in 2004. Foreign sector continued propelling regional economic activity. Although the region's economies faced a challenging international demand in terms of its productive sector, the increases and volatility of international oil prices reduced the final economic performance of the countries.

Central American exports attained US\$13,089 million in 2005, an increase of 8.0% compared to 2004. Conversely, imports amounted to US\$30,398.0 million, influenced by the rise of oil prices, a 15.0% increase over imported in 2004. Consequently, the commercial balance deficit increased in 2.7%.

For 2005, inflation rate is estimated at 8.8%, against 9.2% in 2004, explained, to a certain extent, by the impact of increasing oil prices and the effects of the natural disasters occurred at the end of the third quarter. Inflation rates ranged between 4.3% in El Salvador and 14.1% in Costa Rica. Nevertheless, Exchange rates were relatively stable throughout the year.

All governments in the region continued their efforts to strengthen public finances. Preliminary estimates place the weighted average fiscal deficit at 2.2% of the GDP, against 2.0% in 2004. This slight increase in the fiscal deficit is associated mainly to the public investment expansion and reconstruction needs in Guatemala and El Salvador, resulting from the impact of the natural disasters of 2005.

**Central America: Economic Growth Trends**  
Weighted Average Rates



Source: BCIE

The Honduran economy was the most dynamic in the region with a growth of 4.5%, (5.0%, 2004) explained by the performance of the energy, trade, manufacturing industry, transportation and telecommunication (in particular cellular telephone) sectors.

Economic growth in Nicaragua was healthy, reaching 4.0% (5.1%, 2004) despite a loss of vitality associated to non-economic factors. This growth was achieved mainly as the result of trade, fishing, livestock and construction sector activities.

Costa Rica, the second economy in size of the region, grew 4.1% (4.2%, 2004). The sectors driving economic activity were transportation, storage and communications, as well as electricity, financial services, export-oriented industry, and trade, due on the whole to the dynamics of tourism.

Guatemala, with the largest-sized economy in Central America, accelerated its activities in 2005, attaining a growth rate of 3.2%, above the 2.7% of 2004. This drive is attributed to the dynamics of the construction, transportation, communications, food industry, banking, insurance and real estate sectors.

In contrast, growth in El Salvador was modest, despite a rising trend as of the third quarter of 2005. The Salvadoran economy grew by 2.8% versus 1.5% in 2004, determined for the most part by the agriculture and service sectors, as well as non traditional exports and exports to the Central American market. In addition, family remittances are the driving factor of the expenditure capacity of this economy.

## Ratings for Central America

During 2005, risk perception of the Central American countries remained unchanged with regards to the situation reported for 2004.

Fitch Ratings, Moody's and Standard & Poor's maintained their ratings, with only an upgrading for Costa Rica from BB (Negative) to BB (Stable) in the Standard & Poor's rating.

Following is a summary of the ratings.

### Ratings of the Region's Countries As at December 31, 2005

| Country     | Fitch Ratings | Moody's Investors Service | Standard & Poor's |
|-------------|---------------|---------------------------|-------------------|
| Guatemala   | n/a           | Ba2 (Stable)              | BB- (Stable)      |
| El Salvador | BB+ (Stable)  | Baa3 (Stable)             | BB+ (Stable)      |
| Honduras    | n/a           | B2 (Stable)               | n/a               |
| Nicaragua   | n/a           | Caa1 (Stable)             | n/a               |
| Costa Rica  | BB (Negative) | Ba1 (Negative)            | BB (Stable)       |

### Central America: Selected Economic Indicators As at December 31, 2005

|                                   | Unit         | Guatemala | El Salvador | Honduras | Nicaragua | Costa Rica |
|-----------------------------------|--------------|-----------|-------------|----------|-----------|------------|
| Nominal GDP                       | US\$ million | 33,968    | 17,329      | 8,754    | 5,262     | 22,225     |
| Real GDP Growth Rate              | %            | 3.2       | 2.8         | 4.5      | 4.0       | 4.0        |
| Inflation Rate                    | %            | 9.5       | 4.5         | 8.0      | 11.0      | 14.0       |
| Current Account Balance           | GDP %        | -3.3      | -4.5        | -3.1     | -17.3     | -4.7       |
| Central Government Fiscal Balance | GDP %        | -2.1      | -3.0/b      | -3.1     | -2.0/c    | -2.0       |
| Net International Reserves        | US\$ million | 3,853     | 1,850       | 1,867    | 490       | 2,481      |